

Town of Ocean City, Maryland
***COMPREHENSIVE ANNUAL
FINANCIAL REPORT***

For the Fiscal Year Ended
June 30, 2005



*Recognizing the
Ocean City Volunteer Fire Company and its
100 Years of Service to the Ocean City Community*

Town of Ocean City, Maryland
Comprehensive Annual Financial Report

For Fiscal Year Ended
June 30, 2005



Prepared by:
Finance Department

Dennis Dare, PE
City Manager

Martha J. Bennett, CPA
Finance Administrator

**Town of Ocean City, Maryland
Comprehensive Annual Financial Report
for the Fiscal Year Ended June 30, 2005**

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INTRODUCTORY SECTION

LOCATION MAP

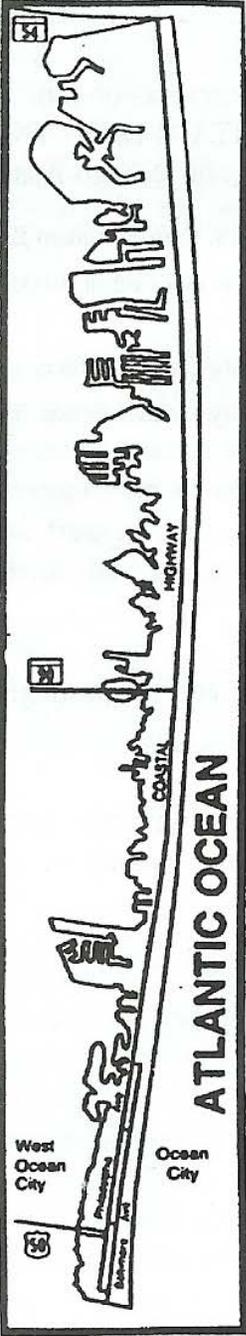
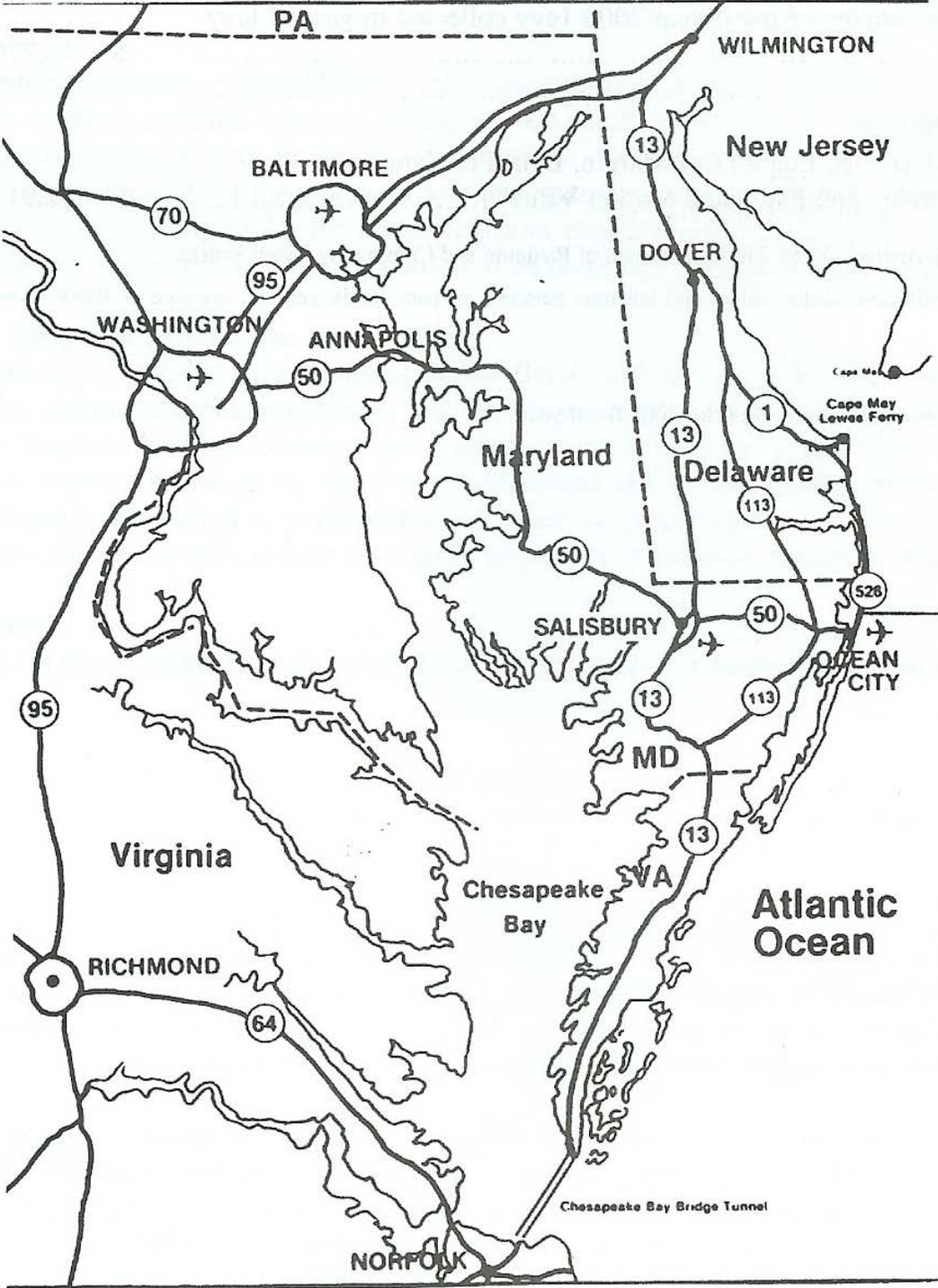
LETTER OF TRANSMITTAL

CERTIFICATE OF ACHIEVEMENT

ORGANIZATIONAL CHART

LIST OF PRINCIPAL OFFICERS

Location Map Ocean City, Maryland



September 30, 2005

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

The history of the Ocean City Volunteer Fire Company, highlighted in this year's financial report, mirrors the history and growth of the resort. Once a small fishing village, Ocean City has grown to become one of the largest resort communities on the Eastern Shore, home to only 7,500 year-round residents but visited by over eight million tourists per year. A few isolated beachfront cottages have evolved into an array of single-family homes, duplexes, townhouses, motels/hotels, apartments, and luxury high-rise condominiums as well as a collection of diverse commercial areas. According to the Town's preliminary Comprehensive Plan, only 5.5 percent of land in Ocean City is vacant, making the quality of development and redevelopment of great concern. Ocean City celebrates its history, its present success and its future expectations. It is our hope that the Town flourishes as a large community while preserving some distinct characteristics of that small fishing village by the sea.

I respectfully submit the Comprehensive Annual Financial Report (CAFR) for the Town of Ocean City for the fiscal year ended June 30, 2005. The purpose of this report is to provide citizens, the Mayor and City Council, management, representatives of financial institutions and others with detailed information about the financial condition and performance of the Town. The CAFR is produced to comply with Section 717 of the Town charter and Article 19, Section 40 of the Annotated Code of Maryland. The financial statements are presented in conformity with generally accepted accounting principles (GAAP).

In addition, the CAFR provides assurances that the Town fairly presents its financial position and results of operations as verified by Clifton Gunderson LLP, independent public accountants, in accordance with generally accepted auditing standards and generally accepted accounting principals. The independent auditor concluded that the Town of Ocean City's financial statements for the year ended June 30, 2005, 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 auditor to report not only on the fair presentation of the financial statements, but also on the audited government's internal controls and compliance with legal requirements, particularly with regard to the administration of federal awards. These reports are available in the Town's separately issued Single Audit Report.

GAAP requires that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement 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 auditors.

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.

To ease the understanding of the Town's financial position and the results of operations, the CAFR for the Town of Ocean City is presented in three sections:

The Introductory Section, comprised primarily of this letter of transmittal, also includes the Town Organizational Chart, and a list of Town officials.

The Financial Section begins with the report of the independent public accountants, and includes MD&A, the basic financial statements, together with the notes to financial statements, required supplementary information, and the combining financial statements and schedules. The notes to financial statements are an integral part of the financial statements and should be read in conjunction with the financial statements for a complete understanding of the information presented.

The Statistical Section presents detailed information, typically in ten-year trends, that assist the reader in utilizing the financial statements, notes to the financial statements, and required supplementary information to assess the economic condition of the Town. Graphs and charts have been used to highlight certain information and their interrelationships in five categories of information: financial trends, revenue capacity, debt capacity, demographic and economic, and operating.

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; solid waste removal; 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 and Town of Ocean City, Maryland Public Employees Pension Plan are

*Town of Ocean City
Letter of Transmittal*

included in the CAFR as fiduciary funds of the Town. The Town's reporting entity is explained in Note 1.A. to the financial statements.

THE TOWN AND TOWN GOVERNMENT



Population, Location, and Government. Ocean City is a barrier island founded as a fishing village over 125 years ago. Today, the Town has 7,340 permanent residents and hosts over eight million visitors annually to its beautiful beaches, bays and natural resources. The Town also offers a wide variety of activities including festivals, fishing tournaments, amusement parks, golf courses, restaurants, and nightclubs.

Incorporated by the State of Maryland in 1880, Ocean City is located approximately 150 miles from Washington, D.C., and 135 miles from Baltimore, Maryland. It is bordered on the north by Fenwick Island, Delaware, on the south by an inlet which separates Ocean City from Assateague Island State and National Seashore Parks, on the west by wide shallow bays and on the east by the Atlantic Ocean. Ocean City is one of the premier seaside resorts on America's east coast due to a variety of attributes including its convenience to major metropolitan areas and access by automobile using US Route 50 to the west and US Route 13 and Delaware Route 1 to the north.

The Town operates under a council-manager form of government. Policymaking and legislative authority are vested with the seven-member City Council. The Mayor has the power to veto ordinances, nominate appointments to Town boards, and represent the Town before other governmental authorities. The council is responsible for passing ordinances, adopting the budget, appointing committees, and hiring the Town's manager, attorney, clerk, and chief of police. The Town's manager is responsible for carrying out the ordinances and policies of the City Council, for overseeing day-to-day operations of Town departments, and for appointing heads of the departments. The Mayor and City Council are elected on a non-partisan, at large basis. Council members serve four-year staggered terms with three to four elected every two years. The Mayor is elected to serve a two-year term.

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

ECONOMIC CONDITIONS

New Development. The Town has again experienced an extraordinary amount of new development, in both number of units and value. As shown in the chart below, 4,125 permits issued in the past three years totaled over \$361 million dollars.

<u>Fiscal Year</u>	<u>Number of Permits</u>	<u>Estimated Value of Construction</u>
2003	1,335	\$ 104,643,832
2004	1,245	133,358,845
2005	<u>1,545</u>	<u>123,622,811</u>
	<u>4,125</u>	<u>\$ 361,625,488</u>

Several large redevelopment projects are now under construction: the Harrison Suites at 3200 Baltimore Avenue with 225 rooms; a hotel-condominium at 45th Street with 160 hotel rooms and 203 two and three bedroom units; and the Gateway at 49th Street with 160 three bedroom and 31 four bedroom units. The following luxury condominium projects are some of those constructed in this fiscal year:

<u>Condominium</u>	<u>Address</u>	<u>Number of units</u>
Coral Seas	76th Street	46
Laguna Vista	14th Street	41
Ocean Palm	61st Street	18
Ocean Whisper	62nd Street	12
Sunset Bay-Phase III	54th Street	21
Terrapin Bay	73rd Street	12
Thee Christina C	75th Street	12

Economy. A destination resort, Ocean City is nationally recognized as a clean, safe, and successful community for its residents, vacation homeowners and visitors with tourism as the basis of its economy. The tourism industry can be broken down into three classifications: 1) hotels, motels, and condominium rentals 2) restaurants and nightclubs and 3) retail shops, the boardwalk and malls. It is estimated that over eight million people visit the resort each year. Although the peak months are June, July and August, tourism is also strong in April, May, September and October. Depending on the weekend weather, these off-season months may average over 150,000 people.

The Town government, in conjunction with local businesses and non-profit groups, has sought to increase off-season business with the use of festivals, entertainment, and sporting events. The largest events such as Sunfest, Winter Festival of Lights, Springfest and

auto rallies attract thousands of visitors. In this fiscal year, the Town also sponsored concerts and weekly bonfire storytelling sessions on the beach and various entertainment venues at Northside park at 125th Street. Also, there are now 17 golf courses in the Ocean City area with two more under construction. Group business, meetings, and events held at the Convention Center have also increased room occupancy and retail sales in the spring, fall, and winter months.

MAJOR INITIATIVES

Celebrating 100 Years of Service



Stephen Hales, OCVFC President; Ben Lewis, Banquet Committee Member; Maryland Governor Robert Ehrlich; Mrs. Kendal Ehrlich; Michael LeCompte, Banquet Committee Co-Chairman; Roger Steger, Sr., OCVFC Fire Chief

The Ocean City Volunteer Fire Company (OCVFC) celebrated 100 years of service by hosting a centennial celebration ball at the Roland E. Powell Convention Center on April 23, 2005. Festivities included dinner, entertainment, and speeches from dignitaries, including an address from Maryland Governor Robert Ehrlich. This evening was planned to recognize the company's proud

history and achievements, to honor the company's volunteers, both past and present, and to show appreciation to the family members, friends and numerous community supporters of the OCVFC. It also highlighted volunteer organizations such as the Ladies Auxiliary and the junior firefighters Cadet Corps whose numerous contributions are vital to the ongoing growth and success of the department.

The days of bucket brigades are long over. The once 20 volunteer based organization has grown to a present-day membership of 125 active firefighters. Volunteers are not only leaders in the fire company but also leaders in the community. Many are successful local business owners and civic leaders. In fact, six of the Town's mayors served in the department, and our current mayor, Jim Mathias, serves as the department's



Chaplain. Members join the OCVFC out of a sense of civic duty and the desire to carry on a family tradition. Many names associated with the department are family names that have been connected with the department since its inception.

*Town of Ocean City
Letter of Transmittal*



The fire company's property and equipment now holds a net worth of about \$8.5 million. The Town pays for all the maintenance and operations costs of the company whose operating budget is currently about \$1.3 million. The OCVFC owns and operates a fleet of emergency vehicles, including seven pumpers, two tankers, three aerial trucks, one brush truck, an Air Unit, a Haz-Mat unit, three

boats and several utility vehicles. Future equipment purchases, upgrades to six fire stations, including headquarters, and rigorous training programs will aid in the company's mission to provide the most high quality service and protection for Ocean City and surrounding communities.

We salute the Ocean City Volunteer Fire Company for its achievements and know that the future holds much promise for the ongoing success and exceptional service of this company. This is a fine example of teamwork with the department, city officials and community leaders.

Mission Statement

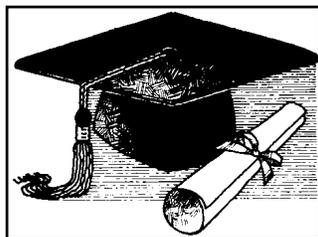
We, the members of the Ocean City Volunteer Fire Company, commit ourselves to protection of life, property, and the environment of the residents and visitors of Ocean City and the surrounding area from the ravages of natural and man-made disasters.

Homeland Security Grants

Through the Homeland Security and Law Enforcement Terrorism Prevention Program grant programs, Ocean City has been awarded a total of \$1,759,766. The Maryland Emergency Management Administration (MEMA) awards these funds, which originate with the Department of Homeland Security, to Ocean City. The block grants are based on population, and funds are used for planning, training, equipment, and exercise. MEMA makes awards to 26 districts in Maryland; the 23 counties, Baltimore City, Annapolis, and Ocean City. In order to receive funding each jurisdiction must be declared an emergency management district.

Ocean City allocates its Homeland Security grant funds through the Public Safety Group, which is comprised of the Mayor, City Manager, Police Chief, Fire Chief, Emergency Management Director, Fire Marshal, and Public Works Director. Based upon the needs outlined in Ocean City's emergency management plan, and a wide range of security related projects and activities, grant funds are appropriated. Important purchases and acquisitions included a Mobile Incident Command vehicle, remote surveillance systems, x-ray and imaging equipment, emergency generators, bomb suits, and wireless communications for police vehicles.

“Ocean City University”



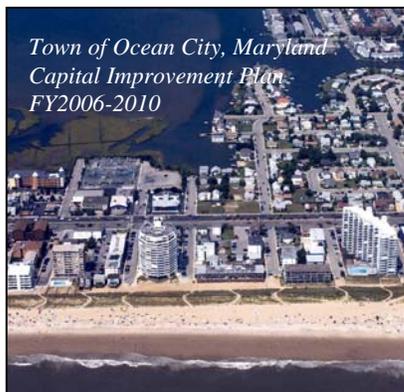
To improve citizen understanding of municipal government and the services it provides, Kathleen Mathias, assistant to the city manager, created a 16-week series of courses aptly named Ocean City University. Completion of this series of courses provides the participant with a diverse background on the operation and structure of municipal government and its various departments. It emphasizes how citizens and government can work together to improve the quality of life and recognizes that citizens can make a difference in the community.

The curriculum addresses all facets of municipal government including finance, risk management, emergency services, planning and community development, public works operations, water and wastewater operations, engineering and environmental services. City employees and department heads that are most knowledgeable in the field and service of each curriculum are instructors for the classes.

Graduates complete 32 credits for a Bachelor’s Degree in Municipal Citizenry. If students choose to complete the Citizens Police Academy for 33 additional credits, they receive a Masters’ Degree in Municipal Citizenry.

We congratulate Mrs. Mathias, the city manager’s office, and the course instructors who volunteer their time to implement this innovative approach of bringing the public and its government together.

Capital Improvement Plan



The Capital Improvement Plan (CIP) is a five-year comprehensive infrastructure plan that incorporates the town’s highest priority capital needs with a financing and construction schedule. This plan includes investments in neighborhoods, public safety, roads, transit, water and wastewater, the convention center, parks and Town facilities. The CIP was developed in accordance with suggestions from several planning studies. Each study received significant review and served as a foundation for the recommendations set forth in the plan. The CIP was introduced to the Mayor and City Council at committee hearings and public meetings and received final approval on February 1, 2005. *Those wishing to review the Town’s CIP, can do so by logging on to the town’s website at www.town.ocean-city.md.us and clicking on the Finance Department’s link.*

Projects Funded by the 2005 Municipal Purpose Bonds

Wastewater plant electrical generator \$2.6 million

This project was initiated to replace and upgrade aging equipment that had insufficient capacity and did not meet current electrical code standards. Two new 1500-kilowatt generators replaced four old units at the wastewater treatment plant and associated electrical distribution equipment. The project was completed in the summer of 2005.

Wastewater flow equalization tanks \$4.8 million

Two flow equalization tanks and associated equipment will be built at the wastewater treatment plant to significantly improve treatment plant performance during maximum wastewater flow periods, such as large storm events and peak summer weekends. These holding tanks are less expensive than building additional treatment units. The tanks will be covered to reduce odors. Construction will start in the fall of 2005.

Wastewater odor control project \$3.4 million

This project was initiated to reduce the potential for detection of any significant odors in the community surrounding the wastewater treatment plant and will reduce off-site odors up to 85%. It includes installation of tank covers and a series of air scrubbing units. The project is scheduled for completion in the fall of 2005.

Solid waste transfer station \$5.2 million

Design and engineering services at a cost of \$400,259 were expended in 2004 for a new solid waste transfer station and recycling center at the 65th Street Public Works facility, with construction beginning in the 2005 fiscal year. The \$6.7 million dollar project is funded by general obligation bonds and a \$1.5 million dollar contribution from Sunset Island, LLC, the new development to the north of the facility. The new facility includes substantial renovation and reconstruction of the solid waste transfer station, conversion of the solid waste handling process to a "top loading facility" and the construction of a 26,800 square foot semi-automated recycling facility.

Other projects \$4.8 million

The 2005 Municipal Purpose Bonds also financed improvements to Bayshore Drive, \$1,900,083; construction of Sunset Park, \$1,300,000; additions to the Public Safety Building, \$1,172,688; a new dome on City Hall, \$200,000; and to replace the restrooms at 9th Street, \$300,000.

Collective Bargaining



Town government and police organization representatives and the Ocean City Fraternal Order of Police Lodge #10 embarked on their second series of negotiations to reach settlement on a three-year agreement for the period of July 1, 2005 to June 30, 2008.

Prior to the June 2005 expiration of the first agreement, a dedicated group of representatives from both parties deliberated for several weeks and ratified a second contract in April 2005. The Town also signed a two-year agreement with the civilian members of the police department. The agreements were successfully accomplished by the joint efforts and cooperation of all participants.



FINANCIAL INFORMATION AND PLANNING

Capital planning. The above capital improvement plan includes a ten-year plan to repair 75 miles of town streets. Year 2 of the plan was accomplished in this fiscal year. Improvements to the Town's infrastructure have been continuous for over 20 years. Of high priority and in design are a new fire station, new water and wastewater mains and plant improvements, land donated to Worcester County for a new library, beach patrol headquarters, and additional undergrounding of utilities on the island.

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

Tax base. The State of Maryland Department of Assessments and Taxation is responsible for assessing property values in Ocean City. Reassessments are made on a triennial basis and real property is assessed at market value. Assessments were \$5.79 billion dollars for fiscal year 2005, a 19.2% increase from 2004.

Commitment to funding of Pension Trust Funds. Assets for the General Employees Pension Plan and the Public Safety Employees Pension Plan are invested and managed by Morgan Stanley. Assets had a gross rate of return of 8.16% for the general employees plan and 8.02% for the public safety employees' plan for investments in domestic and international stocks for the plan year ending March 31, 2005. The two plans had an average return of 7.66% over the past three years. The Town contributed 100% of its annual required contribution to each Plan in 2005 as it has since their inception in 1972. Improvements to the plans effective in fiscal year 2005 included credit for unused sick leave and benefit increases for general employees and public safety officers. Additional

Town of Ocean City
Letter of Transmittal

information on the Town's pension funds can be found in Note 10 in the notes to the financial statements.

General fund reserve. The Town has a policy of maintaining a reserve of 10% of general fund expenditures to handle potential revenue shortfalls, cash flows for the peak employment in the summer season, and for emergencies. At June 30, 2005, that reserve was 12.1%.

Bond ratings. The Town's bonds are insured and as such are designated with a AAA credit rating. Additionally, the Town received favorable underlying credit ratings when it issued the 2005 Municipal Purpose Bonds in April 2005. It received a credit rating upgrade from Moody's Investor Service to A1 from A2. Standard & Poor's Rating Services assigned its 'A' rating to Ocean City's debt. Based on its evaluation of the town's status as a major regional tourist destination, Fitch Ratings the bonds an 'A+' rating with a stable ratings outlook.

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, 2004. This is the 17th consecutive year that the Town has received this prestigious award. In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both GAAP and applicable legal requirements.

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

Acknowledgments. I wish to recognize the hard work and dedication of all the employees who contributed to this report. The leadership of the City Manager, Dennis Dare, and department heads, who give priority and careful attention to the financial affairs of the Town, is also important. I want to thank Mayor Mathias and the members of the City Council for their support in planning and conducting the financial operations of the Town in a responsible and progressive manner.

