

City of Marco Island, Florida

COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2008

PREPARED BY:
CITY OF MARCO ISLAND
FINANCE DEPARTMENT

Cover Art

Marianne Albers McKoveck

For Ms. McKoveck, art has become an extension of life.

Her adult career path centered around dentistry and
she owned a dental laboratory for 35 years.

She has revisited the love of art she had before “life intruded,”
studying with various artists and developing an impressionistic style.

Artwork is provided through cooperation with the Art League of Marco Island.



INTRODUCTION SECTION

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City of Marco Island

June 23, 2009

To the Members of the City Council and Citizens of the City of Marco Island, Florida:

Florida Statutes require that all general-purpose local governments publish within twelve months of the close of each fiscal year a complete set of financial statements presented in conformity with generally accepted accounting principles (GAAP) and audited in accordance with generally accepted auditing standards by a firm of independent licensed certified public accounts. Pursuant to that requirement, we hereby issue the comprehensive annual financial report of the City of Marco Island, Florida, for the fiscal year ended September 30, 2008.

This report consists of management's representations concerning the finances of the City of Marco Island, Florida. Consequently, management assumes full responsibility for completeness and reliability of all of the information presented in this report. To provide a reasonable basis for making these representations, management of the City has established a comprehensive internal control framework that is designed both to protect the government's assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of the City's financial statements in conformity with GAAP. Because the cost of internal controls should not outweigh their benefits, the City's comprehensive framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatement. As management, we assert that, to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

The City's financial statements have been audited by CPA Associates, a firm of independent licensed certified public accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements of the City for the fiscal year ended September 30, 2008, are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unqualified opinion that the City's financial statements for the fiscal year ended September 30, 2008, are fairly presented in conformity with GAAP. The independent auditor's report is presented as the first component of the financial section of this report.

The independent audit of the financial statements of the City was part of a broader Federally mandated “Single Audit” designed to meet the special 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, with special emphasis on internal controls and legal requirements involving the administration of Federal awards. These reports are available in the Other Reports and Letters section of the report.

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

The City and Its Services

Marco Island, Florida, is located in the southwestern part of the state, on the Gulf of Mexico side of the 10,000 islands and the Everglades. Originally discovered by the Spanish and named Isla de San Marcos (Saint Mark's Island), modern development of the island began in the late 1960s by the Deltona Corporation. Prior to incorporation in 1997, the island was a part of unincorporated Collier County and was served by a local Fire Protection District. The City serves a permanent population of approximately 17,000, which grows to 45,000 in the peak winter season. The City is empowered to levy a property tax on both real and personal property located within its boundaries.

The City has operated under the Council-Manager form of government since incorporation. Policy-making and legislative authority are vested in the governing council consisting of a Chairperson and six other members. The City Council is responsible, among other things, for passing ordinances and approving the budget, appointing boards and commissions, and hiring both the City Manager and the City Attorney. The City Manager is responsible for carrying out the policies and ordinances of the City Council, for overseeing the day-to-day operations of the government, and for appointing the heads of the various departments. The Council is elected at-large on a non-partisan basis to four-year staggered terms. The City Council Chairman is elected by the members of the City Council annually to a one-year term of office.

The City provides a full range of services authorized by statute and local charter. These include Police, Fire, Parks and Recreation, Streets and Drainage, Capital Improvements, Planning and Community Development and general administrative services. During the fiscal year ended September 30, 2004, and more fully described later in this report, the City acquired the water and wastewater operations on the island and now operates those services through the City's Utility Department.

The Hideaway Beach Tax District has been created as a component unit of the City. In 2003, voters in this upscale, gated neighborhood approved a bond issue and tax levy for re-nourishment of the beaches adjacent to the neighborhood. In 2005, \$2.9 million in bonds were issued and the project was completed under the oversight of Collier County. As part of the project, “T-groins” were constructed by the County using tourist development tax funds to stabilize the beach to prevent future erosion. The City has no other component units.