Respectfully submitted,

Martha J. Bennett, CPA, CGFM
Finance Administrator

Certificate of
Achievement
for Excellence
in Financial
Reporting

Presented to

Town of Ocean City,
Maryland

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2004

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



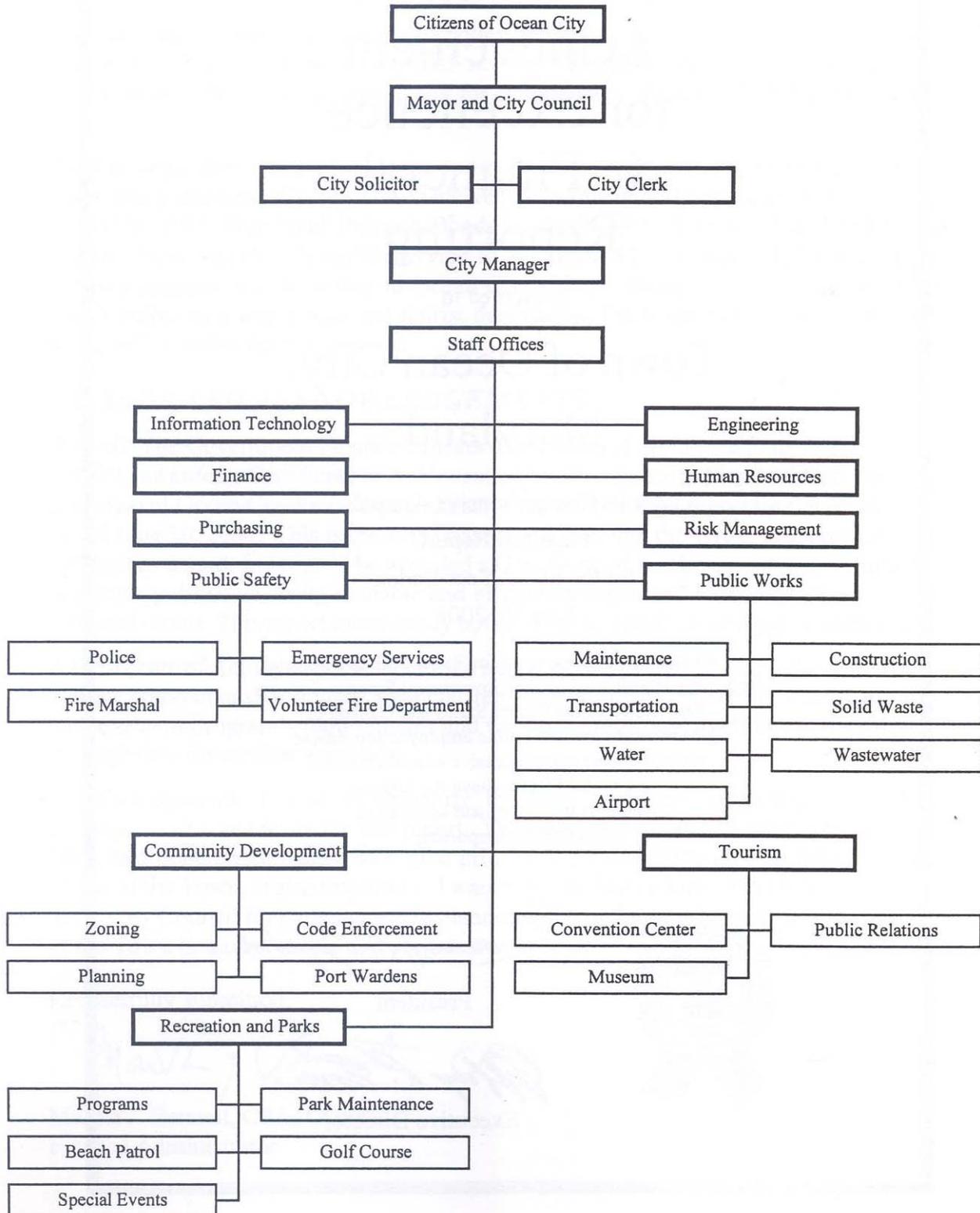
Nancy L. Ziehl

President

Jeffrey R. Emor

Executive Director

Town of Ocean City Organizational Chart



Town of Ocean City
List of Principal Officials & Supervisors
June 30, 2005

<u>Title</u>	<u>Name</u>
Mayor	James N. Mathias
President of Council	Richard W. Meehan
Secretary of Council	James S. Hall
Council Member	James W. Hancock
Council Member	Joseph T. Hall II
Council Member	Nancy L. Howard
Council Member	Lloyd Martin
Council Member	Joseph M. Mitrecic
City Manager	Dennis W. Dare, PE
Assistant to the City Manager	Kathleen A. P. Mathias
City Solicitor	Guy R. Ayres III
City Clerk	Carol L. Jacobs, CMC
Finance Administrator	Martha J. Bennett, CPA
Chief of Police	Bernadette DiPino
City Engineer	Terence J. McGean, PE
Director of Emergency Services	Joseph J. Theobald
Director of Public Works	Hal O. Adkins
Director of Planning/Community Dev	Jesse C. Houston
Director of Tourism/Community Relations	Michael C. Noah
Director of Recreation and Parks	Thomas J. Shuster, CPRP
Human Resource Director	Roger L. Weseman
Purchasing Agent	Joseph J. Sobczak, CPPO
Fire Marshal	Samuel E. Villani, Jr., CFI

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

<u>Trustees</u>	<u>Employee Trustees</u>
Arthur T. Davis	Pamela Marshall
Reese Cropper III	Thomas F. Kane
Guy R. Ayres III	
James N. Mathias	
Richard W. Meehan	
Granville D. Trimper	



FINANCIAL SECTION



Independent Auditor's Report

Honorable City Council
Town of Ocean City, Maryland

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Ocean City, Maryland (Town), as of and for the year ended June 30, 2005, which collectively comprise the Town's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Town of Ocean City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller of the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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 Town of Ocean City, Maryland, as of June 30, 2005, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and historical pension information as listed in the table of contents are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Town of Ocean City's basic financial statements. The accompanying supplementary information, such as the introductory section, combining and individual nonmajor fund financial statements and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects relative to the basic financial statements taken as a whole. The other data, listed under the introductory and statistical sections in the table of contents, have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

In accordance with *Government Auditing Standards*, we have also issued a report dated September 29, 2005 on our consideration of Town of Ocean City's internal control over financial reporting and our test of the Town's compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Clifton Henderson LLP

September 29, 2005
Baltimore, Maryland

Town of Ocean City
Management's Discussion and Analysis
June 30, 2005

The following discussion and analysis of the Town of Ocean City (the Town) financial performance provides an overview of the Town's financial activities for the fiscal year ended June 30, 2005. We encourage users to read it in conjunction with the transmittal letter at the front of this report and the Town's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS FOR FY 2005

- The assets of the Town exceeded its liabilities at the close of the 2005 fiscal year resulting in net assets of \$118,234,923. Of this amount, \$27,000,755 is unrestricted and may be used to meet the Town's ongoing obligations to citizens and creditors, \$4,780,109 is restricted for future debt service, \$7,975,357 is restricted for capital projects, and \$78,478,702 is invested in capital assets, net of related debt.
- The Town's total net assets increased by \$ 4,264,341. The increase was due to increases from governmental activities of \$5,687,474 before transfers of \$2,906,049 to other funds. Due to increases in assessments and new construction, revenue from property taxes increased \$3,105,706. Revenue from service charges and other revenues increased \$3,475,449 from the prior year. Total revenues increased 11.8%, while expenses increased \$5,083,013 or 9.1%.
- As of June 30, 2005, the Town's governmental funds reported combined ending fund balances of \$13,891,461 an increase of \$6,260,954 from the prior year. As most of the increase was due to bond proceeds designated for capital projects, less than half or 45% of the total amount, \$6,311,281, is available to meet the Town's current and future needs, and is unreserved and undesignated fund balance. The unreserved, undesignated fund balance at year end was 12.1% of general fund expenditures, 2.3% above the percentage in FY-2004 of 9.8%.
- The Town's net debt increased by \$16,016,369 during the current fiscal year. The key factors in this change were the issuance of general obligation bonds in the amount of \$21,975,000 and scheduled principal retirements of general obligation bonds, loans and on capital leases of \$5,958,632.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

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

Both of these government-wide financial statements distinguish functions of the Town that are principally supported by taxes and intergovernmental revenues, *governmental activities*, from other functions that are intended to cover their costs primarily from user fees and charges and are *business-type activities*. The governmental activities of the Town include general government, public safety, general public works and beach, sanitation and waste removal, highways and streets, economic development, recreation and culture, and construction of capital assets. The business-type activities of the Town include water, wastewater, the Roland E. Powell Convention Center, transportation, the Ocean City Municipal Airport 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 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 five governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, which is considered to be a major fund. Capital projects funds comprise the other four governmental funds. Data for these funds is combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of *combining statements* on pages 82 and 83 of this report.

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 system, which are major funds, and for two non-major funds, which account for the operations of the airport and golf course. *Internal service funds* are an accounting device used to accumulate and allocate costs internally among the Town's various functions. The Town uses internal service funds to account for its fleet of vehicles, its 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.

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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 consolidated information for the non-major funds. Internal service funds are combined into a single, aggregated presentation in the proprietary fund financial statements. Individual fund data for non-major enterprise funds and the internal service funds is provided in the form of *combining statements* elsewhere in this report.

The basic proprietary fund financial statements can be found on pages 46-53 of this report.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are *not* reflected in the government-wide financial statement because the resources of those funds are *not* available to support the Town's own programs. The Town has two fiduciary funds, the General Employees Pension Fund and the Public Safety Employees Pension 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 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 56-76 of this report.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information* concerning the Town's progress in funding its obligation to provide pension benefits to its employees. Required supplementary information can be found on pages 78-79 of this report.

The combining statements referred to earlier in connection with nonmajor governmental funds, nonmajor proprietary funds and internal service funds are presented immediately following the required supplementary information on pensions. Combining and individual fund statements and schedules can be found on pages 81-101 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, 2005 with comparative information for the previous year.

Statement of Net Assets

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position and condition. In the case of the Town, assets exceeded liabilities by \$118,234,923 at the close of the fiscal year for June 30, 2005 compared to \$113,970,582 for the year ended June 30, 2004.

By far the largest portion of the Town's net assets (66.3 percent) 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. 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.

	Governmental Activities		Business-type Activities		Total Primary Government		%
	2005	2004	2005	2004	2005	2004	
	Change						
Current and other assets	\$26,995,002	\$21,711,530	\$25,252,073	\$11,890,139	\$52,247,075	\$33,601,669	55.20%
Capital assets	74,588,846	70,335,748	95,223,558	96,500,011	169,812,404	166,835,759	3.2
Total assets	101,583,848	92,047,278	120,475,631	108,390,150	222,059,479	200,437,428	10.9
Long-term liabilities outstanding	36,645,068	31,386,081	48,019,515	39,139,338	84,664,583	70,525,419	20.0
Other liabilities	11,545,316	10,049,158	7,614,657	5,892,269	19,159,973	15,941,427	20.2
Total liabilities	48,190,384	41,435,239	55,634,172	45,031,607	103,824,556	86,466,846	20.1
Net assets:							
Invested in capital assets, net of debt	35,404,193	37,237,850	43,074,509	54,280,575	78,478,702	91,518,425	(13.9)
Restricted	7,055,810	2,359,090	5,699,656	4,039,108	12,755,466	6,398,198	99.4
Unrestricted	10,933,461	11,015,099	16,067,294	5,038,860	27,000,755	16,053,959	68.2
Total net assets	\$53,393,464	\$50,612,039	\$64,841,459	\$63,358,543	\$118,234,923	\$113,970,582	4.0

A portion of the Town's net assets, \$12,755,466, represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets, \$27,000,755 may be used to meet the Town's ongoing obligations to citizens and creditors. This is a \$10,946,796 increase from 2004 due to income from operations net of depreciation expense and reflects the Town's issuance of bonds to fund capital projects.

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

	Governmental Activities		Business-type Activities		Total Primary Government		% Change
	2005	2004	2005	2004	2005	2004	
	REVENUES						
Program Revenues:							
Charges for current services	\$ 13,188,749	\$ 11,729,279	\$ 22,152,333	\$ 21,111,964	\$ 35,341,082	\$ 32,841,243	7.6%
Operating grants and contributions	2,681,396	2,256,497	3,911,853	3,870,590	6,593,249	6,127,087	7.6
Capital grants and contributions	906,195	263,406	1,661,427	161,322	2,567,622	424,728	504.5
General revenues:							
Property taxes	29,232,197	26,126,491	-	-	29,232,197	26,126,491	11.9
Other taxes	12,587,732	11,659,670	-	-	12,587,732	11,659,670	8.0
Grants and contributions not restricted to specific programs	157,080	142,808	-	-	157,080	142,808	10.0
Other revenue	540,680	534,723	146,152	103,866	686,832	638,589	7.6
Total revenues	59,294,029	52,712,874	27,871,765	25,247,742	87,165,794	77,960,616	11.8
EXPENSES:							
General government	2,210,767	1,239,176	-	-	2,210,767	1,239,176	78.4
Public safety	22,603,945	20,741,305	-	-	22,603,945	20,741,305	9.0
General public works and beach	5,319,516	4,771,177	-	-	5,319,516	4,771,177	11.5
Sanitation and waste removal	5,894,297	5,476,452	-	-	5,894,297	5,476,452	7.6
Highways and streets	5,818,748	5,601,371	-	-	5,818,748	5,601,371	3.9
Economic development - Tourism	3,995,845	3,631,068	-	-	3,995,845	3,631,068	10.0
Recreation and culture	6,386,759	5,556,411	-	-	6,386,759	5,556,411	14.9
Interest on long-term debt	1,376,678	1,240,314	-	-	1,376,678	1,240,314	11.0
Water	-	-	6,125,859	5,654,993	6,125,859	5,654,993	8.3
Wastewater	-	-	8,228,078	8,022,887	8,228,078	8,022,887	2.6
Convention Center	-	-	5,124,371	4,779,005	5,124,371	4,779,005	7.2
Transportation	-	-	6,661,378	6,026,428	6,661,378	6,026,428	10.5
Other enterprise operations	-	-	3,155,212	3,017,586	3,155,212	3,017,586	4.6
Total expenses	53,606,555	48,257,274	29,294,898	27,500,899	82,901,453	75,758,173	9.4
Increase in net assets before transfers	5,687,474	4,455,600	(1,423,133)	(2,253,157)	4,264,341	2,202,443	93.6
Transfers	(2,906,049)	(2,259,644)	2,906,049	2,259,644	-	-	-
Increase in net assets	2,781,425	2,195,956	1,482,916	6,487	4,264,341	2,202,443	93.6
Net assets prior year	50,612,039	48,416,083	63,358,543	63,352,056	113,970,582	111,768,139	
Net assets current year	\$ 53,393,464	\$ 50,612,039	\$ 64,841,459	\$ 63,358,543	\$ 118,234,923	\$ 113,970,582	3.7

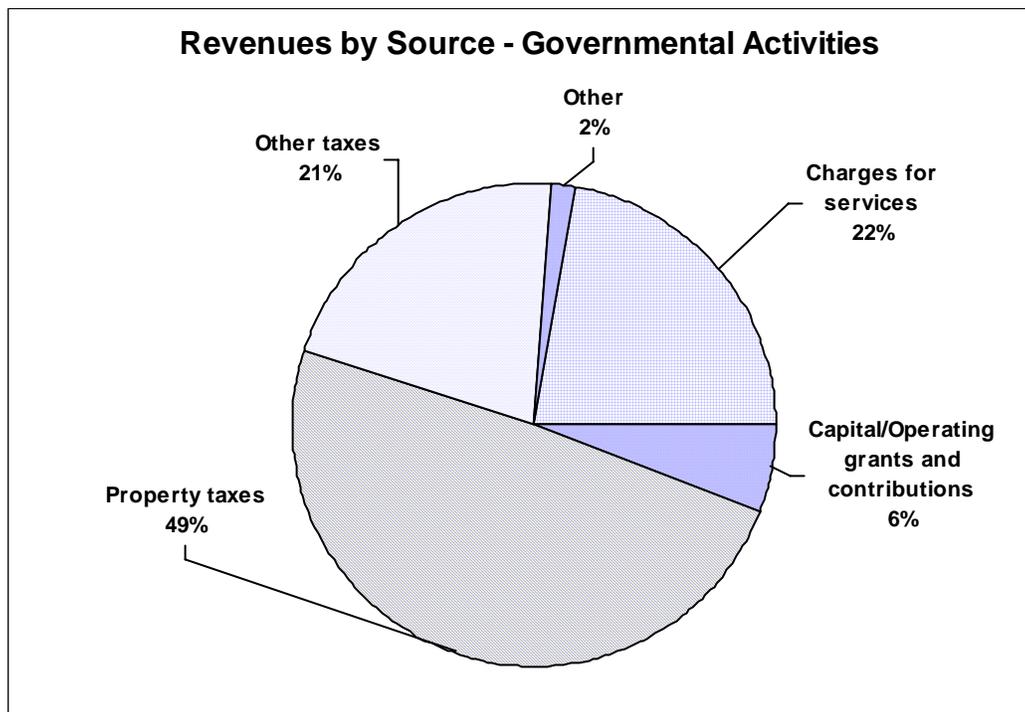
For the year ended June 30, 2005, the Town reported positive balances in all three categories of net assets, both for the Town as a whole, as well as its separate governmental activities. For business-type activities, balances were positive as a whole, but two non-major funds, the airport fund and the golf course fund, reported negative balances in unrestricted net assets, (\$232,299) and (\$94,925) respectively. This was due

to airport losses from operations and due to use of cash to pay down debt in excess of current year earnings at the golf course.

The Town's net assets increased \$4,264,341 for the year ending June 30, 2005. The majority of the increase is due to increases in revenues from property taxes and service charges. Total revenues increased \$9,205,178 while expenses increased only \$7,143,280.

Governmental activities: Key elements in the revenue increase of \$6,581,155 for governmental activities are as follows:

- Property tax revenues increased 11.9% or \$3,105,706 as a result of assessment increases of 19.2% and new construction although the tax rate was decreased 5.9%, from 0.51 to 0.48 per \$100 of assessed value. Property taxes comprise 49.3% of revenue for governmental activities and 33.5% of all Town revenues.
- Revenues in the category, "Other Taxes", included admissions and amusement taxes, which increased 54% or \$439,823, as refunds were issued in the prior years for overpayments given to several large restaurants and nightclubs. Income tax receipts increased 50% or \$317,506 and highway user taxes had a 13% gain of \$82,813. Room taxes, the largest revenue source in this category with receipts of \$9,593,436 had a minor decrease of \$2,021 from the prior year.
- Revenue for current services increased 12% in governmental activities primarily due to permit fees for new construction in the resort which increased \$573,454 from the prior year. Other increases were from fees for parking, \$377,267, and festivals, \$316,952.
- The highest percentage revenue increase, 40%, was from operating and capital grants. The Town received grants of \$622,164 for equipment and training from the Department of Homeland Security and the Federal Emergency Management Administration (FEMA), \$377,038 above the prior year. Other grant increases of \$257,257 were received from the State of Maryland and Worcester County for tourism economic development. Sunset Island LLC made a capital contribution of \$780,000 for transfer station improvements.
- Other revenue includes investment earnings which were \$474,780 above the prior year due to higher interest rates which increased from a weighted average of 1.22% in FY-2004 to 2.15% in FY-2005. However, this revenue increase was offset by a decrease from the sale of capital assets of \$372,167.



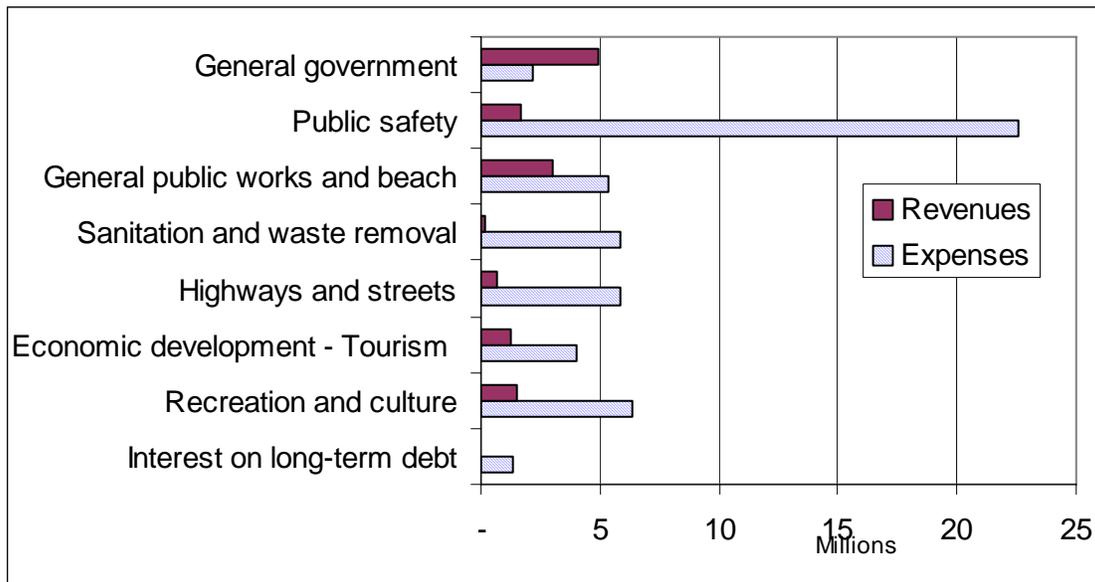
Expenses for governmental activities increased 11.1%, or \$5,349,281 in FY-2005 compared to FY-2004, primarily due to the following:

- Wages and employee benefits, which are 58% of total expenses, increased \$1,976,597 or 7% from the prior year due to new positions and salary increments. The cost of employee benefits increased 345,829 overall although there was a 16% increase or \$437,905 for health insurance. The contribution to the pension funds decreased \$213,816.
- Other operating expenses increased \$3,372,684 or 16%. The largest increases were for legal fees, \$105,761; tourism advertising, \$230,793; tipping fees, \$272,770; supplies \$379,128; fuel \$184,754; equipment, \$295,854; vehicle and radio leases, \$749,553; information technology services, \$274,656; and interest on debt, \$105,717. There was also a new appropriation of \$250,000 for the expansion of Atlantic General Hospital.
- There were significant percentage increases in four functional areas, general government, general public works and beach, economic development, and recreation and culture. In addition to the legal fees and appropriation to the hospital, increases for general government were for studies prepared for the comprehensive plan, impact fees, and additional zoning inspectors.

- Repairs to the boardwalk and new lighting, benches and trashcans increased general public works and beach by \$319,930. The cost for fuel and repairs increased \$45,612 for the beach tractors.
- The increase of \$364,777 for economic development and tourism was for additional grant funded advertising and the Sunfest fall festival which was cancelled in the prior fiscal year. Extended coverage of the beach in the fall increased wages \$134,207 for the beach patrol division of recreation and culture. There was an increase of \$122,276 from the prior year for repairs to the tennis courts and playgrounds.
- The largest actual increase was for public safety, \$1,862,640. Salaries and benefits increased \$1,002,839; equipment purchased through grants increased \$167,717; and leases for vehicles and radio and medical equipment increased \$689,528.

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 25.3% of governmental expenses in FY-2005 compared to 29% in FY-2004.

GOVERNMENTAL ACTIVITIES EXPENSES AND PROGRAM REVENUES

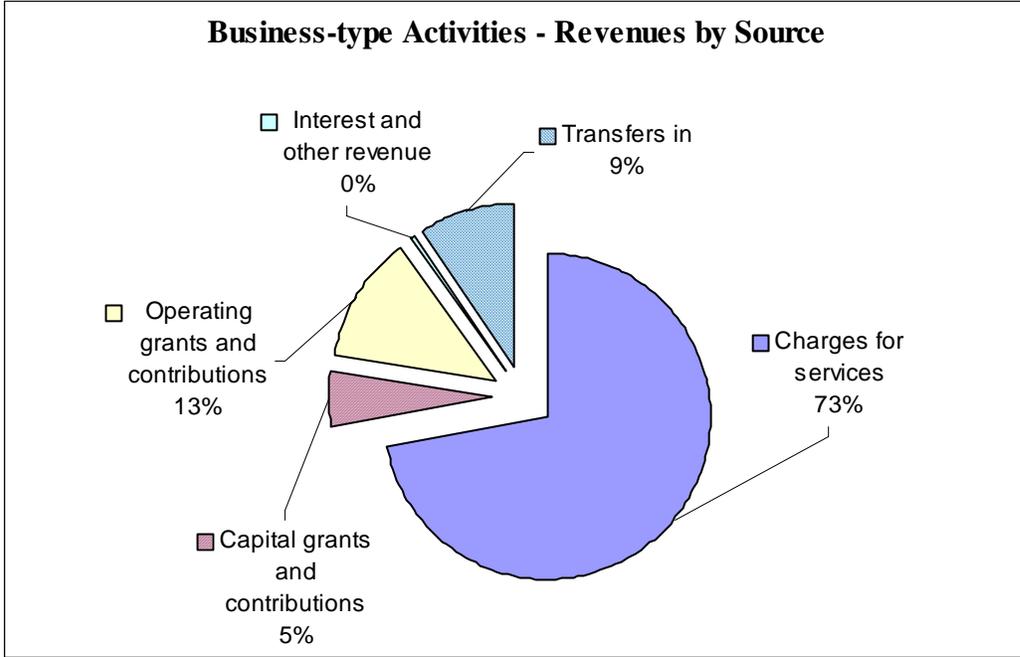


Business-type activities. There was an increase of \$1,482,916 in the Town's net assets attributed to business-type activities compared to \$6,487 in FY-2004. Key elements of this increase are as follows:

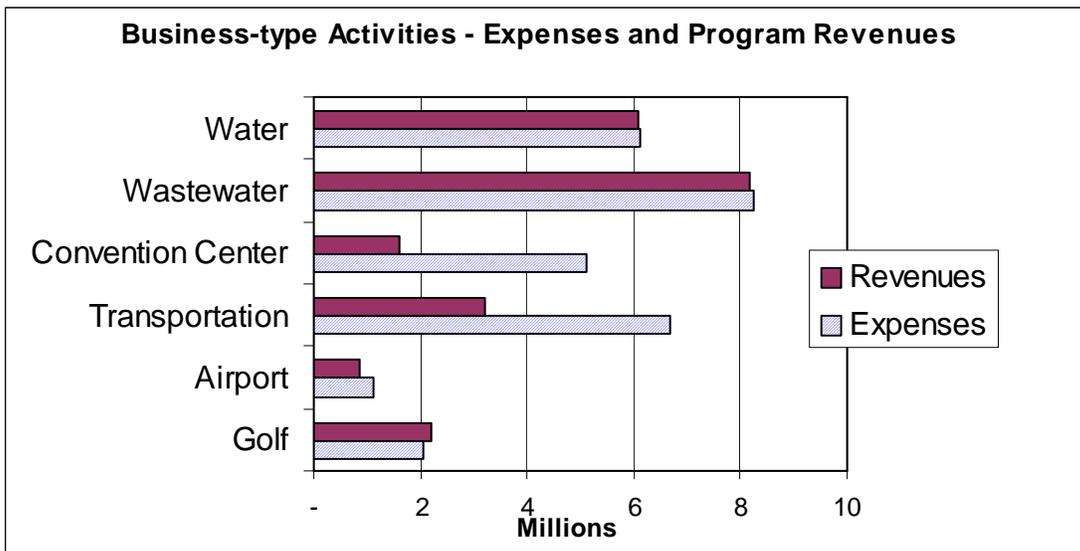
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- Service fees for business-type activities increased 5% due to rate increases to cover capital improvement and debt service for water and wastewater utilities totaling \$439,617 above the prior year and new service connections that were \$81,568 above last year. A new concrete recycling business operation on airport property increased revenue for the airport fund by \$218,636. Revenue increased \$152,605 at the convention center from rental and concession fees. Revenue decreased (\$124,790) at the golf course as fewer rounds were played due to weather and increased competition from new courses in the region.
- Expenses increased \$470,866 in the water fund in 2005 as compared to 2004. The water master plan study cost \$111,043 and a ground water study was \$93,557. Salaries and benefits increased almost \$200,000 for work on repairs to water mains and plant equipment. Labor had been used on major capital projects in the prior year and was capitalized.
- A facilities study for \$117,313 and an evaluation of biosolids processing for \$237,401 and increased tipping fees of \$40,637 increased costs for the wastewater fund. When offset by decreases in repairs, interest, and contracted services for hauling of sludge which is now treated in the plant, expenses increased by \$205,191 for the year.
- Expenses increased \$345,366 for the operation of the convention center. Salaries and benefits increased \$113,190. There was an increase of \$48,834 for repairs to doors and escalators. Energy costs increased \$40,869 and interest on debt increased \$118,522 as savings were taken in the prior year when debt was refunded.
- The transportation fund received \$1,497,383 in grants for the purchase of buses. There were no grants for buses in FY-04. To offset operating losses and to improve service, transfers-in from the General Fund used to subsidize transportation operations were increased \$530,510 from FY-2004. This was used to fund increases for salaries and benefits, \$267,275; fuel, \$159,173; and repairs to buildings and vehicles, \$61,739.
- As noted above, a new concrete disposal operation at the airport, a non-major fund, increased revenue \$218,636, and after expenses of \$155,690, generated \$62,946 in additional net income for the airport. Replacement of the maintenance hangar door increased maintenance costs by \$68,127.