Budget Process

The annual budget serves as the foundation for the City's financial planning and control. All departments of the City are required to submit requests for appropriation to the City Manager. The City Manager uses these requests as the starting point for developing a proposed budget and holds public budget workshops with the City Council on the proposed budget. Two public hearings are held on the budget, with the final budget adopted no later than September 30, the close of the City's fiscal year. The appropriated budget is prepared by fund and by department. Budget control is maintained at the department level in the General Fund and at the fund level in other funds of the City. Budgets are adopted for the following funds:

- General Fund
- Capital Projects Fund
- Debt Service Funds
- Building Services Fund
- Water/Sewer Utility Enterprise Fund
- Electric Franchise Fund
- Recreation Enterprise Fund
- Hideaway Beach Tax District
- Self-Insurance Internal Service Fund

The City Manager may make transfers of appropriations within a General Fund department or within other funds. Transfers of appropriations between General Fund departments, and transfers that increase fund appropriations, require the approval of the City Council. Budget-to-actual comparisons are provided in this report for individual funds.

Capital planning for the community is accomplished through two separate long-term budget documents. The Capital Projects Fund finances improvements to streets and intersections, storm drainage, bridges, park facilities and landscaping, and general government buildings. A five-year budget is updated and adopted annually. The acquisition of Marco Island Utilities, discussed below, drove the need for a 10-year capital program to upgrade and expand both the water and wastewater systems. The utility capital plan is updated annually.

Factors Affecting Financial Condition

The information presented in the financial statements is perhaps best understood when it is considered from the broader perspective of the specific environment within which the City operates.

Local Economy: Marco Island was developed as a planned community of exclusive water-access and waterfront residences with hotels, condominiums, and commercial businesses to support the vitality of the island lifestyle. Originally marketed as a winter retreat for people with permanent homes in the north, Marco Island has evolved over the years into a community of diverse age groups and interests. The business community primarily provides goods and services to the permanent and visitor community.

Marco Island continues to enjoy the results of a planned, platted, and deed restricted community. A full 75% of the single-family building lots are located on man-made canals and bays, affording easy boating access to the Gulf of Mexico and the 10,000 islands forming the western boundary of the Everglades. The community offers public beach access at both ends of the island, and an additional beach access is provided for the exclusive use of island residents. Beachfront property is high-density, with multi-family and tourist-oriented accommodations.

The long-term economic outlook for the City of Marco Island is positive. In the first ten years of incorporation, the island economy has enjoyed an exceptionally strong residential real estate market with high growth in new home starts, and home and condominium resales. Total assessed value increased from \$2.8 billion at incorporation to a high point of \$12 billion as of the assessment date of January 1, 2006. reflecting the population growth in Collier County and the scarcity of waterfront housing. Marco Island will never be duplicated; the U. S. Army Corps of Engineers now prohibits "dredge and fill" coastal development and mangrove forests are Federally protected.

The 2007 assessed valuations used for property taxes in fiscal year 2008 showed a six percent (6%) reduction prior to adjustment for new construction. The 2008 assessed valuations used for property taxes in fiscal year 2009, showed an additional eleven percent (11%) reduction. It is projected that the 2009 valuations, used to determine property taxes for fiscal year 2010, will show continued reductions as the real estate market searches for a bottom. The reduction in valuations as a direct result of the national real estate slump, are not projected to result in any significant decreases in services provided to the community.

Marco Island Utilities: In November 2003, the City of Marco Island achieved a long-term objective with the acquisition of the local water and wastewater operations from a private provider. Prior to that date, the City's Utilities Fund was used to account for the wastewater distribution system serving approximately 1,200 accounts with central sewer on this island. Wastewater treatment was handled by Florida Water Services under contract. The City issued \$101 million in utility revenue bonds to purchase utility operations on Marco Island and at an adjacent area of unincorporated Collier County also known as Marco Shores and currently serves approximately 10,000 utility accounts. The cost of the utility acquisition was approximately \$85 million, with additional funds raised to begin the upgrading of a neglected utility infrastructure. Additional funds for capital investment are provided through monthly deposits to a Renewal and Replacement Fund and a Capital Reserve Fund required by bond covenants. This report includes details of the fourth full year of municipal ownership of the utility.

Financial Policies

Charter Spending Cap: The City of Marco Island is unique in Florida with a spending cap after the first four years of incorporation included as part of the original charter of the City. Currently, increases in annual spending are limited to three percent annually plus the annual change in the Federal cost of living index. The charter was amended by the voters in 2002, to remove the expenditures of self-supporting enterprise funds from the calculation of the spending cap. The City Council may approve emergency expenditures outside of the cap. Further information on the spending cap, and the calculation of compliance, is included in the MD&A.

Cash Management Policies and Practices: Cash temporarily idle during the year was invested at favorable rates through a depository banking services agreement yielding one basis point less than the current Federal funds rate. The depository account is used to hold funds needed in the short term when investment alternatives in the under six-month range are yielding less than Federal funds.

In 2002, the City Council approved an investment ordinance and has a program of active portfolio management, allowing for the purchase of U. S. Treasury and Agency obligations to increase yields while maintaining safety and liquidity. Investments are limited to a maximum maturity of five years, with the exception of investment of debt service reserves, which is limited to the remaining life of the corresponding debt. Investment earnings in fiscal year 2008 were approximately \$2 million, up from \$1.7 million in 2007. The Federal Reserve Board has reduced rates to offset the current recession in the national economy.

The City's rate of return on investments for fiscal year 2007 was 3.73% on average cash and investment balances of \$25.2 million. As a benchmark comparison, the average of weekly 91-day Treasury bill auctions was 2.20% during this same time period. As interest rates fall, the values of securities held in the portfolio rise thus increasing yields for longer term investments as investments are re-priced to current market values. The City's active portfolio management is structured to earn a rate of return greater than the cash rate over an entire market interest rate cycle.

Risk Management: The City of Marco Island, through fiscal year 2004, purchased property, liability and workers' compensation insurance from the Florida League of Cities Municipal Insurance Trust. Beginning in fiscal year 2005, the City elected to self-insure a greater degree of risk, retaining the first \$100,000 per occurrence of property and liability losses and the first \$350,000 per occurrence of workers' compensation loss. This program, administered through the Public Risk Insurance Trust, reduces the fixed costs of premiums paid while limiting the financial exposure to the City with the purchase of an annual aggregate stop-loss beginning at \$500,000 in cumulative annual losses. The City is a Drug-Free Workplace and has safety programs in place to minimize risk exposures.

Awards and Acknowledgements

Certificate of Achievement: The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to Marco Island, Florida, for our Comprehensive Annual Financial Report for the fiscal year ended September 30, 2007. This was the sixth consecutive year that the government has achieved this prestigious award.

In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized Comprehensive Annual Financial Report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

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

Acknowledgements: The preparation of this report on a timely basis could not be accomplished without the efficient and dedicated service of the entire staff of the Finance Department. We also thank the Chairman and City Council for their interest and support in planning and conducting the financial operations of the City. In addition, we wish to express our appreciation to our audit firm, CPA Associates, for their comprehensive and efficient examination of our accounts.

Respectfully Submitted,

A handwritten signature in black ink that reads "P. Bliss". The signature is written in a cursive, flowing style.