As shown in the following graph, 73% of revenues for business-type activities are from service charges:



The following graph indicates the portion of expenses that are covered by service charges to customers for business-type activities. The water, wastewater, and golf funds are self-supporting and users or reserves cover all costs. The operations of the transportation, airport, and convention center recovered 44.1% of expenses from user charges.



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 unreserved fund balance is a measure of the Town's net resources available at fiscal year end. Unreserved fund balance provides a reserve for emergencies, enables the City Council to stabilize tax rates, and provides working capital from which to pay Town bills between tax collection due dates.

At June 30, 2005, the Town's governmental funds reported a combined ending fund balance of \$13,891,461 compared to \$7,630,507 in 2004. The general fund increased \$1,805,507. The fund balance for non-major funds, capital projects, increased \$4,455,447 as not all funding for projects from bond proceeds was expended.

A significant portion of fund balance, \$7,580,180, or 54.5% is reserved or designated to indicate that it is not available for new spending because it has been committed as follows:

Contracts and purchase orders	\$ 2,721,249
Advanced to another fund	530,000
Designated for capital projects	4,328,931

The general fund is the chief operating fund of the Town and accounts for major functions of the government including public safety, highways and streets, solid waste disposal, parks and recreation, economic development and general administrative services. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to general fund expenditures. At June 30, 2005, unreserved general fund balance was \$6,311,281, which represents 12% of general fund expenditures. Total general fund balance represents 14% of total expenditures and other uses at year end.

Proprietary funds. The Town's proprietary funds provide the same information found in the government-wide financial statements, but in more detail. As reported above, two non-major funds, the airport fund and the golf course fund reported deficits in unrestricted net assets of (\$232,299) and (\$94,925). The decline in net assets of the airport was (\$81,219) although the Town transferred \$164,176 from the general fund for the year. The golf course had net income of \$165,234, but used all operating income to pay off debt. A gain of \$72,723 was reported in the water fund. Water fixture fees were reduced in 2004 as bonds matured and debt service was reduced.

The wastewater fund had a loss of (\$77,024) compared to a loss in the prior year of (\$326,059) as costs decreased for bio-solids handling and the closing of the of sludge lagoons. Operating expenses are anticipated to decrease in 2006 due to the new

treatment technology for the production of class A fertilizer from the sludge. After a transfer from the general fund of \$1,220,589, the convention center's net assets increased \$1,000,342. Of that amount, \$680,850 is reserved from food tax receipts for future debt service. Other factors concerning proprietary funds are addressed in the discussion of the Town's business-type activities.

Fiduciary funds. The General Employees Pension Plan had an actuarial gain of \$120,685 from investment returns above actuarial assumptions and salary increases and retirements below assumptions. The Public Safety Employees Pension Plan experienced a significant actuarial loss of (\$2,030,285) due to salary increases above the actuarial assumptions and retirements, terminations and mortalities below assumptions. The performance by investments in domestic and international stocks was 8.16% which was slightly above the actuarial assumption of investment return was 7.5%. For the fiscal year ended June 30, 2005, the plans had investment earnings of \$2,731,144, net of investment expenses.

The funded ratio, an indicator of funding status, increased from 57.3% to 62.1% for the General Employees Pension Plan. Plan changes which increased the benefit amount to 50% of pay with 30 years of service at age 55 compared to the previous benefit of 35% of pay with 30 years of service at age 60 were made in 2004. The improvement is being funded with employees' contributions of 5% of pay and is being amortized over 20 years. Employees began contributing to the plan in October 2004.

The funded ratio decreased from 77.5% to 73.7% for the Public Safety Employees Pension Plan due to the actuarial losses noted above. The Town is making contributions for a 10-year amortization of the unfunded liabilities for the plans and public safety employees contribute 7% of pay. Additional information on the pension plans can be found on pages 73-79 of this report.

General Fund Budgetary Highlights

Amendments to the adopted budget may occur during the year in a legally permissible procedure (see Note 3.A. on page 61). Two amendments were made in FY-2005. Differences between the original budget and final amended budget for the general fund resulted in a \$740,800 increase in appropriations for operations and an increase of \$910,212 for transfers to other funds. The effect of changes in revenue and expenditure estimates eliminated a projected decrease in fund balance of \$283,009 in the original budget. Significant appropriation changes were as follows:

- Appropriations increased to expend the grant proceeds of \$1,401,733; to increase expenditures for tourism advertising \$200,000; and wetlands mitigation, \$37,516. Appropriations were decreased by \$367,511 for the contribution to the pension funds as the estimate was higher than the required contribution.
- Additional appropriations were made to provide for prior year encumbrances of \$360,157 and to increase transfers to the transportation fund, by \$378,378 and to the

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capital projects funds for street paving, \$50,660, the transfer station, \$219,000, shoreline stabilization, \$25,000, bulkhead maintenance, \$28,965, and improvements to south Philadelphia avenue, \$210,000.

These appropriations were funded from recognition of the following revenues:

- Additional revenue was recognized from income taxes, \$240,000; building permits, \$22,520; and licenses, \$59,730.
- Grants funds for public safety from the Department of Homeland Security and the Federal Emergency Management Administration (FEMA) for equipment and training of \$963,779; the U.S. Justice Department and from the State of Maryland for law enforcement, \$187,948; and the Maryland Emergency Medical system, \$36,662.
- Tourism grants of \$125,000 from the State of Maryland and \$100,000 from Worcester County.

During the year, revenues were greater than budgetary estimates by \$431,209 and expenditures were \$849,928 less than anticipated, resulting in a budgetary gain of \$1,281,137 or 2.5% of budgeted expenditures. The key elements of this variation were:

- The category of property taxes was \$170,009 less than anticipated due to deferral of uncollected taxes of \$134,768 and abatements for various properties under construction. Their assessments will increase in the future. Highway user taxes, \$68,693, and room taxes, \$72,020, contributed to the amount over budget in for other taxes.
- Revenue from building permits was \$619,831 above the budget estimate. Hearing fees of \$35,868 and franchise fees for cable television of \$41,607 above budget also contributed to the large variance of \$728,914 for licenses and permits. The \$83,837 variance in service charges was for fire marshal fees related to new construction. Additional interest revenue due to higher rates made the category for other revenue \$50,804 above estimates.
- Revenue from other agencies was \$418,173 below the budgeted amount as the revenue from several large grants from the Department of Homeland Security could not be recognized, as the equipment was not received until after the fiscal year end. Grant related expenditures were also the reason for the \$465,450 variance for public safety. The grant revenues and related expenditures will be recorded in the 2006 fiscal year.
- With the exception of a variance for debt service of \$3,604, expenditures were less than the final budgeted amounts. The highest variance was for public safety noted above. Expenses for sanitation and waste removal were \$114,701 below budget as some recycling operations were limited during the construction of the new solid

waste transfer facility. Recreation and culture was \$116,402 under budget due to savings in recreation program and park maintenance costs.

- The division highways and streets was under budget \$79,238. Tourism and economic development was below estimates by \$60,580. These two divisions had cost savings for supplies, repairs, and due to the allocation of employee labor to capital projects.

Capital Assets

The Town's investment in capital assets for its governmental and business-type activities as of June 30, 2005, was \$169,812,404 (net of accumulated depreciation). The investment in capital assets includes land, buildings, improvements, streets, infrastructure, machinery and equipment. The total increase in capital assets for the current fiscal year was 1.8%, comprised of a 6.05% increase for governmental activities and a 1.32% decrease for business-type activities. Additions of \$14,843,215 in FY-2005 exceeded depreciation by \$3,935,409 or 136%. The total value of all capital assets has been reduced 42% by depreciation.

Major capital asset additions for the year ending June 30, 2005, included the following:

- Undergrounding of utilities and street improvements to south Philadelphia Avenue \$1,057,579
- Accessible playground at Northside Park, \$222,216
- Street paving and overlays in north Ocean City, \$1,646,716; storm drains, \$512,533
- Solid waste transfer station, \$4,346,583 of a \$7 million dollar project
- Water main upgrades, \$204,634, and new well at 120th Street, \$167,256
- \$1,038,675 for the initial phase of the odor control system for the wastewater plant
- Work was continued to replace the electric generator at the wastewater plant with \$1,896,236 in expenses in FY-2005. Total project to date expenses are \$2,530,945.
- Wastewater flow equalization improvements, \$112,709
- Replacement of the gym floor at Northside Park, \$59,490

A table of the Town's capital assets by type is listed below. Additional information can be found in Note 6 on page 66 of this report.

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

**TOWN OF OCEAN CITY'S Capital Assets
(net of depreciation)**

	Governmental Activities		Business-type Activities		Total Primary Government		% Change
	2005	2004	2005	2004	2005	2004	
	Land	\$12,879,577	\$ 12,879,577	\$12,907,342	\$ 12,907,342	\$ 25,786,919	
Buildings	18,143,528	18,796,577	48,736,302	51,101,536	66,879,830	69,898,113	-4.3
Other improvements	11,188,853	11,874,922	1,360,595	1,406,386	12,549,448	13,281,308	-5.5
Streets and infrastructure	13,409,297	12,362,900	10,820,261	11,640,595	24,229,558	24,003,495	0.9
Machinery and equipment	13,866,864	13,305,778	16,947,943	18,284,019	30,814,807	31,589,797	-2.5
Construction in progress	5,100,727	1,115,994	4,451,115	1,160,133	9,551,842	2,276,127	319.7
	<u>\$ 74,588,846</u>	<u>\$ 70,335,748</u>	<u>\$ 95,223,558</u>	<u>\$ 96,500,011</u>	<u>\$ 169,812,404</u>	<u>\$ 166,835,759</u>	1.8

Debt Administration. At June 30, 2005, the Town had total general obligation bonded debt, backed by the full faith and credit of the Town, outstanding of \$86,879,632, net of deferred refunding losses. The remainder of the Town's debt is comprised of notes payable to the State of Maryland and Worcester County of \$468,716, and capital leases for equipment with the present value of future minimum lease payments totaling \$3,985,354.

During the year, general obligation bonds of \$21,050,000 were issued at an effective interest rate of 4.085% to construct a solid waste transfer station, street improvements, a park, additions to the public safety building, a boardwalk restroom, replacement of the city hall dome, and electric generator, odor control, and flow equalization system for the wastewater plant. A general obligation bond of \$925,000 was issued to the Bank of America at an interest rate of 5.21% for the construction of hangars at the airport. The Town also paid current maturities of \$6,084,552.

Outstanding debt represents 1.5% of the assessed valuation of property in the Town. The debt limit is 5.2% of assessments.

The Town's bonds are insured by the Municipal Bond Insurance Association (MBIA) or the Financial Guaranty Insurance Company (FGIC). The insured bonds are rated by Moody's Investors Service Inc, "Aaa", which is designated to be the highest quality. Standard & Poor's Corporation rates all new bond issues insured by MBIA and FGIC as "AAA", prime grade. The Town has obtained underlying ratings on its bonds in 2005 from Moody's Investor Services Inc, "A1", Standard and Poor's Corporation, "A", and Fitch Ratings, "A+". Additional information on the Town's debt can be found in Note 8 on page 68 of this report.

Economic Factors and Next Year's Budget and Rates

- The Town is currently experiencing a sound economic environment due to increased market value of property in the resort and construction of new hotels and condominium properties.
- Hotel and rental sales are not expected to increase in fiscal year 2006 as several large hotels had been demolished and the properties are being redeveloped.
- An increase in the number visitors and events in the off-season has impacted the level of needed services.
- The Town entered into a three-year labor agreement effective July 1, 2005, with the Fraternal Order of Police, which included salary increases and the addition of the rank of corporal resulting in an overall increase of 8.2% for wages and benefits.
- Roads in the north end of the island need to be resurfaced or reconstructed as the Town continues it's 10-year street maintenance plan.

All of these factors were considered in preparing the Town's budget for the 2006 fiscal year. The 2006 budget included hiring 24 additional positions, one in community development, two in park maintenance, one in information technology, four in public works maintenance, four in transportation, four in the convention center, and eight paramedic/firefighters. The third year of a ten-year plan to resurface roads on a pay-as-you-go basis was approved with an appropriation of \$446,010 for FY-2006. The real property tax rate was reduced from 0.48 per \$100 of valuation to 0.47, but assessment increases of 19.2% resulted in an 11.8% increase in tax revenues.

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.



BASIC FINANCIAL STATEMENTS

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



TOWN OF OCEAN CITY
STATEMENT OF NET ASSETS
JUNE 30, 2005

	Primary Government		Total
	Governmental Activities	Business-type Activities	
ASSETS			
Cash and cash equivalents	\$ 3,013,820	\$ 81,941	\$ 3,095,761
Investments	11,173,350	22,525,313	33,698,663
Receivables, net	1,464,719	2,294,969	3,759,688
Interest receivable	62,720	55,584	118,304
Intergovernmental receivable	3,421,563	509,393	3,930,956
Internal balances	151,088	(151,088)	-
Inventories	1,143,559	460,183	1,603,742
Other	9,149	5,778	14,927
Total current assets	<u>20,439,968</u>	<u>25,782,073</u>	<u>46,222,041</u>
Noncurrent assets:			
Restricted cash and cash equivalents	6,025,034	-	6,025,034
Advances to other funds	530,000	(530,000)	-
Capital assets:			
Land	12,879,577	12,907,342	25,786,919
Buildings	26,560,025	87,251,245	113,811,270
Other improvements	19,759,664	3,724,187	23,483,851
Streets and infrastructure	34,167,437	23,341,716	57,509,153
Machinery and equipment	34,145,988	29,997,234	64,143,222
Construction in progress	5,100,727	4,451,115	9,551,842
Less accumulated depreciation	<u>(58,024,572)</u>	<u>(66,449,281)</u>	<u>(124,473,853)</u>
Total noncurrent assets	<u>81,143,880</u>	<u>94,693,558</u>	<u>175,837,438</u>
Total assets	<u>\$ 101,583,848</u>	<u>\$ 120,475,631</u>	<u>\$ 222,059,479</u>
LIABILITIES			
Current liabilities:			
Accounts payable	\$ 1,291,198	\$ 1,344,720	\$ 2,635,918
Accrued expenses	2,441,102	1,215,957	3,657,059
Compensated absences	963,421	307,845	1,271,266
Deferred revenue	851,894	213,993	1,065,887
Claims and judgments	624,078	-	624,078
Other	1,160,579	402,608	1,563,187
Current portion of long-term debt	4,213,044	4,129,534	8,342,578
Total current liabilities	<u>11,545,316</u>	<u>7,614,657</u>	<u>19,159,973</u>
Noncurrent liabilities:			
Bonds, notes, and loans payable	34,971,609	48,019,515	82,991,124
Other noncurrent liabilities	1,673,459	-	1,673,459
Total noncurrent liabilities	<u>36,645,068</u>	<u>48,019,515</u>	<u>84,664,583</u>
Total liabilities	<u>48,190,384</u>	<u>55,634,172</u>	<u>103,824,556</u>
NET ASSETS			
Invested in capital assets, net of related debt	35,404,193	43,074,509	78,478,702
Restricted for debt service	-	4,780,109	4,780,109
Restricted for capital projects	6,525,810	919,547	7,445,357
Restricted for other purposes	530,000	-	530,000
Unrestricted	10,933,461	16,067,294	27,000,755
Total net assets	<u>53,393,464</u>	<u>64,841,459</u>	<u>118,234,923</u>
Total liabilities and net assets	<u>\$ 101,583,848</u>	<u>\$ 120,475,631</u>	<u>\$ 222,059,479</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, 2005

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Indirect Expenses Allocation</u>	<u>Charges for Services</u>	<u>Program Revenues Operating Grants and Contributions</u>
Primary government:				
Governmental activities:				
General government	\$ 5,405,539	\$ (3,194,772)	\$ 4,948,199	\$ 25,100
Public safety	21,750,910	853,035	1,649,218	1,937,107
General public works and beach	5,458,889	(139,373)	3,030,546	30,132
Sanitation and waste removal	5,609,417	284,880	175,918	-
Highways and streets	5,519,055	299,693	661,496	114,057
Economic development - Tourism	3,844,056	151,789	1,234,497	500,000
Recreation and culture	6,121,233	265,526	1,488,875	75,000
Interest on long-term debt	1,376,678	-	-	-
Total governmental activities	<u>55,085,777</u>	<u>(1,479,222)</u>	<u>13,188,749</u>	<u>2,681,396</u>
Business-type activities:				
Water	5,711,128	414,731	6,095,087	-
Wastewater	7,744,648	483,430	8,162,626	17,161
Convention Center	4,962,818	161,553	1,619,021	3,082,556
Transportation	6,361,509	299,869	3,226,897	788,385
Airport	1,082,458	37,849	848,819	23,751
Golf Course	1,953,115	81,790	2,199,883	-
Total business-type activities	<u>27,815,676</u>	<u>1,479,222</u>	<u>22,152,333</u>	<u>3,911,853</u>
Total primary government	<u>\$ 82,901,453</u>	<u>\$ -</u>	<u>\$ 35,341,082</u>	<u>\$ 6,593,249</u>

General revenues:
Property taxes
Penalties and interest
Sales and income taxes
Grants and contributions not restricted to specific programs
Investment earnings
Other revenue
Loss on disposal of assets
Transfers
Total general revenues and transfers
Increase in net assets
Net assets - beginning
Net assets - ending

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

Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Assets		
	Primary Government		
	Governmental Activities	Business-type Activities	Total
\$ -	\$ 2,762,532	\$ -	\$ 2,762,532
-	(19,017,620)	-	(19,017,620)
10,000	(2,248,838)	-	(2,248,838)
780,750	(4,937,629)	-	(4,937,629)
56,331	(4,986,864)	-	(4,986,864)
-	(2,261,348)	-	(2,261,348)
59,114	(4,763,770)	-	(4,763,770)
-	(1,376,678)	-	(1,376,678)
<u>906,195</u>	<u>(36,830,215)</u>	<u>-</u>	<u>(36,830,215)</u>
3,105	-	(27,667)	(27,667)
5,400	-	(42,891)	(42,891)
50,000	-	(372,794)	(372,794)
1,602,922	-	(1,043,174)	(1,043,174)
-	-	(247,737)	(247,737)
-	-	164,978	164,978
<u>1,661,427</u>	<u>-</u>	<u>(1,569,285)</u>	<u>(1,569,285)</u>
<u>\$ 2,567,622</u>	<u>(36,830,215)</u>	<u>(1,569,285)</u>	<u>(38,399,500)</u>
	29,028,516	-	29,028,516
	203,681	-	203,681
	12,587,732	-	12,587,732
	157,080	-	157,080
	552,485	221,788	774,273
	362,460	-	362,460
	(374,265)	(75,636)	(449,901)
	(2,906,049)	2,906,049	-
	<u>39,611,640</u>	<u>3,052,201</u>	<u>42,663,841</u>
	2,781,425	1,482,916	4,264,341
	50,612,039	63,358,543	113,970,582
	<u>\$ 53,393,464</u>	<u>\$ 64,841,459</u>	<u>\$ 118,234,923</u>

TOWN OF OCEAN CITY
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2005

	Major Fund	Nonmajor Funds	Total Governmental Funds
	General	Capital Projects	
ASSETS			
Cash and cash equivalents	\$ 1,643,766	\$ 1,298,448	\$ 2,942,214
Investments	6,319,642	5,677,084	11,996,726
Accounts receivable, net of allowances for uncollectibles	1,464,719	-	1,464,719
Intergovernmental receivable	3,399,380	-	3,399,380
Due from other funds	217,200	-	217,200
Interest receivable	22,297	16,972	39,269
Other	9,149	-	9,149
Advances to other funds	530,000	-	530,000
	<u>\$ 13,606,153</u>	<u>\$ 6,992,504</u>	<u>\$ 20,598,657</u>
LIABILITIES			
Accounts payable	\$ 637,801	\$ 405,675	\$ 1,043,476
Accrued expenses	1,963,648	13,819	1,977,467
Compensated absences	883,322	-	883,322
Due to other funds	-	47,200	47,200
Other	1,160,579	-	1,160,579
Deferred revenue	1,595,152	-	1,595,152
	<u>6,240,502</u>	<u>466,694</u>	<u>6,707,196</u>
FUND BALANCES			
Fund balance: Reserved for encumbrances	524,370	2,196,879	2,721,249
Reserved for advances	530,000	-	530,000
Unreserved, designated for capital projects	-	4,328,931	4,328,931
Unreserved, undesignated	6,311,281	-	6,311,281
	<u>7,365,651</u>	<u>6,525,810</u>	<u>13,891,461</u>
Total liabilities and fund balances	<u>\$ 13,606,153</u>	<u>\$ 6,992,504</u>	
Adjustments for the Statement of Net Assets:			
Capital assets used in governmental activities are not current financial resources and therefore are not reported in the governmental funds.			60,622,000
Other long-term assets are not available to pay for current-period expenditures and therefore are offset by deferred revenue in the governmental funds. (Note 5)			764,123
Internal service funds are used by management to charge the costs of equipment replacement; and, therefore, the assets and liabilities of the internal service fund are included in governmental activities in the Statement of Net Assets, net of portion assigned to business-type activities. (\$151,088)			14,057,463
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported as liabilities in the governmental funds. (Note 2)			<u>(35,941,583)</u>
Net assets of governmental activities			<u>\$ 53,393,464</u>

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

TOWN OF OCEAN CITY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

	Major Fund	Nonmajor Funds	Total Governmental Funds
	General	Capital Projects	
REVENUES			
Property taxes	\$ 28,893,748	\$ -	\$ 28,893,748
Penalties and interest	203,681	-	203,681
Other taxes	12,561,124	-	12,561,124
Licenses and permits	5,017,242	-	5,017,242
Fines and forfeitures	523,136	-	523,136
Charges for current services	7,299,685	1,129,436	8,429,121
Revenue from other agencies	2,897,590	66,331	2,963,921
Other revenue	684,897	62,949	747,846
Total revenues	58,081,103	1,258,716	59,339,819
EXPENDITURES			
Current:			
General government	3,652,371	239,886	3,892,257
Public safety	21,756,557	-	21,756,557
General public works and beach	3,916,271	100,000	4,016,271
Sanitation and waste removal	5,601,659	4,970	5,606,629
Highways and streets	4,140,051	20,164	4,160,215
Economic development - Tourism	3,861,408	-	3,861,408
Recreation and culture	5,964,562	217,904	6,182,466
Capital outlay	-	6,586,267	6,586,267
Debt service	3,123,228	-	3,123,228
Bond issuance costs	-	63,618	63,618
Total expenditures	52,016,107	7,232,809	59,248,916
Excess (deficiency) of revenues over expenditures	6,064,996	(5,974,093)	90,903
OTHER FINANCING SOURCES (USES)			
Issuance of long-term debt	-	9,076,100	9,076,100
Transfers in	-	1,353,440	1,353,440
Transfers out	(4,259,489)	-	(4,259,489)
Total other financing sources and (uses)	(4,259,489)	10,429,540	6,170,051
Net change in fund balance	1,805,507	4,455,447	6,260,954
Fund balance at beginning of year	5,560,144	2,070,363	7,630,507
Fund balance at end of year	\$ 7,365,651	\$ 6,525,810	\$ 13,891,461

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, 2005

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) \$6,260,954

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

Capital outlay	7,054,965	
Depreciation expense	(3,403,864)	
Depreciation expense exceeded capital outlay in the current period by:	3,651,101	3,651,101

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

Accrued local income tax	26,608	
Property taxes deferred in prior year	134,768	
	161,376	161,376

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, however, has any
effect on net assets. Also, governmental funds report the effect of issuance costs,
premiums, discounts, and similar items when debt is first issued, whereas these
amounts are deferred and amortized in the statement of activities. This amount is the
net effect of these differences in the treatment of long-term debt and related items.

Principal payments on general obligation debt	1,878,426	
Issuance costs	63,618	
Issuance of long-term debt	(9,076,100)	
Amortization of loss on refunding of debt	(15,108)	
	(7,149,164)	(7,149,164)

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

Accrued interest on debt	13,707	
Change in compensated absences	20,746	
Loss on disposal of equipment	(374,265)	
	(339,812)	(339,812)

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.

196,970

Change in net assets of governmental activities (page 41)

\$2,781,425

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

TOWN OF OCEAN CITY
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL (NON-GAAP)
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

	Budgeted Amounts		Actual	Encumbrances	Actual Amounts Budgetary Basis	Variance with Final Budget - Positive (Negative)
	Original	Final				
REVENUES						
Property taxes	\$ 29,143,757	\$ 29,063,757	\$ 28,893,748	\$ -	\$ 28,893,748	\$ (170,009)
Penalties and interest	173,000	173,000	203,681	-	203,681	30,681
Other taxes	11,886,689	12,456,105	12,561,124	-	12,561,124	105,019
Licenses and permits	4,206,078	4,288,328	5,017,242	-	5,017,242	728,914
Fines and forfeitures	573,000	503,000	523,136	-	523,136	20,136
Charges for current services	7,348,167	7,251,130	7,299,685	-	7,299,685	48,555
Revenue from other agencies	1,904,594	3,315,763	2,897,590	-	2,897,590	(418,173)
Other revenue	480,588	598,811	684,897	-	684,897	86,086
Total revenues	55,715,873	57,649,894	58,081,103	-	58,081,103	431,209
EXPENDITURES						
Current:						
General government	3,526,664	3,772,266	3,652,371	104,537	3,756,908	15,358
Public safety	21,563,197	22,468,103	21,756,557	246,096	22,002,653	465,450
General public works and beach	4,145,386	3,960,117	3,916,271	42,043	3,958,314	1,803
Sanitation and waste removal	6,078,539	5,731,708	5,601,659	15,348	5,617,007	114,701
Highways and streets	4,488,196	4,240,634	4,140,051	21,345	4,161,396	79,238
Economic development - Tourism	3,350,081	3,954,179	3,861,408	32,191	3,893,599	60,580
Recreation and culture	6,377,918	6,143,774	5,964,562	62,810	6,027,372	116,402
Debt service	3,119,624	3,119,624	3,123,228	-	3,123,228	(3,604)
Total expenditures	52,649,605	53,390,405	52,016,107	524,370	52,540,477	849,928
Excess (deficiency) of revenues over expenditures	3,066,268	4,259,489	6,064,996	(524,370)	5,540,626	1,281,137
OTHER FINANCING USES						
Transfers out	(3,349,277)	(4,259,489)	(4,259,489)	-	(4,259,489)	-
Total other financing uses	(3,349,277)	(4,259,489)	(4,259,489)	-	(4,259,489)	-
Net change in fund balances	(283,009)	-	1,805,507	(524,370)	1,281,137	1,281,137
Fund balance, beginning of year	5,560,144	5,560,144	5,560,144	-	5,560,144	-
Fund balance, end of year	\$ 5,277,135	\$ 5,560,144	\$ 7,365,651	\$ (524,370)	\$ 6,841,281	\$ 1,281,137

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

TOWN OF OCEAN CITY
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2005

	Business-type Activities - Enterprise Funds	
	Water	Wastewater
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 24,212	\$ 5,657
Investments	4,201,809	11,514,795
Receivables, net	1,185,713	653,416
Interest receivable	10,606	29,007
Intergovernmental receivable	-	10
Inventories	-	334,836
Other	-	-
Total current assets	5,422,340	12,537,721
Noncurrent assets:		
Restricted cash and cash equivalents	-	-
Capital assets:		
Land	10,141	420,345
Buildings	18,432,672	37,502,961
Other improvements	2,811,477	158,698
Streets and infrastructure	16,893,097	2,527,979
Machinery and equipment	4,897,799	23,557,168
Construction in progress	659,238	3,747,169
Less accumulated depreciation	(22,996,420)	(28,828,966)
Total noncurrent assets	20,708,004	39,085,354
Total assets	26,130,344	51,623,075
LIABILITIES		
Current liabilities:		
Accounts payable	94,778	975,282
Accrued expenses	222,137	412,282
Compensated absences	75,324	115,769
Due to other funds	-	-
Deferred revenue	-	-
Claims and judgments	-	-
Other	389,512	13,096
Current portion of long-term debt	1,456,438	1,382,256
Total current liabilities	2,238,189	2,898,685
Noncurrent liabilities:		
Claims and judgments	-	-
Advanced from other funds	-	-
Bonds, notes, and loans payable	11,279,387	25,325,493
Total noncurrent liabilities	11,279,387	25,325,493
Total liabilities	13,517,576	28,224,178
NET ASSETS		
Invested in capital assets, net of related debt	7,972,179	12,377,605
Restricted for debt service	-	-
Restricted for capital projects	3,105	5,400
Unrestricted	4,637,484	11,015,892
Total net assets	\$ 12,612,768	\$ 23,398,897

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

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

				Governmental Activities
Convention Center	Transportation	Nonmajor Enterprise Funds	Total	Internal Service
\$ 38,326	\$ 3,186	\$ 10,560	\$ 81,941	\$ 71,606
5,285,057	440,000	1,083,652	22,525,313	4,853,708
193,890	17,246	244,704	2,294,969	-
13,688	-	2,283	55,584	23,451
439,893	64,131	5,359	509,393	22,183
-	-	125,347	460,183	1,143,559
2,153	250	3,375	5,778	-
<u>5,973,007</u>	<u>524,813</u>	<u>1,475,280</u>	<u>25,933,161</u>	<u>6,114,507</u>
-	-	-	-	347,950
7,456,616	-	5,020,240	12,907,342	-
25,937,286	1,921,581	3,456,745	87,251,245	1,447,083
59,266	66,872	627,874	3,724,187	31,545
-	-	3,920,640	23,341,716	-
723,823	207,388	611,056	29,997,234	31,158,706
-	-	44,708	4,451,115	-
<u>(7,724,345)</u>	<u>(1,462,670)</u>	<u>(5,436,880)</u>	<u>(66,449,281)</u>	<u>(18,670,488)</u>
<u>26,452,646</u>	<u>733,171</u>	<u>8,244,383</u>	<u>95,223,558</u>	<u>14,314,796</u>
<u>32,425,653</u>	<u>1,257,984</u>	<u>9,719,663</u>	<u>121,156,719</u>	<u>20,429,303</u>
47,073	11,444	216,143	1,344,720	247,722
243,428	249,681	88,429	1,215,957	127,742
69,377	16,766	30,609	307,845	80,099
-	-	-	-	170,000
187,712	-	26,281	213,993	20,865
-	-	-	-	624,078
-	-	-	402,608	-
745,000	-	545,840	4,129,534	1,135,413
<u>1,292,590</u>	<u>277,891</u>	<u>907,302</u>	<u>7,614,657</u>	<u>2,405,919</u>
-	-	-	-	1,267,068
-	-	530,000	530,000	-
<u>9,685,615</u>	<u>-</u>	<u>1,729,020</u>	<u>48,019,515</u>	<u>2,849,941</u>
<u>9,685,615</u>	<u>-</u>	<u>2,259,020</u>	<u>48,549,515</u>	<u>4,117,009</u>
<u>10,978,205</u>	<u>277,891</u>	<u>3,166,322</u>	<u>56,164,172</u>	<u>6,522,928</u>
16,022,031	733,171	5,969,523	43,074,509	9,981,492
4,780,109	-	-	4,780,109	-
-	-	911,042	919,547	-
645,308	246,922	(327,224)	16,218,382	3,924,883
<u>\$ 21,447,448</u>	<u>\$ 980,093</u>	<u>\$ 6,553,341</u>	<u>64,992,547</u>	<u>\$ 13,906,375</u>
			(151,088)	
			<u>\$ 64,841,459</u>	

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TOWN OF OCEAN CITY
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

	<u>Business-type Activities -</u>	
	<u>Water</u>	<u>Wastewater</u>
Operating revenues:		
Charges for sales and services	6,095,087	8,162,626
Miscellaneous	-	-
Total operating revenues	<u>6,095,087</u>	<u>8,162,626</u>
Operating expenses:		
Personal services	1,662,257	2,633,046
Contractual services	295,422	425,586
Utilities	272,804	366,878
Repairs and maintenance	393,853	611,586
Other supplies and expenses	588,957	581,492
Internal services	619,014	770,869
Insurance claims and expenses	-	-
Depreciation	1,752,854	2,066,214
Total operating expenses	<u>5,585,161</u>	<u>7,455,671</u>
Operating income (loss)	<u>509,926</u>	<u>706,955</u>
Nonoperating revenues (expenses)		
Interest and investment revenue	76,681	29,298
Operating grants	-	17,161
Interest expense	(516,989)	(760,202)
Gain (loss) on disposal of assets	-	(75,636)
Total nonoperating revenues (expenses)	<u>(440,308)</u>	<u>(789,379)</u>
Income (loss) before contributions and transfers	69,618	(82,424)
Capital contributions	3,105	5,400
Transfers in	-	-
Change in net assets	<u>72,723</u>	<u>(77,024)</u>
Total net assets - beginning	<u>12,540,045</u>	<u>23,475,921</u>
Total net assets - ending	<u>\$12,612,768</u>	<u>\$23,398,897</u>

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

Change in net assets of business-type activities (page 41)

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

Enterprise Funds				Governmental Activities
Convention Center	Transportation	Nonmajor Enterprise Funds	Total	Internal Service Funds
1,619,021	3,226,897	3,048,702	22,152,333	10,419,285
-	-	-	-	6,061
<u>1,619,021</u>	<u>3,226,897</u>	<u>3,048,702</u>	<u>22,152,333</u>	<u>10,425,346</u>
2,141,728	3,208,219	1,072,342	10,717,592	2,151,312
295,410	148,419	580,983	1,745,820	1,370,464
385,131	46,514	80,111	1,151,438	48,756
287,020	1,471,273	163,142	2,926,874	131,495
331,185	73,096	698,091	2,272,821	3,276,561
463,844	670,418	269,869	2,794,014	781,441
-	-	-	-	978,278
661,126	159,021	234,965	4,874,180	2,629,762
<u>4,565,444</u>	<u>5,776,960</u>	<u>3,099,503</u>	<u>26,482,739</u>	<u>11,368,069</u>
<u>(2,946,423)</u>	<u>(2,550,063)</u>	<u>(50,801)</u>	<u>(4,330,406)</u>	<u>(942,723)</u>
107,679	5,532	2,598	221,788	167,099
3,082,556	788,385	23,751	3,911,853	-
(514,059)	-	(55,709)	(1,846,959)	(130,475)
-	-	-	(75,636)	137,869
<u>2,676,176</u>	<u>793,917</u>	<u>(29,360)</u>	<u>2,211,046</u>	<u>174,493</u>
(270,247)	(1,756,146)	(80,161)	(2,119,360)	(768,230)
50,000	105,539	-	164,044	1,497,383
1,220,589	1,521,284	164,176	2,906,049	-
<u>1,000,342</u>	<u>(129,323)</u>	<u>84,015</u>	<u>950,733</u>	<u>729,153</u>
<u>20,447,106</u>	<u>1,109,416</u>	<u>6,469,326</u>		<u>13,177,222</u>
<u>\$21,447,448</u>	<u>\$ 980,093</u>	<u>\$ 6,553,341</u>		<u>\$13,906,375</u>
			<u>532,183</u>	
			<u>\$1,482,916</u>	

TOWN OF OCEAN CITY
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

	Business-type Activities -	
	Water	Wastewater
CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipts from customers and users	\$ 6,085,809	\$ 8,010,293
Payments to suppliers	(1,727,893)	(1,608,985)
Payments to employees	(1,655,927)	(2,614,791)
Payments for interfund services used	(619,014)	(770,869)
Net cash provided (used) by operating activities	<u>2,082,975</u>	<u>3,015,648</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Advances from other funds	-	-
Advances to other funds	-	-
Subsidy from state and federal grants	-	-
Transfers to other funds	-	17,186
Transfers from other funds	-	-
Net cash provided by noncapital financing activities	<u>-</u>	<u>17,186</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Proceeds from capital grant	-	-
Capital contributions	3,105	5,400
Acquisition and construction of capital assets	(435,019)	(2,921,907)
Proceeds from bond issue	705,000	11,268,900
Bond issuance costs	(4,323)	-
Principal paid on capital debt	(815,398)	(955,217)
Interest paid on capital debt and leases	(567,017)	(619,055)
Capital lease payment	-	-
Proceeds from sales of capital assets	-	-
Net cash provided (used) by capital and related financing activities	<u>(1,113,652)</u>	<u>6,778,121</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sales and maturities of investments	-	-
Purchase of investments	(1,070,441)	(9,813,339)
Interest and dividends received	66,075	291
Net cash used by investing activities	<u>(1,004,366)</u>	<u>(9,813,048)</u>
Net increase (decrease) in cash and cash equivalents	(35,043)	(2,093)
Cash and cash equivalents at beginning of the year	<u>59,255</u>	<u>7,750</u>
Cash and cash equivalents at end of the year	<u>\$ 24,212</u>	<u>\$ 5,657</u>

(Continued)

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

Enterprise Funds				Governmental
Convention Center	Transportation	Nonmajor Enterprise Funds	Total	Internal Service Funds
\$ 1,577,874	\$ 3,230,455	\$ 3,118,958	\$ 22,023,389	\$ 10,446,211
(1,325,243)	(1,739,430)	(1,354,863)	(7,756,414)	(5,567,757)
(2,119,446)	(3,211,108)	(1,055,341)	(10,656,613)	(1,946,715)
(463,844)	(670,418)	(269,869)	(2,794,014)	(775,263)
(2,330,659)	(2,390,501)	438,885	816,348	2,156,476
(18,173)	-	239,313	221,140	143,994
-	-	(48,727)	(48,727)	-
3,102,689	755,511	28,828	3,887,028	-
-	-	-	17,186	-
1,220,589	1,521,284	164,176	2,906,049	-
4,305,105	2,276,795	383,590	6,982,676	143,994
-	155,596	-	155,596	1,475,200
50,000	-	-	58,505	-
(64,801)	-	(30,750)	(3,452,477)	(2,315,400)
-	-	925,000	12,898,900	-
-	-	(13,958)	(18,281)	-
(730,000)	-	(544,868)	(3,045,483)	(1,126,028)
(545,913)	-	(67,502)	(1,799,487)	(136,054)
(34,616)	-	-	(34,616)	-
-	-	-	-	137,869
(1,325,330)	155,596	267,922	4,762,657	(1,964,413)
-	-	-	-	555,252
(709,097)	(46,696)	(1,083,652)	(12,723,225)	(992,260)
98,007	5,532	315	170,220	124,739
(611,090)	(41,164)	(1,083,337)	(12,553,005)	(312,269)
38,026	726	7,060	8,676	23,788
300	2,460	3,500	73,265	47,818
\$ 38,326	\$ 3,186	\$ 10,560	\$ 81,941	\$ 71,606

TOWN OF OCEAN CITY
STATEMENT OF CASH FLOWS (Continued)
PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

	Business-type Activities -	
	Water	Wastewater
RECONCILIATION OF OPERATING INCOME(LOSS) TO NET CASH PROVIDED BY OPERATIONS		
Operating income (loss)	\$ 509,926	\$ 706,955
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	1,752,854	2,066,214
EFFECT OF CHANGES IN OPERATING ASSETS & LIABILITIES:		
Accounts Receivable	(180,690)	(152,333)
Inventories	-	15,637
Prepaid expenses	-	-
Compensated absences	(4,318)	(692)
Customer deposits	171,412	-
Accounts payable	(172,539)	361,612
Accrued expenses	6,330	18,255
Deferred revenue	-	-
Claims liability	-	-
Total adjustments	1,573,049	2,308,693
Net cash provided (used) by operating activities	\$ 2,082,975	\$ 3,015,648

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Increase in fair value of investments	\$ -	\$ -
Loss on disposal of equipment	-	(75,636)

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

Enterprise Funds				Governmental
Convention		Nonmajor		Activities
Center	Transportation	Enterprise	Total	Internal
		Funds		Service
				Funds
\$ (2,946,423)	\$ (2,550,063)	\$ (50,801)	\$ (4,330,406)	(942,723)
661,126	159,021	234,965	4,874,180	2,629,762
(23,224)	3,558	65,709	(286,980)	-
-	-	11,987	27,624	(89,802)
(1,603)	(250)	121	(1,732)	-
407	(3,571)	4,989	(3,185)	1,938
-	-	-	171,412	-
(24,894)	3,693	150,367	318,239	100,929
21,875	(2,889)	17,001	60,572	23,779
(17,923)	-	4,547	(13,376)	20,865
-	-	-	-	411,728
615,764	159,562	489,686	5,146,754	3,099,199
\$ (2,330,659)	\$ (2,390,501)	\$ 438,885	\$ 816,348	\$ 2,156,476

\$	-	\$	-	\$	-	\$	32,072
	-		-		(75,636)		-

TOWN OF OCEAN CITY
COMBINED STATEMENT OF PLAN NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2005

	<u>Pension Trust Funds</u>
ASSETS	
Cash and cash equivalents	\$ 4,069,906
Interest and dividends receivable	145,618
Investments, at fair value:	
U.S. Government obligations	5,502,187
Domestic equities	12,471,095
Real Estate Investment Trusts	4,195,305
International equities	3,324,433
Domestic fixed income	<u>4,207,339</u>
Total investments	<u>29,700,359</u>
 Total assets	 <u>33,915,883</u>
 NET ASSETS	
Held in trust for pension benefits and other purposes	 <u><u>\$ 33,915,883</u></u>

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

TOWN OF OCEAN CITY
 COMBINED STATEMENT OF CHANGES IN PLAN NET ASSETS
 FIDUCIARY FUNDS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2005

	<u>Pension Trust Funds</u>
Additions:	
Contributions	
Employers	\$ 2,765,921
Miscellaneous income	372
Members	<u>1,046,252</u>
Total contributions	<u>3,812,545</u>
Investment income	
Net appreciation in fair value of investments	1,988,491
Interest	476,240
Dividends	<u>443,818</u>
Total investment income	2,908,549
Less investment expense	<u>177,405</u>
Net investment income	<u>2,731,144</u>
Total additions	<u>6,543,689</u>
Deductions:	
Benefits and refunds paid	1,148,707
Administrative expenses	<u>169,253</u>
Total deductions	<u>1,317,960</u>
Change in net assets	5,225,729
Total net assets - beginning	<u>28,690,154</u>
Total net assets - ending	<u>\$ 33,915,883</u>

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

TOWN OF OCEAN CITY
Notes to the Financial Statements
June 30, 2005

Note 1: Summary of Significant Accounting Policies

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

A. Reporting Entity

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

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

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

Employees of Ocean City, Maryland Pension Plan and Trust. The Town of Ocean City provides a single-employer defined benefit plan for its general employees which 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 approves the actuarial assumptions used in determination of contribution levels.

The Town participates in a multiple employer cost sharing pension plan with Worcester County for wastewater employees transferred to the Town from the County July 1, 1994, under the "Sewerage Treatment Facilities Transfer Agreement" between the Town and the Worcester County Commissioners. The pension plan is not included in this report because it is completely managed by Worcester County. Additional financial information and actuarial reports for each of the pension plans may be obtained at the City Clerk's office, City Hall Room 220, 301 Baltimore Avenue, Ocean City, Maryland 21843.

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

B. Government-wide and fund financial statements

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

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

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

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

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. Government-wide, proprietary, and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized in the year of levy. Grants are recognized as revenue when all eligibility requirements are met. For pension trust funds, employee and employer contributions are recognized as revenues in the period in which employee services are performed. The Town applies applicable Financial Accounting Standards Board (FASB) pronouncements issued after November 30, 1989, in accounting and reporting for its enterprise operations unless they conflict with or contradict GASB pronouncements. The recorded amounts of enterprise fund financial instruments, including cash, investments, receivables, payables, and long-term debt approximate fair value.

Governmental fund statements are presented using the flow of current financial resources measurement focus and the modified basis of accrual. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they become both measurable and available). "Measurable" means the amount of the transaction can be determined and "available" means collected within 60 days of year end. Expenditures are recorded when the related liability is incurred as under accrual accounting. Principal and interest on general long-term debt and expenditures for compensated absences are recorded when the payments are due.

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

The Town has one major governmental fund, the general fund. It is used to account for all activities of the government not accounted for in some other 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.

Town of Ocean City
Notes to the Financial Statements

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

The Town has four major proprietary funds. The Water Fund operates the water treatment plants and distribution system. The Wastewater Fund operates the sewage treatment plant, pumping stations and collection system. The Convention Center Fund accounts for the activities of the Roland E. Powell Convention Center. The Transportation Fund accounts for the operations of the Town's bus system and boardwalk trams. The Town has two non-major funds, the Airport Fund and Golf Course Fund, which account for the operations of the Ocean City Municipal Airport and Eagle's Landing Golf Course.

The Town also reports internal service funds, capital improvement funds and pension trust funds. The Town maintains four Internal Service Funds: the Information Technology Fund accounts for the Town's computer operations; the Service Center Fund accounts for the maintenance of Town vehicles and operates a central purchasing warehouse; the Vehicle and Equipment Trust Fund accounts for the purchase and use (lease) of Town vehicles, equipment and radios; and the Risk Management Fund accounts for insurance expenses and claims liability.

The Town utilizes capital improvement funds to account for all financial resources used for acquisition or construction of major capital facilities not financed by proprietary funds and are governmental funds. The Town has two pension funds; the Employees of Ocean City, Maryland Pension Plan and Trust and the Ocean City, Maryland Public Safety Employees Pension Plan and Trust. As fiduciary funds, the pension funds are used to account for assets held on behalf of outside parties under the terms of a formal trust agreement.

The effect of interfund activity has been eliminated from the government-wide financial statements except for charges between the water, wastewater, convention center, and transportation funds and the general fund for indirect services. Elimination of these charges would distort the costs and program revenues reported for the various services. Amounts reported as program revenues include charges to customers for goods and services, operating grants and contributions and capital grants. Internally dedicated resources are reported as general revenues rather than program revenues. General revenues include all taxes.

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

D. Assets, liabilities, and net assets or equity

1. Equity in pooled cash, 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. Cash deposits of the Town are made in accordance with the Annotated Code of Maryland (the Code), which requires depositories to give security in the form of collateral as provided for in the Code, for the safekeeping and forthcoming, when required, of these deposits.

Excess funds are also permitted to be invested either in bonds or other obligations for the payment of principal and interest of which the faith and credit of the United States of America are pledged, or in obligations of Federal governmental agencies issued pursuant to acts of Congress, or in the local

government investment pool created by the State of Maryland. The Pension Trust Funds are also authorized to invest in corporate bonds and notes, preferred stocks, and common stocks. Investments are reported at fair value. Net assets available for benefits used to calculate the unfunded pension benefit obligation in the Pension Trust Funds are also reported at fair value. In the prior fiscal year, the Town implemented Statement No. 40, *Deposit and Investment Risk Disclosure*, which changed certain disclosures regarding investments and credit risk.

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 or required to be segregated by law or policy, are combined to form a pool of cash and investments to maximize interest earnings. Income from pooled investments is allocated to funds on the basis of their equity in pooled cash.

2. Receivables and Payables

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

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

Information presented is for "full year" levy. "Half year" levy dates are each 6 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. Allowances for uncollectible accounts are maintained on all types of receivables that historically experience bad debt. Receivables are shown net of such an allowance for uncollectibles. Real property taxes are generally fully collectible.

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

3. Inventories

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

4. *Restricted assets*

Proceeds from a capital lease agreement set aside for the purchase of vehicles and equipment in an internal service fund, the Vehicle and Equipment Trust Fund, are comprised of investments in collateralized repurchase agreements, uninsured and unregistered with the securities held by the counter party's trust department in the Town's name and recorded as a restricted asset, capital lease escrow account.

5. *Capital assets*

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

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

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

6. *Compensated absences*

Vested or accumulated vacation leave is accrued when earned by employees and a liability is recorded in the government-wide and business-type activities statements. No liability is recorded for nonvesting accumulating rights to receive sick pay benefits, as the Town does not pay these amounts when employees separate from service.

Full-time, permanent employees earn annual vacation leave at the following rates: 1-5 years service, 10 days; 6-10 years service, 15 days; 11-19 years service, 20 days; 20 years service and over, 25 days. A maximum of 10 days accumulated and/or current vacation leave may be carried forward into the next year. All other vacation leave must be used by the employee in the current year or forfeited. The Town pays all outstanding vacation leave at separation on a one-for-one basis. The accrual in each fund type is included in "Compensated absences" and in "Other noncurrent liabilities" in the government-wide statements and is \$1,369,812 for governmental activities funds and \$307,845 for business-type activities, respectively, as of June 30, 2005. Compensated absences related to governmental activities for current and prior years are generally liquidated from the general fund. A liability for vacation pay is recorded in governmental funds only if they have matured as the result of retirement or resignation.

7. *Long-term obligations*

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

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

8. Fund Equity

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

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

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative plans by management that are subject to change.

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

The governmental fund balance sheet includes a reconciliation between *fund balances – total governmental funds* and *net assets – governmental activities* as reported in the government-wide statement of net assets. One aspect of that reconciliation is long-term liabilities. Long-term liabilities applicable to the town’s governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. Interest on long-term debt is not accrued in governmental funds, but is recognized as an expenditure when due. All liabilities, both current and long-term, are reported in the statement of net assets. The summary of the \$35,941,583 difference is as follows:

Bonds and loans payable	\$35,295,116
Deferred charge on refunding (to be amortized as interest expense)	(95,817)
Accrued interest payable	335,893
Compensated absences	<u>406,391</u>
Net adjustment to reduce fund balance- total governmental funds to arrive at net assets – governmental activities	<u>\$35,941,583</u>

Note 3: Stewardship, compliance, and accountability

A. Budgetary information

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

1. On or before January 15 of each year, all agencies of the Town submit requests for appropriations to the City Manager. The budget is prepared by Fund, function and activity, and includes information on the past year, current year estimates and requested appropriations for the next fiscal year.

Town of Ocean City
Notes to the Financial Statements

2. On or before May 28, the proposed budget is presented to the City Council for review.
3. The City Council holds two public hearings on the proposed budget and may insert new line items into the budget and increase or decrease the amounts in existing line items.
4. Prior to July 1, the budget is legally enacted through passage of an ordinance.
5. The annual appropriated budget is adopted on a non-GAAP basis as it includes lawfully encumbered amounts. All annual appropriations lapse at fiscal year-end to the extent that they have not been expended or lawfully encumbered. Each year the annual appropriated budget is amended to include lawfully encumbered appropriations from the previous year.
6. Transfers of budgeted amounts between line items or departments within a Fund may be accomplished with the approval of the City Manager and Finance Administrator such that the net effect on total expenditures for the Fund equals zero. Budget amendments, which establish additional revenue, equal to or in excess of new appropriations or move appropriations from one Fund to another must be approved by the City Council after holding public hearings by a two-thirds vote. For year ending June 30, 2005, the Council approved two budget amendments to (1) recognize grants proceeds and expenditures of \$1,401,733, (2) to reduce the estimate of the contribution to the pension funds by \$367,511, to the amount required, and (3) to increase the budget for tourism promotional advertising by \$200,000. Additional appropriations were made to provide for prior year encumbrances of \$360,157 and to increase transfers to the transportation fund by \$378,378 for fuel and maintenance costs. Also, funds were transferred to the capital projects funds for the Philadelphia Avenue street improvements, \$210,000; the transfer station \$219,000; street paving, \$50,660; and for bulkheads and shoreline protection, \$53,965. The additional appropriations were funded by recognizing revenue of \$249,279 from income and room taxes, interest, and building permits. Other supplementary appropriations were not considered material.
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, 2005, for the General Fund, the governmental fund type for which an annual budget is adopted. No annual budget and actual comparisons are presented in the financial statements for governmental funds utilizing project ordinances.
8. Encumbrances represent commitments related to unperformed contracts for goods or services. Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of resources are recorded to reserve that portion of the applicable appropriation, is utilized in the governmental funds. Encumbrances outstanding at year-end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be honored during the subsequent year.

B. Excess of expenditures over appropriations

For the year ended June 30, 2005, expenditures exceeded appropriations for debt service by \$3,604 to pay a state loan from the Maryland Energy Administration. This expenditure was funded from electricity savings in the police department budget.

C. Reconciliation of expenditures-budgetary basis and GAAP basis

Expenditures – budgetary basis	\$ 52,540,477
Encumbrances	<u>(524,370)</u>
Expenditures – GAAP basis	<u>\$ 52,016,107</u>

Note 4: Deposits and Investments

A. Cash on Hand.

At year-end, cash on hand for petty cash and change funds was \$48,759.