Patricia Bliss
Finance Director

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Marco Island
Florida

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
September 30, 2007

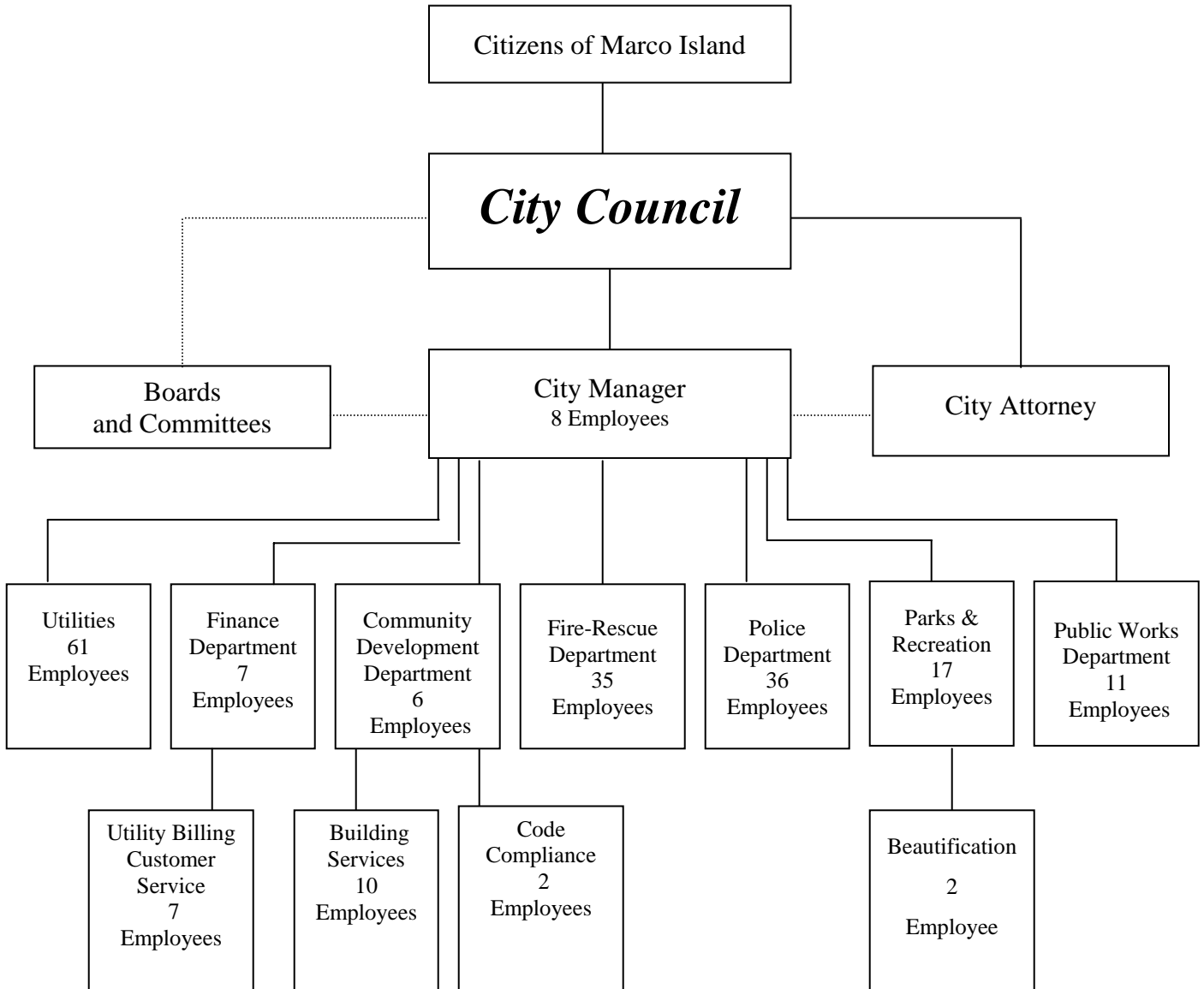
A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards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



President

Executive Director

ORGANIZATIONAL CHART



City of Marco Island, Florida

PRINCIPAL OFFICIALS:

ROBERT J. POPOFF, CITY COUNCIL CHAIRMAN
FRANK R. RECKER, CITY COUNCIL VICE-CHAIRMAN
JERRY GIBSON, COUNCILMAN
TED FORCHT, COUNCILMAN
CHUCK KIESTER, COUNCILMAN
WILLIAM D. TROTTER, COUNCILMAN
WAYNE WALDACK, COUNCILMAN

ALAN L. GABRIEL, CITY ATTORNEY

STEVEN T. THOMPSON, CITY MANAGER
PATRICIA BLISS, FINANCE DIRECTOR

LAURA M. LITZAN, CITY CLERK
STEVE OLMSTED, COMMUNITY DEVELOPMENT DIRECTOR
MICHAEL MURPHY, FIRE CHIEF
BRYAN MILK, PARKS AND RECREATION DIRECTOR
THOM CARR, POLICE CHIEF
A. RONY JOEL, PUBLIC WORKS DIRECTOR



FINANCIAL SECTION



INDEPENDENT AUDITOR'S REPORT

The Honorable Chairman and City Council
City of Marco Island
Marco Island, Florida

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Marco Island, Florida, (the City) as of and for the year ended September 30, 2008, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the 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 General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Marco Island, Florida, as of September 30, 2008, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 23, 2009, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That

report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages 3-15 and 69-70, respectively, 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.

The supplementary information required by Governmental Accounting Standards Board Statements Number 25 and 27 on pages 65-68 is not a required part of the basic financial statements. This information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the U. S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The accompanying introduction section, supporting statements and schedules in the financial section, and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The supporting statements and schedules in the financial section 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 in relation to the basic financial statements taken as a whole. The introduction section and statistical section 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.

CPA Associates

Bradenton, Florida
June 23, 2009

MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2008
CITY OF MARCO ISLAND, FLORIDA

As management of the City of Marco Island, Florida (the "City"), we offer readers of the City's financial statements this narrative overview and analysis of the activities of the City for the fiscal year ended September 30, 2008. We encourage readers to consider the information presented here in conjunction with the additional information furnished in our letter of transmittal, which can be found on pages iv – ix of this report and the City's financial statements beginning on page 17.