B. Deposits.

At year-end, the carrying amount of the Town's deposits was \$90,453 and the bank balance was \$1,215,843. The deposits of the Town were not exposed to custodial credit risk at June 30, 2005.

The Town has a contractual arrangement with the bank for funds to be transferred daily from investment in a repurchase agreement to cover checks as presented.

C. Investments.

At June 30, 2005, 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	
Repurchase agreements	1,404,193	1,401,193			2.77%
State investment pool	38,131,968	38,131,968	-	-	2.98%
Money market mutual funds	3,742,369	3,742,369	-	-	2.33%
U.S. Treasuries	3,215,507	-	3,215,507	-	4.43%
U.S. agencies	5,758,302	-	4,490,792	1,267,510	4.04%
Domestic equities	12,471,095	12,471,095	-	-	-
International equities	3,324,433	3,324,433	-	-	-
Corporate bonds	4,207,339	-	2,090,434	2,116,905	5.08%
Real estate investment trust	4,195,305	4,195,305	-	-	-
	<u>\$76,450,511</u>	<u>\$63,269,363</u>	<u>\$9,796,733</u>	<u>\$3,384,415</u>	

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

Cash on Hand	\$ 48,759
Carrying Amount of Deposits	90,453
Carrying amount of investments-above	<u>76,450,511</u>
Total cash and investments	76,589,723
Less: amounts in fiduciary funds	<u>(33,770,265)</u>
Total cash and investments per statement of net assets	<u>\$42,819,458</u>
Cash and cash equivalents	\$ 3,095,761
Investments	33,698,663
Restricted cash and cash equivalents	<u>6,025,034</u>
Total cash and investments per statement of net assets	<u>\$42,819,458</u>

Investment Rate Risk. Fair value fluctuates with interest rates, and increasing interest rates could cause fair value to decline below original cost. To limit the Town's exposure to fair value losses arising from increasing interest rates, the Town's investment policy limits the term of investment maturities except for funds in the risk management fund and fiduciary funds, for which longer term maturities are allowed to match the cash flow of liabilities. For other Town funds, the policy requires that 70% of investments mature in less than one year and permits 30% to be invested from one to five years. Town management believes the liquidity in the portfolio is adequate to meet cash flow requirements and to preclude the Town from having to sell investments below original cost for that purpose. The investments at June 30, 2005, met the Town's investment policy as of that date.

Town of Ocean City
Notes to the Financial Statements

Investment income includes the following for the year ended June 30, 2005:

Net interest and dividends	\$ 1,662,259
Net increase in fair value of investments	<u>2,020,563</u>
Total net investment income	3,682,822
Less: net investment income of fiduciary funds	<u>(2,908,549)</u>
Total net investment income per statement of activities	<u>\$ 774,273</u>

Credit Risk. Town investment policy does not permit investments in commercial paper or corporate bonds except in fiduciary funds or if they are permitted under state law in the state investment pool. The Town invests in the Maryland Local Government Investment Pool (MLGIP) which is under the administration of the State Treasurer. The MLGIP was established in 1982 under Article 95 Section 22G of the Annotated Code of Maryland and is rated AAAM by Standard and Poors, their highest rating for money market mutual funds. The MLGIP seeks to maintain a constant unit value of \$1.00 per unit. Unit value is computed using the amortized cost method. In addition, the net asset value of the pool, marked to market, is calculated and maintained on a weekly basis to ensure a \$1.00 per unit constant value. In the fiduciary funds, fixed income securities must be rated "BBB" or above, with no more than 20% rated less than single "A" quality.

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. For the Town's \$1,404,193 in repurchase agreements, \$2,060,376 of underlying securities were held by the Bank of Boston in the Town's name. At June 30, 2005, 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 in the MLGIP.

Foreign Currency Risk. The investment policy for the fiduciary, pension trust funds permits up to 10% of total investments in foreign currency denominated investments. At year end, the investment position was 9.9% in equities of 37 international firms with 32% of the value of these investments in firms that are rated A- to AAA and 27% in firms that are rated B to BBB by Standard and Poor's and the remainder in firms that are unrated.

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, 2005, was \$5,786,662,057. The Town real property tax rate was \$0.48 per \$100 of assessed value. The Town tax rate for personal and corporate property was \$1.29 per \$100 of assessed value. The Town collected 98.6% of current year property taxes levied in the current year. Total property tax collections were 99.9% of current taxes levied.

B. Receivables

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

Receivables:	Convention					Non-major		Total
	<u>Governmental</u>	<u>Water</u>	<u>Wastewater</u>	<u>Center</u>	<u>Transportation</u>	<u>Funds</u>		
Taxes	\$ 499,193							\$ 499,193
Emergency Medical	778,448							778,448
Accounts	868,043	1,186,501	655,682	195,673	17,246	244,704		3,167,849
Gross Receivables	2,145,684	1,186,501	655,682	195,673	17,246	244,704		4,445,490
Less Allowance	(680,965)	(788)	(2,266)	(1,783)	-	-		(685,802)
	<u>\$ 1,464,719</u>	<u>\$ 1,185,713</u>	<u>\$ 653,416</u>	<u>\$ 193,890</u>	<u>\$ 17,246</u>	<u>\$ 244,704</u>		<u>\$ 3,759,688</u>

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

Governmental funds report deferred revenue in relation to receivables for revenues that are not considered to be available to liquidate liabilities of the current period such as property taxes not collected within 60 days after fiscal year end. Deferred revenue also includes rental and program advances, franchise fees and similar prepayments received by the Town, grant revenue received prior to the incurrence of qualifying expenditures, and governmental fund nonexchange contributions which did not meet the GASB Statement No. 33 time restriction. Deferred revenue for governmental activities, general fund at June 30, 2005 is summarized as follows:

	<u>Unavailable</u>	<u>Unearned</u>	<u>Total</u>
Property tax receivables	\$ 443,503	\$ -	\$ 443,503
Income tax	320,620	-	320,620
Grants	-	14,731	14,731
Mitigation fees	-	136,164	136,164
Rental and program advances	-	185,799	185,799
Franchise payments	-	494,335	494,335
	<u>\$ 764,123</u>	<u>\$ 831,029</u>	<u>\$ 1,595,152</u>

Town of Ocean City
Notes to the Financial Statements

Note 6: Capital Assets

The following is a summary of governmental capital assets activity for the year ended June 30, 2005:

	Beginning Balance	Transfers and Increases	Transfers and Deletions	Ending Balance
Governmental activities:				
<i>Capital assets, not being depreciated:</i>				
Land	\$12,879,577	\$ --	\$ --	\$12,879,577
Construction in progress	<u>1,115,994</u>	<u>4,477,281</u>	<u>(492,548)</u>	<u>5,100,727</u>
Total capital assets, not being depreciated	<u>13,995,571</u>	<u>4,477,281</u>	<u>(492,548)</u>	<u>\$17,980,304</u>
<i>Capital assets, being depreciated:</i>				
Buildings	26,757,980	59,490	(257,445)	26,560,025
Other Improvements	19,524,094	235,570	--	19,759,664
Streets and infrastructure	31,886,413	2,651,797	(370,773)	34,167,437
Machinery and equipment	<u>32,911,084</u>	<u>3,742,194</u>	<u>(2,507,290)</u>	<u>34,145,988</u>
Total capital assets, being depreciated	<u>111,079,571</u>	<u>6,689,051</u>	<u>(3,135,508)</u>	<u>114,633,114</u>
<i>Less accumulated depreciation for:</i>				
Buildings	(7,961,403)	(712,539)	257,445	(8,416,497)
Other Improvements	(7,649,172)	(921,639)	--	(8,570,811)
Streets and infrastructure	(19,523,513)	(1,533,624)	298,997	(20,758,140)
Machinery and equipment	<u>(19,605,306)</u>	<u>(2,865,824)</u>	<u>2,192,006</u>	<u>(20,279,124)</u>
Total accumulated depreciation	<u>(54,739,394)</u>	<u>(6,033,626)</u>	<u>2,748,448</u>	<u>(58,024,572)</u>
Total capital assets being depreciated, net	<u>56,340,177</u>	<u>655,425</u>	<u>(387,060)</u>	<u>56,608,542</u>
Governmental activities capital assets, net	<u>\$70,335,748</u>	<u>\$5,132,706</u>	<u>\$(879,608)</u>	<u>\$74,588,846</u>

The following is a summary of business-type capital assets activity for the year ended June 30, 2005:

	Beginning Balance	Transfers and Increases	Transfers and Deletions	Ending Balance
Business-type activities:				
<i>Capital assets, not being depreciated:</i>				
Land	\$ 12,907,342	\$ --	\$ --	\$12,907,342
Construction in progress	<u>1,160,133</u>	<u>3,294,479</u>	<u>(3,497)</u>	<u>4,451,115</u>
Total capital assets, not being depreciated	<u>14,067,475</u>	<u>3,294,479</u>	<u>(3,497)</u>	<u>\$17,358,457</u>
<i>Capital assets, being depreciated:</i>				
Buildings	87,251,245	--	--	87,251,245
Other improvements	3,829,013	--	(104,826)	3,724,187
Infrastructure	23,111,517	230,199	--	23,341,716
Machinery and equipment	<u>30,081,072</u>	<u>152,205</u>	<u>(236,043)</u>	<u>29,997,234</u>
Total capital assets, being depreciated	<u>144,272,847</u>	<u>382,404</u>	<u>(340,869)</u>	<u>144,314,382</u>
<i>Less accumulated depreciation for:</i>				
Buildings	(36,149,709)	(2,365,234)	--	(38,514,943)
Other Improvements	(2,422,627)	(45,419)	104,454	(2,363,592)
Infrastructure	(11,470,922)	(1,050,533)	--	(12,521,455)
Machinery and equipment	<u>(11,797,053)</u>	<u>(1,412,994)</u>	<u>160,756</u>	<u>(13,049,291)</u>
Total accumulated depreciation	<u>(61,840,311)</u>	<u>(4,874,180)</u>	<u>265,210</u>	<u>(66,449,281)</u>
Total capital assets being depreciated, net	<u>82,432,536</u>	<u>(4,491,776)</u>	<u>(75,659)</u>	<u>77,865,101</u>
Business-type activities capital assets,	<u>\$96,500,011</u>	<u>\$(1,197,297)</u>	<u>\$(79,156)</u>	<u>\$95,223,558</u>

*Town of Ocean City
Notes to the Financial Statements*

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

General government	\$ 112,184
Public safety	367,558
General public works and beach	1,216,992
Highways and streets	1,400,823
Sanitation and waste removal	72,215
Recreation and culture	234,092
Capital assets held by the town's internal service funds are charged to the various functions based on usage	<u>2,629,762</u>

Total depreciation – governmental activities \$6,033,626

Depreciation expense was charged to business type activities as follows:

Water fund	\$1,752,854
Wastewater fund	2,066,214
Convention Center fund	661,126
Transportation fund	159,021
Airport fund	164,716
Golf course fund	<u>70,249</u>

Total depreciation – business-type activities \$4,874,180

The town has on-going construction projects as of June 30, 2005. The projects include building improvements, street construction, and water and wastewater improvements. At year end, the town's commitments with contractor's are as follows:

<u>Project</u>	<u>Spent-to-date</u>	<u>Remaining Commitment</u>
Public Safety building expansion	\$ 77,643	\$ 174
Transfer Station	4,746,842	2,065,787
Downtown redevelopment	239,887	1,672
Boardwalk tram station	1,471	501
Street Paving	2,987,752	27,882
Bulkhead repairs	40,945	300
Philadelphia Ave Improvements	1,836,627	1,390
Sunset Park	28,964	45,498
Water mains and wells	1,413,031	25,327
Wastewater generator	2,530,945	1,876,775
Wastewater flow equalization	112,709	78,672
Wastewater odor control	<u>1,038,675</u>	<u>1,943,504</u>
Total	<u>\$15,056,491</u>	<u>\$6,067,482</u>

Note 7: Interfund receivables, payables and transfers

The General Fund has made advances of \$240,000 to the Airport Fund and \$290,000 to the Golf Course Fund, non-major business-type activities. The advance to the Airport Fund was to cover operating cash deficits. The advance to the Golf Course Fund was to pay principal payments on outstanding debt. Net transfers of \$2,906,049 are shown in the Statement of Activities. Transfers were made from the General Fund to subsidize operations in the Convention Center Fund for \$1,220,589 and in the Transportation and Airport funds, in the amounts of \$1,521,284 and \$164,176 respectively.

Note 8: Long-term Debt

A. General Obligation Bonds

The Town issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds have been issued for both governmental and business-type activities. The original amount of general obligation bonds issued in prior years was \$90,725,000. In FY-2005, the Town issued the \$21,050,000 general obligation municipal purpose bonds and the \$925,000 general obligation airport improvement bonds. General obligation bonds are direct obligations and pledge the full faith and credit of the Town. These bonds generally are issued as 20-year serial bonds, except for refunding issues or issues less than \$5 million. All interest is paid semi-annually. General obligation bonds currently outstanding are as follows:

<u>Bond Issue</u>	<u>Interest Rates</u>	<u>Original Issue</u>	<u>Amount Outstanding June 30, 2005</u>
Municipal Purpose Bonds of 1995	5.00 – 5.50%	15,000,000	715,000
Refunding Bonds of 1996	4.50 – 5.20%	7,525,000	3,905,000
Municipal Purpose Bonds of 1997	4.70 – 5.05%	17,175,000	13,295,000
Recreation Complex Bond of 1998	4.64%	1,200,000	814,800
Municipal Purpose Bonds of 2001	4.125 – 5.00%	18,500,000	17,105,000
Municipal Refunding Bonds of 2004	4.125 – 5.00%	31,325,000	29,780,000
Municipal Purpose Bonds of 2005	3.00 – 5.00%	21,050,000	21,050,000
Airport Improvement Bond of 2005	5.21%	<u>925,000</u>	<u>925,000</u>
Total General Obligation Bonds		112,700,000	87,589,800
Deferred loss on refunding		<u>(1,337,082)</u>	<u>(710,168)</u>
Total		<u>\$111,362,918</u>	<u>\$86,879,632</u>

Annual debt service requirements to maturity for general obligation bonds are as follows:

<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>
2006	\$ 2,792,379	1,467,966	4,129,534	2,199,820
2007	2,470,553	1,386,874	3,896,477	2,086,147
2008	2,215,587	1,272,784	3,641,602	1,905,293
2009	2,271,572	1,196,104	3,396,025	1,785,894
2010	2,372,361	1,089,314	3,515,904	1,624,889
2011-2015	11,468,005	3,896,860	18,599,801	5,839,643
2016-2020	7,813,351	1,610,374	10,766,649	2,277,920
2021-2025	3,422,592	406,310	4,817,408	551,139
Deferred loss on refunding	<u>(95,817)</u>	<u>--</u>	<u>(614,351)</u>	<u>--</u>
Total	<u>\$34,730,583</u>	<u>\$ 12,326,586</u>	<u>\$52,149,049</u>	<u>\$18,270,745</u>

B. Intergovernmental Loans

An agreement to finance phase II of the Beach Replenishment Project was made in 1990 by Worcester County and the Town of Ocean City. Under the terms of the agreement, the Town was responsible for funding 50% of the non-federal and state costs of phase II which was financed by bonds issued by Worcester County. The Town also has agreements with the State of Maryland for four non-interest bearing loans that financed the construction of bulkheads along the Sinepuxent Bay. In July 2003, the Town borrowed \$52,445 from the state through the Maryland Energy Administration for energy efficiency improvements in the public safety building for five at an interest rate of 2.0%

Town of Ocean City
Notes to the Financial Statements

A summary of state and county loans is as follows:

<u>Loan</u>	<u>Interest Rates</u>	<u>Original Issue</u>	<u>Amount Outstanding June 30, 2005</u>
Worcester County Loan of 1990	4.00 – 6.00%	2,570,000	255,850
Soil erosion control 1 st Street	--	106,112	55,178
Soil erosion control 6 th Street	--	71,000	34,080
Soil erosion control Jamestown Road	--	22,785	7,595
Soil erosion control Bayshore Drive	--	157,810	73,644
Community energy loan program	2.00%	<u>52,445</u>	<u>42,369</u>
Total intergovernmental loans		<u>\$ 2,980,152</u>	<u>\$ 468,716</u>

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

<u>Year Ending June 30</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2006	\$ 285,252	\$ 7,448
2007	29,610	590
2008	29,821	379
2009	30,035	1,213
2010	19,124	--
2011-2015	56,462	--
2016-2018	<u>18,412</u>	<u>--</u>
Total	<u>\$ 468,716</u>	<u>\$ 9,630</u>

C. Capitalized Lease Obligations

The Town is committed to four capital lease agreements under which the related equipment will become the property of the Town when all terms of the lease agreements are met. The capital leases were for medical equipment, \$173,000; radio equipment, \$1,503,000; eight boardwalk trams, \$1,479,816; wireless communications system and two ambulances, \$1,535,218; and heavy equipment, \$1,515,000. The future lease payments together with the present value of the net minimum lease payments at June 30, 2005, are as follows:

<u>Year Ending June 30</u>	<u>Governmental Activities</u>
2006	\$1,238,797
2007	1,215,509
2008	1,057,836
2009	<u>695,736</u>
	4,207,878
Less amount representing interest	<u>(222,524)</u>
Present value of future minimum lease payments	<u>\$3,985,354</u>

D. Prior year defeasance of debt

In prior years, the Town defeased certain general obligation bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the new bonds. Accordingly, the trust account assets are not included in the Town's financial statements and the liability for the defeased bonds has been removed from the business-type activities column of the statement of net assets. On June 30, 2005, \$9,705,000 of bonds outstanding are considered defeased. The various advance refundings resulted in a difference between the reacquisition price and the net

Town of Ocean City
Notes to the Financial Statements

carrying amount of the old debt of \$1,337,082. This difference, reported in the accompanying financial statements as a deduction from bonds payable, is being charged to operations through 2016 using the effective-interest method. The unamortized amount of the deferred loss at June 30, 2005, was \$95,817 in governmental activities and \$614,351 in business-type activities.

E. Legal Debt Margin

The Town's legal debt margin at June 30, 2005, based on 5.2% of assessable property, was \$214,026,794.

F. Arbitrage

The Tax Reform Act of 1986 instituted certain arbitrage restrictions with respect to the issuance of tax-exempt bonds after August 31, 1986. Arbitrage regulations deal with the investment of all tax exempt bond proceeds at an interest yield greater than the interest yield paid to bondholders. Generally, all interest paid to bondholders can be retroactively rendered taxable if applicable rebates are not reported and paid to the United States Treasury at least every five years. The Town has estimated excess investment earnings on the 2001 General Obligation Bonds and has accrued \$13,096 for this liability in the wastewater fund.

G. Changes in Long-Term Liabilities

During the year ended June 30, 2005, the following changes occurred in long term liabilities reported for governmental and business-type activities:

Governmental <u>Activities</u>	Beginning <u>Balance</u>	<u>Additions</u>	<u>Reductions</u>	Ending <u>Balance</u>	Due <u>Within One Year</u>
General Obligation					
Bonds	\$27,356,573	9,076,100	\$(1,606,273)	\$34,826,400	\$2,792,376
Intergovernmental loans	740,868	--	(272,152)	468,716	285,254
Capital leases	5,111,382	--	(1,126,028)	3,985,354	1,135,413
Deferred loss on refunding	<u>(110,925)</u>	<u>--</u>	<u>15,108</u>	<u>(95,817)</u>	<u>--</u>
Total long-term debt	33,097,898	9,076,100	(2,989,345)	39,184,653	4,213,044
Claims and losses	1,479,418	958,986	(547,258)	1,891,146	624,078
Compensated Absences	<u>1,295,921</u>	<u>1,400,385</u>	<u>(1,326,494)</u>	<u>1,369,812</u>	<u>963,421</u>
Governmental activity					
Long-term liabilities	<u>\$35,883,237</u>	<u>\$11,435,471</u>	<u>\$(4,863,097)</u>	<u>\$42,445,611</u>	<u>\$5,800,543</u>
<u>Business-type activities</u>					
General Obligation					
Bonds	\$42,909,983	12,898,900	\$(3,045,483)	\$52,763,400	\$4,129,534
Capital leases	34,616	--	(34,616)	--	--
Deferred loss on refunding	<u>(725,163)</u>	<u>--</u>	<u>110,812</u>	<u>(614,351)</u>	<u>--</u>
Total long-term debt	42,219,436	12,898,900	(2,969,287)	52,149,049	4,129,534
Compensated Absences	<u>311,030</u>	<u>351,751</u>	<u>(354,936)</u>	<u>307,845</u>	<u>307,845</u>
Business-type activities					
Long-term liabilities	<u>\$45,530,466</u>	<u>\$13,250,651</u>	<u>\$(3,324,223)</u>	<u>\$52,456,894</u>	<u>\$4,437,379</u>

Internal service funds primarily serve the governmental funds, the general fund and, accordingly, their long-term liabilities are included in the above totals for governmental activities. For internal service funds, capital leases of \$3,985,354 are included in the above amounts at year-end. The claims and losses liability will be liquidated through the town's Risk Management internal service fund.

(See Note 9.B. below.) That fund will finance the payment of those claims by charging the other funds based on management's assessment of the relative insurance risk that should be assumed by individual funds. Currently, governmental activities assume approximately 64% of insurance cost and business-type activities 36%.

Note 9: Other Information

A. Advances to/from other funds

Advances totaling \$530,000 to non-major funds; the airport fund, \$240,00 and the golf course fund, \$290,000, are reported in the general fund financial statement as a non-current asset. This amount has been offset by a reserve of fund balance, as it is not anticipated that the amount will be repaid within one year. The advances are reported as a non-current liability in the statement of net assets of business-type activities.

B. Risk management

The Town is exposed to various risks of loss related to torts, theft of, damage to, or destruction of assets, errors or omissions, injuries to employees, and acts of God. The Town established the Risk Management Fund (an Internal Service Fund) to account for and finance its uninsured risks of loss. Under this program, the Risk Management Fund provides coverage for up to a maximum of \$250,000 for each general liability claim, \$5,000 for each property claim, and \$500,000 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. That reserve was \$1,549,105 at June 30, 2005, and is reported as a designation of the Risk Management Fund equity. 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 per actuarial methods. Of the \$1,891,146 estimated claims liability reported at year-end, approximately \$677,670 was actuarially determined. The firm Towers Perrin Tillinghast conducted an actuarial review in June 2005.

Changes in the Fund's claims liability amount since June 30, 2003 were:

Claims Liability at June 30, 2003	\$1,157,170
Current year claims	498,813
Changes in estimates	459,006
Claim Payments	<u>(635,571)</u>
Claims Liability at June 30, 2004	\$1,479,418
Current year claims	467,760
Changes in estimates	491,226
Claim Payments	<u>(547,258)</u>
Claims Liability at June 30, 2004	<u>\$1,891,146</u>

C. Commitments and contingencies

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts

Town of Ocean City
Notes to the Financial Statements

already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the Town expects such amounts, if any, to be immaterial.

The Town is working in conjunction with the Washington district of the Federal Aviation Administration (FAA) to be in full compliance with the FAA's *Policy and Procedures Concerning the Use of Airport Revenue* as a portion of the town's golf course is on airport property. The golf course makes annual payments to the airport from income in addition to rent based on the fair market rental value of the land. The Town has completed an FAA approved Airport Master Plan which determined that the land used by the golf course is no longer needed for airport use. The land has been appraised and the appraisal is under review by the FAA.

The Government Accounting Standards Board has issued Statement No. 45, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, effective for the Town in fiscal year 2007. The statement provides standards for the measurement of the liabilities for benefits such as retiree healthcare (See 9E. below). Preliminary estimates by the Town indicate that this liability will be substantial.

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

D. Intergovernmental assistance

In 1995, the Mayor and City Council entered into an agreement with the State of Maryland for the construction, operation, and contributions for the expansion and improvement of the Roland E. Powell Convention Center. Construction costs were shared 50% each by the Town and the State of Maryland. Overall project construction management was through the Maryland Stadium Authority (the Authority). The agreement provides that the Town control and operate the facility. Chapter 603 of the Laws of Maryland of 1995 authorized the Authority to pay one-half of the annual operating deficit, if any, of the Convention Center from the time of construction until the bonded debt is repaid. For the year ending June 30, 2005, the amount of the contribution was \$1,215,889.

Chapter 641 of the Laws of Maryland of 1995 authorized the County Commissioners of Worcester County to impose a tax on the sale of food and beverages in the Town for the purposes of paying the principal and interest on bonds issued by the Town for its share of the expansion and improvement cost of the Roland E. Powell Convention Center. The County passed a public local law in August 1995, which implemented the provisions of Chapter 641 for a 1% tax on the sale of food and beverages. Sales tax receipts of \$1,939,525 were \$665,030 in excess of the debt service on the bonds for year ended June 30, 2005. Cumulative receipts in excess of debt service of \$4,780,109 are shown on the statement of net assets for proprietary funds as net assets, restricted for debt service.

E. Other postemployment benefits

The Town offers postretirement health insurance benefits for employees in addition to pensions. With the exception of Wastewater Fund employees noted below, the Town provides 80% of the cost of health insurance on a pay-as-you-go basis for employees who retire after January 1, 1998, with fifteen years of service. For the year ended June 30, 2005, thirty-one employees were eligible for and receiving the benefit at an actual cost of \$147,871, which was net of employee contributions.

Wastewater Fund employees who transferred to the Town from Worcester County in 1994 receive postretirement health benefits for retirees and their dependents through a County plan which pays 90% of premiums. Fifteen employees or dependents of the previous Worcester County Department of Water and Wastewater Services were eligible for this benefit at year-end. The Town finances the benefit on a pay-as-you-go basis from the Wastewater Fund. For the year ended June 30, 2005, expenditures of \$80,554 were incurred by the Fund, which was net of retiree contributions.