Financial Highlights

- The assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$129.6 million (net assets). Of this amount, \$14.4 million represents unrestricted net assets in governmental activities that may be used to meet government's ongoing obligations to citizens and creditors. Business-type activities have a balance of \$6.1 million in unrestricted net assets. The balance of unrestricted net assets in the Water and Sewer Utility Fund as of September 30, 2008, is \$6 million, an increase of \$9.7 million from the prior year. The use of operating revenues to fund capital expenditures and the accounting treatment of sewer assessments as contributed capital has resulted in the elimination of the deficit position.
- The City's total net assets increased by \$32.4 million. Governmental activities accounted for 62% of total net assets while business-type activities made up the remaining 38%.
- As of the close of the current fiscal year, the City's governmental funds reported a combined ending fund balance of \$15.7 million, a decrease of \$6.8 million from the prior year. The decrease is the result of capital expenditures during 2008 on projects funded in prior fiscal years. A combined fund balance of \$11.2 million has been designated for emergency reserve, capital projects, grants and other special funding actions. In addition, \$2.1 million is available for spending at the City's discretion (unreserved, undesignated fund balance).
- At the end of the current year at the fund level, the City's General Fund had a total fund balance of \$12.3 million, including \$2.1 million in unreserved, undesignated fund balance. The decrease of approximately \$400,000 resulted from the budgeted use of reserves for unexpected repairs to the Caxambas Bridge.
- The Water and Sewer Utility Fund began several major capital construction projects during 2006, discussed in detail later in this report. The City Council has determined that it is in the best interest of the City to use available resources of the City during construction, thereby delaying the need for issuance of debt and incurring interest expenses. As of the end of the fiscal year, the Water and Sewer Utility Fund carried a balance of approximately \$1.8 million as due to other funds. In November 2008, after the end of the fiscal year, the City issued \$11 million in water and sewer revenue bonds. Additionally, the City has applied for additional funds in State Revolving Fund financing

MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2008
CITY OF MARCO ISLAND, FLORIDA

for sewer assessment districts constructed during fiscal years 2008 and 2009, as well as an additional bond issue of in the range of \$52 million.

- The financial condition of the City of Marco Island continued to be strong in 2008. Major capital investments have been made to both the utility system and the basic infrastructure of the community. Professional department heads manage their operations within budgeted appropriations and reserve levels are sufficient to respond to changing conditions.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements are comprised of three components: (1) government-wide financial statements, (2) fund financial statements, and (3) 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 the City's finances, in a manner similar to a private-sector business.

The *Statement of Net Assets* presents information on all of the City's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The *Statement of Activities* presents revenue and expenses and shows how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported in a manner similar to the approach used by a private-sector business in that revenues are recognized when earned or established criteria are satisfied and expenses are reported when incurred. Accordingly, revenues are reported even when they may not be collected for several months after the end of the accounting period and expenses are recorded even though they may not have used cash during the current period.

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the City include general government, police services, fire/rescue services, planning and zoning, code compliance, building services, transportation, and culture and parks. The business-type activities of the City include its water and wastewater treatment plants, water distribution, sewer collection services and its recreation services.

MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2008
CITY OF MARCO ISLAND, FLORIDA

The City's government-wide financial statements can be found on pages 17-18 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 City of Marco Island, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The City's fund financial statements are divided into three categories: (1) governmental funds, (2) proprietary funds, and (3) fiduciary funds.

Governmental Funds

Governmental funds are used to account for essentially the same functions 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 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 City presents in separate columns funds that are the most significant to the City (major funds) and all other governmental funds are aggregated and reported in a single column (nonmajor funds). At September 30, 2008, the City has three major funds: the General Fund, Electric Fund and Capital Projects Fund.

The City's governmental fund financial statements are presented on pages 19-22.

MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2008
CITY OF MARCO ISLAND, FLORIDA

Proprietary Funds

The City of Marco Island has two proprietary funds, an enterprise fund for the water and sewer utility operations and the self-supporting (nonmajor) fund for recreation programs run by the City. *Enterprise Funds* are used to report the same functions as *business-type activities* in the governmental-type financial statements.

The proprietary fund financial statements can be found on pages 23-25 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 statements because the resources of those funds are *not* available to support the City's own programs. The City has two fiduciary funds, a Firefighters' defined benefit pension trust fund and a Police Officers' defined benefit pension trust fund.