Note 10: Employee Retirement Systems

The Town contributes to two single employer pension plans in which all eligible employees participate, the Employees of Ocean City, Maryland Pension Plan and Trust (PERS) and the Ocean City, Maryland Public Safety Employees Pension Plan and Trust (PSEPP) with the exception of Wastewater Fund employees who were transferred to the Town from the Worcester County Department of Water and Wastewater Services. The transfer agreement between the Town and the Worcester County Commissioners requires that the Town contribute to a multi-employer cost sharing plan to permit the 41 transferred wastewater employees to continue to participate in a mandatory contributory defined benefit plan administered by Nationwide Financial Company for County water and wastewater employees. The plan had assets in excess of the pension benefit obligation as of June 30, 2005. The investments of the plans represent primarily U.S. Government securities and commercial paper.

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

Trend Information: Trend information gives an indication of progress made in accumulating sufficient assets to pay benefits when due. Trend information is presented following the information presented for the two plans. There have been no changes to the actuarial assumptions or methods during the valuation year ended March 31, 2005, for the two plans; however, benefits for retirees were increased the current fiscal years as explained below.

A. General Employees Pension Plan (PERS)

1. Plan description

Per Code Chapter §C-1006 of the Town of Ocean City, the Trustees of Employees of Ocean City, Maryland Pension Plan (PERS) function as the investment and administrative agent for the Town with respect to the single-employer defined benefit plan. The plan covers all non-public safety employees and wastewater employees hired after July 1, 1994. The pension plan provides retirements, disability benefits, 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.

Effective October 1, 2004, the plan was amended to provide retirement benefits which are a monthly income payable for life in an amount equal to 50% of final average monthly compensation reduced 1/30th for each year of service less than 30. Final benefit is based on average compensation of the three highest consecutive years in the last ten years prior to retirement. The benefit is unreduced at age 55 with 30 years of service. Full-time employees participate

Town of Ocean City
Notes to the Financial Statements

immediately at hire. Participants contribute 5% of pay. Any pre-April 1, 1996 participant whose retirement benefit was not increased by a benefit formula change made in October 2004 will receive an additional annuity equal in value to 130% of their accumulated employee contributions with interest. Additionally, retiring employees receive one month of additional service credit for each 176 hours of unused sick leave for the benefit amount, not retirement eligibility, with a credit assumption equal to 2% of other service.

2. Funding policy and contributions

Funding policy for the PERS provides for annual Town contributions based upon actuarial valuations. The contribution and actuarial accrued liability is determined using the projected unit credit actuarial cost method. All administrative costs are paid by the PERS. At March 31, 2005, the plan's actuarial value of assets was \$16,126,315, and the unfunded actuarial liability was \$9,855,783. The plan changes effective in October 2004, as noted above, increased the actuarial liability \$6,050,551, which is being amortized over 20 years and the total amount of the unfunded actuarial liability with the plan changes is \$25,982,098. The significant actuarial assumptions used to compute the actuarially determined contribution requirement are the same as those used to compute the actuarial accrued liability.

The contribution to the PERS for 2005 of \$1,671,266 was made in accordance with actuarially determined requirements computed through an actuarial valuation performed as of April 1, 2004 and represented 12% of covered payroll. Employee contributions of 5% of pay totaled \$515,665. Significant actuarial assumptions used in the valuation included (a) a rate of return on the investment of present and future assets of 8% a year compounded annually, (b) projected salary increases of 3% a year compounded annually, attributable to inflation, (c) additional projected salary increases of 2.5% a year, attributable to seniority/merit, and (d) no post-retirement benefit increases. The actuarial value of assets is the fair value at the fiscal year end. The amortization of the unfunded liability is 10-year, level percent of pay, closed gain/loss except for losses due to plan changes, which are amortized over 20 years.

B. Public Safety Employees Pension Plan (PSEPP)

1. Plan description

All of the Town's full-time police officers, firefighters, and emergency medical technicians participate in the Public Safety Employees Pension Plan (PSEPP), a single-employer, defined benefit pension plan established by Town ordinance effective May 1, 1990. The pension plan provides retirements, disability benefits, 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 50% of final average monthly compensation reduced 1/15th for each year of service less than 15 at normal retirement date for employees hired before April 1, 1996. For employees hired after that date benefit formula is 50% of final average compensation reduced for years of service less than 25 at exit age. Employees hired before April 1, 1996, receive the benefit under whichever formula produces the largest benefit. Final benefit is based on average compensation of the three highest consecutive years in the last ten years prior to retirement. The PSEPP also provides death and disability benefits. The plan provides a \$10,000 death benefit for police who retire during the 2005-08 bargaining contract years. 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 2% of other service.

2. Funding policy and contributions

Participants are required to contribute 7% of their annual salary to the PSEPP. Annual Town contributions are based upon the PSEPP trust agreement which requires that the Town make remaining actuarially determined periodic contributions using the projected unit credit actuarial cost method. Significant actuarial assumptions used in the valuation for 2005 included (a) a rate of return on the investment of present and future assets of 8% a year compounded annually, (b) projected salary increases of 3% a year compounded annually, attributable to inflation, (c) additional projected salary increases of 2.5% a year, attributable to seniority/merit, and (d) no post-retirement benefit increases.

During the year ended March 31, 2005, employer contributions totaling \$1,094,655 were made in accordance with actuarially determined requirements computed through an actuarial valuation performed as of April 1, 2004, and represented 14.4% of current covered payroll. Employee contributions totaled \$530,587 representing 7% of covered payroll, \$8,236,439. At March 31, 2004, the plan's actuarial value of assets was \$16,444,865, and the unfunded actuarial liability was \$5,875,898. The unfunded actuarial accrued liability is being amortized using the 10-year, level percent of pay, closed gain/loss basis.

C. Cost Sharing Multiple-Employer Pension Plan

1. Plan description

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

For the year ended June 30, 2005, the Town's total payroll for wastewater employees participating in the plan was \$1,201,823 and the total covered payroll was \$1,183,556. The pension plan provides pension, death, and disability benefits. Normal retirement age is 65. Early retirement, with reduced benefits, may be taken at age 55 with the completion of 10 years of service. An employee is fully vested after five years of service.

2. Funding policy

Plan members are required to contribute 4% of their annual covered salary and the Town is required to contribute at an actuarially determined rate. The rate for the fiscal year 2005 contribution was 5.70% of annual covered payroll. The contribution requirements of plan members and the Town are established and may be amended by the County Commissioners of Worcester County.

The actuarial accrued liability was computed as part of an actuarial valuation performed as of June 30, 2005. The County's plan does not make separate measurement of assets and actuarial accrued liability for individual employers. The actuarial accrued liability at June 30, 2005 for the plan as a whole, determined by an actuarial valuation performed on that date, was \$3,143,190. The actuarial value of assets, at fair value, as of that date was \$4,812,637 with assets in excess of the actuarial accrued liability by \$1,669,447.

3. Annual pension cost and three-year trend information

In addition to employee contributions of 4% of annual salary, the Town makes actuarially determined periodic contributions to the plan using the aggregate cost method. The actuarial assumptions included (a) 7.0% investment rate of return, (b) projected salary increases of 5% per year, and (c) cost-of-living adjustment of 4% per year. Both (a) and (b) included an inflation component of 4%. There were no changes in actuarial assumptions or benefit provisions that significantly affected the valuation of the actuarial accrued liability during fiscal year 2005.

Employee contributions totaled \$47,342. The Town's actuarially determined contribution as the employer was \$67,195 or 5.70% of covered payroll. This contribution covers the Town's total liability for funding, as determined by Worcester County. The Town's contribution for its employees represents 53.5% of the actuarially determined contribution requirement for all employers. The Town does not have any unfunded actuarial accrued liability with respect to this plan. The Town has contributed 100% of the required contribution for the past three years. The contribution was \$67,195, \$85,155, and \$86,813 for the years ending June 30 for 2005, 2004, and 2003, respectively.

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

Schedules of Funding Progress

Schedules of Employer Contributions

TOWN OF OCEAN CITY
GENERAL EMPLOYEE PENSION FUND
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF FUNDING PROGRESS
1996 - 2005

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability	Unfunded Actuarial Accrued Liability	Funded Ratio	Covered Payroll	Unfunded Actuarial Accrued Liability as a Percentage of Covered Payroll
4/1/2005	\$ 16,126,315	\$ 25,982,098	\$ 9,855,783	62.1 %	\$ 14,427,102	68.3 %
4/1/2004(1)	13,571,986	23,687,917	10,115,931	57.3	13,780,405	73.4
4/1/2003	9,823,084	14,696,821	4,873,737	66.8	12,831,139	38.0
4/1/2002	10,288,830	13,303,464	3,014,634	77.3	12,216,780	24.7
4/1/2001	9,586,990	11,930,884	2,343,894	80.4	11,233,664	20.9
4/1/2000	10,070,548	10,703,654	633,106	94.1	10,241,116	6.2
4/1/1999	9,411,600	9,172,600	--	102.6	8,979,165	n/a
4/1/1998	8,363,300	8,149,200	--	102.6	8,506,450	n/a
4/1/1997	6,176,010	7,304,754	1,128,744	84.5	8,055,504	14.0
4/1/1996(2)	5,441,194	6,521,908	1,080,714	83.4	7,653,715	14.1

Source: "The Employees of Ocean City, Maryland Pension Plan Actuarial Valuation for the Plan Year Beginning April 1, 2004", William M. Mercer, Inc..

- (1) In 2004, the benefit formula was changed, see Note 10a.
- (2) 1996 Net Assets Available for Benefits restated at fair value per GASB No. 25.

TOWN OF OCEAN CITY
GENERAL EMPLOYEE PENSION FUND
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF EMPLOYER CONTRIBUTIONS
1996 - 2005

Year Ended June 30	Annual Required Contribution	Percentage Contributed
2005	\$ 1,671,266	100%
2004	1,519,435	100%
2003	1,058,140	100%
2002	908,973	100%
2001	664,214	100%
2000	502,578	100%
1999	454,164	100%
1998	598,604	100%
1997	545,149	100%
1996	374,463	100%

TOWN OF OCEAN CITY
PUBLIC SAFETY EMPLOYEE PENSION FUND
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF FUNDING PROGRESS
1996 - 2005

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability	Unfunded Actuarial Accrued Liability	Funded Ratio	Covered Payroll	Unfunded Actuarial Accrued Liability as a Percentage of Covered Payroll
4/1/2005	\$ 16,444,865	\$ 22,320,763	\$ 5,875,898	73.7 %	\$ 8,236,439	71.3 %
4/1/2004	14,591,505	18,831,022	4,239,517	77.5	7,595,561	55.8
4/1/2003	10,457,554	17,068,738	6,611,184	61.3	7,131,592	92.7
4/1/2002	11,268,287	16,319,019	5,050,732	69.1	6,540,995	77.2
4/1/2001	10,298,987	13,658,663	3,359,676	75.4	6,702,342	50.1
4/1/2000	10,640,947	11,996,019	1,355,072	88.7	5,962,903	22.7
4/1/1999	9,789,400	9,869,400	80,000	99.2	5,155,757	1.6
4/1/1998	8,469,900	8,663,400	193,500	97.8	4,994,138	3.9
4/1/1997	6,040,066	7,632,687	1,592,621	79.1	4,714,543	33.8
4/1/1996*	5,139,218	6,778,466	1,639,248	75.8	4,508,913	36.4

Source: "Ocean City, Maryland Public Safety Employees Pension Plan Actuarial Valuation Report for the Plan Year Beginning April 1, 2004", William M. Mercer, Inc.

* 1996 Net Assets Available for Benefits restated at fair value per GASB No. 25.

TOWN OF OCEAN CITY
PUBLIC SAFETY EMPLOYEE PENSION FUND
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF EMPLOYER CONTRIBUTIONS
1996 - 2005

Year Ended June 30	Annual Required Contribution	Percentage Contributed
2005	\$ 1,094,655	100%
2004	1,368,283	100%
2003	836,816	100%
2002	660,998	100%
2001	406,008	100%
2000	214,343	100%
1999	244,327	100%
1998	368,580	100%
1997	344,650	100%
1996	439,137	100%



NONMAJOR GOVERNMENTAL FUNDS

CAPITAL PROJECTS FUNDS

The Capital Projects Funds account for all resources used for the acquisition and/or construction of capital facilities by the Town except those financed by Enterprise Funds.

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

PUBLIC SAFETY

To account for the construction of a fire house and building improvements used for public safety activities financed by the sale of bonds, federal grants, and general fund contribution.

BUILDINGS AND GROUNDS

To account for the construction of a solid waste transfer station, municipal buildings funded from bond proceeds, parking lot revenue, donations and general fund contribution.

STREET IMPROVEMENTS

To account for the construction and major renovation of streets funded by state grants, bond proceeds, and general fund contribution.

RECREATION IMPROVEMENTS

To account for park improvements and shoreline stabilization projects funded by state grants, bond proceeds and general fund contribution.

TOWN OF OCEAN CITY
 COMBINING BALANCE SHEET
 NON MAJOR GOVERNMENTAL FUNDS
 JUNE 30, 2005

	Capital Projects				Total
	Public Safety	Buildings & Grounds	Street Improvements	Recreation Improvements	
ASSETS					
Cash and cash equivalents	\$ 20,584	\$ 947,616	\$ 285,971	\$ 44,277	\$ 1,298,448
Investments	1,325,429	2,014,152	987,166	1,350,337	5,677,084
Interest receivable	2,732	7,240	3,719	3,281	16,972
Total assets	<u>\$ 1,348,745</u>	<u>\$ 2,969,008</u>	<u>\$ 1,276,856</u>	<u>\$ 1,397,895</u>	<u>\$ 6,992,504</u>
LIABILITIES					
Accounts payables	\$ 20,584	\$ 297,537	\$ 49,150	\$ 38,404	\$ 405,675
Accrued expenses	-	1,977	5,969	5,873	13,819
Due to other funds	31,339	-	-	15,861	47,200
Total liabilities	<u>51,923</u>	<u>299,514</u>	<u>55,119</u>	<u>60,138</u>	<u>466,694</u>
FUND BALANCE					
Reserved for encumbrances	174	2,070,595	29,272	96,838	2,196,879
Unreserved, designated for capital projects	1,296,648	598,899	1,192,465	1,240,919	4,328,931
Total fund balances	<u>1,296,822</u>	<u>2,669,494</u>	<u>1,221,737</u>	<u>1,337,757</u>	<u>6,525,810</u>
Total liabilities and fund balances	<u>\$ 1,348,745</u>	<u>\$ 2,969,008</u>	<u>\$ 1,276,856</u>	<u>\$ 1,397,895</u>	<u>\$ 6,992,504</u>

TOWN OF OCEAN CITY
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
 CAPITAL PROJECTS FUNDS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2005

	Capital Projects				Total
	Public Safety	Buildings & Grounds	Street Improvements	Recreation Improvements	
REVENUES					
Charges for current services	\$ 750	\$ 1,128,320	\$ 366	\$ -	\$ 1,129,436
Revenue from other agencies	-	10,000	56,331	-	66,331
Other revenue	11,598	21,829	23,035	6,487	62,949
Total revenues	12,348	1,160,149	79,732	6,487	1,258,716
EXPENDITURES					
Current:					
Operating expenses	-	344,856	20,164	217,904	582,924
Capital outlay	77,701	4,329,698	2,159,044	19,824	6,586,267
Bond issuance costs	8,142	40,429	5,907	9,140	63,618
Total expenditures	85,843	4,714,983	2,185,115	246,868	7,232,809
Deficiency of revenues under expenditures	(73,495)	(3,554,834)	(2,105,383)	(240,381)	(5,974,093)
OTHER FINANCING SOURCES (USES)					
Bond Issuance	1,165,906	5,755,147	845,907	1,309,140	9,076,100
Residual Equity Transfers	(765,000)	145,000	420,000	200,000	-
Transfers in	-	155,081	1,169,995	28,364	1,353,440
Total other financing sources	400,906	6,055,228	2,435,902	1,537,504	10,429,540
Net change in fund balances	327,411	2,500,394	330,519	1,297,123	4,455,447
Fund balances at beginning of year	969,411	169,100	891,218	40,634	2,070,363
Fund balances at end of year	\$ 1,296,822	\$ 2,669,494	\$ 1,221,737	\$ 1,337,757	\$ 6,525,810



NONMAJOR ENTERPRISE FUNDS

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

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

AIRPORT FUND

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

GOLF COURSE FUND

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

TOWN OF OCEAN CITY
 COMBINING STATEMENT OF NET ASSETS
 NONMAJOR ENTERPRISE FUNDS
 JUNE 30, 2005

	Business-type Activities - Enterprise Funds		
	Airport	Golf Course	Total
ASSETS			
Current Assets:			
Cash and cash equivalents	\$ 5,084	\$ 5,476	\$ 10,560
Investments	1,083,652	-	1,083,652
Receivables, net	1,444	243,260	244,704
Interest receivable	2,283	-	2,283
Intergovernmental receivable	5,079	280	5,359
Inventories	36,448	88,899	125,347
Other	-	3,375	3,375
Total current assets	<u>1,133,990</u>	<u>341,290</u>	<u>1,475,280</u>
Noncurrent assets:			
Capital assets:			
Land	2,490,100	2,530,140	5,020,240
Buildings	2,822,594	634,151	3,456,745
Other improvements	-	627,874	627,874
Streets and infrastructure	3,920,640	-	3,920,640
Machinery and equipment	58,492	552,564	611,056
Construction in progress	44,708	-	44,708
Less accumulated depreciation	<u>(4,220,061)</u>	<u>(1,216,819)</u>	<u>(5,436,880)</u>
Total noncurrent assets	<u>5,116,473</u>	<u>3,127,910</u>	<u>8,244,383</u>
Total assets	<u>6,250,463</u>	<u>3,469,200</u>	<u>9,719,663</u>
LIABILITIES			
Current liabilities:			
Accounts payable	178,254	37,889	216,143
Accrued expenses	28,771	59,658	88,429
Compensated absences	8,222	22,387	30,609
Deferred revenue	-	26,281	26,281
Current portion of long-term debt	65,840	480,000	545,840
Total current liabilities	<u>281,087</u>	<u>626,215</u>	<u>907,302</u>
Noncurrent liabilities:			
Advanced from other funds	240,000	290,000	530,000
Bonds, notes, and loans payable	962,770	766,250	1,729,020
Total noncurrent liabilities	<u>1,202,770</u>	<u>1,056,250</u>	<u>2,259,020</u>
Total liabilities	<u>1,483,857</u>	<u>1,682,465</u>	<u>3,166,322</u>
NET ASSETS			
Invested in capital assets, net of related debt	4,087,863	1,881,660	5,969,523
Restricted for capital project	911,042	-	911,042
Unrestricted	<u>(232,299)</u>	<u>(94,925)</u>	<u>(327,224)</u>
Total net assets	<u>\$ 4,766,606</u>	<u>\$ 1,786,735</u>	<u>\$ 6,553,341</u>

TOWN OF OCEAN CITY
 COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
 NONMAJOR ENTERPRISE FUNDS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2005

	<u>Airport</u>	<u>Golf Course</u>	<u>Total</u>
Operating revenues:			
Charges for sales and services	\$ 848,819	\$ 2,199,883	\$ 3,048,702
Total operating revenues	<u>848,819</u>	<u>2,199,883</u>	<u>3,048,702</u>
Operating expenses:			
Personal services	237,766	834,576	1,072,342
Contractual services	220,221	360,762	580,983
Utilities	33,976	46,135	80,111
Repairs and maintenance	109,974	53,168	163,142
Other supplies and expenses	266,959	431,132	698,091
Internal services	78,358	191,511	269,869
Depreciation	164,716	70,249	234,965
Total operating expenses	<u>1,111,970</u>	<u>1,987,533</u>	<u>3,099,503</u>
Operating income (loss)	<u>(263,151)</u>	<u>212,350</u>	<u>(50,801)</u>
Nonoperating revenues (expenses)			
Interest and investment revenue	2,342	256	2,598
Operating grants	23,751	-	23,751
Interest expense	(8,337)	(47,372)	(55,709)
Total nonoperating revenues (expenses)	<u>17,756</u>	<u>(47,116)</u>	<u>(29,360)</u>
Income (loss) before contributions and transfers	(245,395)	165,234	(80,161)
Transfers in	<u>164,176</u>	<u>-</u>	<u>164,176</u>
Change in net assets	(81,219)	165,234	84,015
Total net assets - beginning	<u>4,847,825</u>	<u>1,621,501</u>	<u>6,469,326</u>
Total net assets - ending	<u>\$ 4,766,606</u>	<u>\$ 1,786,735</u>	<u>\$ 6,553,341</u>

TOWN OF OCEAN CITY
 COMBINING STATEMENT OF CASH FLOWS
 NONMAJOR ENTERPRISE FUNDS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2005

	Airport	Golf Course	Total
CASH FLOWS FROM OPERATING ACTIVITIES:			
Receipts from customers and users	\$ 871,361	\$ 2,247,597	\$ 3,118,958
Payments to suppliers	(469,904)	(884,959)	(1,354,863)
Payments to employees	(224,212)	(831,129)	(1,055,341)
Payments for interfund services used	(78,358)	(191,511)	(269,869)
Net cash provided by operating activities	<u>98,887</u>	<u>339,998</u>	<u>438,885</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:			
Advances from other funds	-	239,313	239,313
Advances to other funds	(48,727)	-	(48,727)
Subsidy from state and federal grants	28,828	-	28,828
Transfers from other funds	164,176	-	164,176
Net cash provided by noncapital financing activities	<u>144,277</u>	<u>239,313</u>	<u>383,590</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Acquisition and construction of capital assets	(30,750)	-	(30,750)
Proceeds from bond issue	925,000	-	925,000
Bond issuance costs	(13,958)	-	(13,958)
Principal paid on capital debt	(29,868)	(515,000)	(544,868)
Interest paid on capital debt and leases	(5,211)	(62,291)	(67,502)
Net cash provided (used) by capital and related financing activities	<u>845,213</u>	<u>(577,291)</u>	<u>267,922</u>
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of investments	(1,083,652)	-	(1,083,652)
Interest and dividends received	59	256	315
Net cash provided(used) by investing activities	<u>(1,083,593)</u>	<u>256</u>	<u>(1,083,337)</u>
Net increase in cash and cash equivalents	4,784	2,276	7,060
Cash and cash equivalents at beginning of the year	300	3,200	3,500
Cash and cash equivalents at end of the year	<u>\$ 5,084</u>	<u>\$ 5,476</u>	<u>\$ 10,560</u>

(Continued)

TOWN OF OCEAN CITY
 COMBINING STATEMENT OF CASH FLOWS (Continued)
 NONMAJOR ENTERPRISE FUNDS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2005

	<u>Airport</u>	<u>Golf Course</u>	<u>Total</u>
RECONCILIATION OF OPERATING INCOME(LOSS) TO NET CASH PROVIDED BY OPERATIONS			
Operating income (loss)	\$ (263,151)	\$ 212,350	\$ (50,801)
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation	164,716	70,249	234,965
EFFECT OF CHANGES IN OPERATING ASSETS & LIABILITIES:			
Accounts Receivable	22,542	43,167	65,709
Inventories	(5,209)	17,196	11,987
Prepaid expenses	-	121	121
Compensated absences	2,614	2,375	4,989
Accounts payable	163,821	(13,454)	150,367
Accrued expenses	13,554	3,447	17,001
Deferred revenue	-	4,547	4,547
Total adjustments	<u>362,038</u>	<u>127,648</u>	<u>489,686</u>
Net cash provided by operating activities	<u>\$ 98,887</u>	<u>\$ 339,998</u>	<u>\$ 438,885</u>



INTERNAL SERVICE FUNDS

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

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

INFORMATION TECHNOLOGY

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

SERVICE CENTER FUND

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

VEHICLE AND EQUIPMENT TRUST FUND

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

RISK MANAGEMENT FUND

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

TOWN OF OCEAN CITY
 COMBINING STATEMENT OF NET ASSETS
 INTERNAL SERVICE FUNDS
 JUNE 30, 2005

	<u>Information Technology</u>	<u>Service Center</u>	<u>Vehicle Trust</u>	<u>Risk Mangement</u>	<u>Total</u>
ASSETS					
Current assets:					
Cash and cash equivalents	\$ 6,652	\$ 5,165	\$ 7,296	\$ 52,493	\$ 71,606
Investments	400,000	-	960,000	3,493,708	4,853,708
Interest receivable	-	-	-	23,451	23,451
Intergovernmental receivable	-	-	22,183	-	22,183
Inventories	-	1,143,559	-	-	1,143,559
Total current assets	<u>406,652</u>	<u>1,148,724</u>	<u>989,479</u>	<u>3,569,652</u>	<u>6,114,507</u>
Noncurrent assets:					
Restricted cash and cash equivalents	-	-	347,950	-	347,950
Capital assets:					
Buildings	-	1,373,223	73,860	-	1,447,083
Other improvements	-	31,545	-	-	31,545
Machinery and equipment	556,937	78,434	30,523,335	-	31,158,706
Less accumulated depreciation	<u>(467,039)</u>	<u>(898,764)</u>	<u>(17,304,685)</u>	<u>-</u>	<u>(18,670,488)</u>
Total noncurrent assets	<u>89,898</u>	<u>584,438</u>	<u>13,640,460</u>	<u>-</u>	<u>14,314,796</u>
Total assets	<u>496,550</u>	<u>1,733,162</u>	<u>14,629,939</u>	<u>3,569,652</u>	<u>20,429,303</u>
LIABILITIES					
Current liabilities:					
Accounts payable	25,705	123,883	-	98,134	247,722
Accrued expenses	28,600	66,019	18,770	14,353	127,742
Compensated absences	16,252	46,933	-	16,914	80,099
Due to other funds	-	170,000	-	-	170,000
Deferred revenue	-	-	20,865	-	20,865
Claims and judgments	-	-	-	624,078	624,078
Bonds, notes, and loans payable	-	-	1,135,413	-	1,135,413
Total current liabilities	<u>70,557</u>	<u>406,835</u>	<u>1,175,048</u>	<u>753,479</u>	<u>2,405,919</u>
Noncurrent liabilities:					
Claims and judgments	-	-	-	1,267,068	1,267,068
Long-term debt	-	-	2,849,941	-	2,849,941
Total noncurrent liabilities	<u>-</u>	<u>-</u>	<u>2,849,941</u>	<u>-</u>	<u>2,849,941</u>
Total liabilities	<u>70,557</u>	<u>406,835</u>	<u>4,024,989</u>	<u>2,020,547</u>	<u>6,522,928</u>
NET ASSETS					
Invested in capital assets, net of related debt	89,898	584,438	9,307,156	-	9,981,492
Unrestricted	336,095	741,889	1,297,794	1,549,105	3,924,883
Total net assets	<u>\$ 425,993</u>	<u>\$ 1,326,327</u>	<u>\$ 10,604,950</u>	<u>\$ 1,549,105</u>	<u>\$ 13,906,375</u>

TOWN OF OCEAN CITY
COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
INTERNAL SERVICE FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

	Information Technology	Service Center	Vehicle Trust	Risk Mangement	Total
Operating revenues:					
Charges for sales and services	\$ 1,410,190	\$ 4,296,354	\$ 2,912,449	\$ 1,800,292	\$ 10,419,285
Miscellaneous	-	5,543	518	-	6,061
Total operating revenues	<u>1,410,190</u>	<u>4,301,897</u>	<u>2,912,967</u>	<u>1,800,292</u>	<u>10,425,346</u>
Operating expenses:					
Personal services	574,065	1,353,973	-	223,274	2,151,312
Contractual services	272,564	14,484	50,000	1,033,416	1,370,464
Utilities	20,021	27,051	-	1,684	48,756
Repairs and maintenance	84,530	41,697	-	5,268	131,495
Other supplies and expenses	252,561	2,694,211	328,253	1,536	3,276,561
Internal service	42,905	247,247	419,939	71,350	781,441
Insurance claims and expenses	-	-	-	978,278	978,278
Depreciation	89,896	36,935	2,502,931	-	2,629,762
Total operating expenses	<u>1,336,542</u>	<u>4,415,598</u>	<u>3,301,123</u>	<u>2,314,806</u>	<u>11,368,069</u>
Operating income (loss)	<u>73,648</u>	<u>(113,701)</u>	<u>(388,156)</u>	<u>(514,514)</u>	<u>(942,723)</u>
Nonoperating revenues (expenses)					
Interest and investment revenue	-	-	-	167,099	167,099
Interest expense	-	-	(130,475)	-	(130,475)
Gain on disposal of assets	-	-	137,869	-	137,869
Total nonoperating revenues	<u>-</u>	<u>-</u>	<u>7,394</u>	<u>167,099</u>	<u>174,493</u>
Income (loss) before contributions and transfers	73,648	(113,701)	(380,762)	(347,415)	(768,230)
Capital contributions	-	-	1,497,383	-	1,497,383
Change in net assets	<u>73,648</u>	<u>(113,701)</u>	<u>1,116,621</u>	<u>(347,415)</u>	<u>729,153</u>
Total net assets - beginning	<u>352,345</u>	<u>1,440,028</u>	<u>9,488,329</u>	<u>1,896,520</u>	<u>13,177,222</u>
Total net assets - ending	<u>\$ 425,993</u>	<u>\$ 1,326,327</u>	<u>\$ 10,604,950</u>	<u>\$ 1,549,105</u>	<u>\$ 13,906,375</u>

TOWN OF OCEAN CITY
 COMBINING STATEMENT OF CASH FLOWS
 INTERNAL SERVICE FUNDS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2005

	Information Technology
CASH FLOWS FROM OPERATING ACTIVITIES:	
Receipts from customers and users	\$ 1,410,190
Payments to suppliers	(802,848)
Payments to employees	(381,854)
Payments for interfund services used	(36,727)
	188,761
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:	
Advances from other funds	-
	-
Net cash provided by noncapital financing activities	-
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	
Proceeds from capital grant	-
Acquisition and construction of capital assets	-
Principal paid on capital debt	-
Interest paid on capital debt and leases	-
Proceeds from sales of capital assets	-
	-
Net cash provided by capital and related financing activities	-
CASH FLOWS FROM INVESTING ACTIVITIES:	
Proceeds from sales and maturities of investments	-
Purchase of investments	(228,359)
Interest and dividends received	-
	(228,359)
Net cash provided(used) by investing activities	(228,359)
Net increase (decrease) in cash and cash equivalents	(39,598)
Cash and cash equivalents at beginning of the year	46,250
Cash and cash equivalents at end of the year	\$ 6,652

(Continued)

Service Center	Vehicle & Equipment Trust	Risk Management	Total
\$ 4,301,897	\$ 2,933,832	\$ 1,800,292	\$ 10,446,211
(2,846,668)	(378,253)	(1,539,988)	(5,567,757)
(1,346,811)	-	(218,050)	(1,946,715)
(247,247)	(419,939)	(71,350)	(775,263)
(138,829)	2,135,640	(29,096)	2,156,476
143,994	-	-	143,994
143,994	-	-	143,994
-	1,475,200	-	1,475,200
-	(2,315,400)	-	(2,315,400)
-	(1,126,028)	-	(1,126,028)
-	(136,054)	-	(136,054)
-	137,869	-	137,869
-	(1,964,413)	-	(1,964,413)
-	-	555,252	555,252
-	(163,931)	(599,970)	(992,260)
-	-	124,739	124,739
-	(163,931)	80,021	(312,269)
5,165	7,296	50,925	23,788
-	-	1,568	47,818
<u>\$ 5,165</u>	<u>\$ 7,296</u>	<u>\$ 52,493</u>	<u>\$ 71,606</u>

TOWN OF OCEAN CITY
 COMBINING STATEMENT OF CASH FLOWS (Continued)
 INTERNAL SERVICE FUNDS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2005

	Information Technology
RECONCILIATION OF OPERATING INCOME(LOSS) TO NET CASH PROVIDED BY OPERATIONS	
Operating income (loss)	\$ 73,648
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	
Depreciation	89,896
EFFECT OF CHANGES IN OPERATING ASSETS & LIABILITIES:	
Inventories	-
Compensated absences	2,829
Accounts payable	11,886
Accrued expenses	10,502
Deferred revenue	-
Claims liability	-
Total adjustments	115,113
Net cash provided (used) by operating activities	\$ 188,761

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Increase in fair value of investments	\$ -
---------------------------------------	------

Service Center	Vehicle & Equipment Trust	Risk Management	Total
\$ (113,701)	\$ (388,156)	\$ (514,514)	\$ (942,723)
36,935	2,502,931	-	2,629,762
(89,802)	-	-	(89,802)
(891)	-	-	1,938
20,577	-	68,466	100,929
8,053	-	5,224	23,779
-	20,865	-	20,865
-	-	411,728	411,728
(25,128)	2,523,796	485,418	3,099,199
<u>\$ (138,829)</u>	<u>\$ 2,135,640</u>	<u>\$ (29,096)</u>	<u>\$ 2,156,476</u>

\$ - \$ - \$ 32,072 \$ 32,072



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 PLAN

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

PUBLIC SAFETY EMPLOYEES PENSION 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
STATEMENT OF NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2005

	<u>General Employees Pension Fund</u>	<u>Public Safety Employees Pension Fund</u>	<u>Total</u>
ASSETS			
Cash and cash equivalents	\$ 2,156,804	\$ 1,913,102	\$ 4,069,906
Interest and dividends receivable	72,505	73,113	145,618
Investments, at fair value:			
U.S. Government obligations	2,742,312	2,759,875	5,502,187
Domestic equities	6,037,083	6,434,012	12,471,095
Real Estate Investment Trusts	2,014,922	2,180,383	4,195,305
International equities	1,627,233	1,697,200	3,324,433
Domestic fixed income	2,093,242	2,114,097	4,207,339
Total investments	<u>14,514,792</u>	<u>15,185,567</u>	<u>29,700,359</u>
 Total assets	 <u>16,744,101</u>	 <u>17,171,782</u>	 <u>33,915,883</u>
 NET ASSETS			
Held in trust for pension benefits and other purposes	 <u><u>\$ 16,744,101</u></u>	 <u><u>\$ 17,171,782</u></u>	 <u><u>\$ 33,915,883</u></u>

TOWN OF OCEAN CITY
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

	General Employees Pension Fund	Public Safety Employees Pension Fund	Total
Additions			
Contributions:			
Employer	\$ 1,671,266	\$ 1,094,655	\$ 2,765,921
Miscellaneous income	186	186	372
Plan members	515,665	530,587	1,046,252
Total contributions	<u>2,187,117</u>	<u>1,625,428</u>	<u>3,812,545</u>
Investment earnings:			
Net appreciation in fair value of investments	975,228	1,013,263	1,988,491
Interest	239,215	237,025	476,240
Dividends	213,212	230,606	443,818
Total investment earnings	<u>1,427,655</u>	<u>1,480,894</u>	<u>2,908,549</u>
Less investment expense	<u>86,608</u>	<u>90,797</u>	<u>177,405</u>
Net investment income	<u>1,341,047</u>	<u>1,390,097</u>	<u>2,731,144</u>
Total additions	<u>3,528,164</u>	<u>3,015,525</u>	<u>6,543,689</u>
Deductions			
Benefits and refunds paid	452,929	695,778	1,148,707
Administrative expenses	86,742	82,511	169,253
Total deductions	<u>539,671</u>	<u>778,289</u>	<u>1,317,960</u>
Change in net assets	2,988,493	2,237,236	5,225,729
Total net assets - beginning	<u>13,755,608</u>	<u>14,934,546</u>	<u>28,690,154</u>
Total net assets - ending	<u>\$ 16,744,101</u>	<u>\$ 17,171,782</u>	<u>\$ 33,915,883</u>



STATISTICAL SECTION

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

<u>Contents</u>	<u>Page(s)</u>
Financial Trends These schedules contain trend information to help the reader understand how the Town's financial performance and well-being have changed over time.	105-111
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.	112-116
Debt Capacity These schedules present information to help the reader assess the affordability of the Town's current levels of outstanding debt and the Town's ability to issue additional debt in the future.	117-120
Economic and Demographic Information These schedules offer economic and demographic indicators to help the reader understand the environment within which the Town's financial activities take place.	121-122
Operating Information These schedules contain service and infrastructure data to help the reader understand how the information in the Town's financial report relates to the services the Town provides and the activities it performs.	123-127

Sources: Unless otherwise noted, the information in these schedules is derived from the Comprehensive Annual Financial Reports for the relevant year. The Town implemented GASB Statement 34 in 2002; schedules presenting government-wide information include information beginning in that year.



Town of Ocean City, Maryland

Net Assets by Component

Last Four Fiscal Years

(accrual basis of accounting)

	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>
Governmental Activities				
Invested in Capital Assets, Net of Related Debt	\$ 35,404,193	\$ 37,237,850	\$ 37,862,154	\$ 36,231,648
Restricted	7,055,810	2,359,090	1,683,025	2,191,500
Unrestricted	<u>10,933,461</u>	<u>11,015,099</u>	<u>8,870,904</u>	<u>8,294,848</u>
<i>Total Governmental Activities Net Assets</i>	<u>53,393,464</u>	<u>50,612,039</u>	<u>48,416,083</u>	<u>46,717,996</u>
Business-Type Activities				
Invested in Capital Assets, Net of Related Debt	43,074,509	54,280,575	52,188,549	45,823,019
Restricted	5,699,656	4,039,108	3,138,088	2,535,382
Unrestricted	<u>16,067,294</u>	<u>5,038,860</u>	<u>8,025,419</u>	<u>13,404,361</u>
<i>Total Business-Type Activities Net Assets</i>	<u>64,841,459</u>	<u>63,358,543</u>	<u>63,352,056</u>	<u>61,762,762</u>
Primary government				
Invested in Capital Assets, Net of Related Debt	78,478,702	91,518,425	90,050,703	82,054,667
Restricted	12,755,466	6,398,198	4,821,113	4,726,882
Unrestricted	<u>27,000,755</u>	<u>16,053,959</u>	<u>16,896,323</u>	<u>21,699,209</u>
<i>Total Primary Government Net Assets</i>	<u>\$ 118,234,923</u>	<u>\$ 113,970,582</u>	<u>\$ 111,768,139</u>	<u>\$ 108,480,758</u>

Town of Ocean City, Maryland

Changes in Net Assets

Last Four Fiscal Years

(accrual basis of accounting)

	2005	2004	2003	2002
Expenses				
Governmental Activities:				
General Government	\$ 2,210,767	\$ 1,239,176	\$ 1,269,701	\$ 1,479,107
Public Safety	22,603,945	20,741,305	18,470,579	18,243,992
General Public Works and Beach	5,319,516	4,771,177	4,438,373	4,171,943
Sanitation and Waste Removal	5,894,297	5,476,452	5,436,051	5,267,148
Highways and Streets	5,818,748	5,601,371	4,529,054	5,486,120
Economic Development - Tourism	3,995,845	3,631,068	3,663,523	3,218,854
Recreation and Culture	6,386,759	5,556,411	5,193,597	5,205,370
Interest on Long-Term Debt	1,376,678	1,240,314	1,692,600	2,281,406
<i>Total Governmental Activities Expenses</i>	<u>53,606,555</u>	<u>48,257,274</u>	<u>44,693,478</u>	<u>45,353,940</u>
Business-Type Activities:				
Water	6,125,859	5,654,993	5,756,055	5,406,838
Wastewater	8,228,078	8,022,887	7,388,163	7,470,129
Convention Center	5,124,371	4,779,005	4,717,868	4,660,544
Transportation	6,661,378	6,026,428	5,340,275	5,407,188
Airport	1,120,307	976,559	1,014,601	763,823
Golf	2,034,905	2,041,027	2,061,708	2,229,549
<i>Total Business-Type Activities Expenses</i>	<u>29,294,898</u>	<u>27,500,899</u>	<u>26,278,670</u>	<u>25,938,071</u>
<i>Total Primary Government Expenses</i>	<u>\$ 82,901,453</u>	<u>\$ 75,758,173</u>	<u>\$ 70,972,148</u>	<u>\$ 71,292,011</u>
Program Revenues				
Governmental Activities:				
Charges for Services:				
General government	\$ 4,948,199	\$ 4,318,966	\$ 4,012,359	\$ 3,936,492
Public safety	1,649,218	1,449,006	1,369,093	1,258,517
General public works and beach	3,030,546	2,730,553	2,251,321	2,306,148
Sanitation and waste removal	175,918	163,223	190,935	141,924
Highways and streets	661,496	658,007	637,637	496,286
Economic development - Tourism	1,234,497	940,819	1,166,254	1,191,352
Recreation and culture	1,488,875	1,468,705	1,405,025	1,116,947
Operating Grants and Contributions	2,681,396	2,256,497	1,404,388	1,309,463
Capital Grants and Contributions	906,195	263,406	493,704	764,563
<i>Total Governmental Activities Program Revenues</i>	<u>16,776,340</u>	<u>14,249,182</u>	<u>12,930,716</u>	<u>12,521,692</u>
Business-Type Activities:				
Charges for Services:				
Water	6,095,087	5,930,548	5,958,881	5,593,694
Sewer	8,162,626	7,663,559	7,560,447	7,168,085
Convention Center	1,619,021	1,466,416	1,413,910	1,405,386
Transportation	3,226,897	3,118,675	3,084,148	2,555,143
Airport	848,819	608,093	518,180	540,616
Golf	2,199,883	2,324,673	2,240,263	2,415,904
Operating Grants and Contributions	3,911,853	3,870,590	4,005,436	4,055,940
Capital Grants and Contributions	1,661,427	161,322	1,052,812	939,428
<i>Total Business-Type Activities Program Revenues</i>	<u>27,725,613</u>	<u>25,143,876</u>	<u>25,834,077</u>	<u>24,674,196</u>
<i>Total Primary Government Program Revenues</i>	<u>\$ 44,501,953</u>	<u>\$ 39,393,058</u>	<u>\$ 38,764,793</u>	<u>\$ 37,195,888</u>

Town of Ocean City, Maryland

Changes in Net Assets (continued)

Last Four Fiscal Years

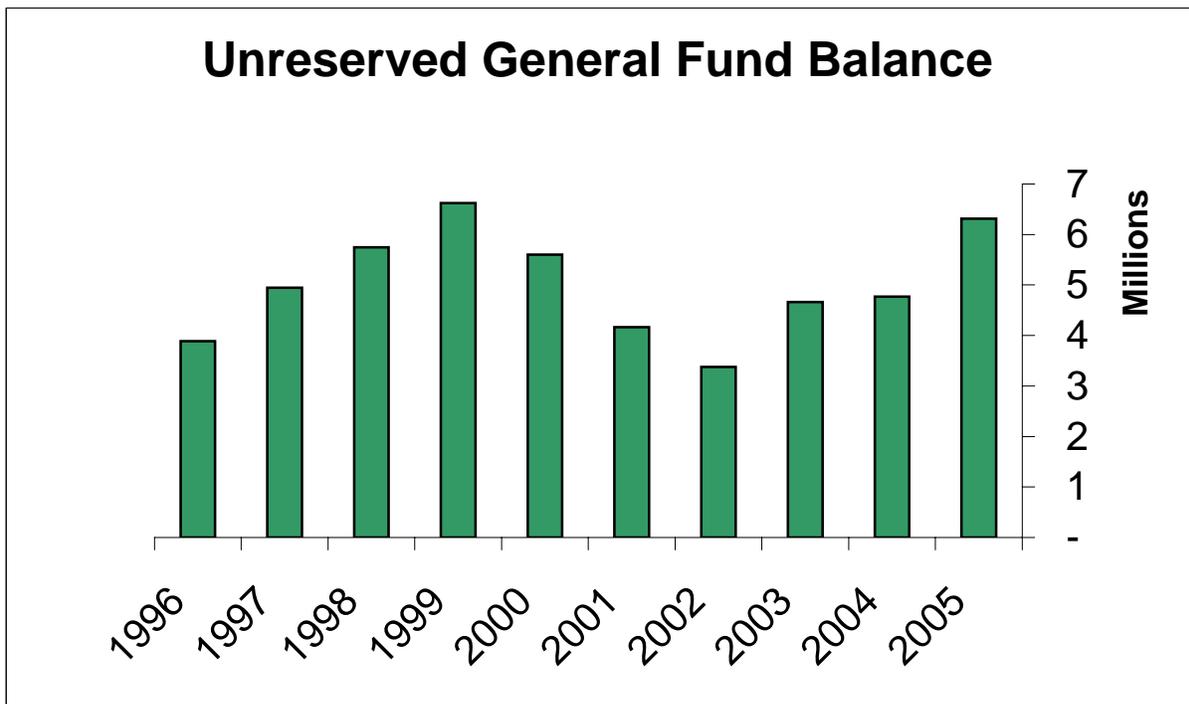
(accrual basis of accounting)

	2005	2004	2003	2002
Net (Expense)/Revenue				
Governmental Activities	\$ (36,830,215)	\$ (34,008,092)	\$ (31,762,762)	\$ (32,832,248)
Business-Type Activities	(1,569,285)	(2,357,023)	(444,593)	(1,263,875)
<i>Total Primary Government Net Expense</i>	<u>\$ (38,399,500)</u>	<u>\$ (36,365,115)</u>	<u>\$ (32,207,355)</u>	<u>\$ (34,096,123)</u>
General Revenues and Other Changes in Net Assets				
Governmental Activities:				
Taxes:				
Property and Other Local Taxes Levied For:				
General Purposes	\$ 29,232,197	\$ 26,126,491	\$ 21,986,998	\$ 20,933,199
Sales and Income Taxes	12,587,732	11,659,670	12,065,800	12,747,991
Grants and Entitlements not Restricted to Specific Programs	157,080	142,808	155,872	96,451
Investment Earnings	552,485	153,722	344,434	1,026,411
Gain (loss) on Sale of Capital Assets	(374,265)	-	-	-
Other Revenue	362,460	381,001	549,882	-
Transfers	(2,906,049)	(2,259,644)	(1,642,137)	(1,906,702)
<i>Total Governmental Activities</i>	<u>39,611,640</u>	<u>36,204,048</u>	<u>33,460,849</u>	<u>32,897,350</u>
Business-Type Activities:				
Investment Earnings	221,788	103,866	144,750	223,384
Gain (loss) on Sale of Capital Assets	(75,636)	-	247,000	-
Transfers	2,906,049	2,259,644	1,642,137	1,906,702
<i>Total Business-Type Activities</i>	<u>3,052,201</u>	<u>2,363,510</u>	<u>2,033,887</u>	<u>2,130,086</u>
<i>Total Primary Government</i>	<u>\$ 42,663,841</u>	<u>\$ 38,567,558</u>	<u>\$ 35,494,736</u>	<u>\$ 35,027,436</u>
Change in Net Assets				
Governmental Activities	\$ 2,781,425	\$ 2,195,956	\$ 1,698,087	\$ 65,102
Business-Type Activities	1,482,916	6,487	1,589,294	866,211
<i>Total Primary Government Change in Net Assets</i>	<u>\$ 4,264,341</u>	<u>\$ 2,202,443</u>	<u>\$ 3,287,381</u>	<u>\$ 931,313</u>

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

	2005	2004	2003	2002
General Fund				
Reserved for Encumbrances and Other	\$ 1,054,370	\$ 788,642	\$ 564,422	\$ 844,572
Unreserved	6,311,281	4,771,502	4,659,944	3,374,729
<i>Total General Fund</i>	<u>\$ 7,365,651</u>	<u>\$ 5,560,144</u>	<u>\$ 5,224,366</u>	<u>\$ 4,219,301</u>
All Other Governmental Funds				
Reserved for Encumbrances	\$ 2,196,879	\$ 635,074	\$ 199,056	\$ 336,305
Designated, Reported in:				
Capital Projects funds	4,328,931	1,435,289	1,483,969	1,855,195
Total All Other Governmental Funds	<u>6,525,810</u>	<u>2,070,363</u>	<u>1,683,025</u>	<u>2,191,500</u>
<i>Total Governmental Funds</i>	<u><u>\$ 13,891,461</u></u>	<u><u>\$ 7,630,507</u></u>	<u><u>\$ 6,907,391</u></u>	<u><u>\$ 6,410,801</u></u>

Unreserved General Fund Balance as a Percentage of Expenditures	12.1%	10.0%	10.4%	7.7%
--	-------	-------	-------	------



2001	2000	1999	1998	1997	1996
\$ 365,289	\$ 285,136	\$ 194,452	\$ 254,340	\$ 295,398	\$ 355,326
4,163,741	5,598,929	6,620,970	5,748,968	4,943,422	3,887,783
\$ 4,529,030	\$ 5,884,065	\$ 6,815,422	\$ 6,003,308	\$ 5,238,820	\$ 4,243,109
\$ 2,530,098	\$ 650,299	\$ 903,253	\$ 1,801,410	\$ 250,951	\$ 31,598
3,336,644	1,589,561	4,077,369	7,405,122	67,104	13,955,511
5,866,742	2,239,860	4,980,622	9,206,532	318,055	13,987,109
<u>\$10,395,772</u>	<u>\$ 8,123,925</u>	<u>\$ 11,796,044</u>	<u>\$ 15,209,840</u>	<u>\$ 5,556,875</u>	<u>\$ 18,230,218</u>

9.2%

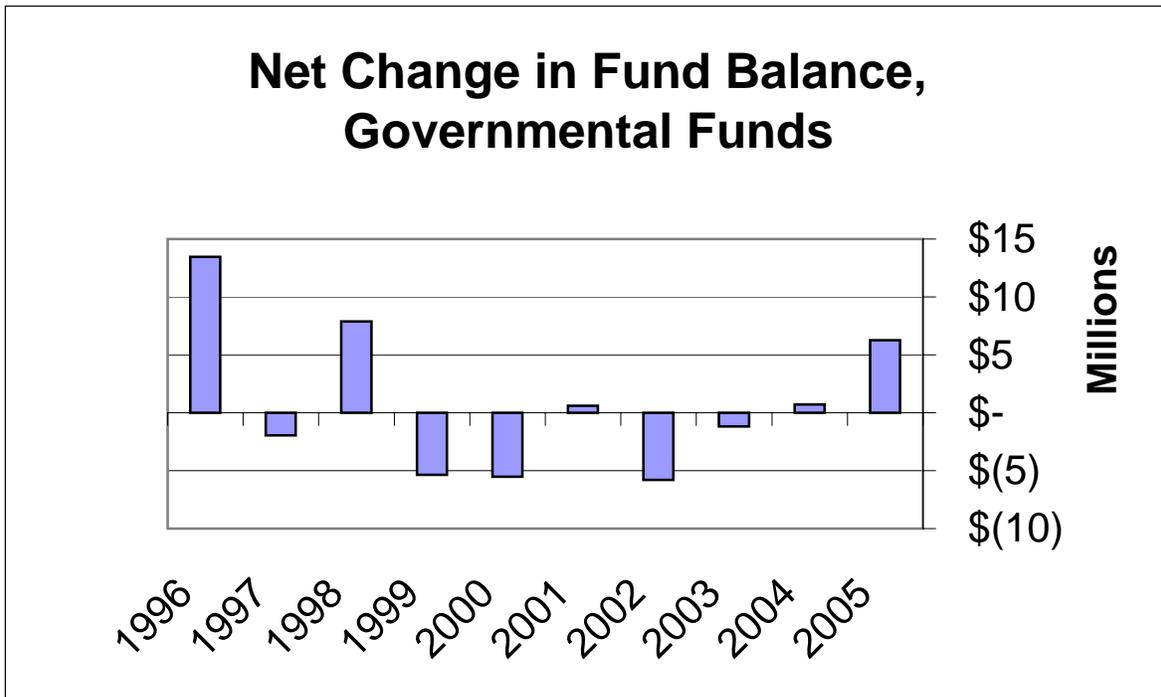
11.6%

14.2%

14.8%

12.9%

11.4%



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

	2005	2004	2003
Revenues			
Property Taxes	\$ 28,893,748	\$ 25,978,629	\$ 21,942,128
Penalties and Interest	203,681	179,328	175,312
Other Taxes	12,561,124	11,682,536	11,998,532
Charges for Services	8,429,121	6,885,403	6,382,002
Licenses and Permits	5,017,242	4,407,455	4,089,698
Fines and Forfeitures	523,136	586,518	560,924
Revenue from Other Agencies	2,963,921	2,512,614	2,053,964
Other Revenue	747,846	535,614	677,625
<i>Total Revenues</i>	<u>\$ 59,339,819</u>	<u>\$ 52,768,097</u>	<u>\$ 47,880,185</u>
Expenditures			
Current:			
General Government	\$ 3,892,257	\$ 2,865,191	\$ 2,023,593
Public Safety	21,756,557	19,794,752	17,626,862
General Public Works and Beach	4,016,271	3,531,469	3,325,515
Sanitation and Waste Removal	5,606,629	5,207,178	5,331,082
Highways and Streets	4,160,215	3,983,490	3,423,427
Economic Development - Tourism	3,861,408	3,495,989	3,495,288
Recreation and Culture	6,182,466	5,081,905	4,828,920
Capital Outlay	6,586,267	1,976,492	900,326
Debt service:			
Principal Retirement	1,878,426	2,757,452	4,786,445
Interest and Fiscal Charges	1,308,420	1,243,195	1,665,365
<i>Total Expenditures</i>	<u>59,248,916</u>	<u>49,937,113</u>	<u>47,406,823</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>\$ 90,903</u>	<u>\$ 2,830,984</u>	<u>\$ 473,362</u>
Other Financing Sources (Uses)			
Proceeds of Long-Term Debt	9,076,100	11,891,436	-
Payment to Refunded Bond Escrow Agent	-	(11,739,660)	-
Transfers In	1,353,440	1,897,676	35,000
Transfers Out	(4,259,489)	(4,157,320)	(1,677,137)
<i>Total Other Financing Sources (Uses)</i>	<u>6,170,051</u>	<u>(2,107,868)</u>	<u>(1,642,137)</u>
<i>Net Change in Fund Balances</i>	<u>\$ 6,260,954</u>	<u>\$ 723,116</u>	<u>\$ (1,168,775)</u>
Debt Service as a Percentage of Noncapital Expenditures	6.1%	8.3%	13.9%

2002	2001	2000	1999	1998	1997	1996
\$ 20,696,935	\$ 19,737,580	\$ 18,570,742	\$ 18,186,508	\$ 17,904,025	\$ 17,682,732	\$ 17,704,470
132,179	172,961	198,768	222,612	219,169	225,752	224,023
12,498,382	10,255,011	8,164,682	7,843,947	7,237,240	6,787,194	7,025,678
5,975,169	5,705,058	5,233,186	5,010,130	5,026,483	4,586,010	4,110,935
3,915,003	3,424,712	3,346,982	3,077,276	2,990,442	2,878,107	2,615,022
557,494	541,977	603,168	664,354	929,333	636,227	442,219
2,170,477	6,294,469	2,492,346	1,237,339	1,270,559	1,245,092	1,532,433
813,167	1,258,288	1,367,532	1,337,162	1,292,864	1,236,756	1,714,048
<u>\$ 46,758,806</u>	<u>\$ 47,390,056</u>	<u>\$ 39,977,406</u>	<u>\$ 37,579,328</u>	<u>\$ 36,870,115</u>	<u>\$ 35,277,870</u>	<u>\$ 35,368,828</u>
\$ 2,021,219	\$ 3,349,923	\$ 3,079,683	\$ 2,801,704	\$ 2,531,911	\$ 2,911,272	\$ 2,744,296
16,870,305	15,794,581	13,562,695	12,241,310	12,475,173	11,574,280	10,917,022
2,993,469	2,775,508	2,411,077	2,026,691	2,207,093	2,353,112	2,542,820
4,978,310	4,557,518	4,642,942	3,842,653	4,176,953	4,114,043	3,696,682
4,053,572	3,474,429	3,375,657	2,591,514	2,700,358	2,753,052	2,433,206
3,132,924	3,227,213	2,920,977	2,891,316	2,980,889	3,315,022	4,812,114
4,761,308	4,815,820	4,023,127	3,373,753	3,332,997	2,778,128	2,686,845
5,246,199	8,863,247	5,218,689	7,845,656	2,928,300	846,976	3,557,125
4,779,769	4,455,972	4,470,337	4,225,278	4,513,170	4,410,886	2,290,376
1,823,300	1,675,576	1,840,170	1,948,921	1,775,421	1,675,946	2,032,610
<u>50,660,375</u>	<u>52,989,787</u>	<u>45,545,354</u>	<u>43,788,796</u>	<u>39,622,265</u>	<u>36,732,717</u>	<u>37,713,096</u>
<u>\$ (3,901,569)</u>	<u>\$ (5,599,731)</u>	<u>\$ (5,567,948)</u>	<u>\$ (6,209,468)</u>	<u>\$ (2,752,150)</u>	<u>\$ (1,454,847)</u>	<u>\$ (2,344,268)</u>
-	6,377,632	-	1,200,000	11,046,000	-	15,180,947
-	-	-	-	-	-	-
752,373	2,862,501	2,828,615	3,492,025	2,005,480	1,794,904	2,625,337
(2,659,075)	(3,044,131)	(2,772,956)	(3,845,274)	(2,421,786)	(2,277,633)	(1,996,428)
<u>(1,906,702)</u>	<u>6,196,002</u>	<u>55,659</u>	<u>846,751</u>	<u>10,629,694</u>	<u>(482,729)</u>	<u>15,809,856</u>
<u>\$ (5,808,271)</u>	<u>\$ 596,271</u>	<u>\$ (5,512,289)</u>	<u>\$ (5,362,717)</u>	<u>\$ 7,877,544</u>	<u>\$ (1,937,576)</u>	<u>\$ 13,465,588</u>
14.5%	13.9%	15.6%	17.2%	17.1%	17.0%	12.7%

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

Year	Property Taxes	Room Occupancy Taxes *	Admission & Amusement Taxes*	Income Taxes	Other Taxes	Total
2005	\$ 29,097,429	\$ 9,593,436	\$ 1,252,422	\$ 953,168	\$ 558,417	\$ 41,454,872
2004	25,978,629	9,595,457	812,599	635,662	638,818	37,661,165
2003	21,942,128	9,231,935	1,286,896	703,880	775,821	33,940,660
2002	20,696,935	9,136,047	1,550,202	959,692	852,441	33,195,317
2001	19,895,825	7,301,543	1,155,310	895,660	744,253	29,992,591
2000	18,724,016	5,926,261	875,731	506,071	703,345	26,735,424
1999	18,334,078	5,543,038	904,059	531,761	717,519	26,030,455
1998	18,049,392	5,172,297	881,343	459,843	578,390	25,141,265
1997	17,986,430	4,870,046	803,271	520,070	290,109	24,469,926
1996	18,007,081	4,784,158	799,812	516,281	622,816	24,730,148
Change 1996-2005	61.6%	100.5%	56.6%	84.6%	-10.3%	67.6%

* In fiscal year 2001, the room tax rate was increased from 3% to 4% and the admission and amusement tax rate was increased from 2% to 3%. In 2003, state court ruled that a portion of prior years amusement taxes for restaurants be refunded. Refunds were made in 2003 and 2004.

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

Year	Real Property	Personal Property	Corporate Property	Total	Estimated * Actual Values of Taxable Property	Percentage Of Change
2005	\$ 5,640,578,371	\$ 14,789,786	\$ 131,293,900	\$ 5,786,662,057	\$ 5,786,662,057	19.2%
2004	4,710,176,078	21,171,008	124,356,279	4,855,703,365	4,855,703,365	20.9
2003	3,861,432,196	21,336,512	131,963,798	4,014,732,506	4,014,732,506	5.2
2002	3,676,122,698	20,072,259	119,241,289	3,815,436,246	3,815,436,246	3.7
2001*	1,416,305,245	23,902,636	114,299,612	1,554,507,493	3,678,965,361	3.7
2000	1,366,041,040	24,599,680	106,581,280	1,497,222,000	3,546,283,560	2.6
1999	1,332,637,653	25,796,960	99,721,520	1,458,156,133	3,457,112,613	1.0
1998	1,318,955,120	27,922,480	98,198,800	1,445,076,400	3,423,509,080	-0.7
1997	1,328,155,680	28,893,120	98,807,520	1,455,856,320	3,448,089,840	1.2
1996	1,313,746,290	36,821,466	84,894,561	1,435,462,317	3,406,081,752	0.6

Source: Uniform Financial Report of Town of Ocean City to Maryland Department of Fiscal Services, 1996-2005.

* Property in the Town is reassessed every three years. Property has been assessed at actual value since 2002. Real property was assessed at forty percent of market value for fiscal year 2001 and earlier.

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

Year	Total Tax Levy	Current Tax Collections	Percent of Current Tax Collections To Tax Levy	Delinquent Tax Collections	Total Tax Collections*	Percent of Total Tax Collections To Tax Levy
2005	\$28,981,665	\$ 28,582,990	98.62 %	\$ 362,383	\$ 28,945,373	99.87 %
2004	25,916,042	25,508,356	98.43	386,257	25,894,613	99.92
2003	21,927,723	21,593,909	98.48	319,667	21,913,576	99.94
2002	20,655,837	20,217,245	97.88	336,608	20,553,853	99.51
2001	20,004,812	19,643,710	98.19	414,009	20,057,719	100.26
2000	18,776,984	18,340,395	97.67	524,490	18,864,885	100.47
1999	18,244,665	17,707,333	97.05	478,898	18,186,231	99.68
1998	18,002,379	17,458,523	96.98	516,321	17,974,844	99.85
1997	18,198,204	17,666,071	97.08	586,768	18,252,839	100.30
1996	17,934,139	17,391,347	96.97	417,283	17,808,630	99.30

Source: Uniform Financial Report of Town of Ocean City to Maryland Department of Fiscal Services, 1996 - 2005.

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

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

Taxpayer	2005	
	Property Assessed Valuation (1)	Percentage of Total Assessed Valuation
Americana Stowaway Motel, Inc.	\$ 42,879,575	0.74%
91st Street Joint Venture	37,684,264	0.65
Ocean View Inc.	22,904,867	0.40
Bayshore Development Corp	22,286,125	0.39
Harrison HI 18 LLC	19,722,214	0.34
Delmarva Power	19,696,810	0.34
Genesar, Inc.	19,330,567	0.33
Harrison Inn Stardust Inc	17,293,804	0.30
LPBOC Hotel Limited Partnership	16,454,600	0.28
Harrison QI 17 LLC	15,561,367	0.27
	<u>\$ 233,814,193</u>	<u>4.04%</u>
Total Assessed Valuation	\$ 5,786,662,057	
Taxpayer	1996	
	Property Assessed Valuation (1)	Percentage of Total Assessed Valuation
Delmarva Power & Light	\$ 18,769,150	0.55%
Bell Atlantic - Maryland	10,583,080	0.31
B.O.B. Title XXXI, Inc.	6,356,000	0.19
LPBOC Hotel Limited Partnership	6,088,400	0.18
Harrison, John Henry & Hale	5,655,680	0.17
Ocean Plaza Limited Partnership	5,576,000	0.16
Genesar, Inc.	4,343,920	0.13
Harrison, John H & Hale	3,940,320	0.12
Atlantic Hotel Inc.	3,919,920	0.12
Brown, Sidney & Stuart	3,746,160	0.11
	<u>\$ 68,978,630</u>	<u>2.04%</u>
Total Assessed Valuation	<u>\$ 3,406,081,752</u>	

(1) Assessed valuation based on the valuation of property for taxes collected in 2005 and 1996 respectively, and a review of the 10 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		
2005	\$	0.480	\$	0.73	\$	1.34
2004		0.510		0.73		1.37
2003		0.516		0.73		1.33
2002		0.516		0.73		1.33
2001		1.29		1.74		3.24
2000		1.25		1.74		3.20
1999		1.25		1.72		3.18
1998		1.25		1.72		3.18
1997		1.25		1.68		3.14
1996		1.25		1.68		3.14

Source: Town of Ocean City Finance Department

* For State, County and Town real property purposes, real property was assessed at forty percent of market value for fiscal year 2001 and earlier. In fiscal year 2002 and later, real property was assessed at market value and tax rates were adjusted proportionately.

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

Tax Year	Govenmental Activities			Business-Type Activities		Total Primary Government	% of Actual Property Value	Per Capita
	General Obligation Bonds	Inter-Governmental Loans	Capital Leases	General Obligation Bonds	Capital Leases			
2005	\$34,730,583	\$ 468,716	\$ 3,985,354	\$ 52,149,050	\$ -	\$ 91,333,703	1.58%	\$ 12,443
2004	27,356,573	740,868	5,111,382	42,909,983	34,616	76,153,422	1.57	10,481
2003	29,613,860	1,077,666	2,657,412	45,471,198	66,741	78,886,877	1.96	10,964
2002	32,306,307	1,557,632	1,664,716	48,259,211	175,950	83,963,816	2.20	11,688
2001	34,852,054	2,016,559	312,818	50,941,025	356,623	88,479,079	2.40	12,330
2000	30,864,776	2,459,258	638,857	41,288,089	472,999	75,723,979	2.14	10,250
1999	33,110,559	2,886,214	1,077,489	43,659,441	701,556	81,435,259	2.36	11,023
1998	33,618,116	3,495,076	1,604,779	45,716,884	918,409	85,353,264	2.49	12,073
1997	24,410,688	4,450,908	1,382,683	40,944,312	745,000	71,933,591	2.09	11,896
1996	38,549,330	5,170,441	2,003,714	29,230,670	1,554,024	76,508,179	2.25	13,422

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
2005	\$ 86,879,633	1.50%	\$ 11,836
2004	70,266,556	1.45	9,671
2003	75,085,058	1.87	10,436
2002	80,565,518	2.11	11,215
2001	85,793,079	2.33	11,956
2000	72,152,865	2.03	9,766
1999	76,770,000	2.22	10,391
1998	79,335,000	2.32	11,221
1997	65,355,000	1.90	10,808
1996	67,780,000	1.99	11,891

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

Town of Ocean City, Maryland
 Computation of Direct and Overlapping Debt
 June 30, 2005

Jurisdiction	Total Debt Outstanding	Percentage Applicable to City (1)	Amount Applicable to Town of Ocean City
Direct			
Town of Ocean City	<u>\$ 91,333,703</u>	100.0%	<u>\$ 91,333,703</u>
Overlapping			
Worcester County	<u>69,044,181</u>	57.4%	<u>39,659,454</u>
Total Direct and Overlapping Debt	<u><u>\$ 160,377,884</u></u>		<u><u>\$ 130,993,157</u></u>

Source:

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

Town of Ocean City, Maryland

Computation of Legal Debt Margin

As of June 30, 2005

Assessed Value		<u>\$ 5,786,662,057</u>
Maximum General Obligation Debt limited to 5.2% of assessed valuation *		\$ 300,906,427
Outstanding bonds	<u>\$ 86,879,633</u>	
Net Chargeable to Bond Limit		<u>86,879,633</u>
LEGAL DEBT MARGIN at JUNE 30, 2005		<u>\$ 214,026,794</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

1996 - 2005

Fiscal Year	Assessed Value	Legal Debt Limitation	Legal Borrowing Limitation	Debt Subject to Limitation	Legal Debt Margin
2005	\$ 5,786,662,057	5.2 %	\$ 300,906,427	\$ 86,879,633	\$ 214,026,794
2004	4,855,703,365	5.2	252,496,575	70,266,556	182,230,019
2003	4,014,732,506	5.2	208,766,090	78,886,877	129,879,213
2002	3,815,436,246	5.2	198,402,685	83,963,816	114,438,869
2001	1,554,507,493	13	202,085,974	85,793,079	116,292,895
2000	1,497,222,000	13	194,638,860	72,152,865	122,485,995
1999	1,458,156,133	13	189,560,297	76,770,000	112,790,297
1998	1,445,076,400	13	187,859,932	79,335,000	108,524,932
1997	1,455,856,320	13	189,261,322	65,355,000	123,906,322
1996	1,435,462,317	13	186,610,101	67,780,000	118,830,101

Town of Ocean City, Maryland

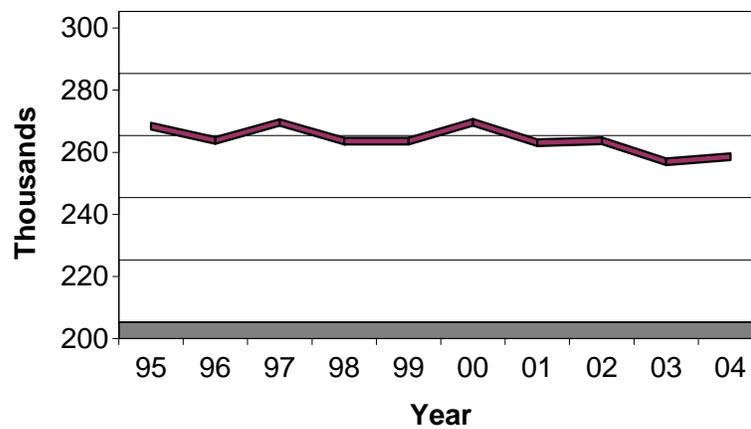
Demographic Statistics

Calendar Years 1995 - 2004

Year	(1)	(2)	(2)	(3)	(4)	(5)
	Population	Median Household Income	Worcester County Personal Income	Median Age	School Enrollment	Unemployment Rate
2004	7,340	\$ 47,750	1,494,700	47.2	6,900	6.4
2003	7,266	45,200	1,494,700	47.2	6,900	8.3
2002	7,195	44,650	1,445,354	47.2	6,850	8.2
2001	7,184	44,500	1,397,637	47.2	6,850	9.7
2000	7,173	42,450	1,299,036	47.2	6,820	10.4
1999	6,971	40,650	1,215,402	47.1	6,820	8.9
1998	6,769	38,850	1,138,515	47.0	6,725	10.3
1997	6,567	37,450	1,079,108	46.8	6,651	10.8
1996	6,365	35,700	975,714	46.7	6,628	9.6
1995	6,163	33,850	919,987	46.6	6,489	9.7

- (1) Dept. of Planning and Community Development, Town of Ocean City.
- (2) Maryland State Data Center (Figures are for Worcester County).
- (3) U.S. Census Bureau, Census 2000
- (4) Figures are for Worcester County Public Schools which include Ocean City.
- (5) State of Maryland Department of Labor, Licensing and Regulation (Information available for Worcester County only).

Estimated Average Summer Population



Town of Ocean City, Maryland
Principal Employers
Current Fiscal Year
Number of employees for quarter ending June 30, 2005

2005		
<u>Employer</u>	<u>Employees</u>	<u>Percentage of Total County Employment</u>
Harrison Group	875	2.82 %
Phillips	725	2.34
Bayshore Development	500	1.61
OC Seacrets, Inc.	475	1.53
KTG LLC	350	1.13
Clarion Resort Fountainbleu	300	0.97
Fagers Island, Ltd.	260	0.84
Trimpers Rides, Inc.	250	0.81
Dough Roller, Inc.	200	0.65
Genesar, Inc.	<u>160</u>	<u>0.52</u>
Total	<u>4,095</u>	<u>13.22 %</u>
Total Worcester County Employees (Data available for county only)	<u>30,977</u>	

Source: Town of Ocean City, Maryland, Department of Planning of Economic Development - amounts are estimates. Total City employment based upon estimate from the Regional Income Tax Authority 2005 withholding information. Data for 1996 is unavailable.

Full-Time City Government Employees by Function/Program
Current Fiscal Year and Nine Years Ago

<u>Function/program</u>	<u>2005</u>	<u>1996</u>
General Government:		
Mayor and Council	1	1
City Clerk	4	3
City Manager	6	3
Finance	16	15
Human Resources	4	3
Planning & Community	8	4
Information Technology	10	4
Service Center	22	24
Risk Management	3	2
Public Safety:		
Police	116	110
Communications	21	13
Fire	3	3
EMS	34	26
Fire Marshal	7	5
Construction Inspection	6	5
Recreation:		
Administration	6	7
Programs	7	5
Parks	18	12
Beach Patrol	-	-
Events	5	2
Golf Course	12	11
Public Works:		
Engineering	7	5
Administration	3	3
Maintenance	40	23
Construction	34	36
Solid Waste	32	39
Recycling	12	6
Water	25	24
Wastewater	47	51
Transportation	13	15
Airport	3	3
Tourism:		
Administration	6	5
Tourism & Public Relations	8	7
Museum	3	2
Sales	3	3
Maintenance	26	11
Full Time Employee Totals:	571	491
Seasonal Employee Totals:	808	818
Total Employees	<u>1,379</u>	<u>1,309</u>

Source: Town of Ocean City, Maryland 1996-2005 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	2005	2004	2003	2002
General Information				
Year-round Residents	7,340	7,266	7,195	7,184
Registered Voters	5,718	6,251	5,565	5,758
Average Summer Population	255,858	254,251	261,014	260,381
General Government				
Construction Permits Issued	1,545	1,245	1,335	1,280
Estimated Value of Construction	\$ 123,622,811	\$ 133,358,845	\$ 104,643,832	\$ 68,236,839
Public Safety - Police				
Total Arrests	4,258	4,450	4,817	4,120
Parking Violations	10,309	14,153	13,859	15,868
Classified Officers	96	96	96	96
Seasonal Officers	105	105	105	105
Fire and Emergency Services				
Fire responses	1,428	1,621	1,451	1,370
Ambulance responses	5,030	4,981	5,108	4,947
Fire Safety Inspections/Re-Inspections	4,067	2,110	2,173	1,956
Fire Investigations	251	368	162	150
Classified Fire Personnel	3	3	3	3
Volunteer Officers, Firemen, Life Honor, Gold Badge	218	234	234	209
Classified Emergency Medical Technicians	33	32	35	36
Seasonal Emergency Medical Technicians	32	27	28	20
Solid Waste				
Trash Processed (tons)	33,027	33,941	33,567	33,572
Trash Recycled (tons)	3,106	3,283	3,095	3,167
Tourism and Recreation				
Seasonal Beach Patrol Personnel	185	181	166	216
Water				
Daily Average Consumption (gallons)	4,572,410	4,706,273	4,900,000	5,123,370
Plants Daily Capacity (gallons)	18,000,000	18,000,000	18,000,000	17,000,000
Wastewater				
Daily Average Treatment (gallons)	5,484,652	5,587,333	5,611,000	5,540,000
Summer Daily Treatment Average (gallons)	9,737,000	10,080,000	10,070,000	10,050,000
Plants Daily Treatment Capacity (gallons)	14,000,000	14,000,000	14,000,000	14,000,000
Transportation				
Bus Passengers	3,275,891	3,224,130	3,280,193	3,928,445
Airport				
Based Aircraft	48	45	45	45
Aircraft Fueled	6,960	6,913	6,975	6,850

2001	2000	1999	1998	1997	1996
7,176	7,388	7,388	7,070	6,047	5,700
6,426	6,184	5,889	5,723	5,835	5,326
266,901	263,316	260,877	266,895	266,895	261,103
1,161	1,156	1,265	1,120	1,146	929
\$ 65,317,266	\$ 55,213,061	\$ 38,172,996	\$ 32,509,042	\$ 29,358,570	\$ 46,182,211
3,918	3,911	3,911	2,887	3,387	3,387
20,927	24,944	24,944	31,271	29,000	29,000
96	94	115	114	111	111
105	118	114	142	145	145
1,500	1,525	1,556	1,343	1,363	1,552
5,172	5,172	4,895	4,218	4,709	4,709
2,152	2,241	2,712	2,683	2,185	2,382
228	220	183	216	201	242
3	3	3	3	3	3
225	225	225	225	225	225
36	29	24	24	26	26
17	16	14	12	10	10
38,182	32,222	30,605	30,822	30,446	30,424
3,502	2,787	2,664	2,329	2,234	2,213
216	176	164	164	164	153
5,123,370	5,123,370	5,123,370	5,475,000	5,812,767	5,812,767
17,000,000	17,000,000	17,000,000	17,000,000	17,000,000	17,000,000
5,670,000	5,417,808	5,347,300	5,489,258	5,553,500	5,419,750
9,940,000	10,332,608	9,904,400	10,242,489	10,019,913	10,183,330
14,000,000	14,000,000	14,000,000	14,000,000	12,000,000	12,000,000
3,666,151	3,628,784	3,530,273	3,329,101	3,196,666	3,314,735
43	36	29	29	29	29
6,700	6,068	5,990	5,990	6,200	6,200

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

Function/program	2005	2004	2003	2002
General Information				
Area in Square Miles	5	5	5	5
Public Safety - Police				
Stations	2	2	2	2
Vehicles	79	78	75	74
Public Safety - Fire and Emergency Services				
Stations	5	5	5	5
Ambulances	9	9	9	9
Highways and Streets				
Streets (miles)	67	67	67	67
Number of Streetlights	2,906	2,884	2,884	2,849
Storm Sewers (miles)	43	42	42	42
Catch Basins	2,286	2,284	2,284	2,280
Heavy Equipment	50	50	49	49
Economic Development - Tourism, Recreation, and Culture				
Number of Parks / Playgrounds	13 / 7	13 / 7	13 / 7	13 / 8
Park Acreage	79	79	79	79
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	7,069	7,073	7,030	7,003
Fire Hydrants	817	699	699	695
Wastewater				
Sanitary sewers (miles)	150	150	150	150
Treatment Plants	1	1	1	1
Pumping Stations	9	10	9	9
Number of Customer Accounts	28,708	28,720	28,717	28,713
Convention Center				
Convention Center (7,000 seats)	1	1	1	1
Transportation				
Buses	56	54	58	53
Handicapped Buses	3	3	2	2
Boardwalk Trams	8	8	8	8
Airport				
Runway (2) (feet)	7,270	7,270	7,270	7,270
Square feet of Hangars	90,860	90,860	90,860	90,860

2001	2000	1999	1998	1997	1996
5	5	5	5	5	5
2	2	2	2	2	2
74	70	69	69	68	68
6	6	6	6	6	6
8	8	8	9	9	9
67	64	63	63	63	63
2,849	2,344	2,320	2,320	2,320	2,320
42	42	41	41	37	37
2,280	2,271	2,207	2,207	2,006	2,006
49	48	47	47	45	45
13 / 8	13 / 8	13	13	16	16
78	78	83	110	150	150
1	1	1	1	1	1
3	3	3	3	3	3
10	10	10	10	10	10
14	14	14	14	13	13
1	1	1	1	1	1
1	1	1	1	1	1
150	150	150	150	150	150
3	3	3	3	3	3
6,975	6,921	6,830	6,821	6,703	6,661
685	680	680	680	680	680
150	150	150	150	150	110
1	1	1	1	1	1
9	9	9	9	9	9
28,708	27,587	25,950	25,950	25,950	25,950
1	1	1 - 4000 seat	1	1	1
53	54	53	43	47	52
2	2	2	2	2	2
8	8	8	8	8	8
7,270	7,270	7,270	7,270	7,270	7,270
90,860	90,860	71,860	71,860	71,860	71,860