The fiduciary fund financial statements are found on pages 26-27 of this report.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 29-64 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 City's defined benefit pension plans and budget-to-actual schedules for the City's General Fund and Electric Fund. Required supplementary information can be found on pages 65-70 of this report.

This report contains other information including supporting schedules, a statistical section (unaudited) and other reports section, which includes reports and schedules related to the audit being performed under *Government Auditing Standards* and the results of our Single Audit.

MANAGEMENT'S DISCUSSION AND ANALYSIS
 SEPTEMBER 30, 2008
 CITY OF MARCO ISLAND, FLORIDA

Government-Wide Financial Analysis

The following schedule is a summary of the Statement of Net Assets found on page 17 of this report:

	Governmental Activities		Business-type Activities		Total	
	2007	2008	2007	2008	2007	2008
Current and other assets	\$ 25,956,733	18,686,853	20,983,412	38,157,124	46,940,145	56,843,977
Capital assets	71,780,785	81,554,491	145,395,375	184,393,032	217,176,160	265,947,523
Total assets	97,737,518	100,241,344	166,378,787	222,550,156	264,116,305	322,791,500
Current and other liabilities	2,990,521	2,115,606	16,017,588	13,223,744	19,008,109	15,339,350
Long-term debt	19,623,007	17,731,272	128,279,231	160,094,900	147,902,238	177,826,172
Total liabilities	22,613,528	19,846,878	144,296,819	173,318,644	166,910,347	193,165,522
Net Assets						
Investment in capital assets, net of related debt	53,038,873	64,857,666	19,956,161	35,680,521	72,995,034	100,538,187
Restricted	14,549,105	1,089,631	5,878,767	7,454,188	20,427,872	14,310,977
Unrestricted	7,536,012	14,447,169	(3,752,960)	6,096,803	3,783,052	14,776,814
Total net assets	\$ 75,123,990	80,394,466	22,081,968	49,231,512	97,205,958	129,625,978

As noted above, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City, assets exceeded liabilities by \$129 million at the close of the most recent fiscal year, an increase from \$32 million in the prior year.

The increase in total net assets of governmental activities resulted from significant expenditures on infrastructure during fiscal year 2008. The re-building of Collier Boulevard, the island's major thoroughfare, was completed as was the replacement of the East Winterberry Bridge. In business-type activities, the increase in total net assets resulted from rate base revenues used for repayment of debt and from capital expenditures of the second year of the multi-year \$120 million program to extend central sewer to approximately 5,600 single-family residential properties on septic tanks.

A substantial portion of the City's net assets (78%) reflect its investment in capital assets (e.g., land, buildings, improvements, infrastructure, and equipment), less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should still 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.

MANAGEMENT'S DISCUSSION AND ANALYSIS
 SEPTEMBER 30, 2008
 CITY OF MARCO ISLAND, FLORIDA

The following is a summary of the information presented in the Statement of Activities found on page 18 of the report:

	Governmental Activities		Business-type Activities		Total	
	2007	2008	2007	2008	2007	2008
Revenues						
Program revenues						
Charges for services	\$ 1,499,337	1,519,070	20,751,473	22,281,579	22,250,810	23,800,649
Operating grants and contributions	321,497	199,781	55,127	122,866	376,624	322,647
Capital grants and contributions	2,423,999	2,050,675	6,925,418	24,655,181	9,349,417	26,705,856
Taxes	16,906,709	15,976,050	--	--	18,819,843	15,976,050
Franchise fees	1,913,134	1,920,620	--	--	1,913,134	1,920,620
State shared revenues	1,952,268	1,943,146	--	--	1,952,268	1,943,146
Other revenues	979,834	912,958	3,534,039	1,936,863	4,513,873	2,849,821
Total revenues	25,996,778	24,522,300	31,266,057	48,996,489	59,175,969	73,518,789
Expenses						
Governmental activities						
General government	3,769,788	3,990,986	--	--	3,769,788	3,990,986
Police services	3,570,381	3,394,126	--	--	3,570,381	3,394,126
Fire/rescue	3,633,748	3,902,445	--	--	3,633,748	3,902,445
Code compliance	179,376	197,316	--	--	179,376	197,316
Building services	1,350,070	1,216,644	--	--	1,350,070	1,216,644
Transportation	3,008,553	3,310,760	--	--	3,008,553	3,310,760
Culture and recreation	1,922,094	2,266,414	--	--	1,922,094	2,266,414
Electric	--	325,969	--	--	--	325,969
Interest on long term debt	713,034	647,164	--	--	713,034	647,164
Business-type activities						
Water/sewer fund	--	--	19,576,391	21,598,968	19,576,391	21,598,968
Recreation	--	--	148,389	247,977	148,389	247,977
Total expenses	18,147,044	19,251,824	19,724,780	21,846,945	37,871,824	41,098,769
Increase in net assets	7,849,734	5,270,476	11,541,277	27,149,544	19,391,011	32,420,020
Net assets, beginning of year	67,274,256	75,123,990	10,540,691	22,081,968	77,814,947	97,205,958
Net assets, end of year	\$ 75,123,990	80,394,466	22,081,968	49,231,512	97,205,958	129,625,978

MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2008
CITY OF MARCO ISLAND, FLORIDA

Governmental Funds

The fund statements for the governmental funds are provided on pages 19-22. The focus of the City's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable resources*. Such information is useful in assessing the City's financing requirements. In particular, *unreserved fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

At the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$15.7 million. Of this amount, \$2.1 million constitutes an *unreserved and undesignated fund balance* in the General Fund, which is available for spending at the City's discretion subject to budgetary constraints and the City's spending cap, discussed below in detail. The total unreserved and undesignated fund balance for the Governmental Funds is \$2.1 million. The remainder of the fund balance is reserved or designated to indicate that it is not available for new spending because it has already been committed. The following governmental fund balances have been reserved:

* Parks Construction	\$ 72,611
* Road Construction	34,506
* Fire Services	85,254
* Police Services	338,950
* Debt Service	1,886,087
* Prepaid Items	<u>35,265</u>
 Total Reserved	 <u><u>\$ 2,452,673</u></u>

The fund balance in the governmental funds has been designated for the following purposes:

* Special Revenue	\$ 1,551,384
* Capital Projects	5,747,580
* Emergency Reserve	<u>3,889,221</u>
	 <u><u>\$ 11,188,185</u></u>

The General Fund is the chief operating fund of the City. At the end of the fiscal year, the unreserved, undesignated fund balance of the General Fund is \$2.1 million, while the total fund balance is \$12.3 million. As a measure of the General Fund's liquidity, it may be useful to compare unreserved fund balance to total fund expenditures. The unreserved fund balance, including reserves designated for emergencies, represents 42% of General Fund expenditures. If an emergency occurred, the City's unreserved fund balance could be used to cover the City's normal operating expenses for approximately five months.

MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2008
CITY OF MARCO ISLAND, FLORIDA

Proprietary Funds

The fund financial statements for the City's proprietary funds provide essentially the same type of information found in the government-wide financial statements. The Water and Sewer Fund showed an increase in net assets for the current fiscal year of \$27 million. This increase resulted from operating revenues in excess of operating expenses and the City's central sewer expansion program financed with assessments.

General Fund Budgetary Highlights

The difference between the original budget and the final amended budget of the City's General fund was an increase in net appropriations of \$388,474. The increase in appropriations resulted from capital expenditures originally budgeted in 2007 for the Police and Fire Departments, but the expenditure occurred in 2008. Also, additional costs were encountered with the recruitment and hiring of a new city manager and legal expenses were higher than originally budgeted.

Charter Spending Cap

The City of Marco Island is governed by a spending cap in the City Charter, limiting the growth in expenditures to three percent (3%) plus the year-to-year change in the federal cost of living adjustment (COLA). In September 2002, voters approved amending the spending cap by removing all expenditures of business-type enterprise funds and expenditures funded by grants, gifts, and impact fees from the calculation of expenditures covered by the spending cap. Resolution 03-13, approved by the City Council in January 2003, established legislative intent and procedures for the calculation of expenditures covered by the spending cap. Key procedures established by this resolution are:

- The spending cap shall be determined on a "budget-to-budget" basis, with the approved budget for the prior year used as a base, and increased by the allowable three percent (3%) and the annual COLA to establish the spending cap for the new fiscal year.
- Expenditures funded by the proceeds of municipal debt are not counted against the spending cap; however, all debt service payments for the life of the debt are counted against the cap.
- Capital expenditures budgeted and subject to the spending cap in a prior fiscal year, but unexpended as of the end of that fiscal year, may be carried forward into a subsequent year and those expenditures are not counted against the spending cap a second time in the subsequent year.

MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2008
CITY OF MARCO ISLAND, FLORIDA

For the fiscal year ended September 30, 2008, the City was in compliance with the charter spending cap:

Expenditures fiscal year 2008:

General Fund	\$13,568,096
Genl Fund Trf to Self-Insurance	624,128
Capital Projects Fund	11,840,067
Debt Service Fund	2,706,874
TOTAL OF ALL FUNDS	\$ 28,739,165
Less: Expenditures funded by grants and gifts:	(2,198,955)
Less: Expenditures funded by impact fees:	(707,914)
Less: Expenditures funded by cash forward from fiscal year 2007 and subject to 2007 Spending Cap:	(13,618,398)
Less: City Council approved Emergency Expenditures	0
Add Back: Funding for uncompleted balance of fiscal year 2008 capital projects, subject to Spending Cap in 2008; balanced carried forward to 2009	6,613,744
Fiscal Year 2008 Expenditures subject to Spending Cap:	\$ 18,827,642
Fiscal Year 2008 Spending Cap:	\$ 18,827,642

Capital Assets and Debt Administration

Capital Assets

The City's investment in capital assets for its governmental and business-type activities as of September 30, 2008, amounts to \$266 million (net of accumulated depreciation). This investment in capital assets includes governmental activity capital assets, such as, land, buildings, improvements, vehicles and equipment, roadway network, storm drainage facilities, bridges and park improvements. Business-type activity capital assets, such as, water and sewer mains, treatment plants, distribution and collection systems, storage tanks, life station facilities, vehicles and equipment are predominantly accounted for in assets of the City's water and wastewater utility operations.

MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2008
CITY OF MARCO ISLAND, FLORIDA

Major construction projects during the current fiscal year included the following:

- The re-construction of Collier Boulevard was completed during the year. Work included underground power lines, replacement and over-sizing of water and wastewater lines, replacement and upgrading of storm drainage facilities, and a new roadway system.
- Phase I for the conversion of the Marco Island wastewater treatment plant to a membrane bio-reactor treatment process was completed in fiscal year 2008. Over a four-year construction schedule, the entire plant will be upgraded to micro bio-reactor (MBR) technology as well as the capacity expanded from the current 3.5 million gallons per day (MGD) to 5.0 MGD to accommodate new sewer customers added through the Septic Tank Replacement Program (STRP).
- The Septic Tank Replacement Program continued with Phase III in 2008, financed through sewer assessments. This seven-year, \$120 million program will bring all of Marco Island onto central sewer. A total of 5,653 properties will be affected, which are almost exclusively single-family residences. The existing central sewer system serves all of the multi-family properties on the island and almost all of the commercial areas of the City.
- Replacement of the East Winterberry Bridge was completed in August 2008, at a cost of approximately \$5.5 million. The City of Marco Island owns twelve (12) bridges on the island. The East Winterberry Bridge is the third bridge to be replaced since incorporation in 1997.
- The Marco Shores Water Treatment Plant was converted to a reuse storage facility. In August 2007, the plant was decommissioned and the City began purchasing potable water from Collier County for distribution to its customers along Mainsail Drive. Last year, the 0.5 million gallon potable water storage tank was converted for storage of reuse water. Piping modifications were made at the old Marco Shores Water Treatment Plant location as well as at the Marco Island Reuse Tanks site so that reuse water could be pumped to the tank and brought back when demand requires it.

MANAGEMENT'S DISCUSSION AND ANALYSIS
 SEPTEMBER 30, 2008
 CITY OF MARCO ISLAND, FLORIDA

Major capital asset balances at the end of the current fiscal year are summarized as follows:

	Capital Assets (Net of Depreciation)					
	Governmental Activities		Business-type Activities		Total	
	2007	2008	2007	2008	2007	2008
Land and land improvements	\$ 15,040,187	15,033,137	16,514,861	17,415,059	31,555,048	32,448,196
Buildings and improvements	3,726,945	3,754,926	6,523,487	6,523,487	10,250,432	10,278,413
Infrastructure	35,733,937	52,547,475	--	--	35,733,937	52,547,475
Vehicles and equipment	5,199,254	5,508,548	48,861,058	59,010,348	54,060,312	64,518,896
Transmission and distribution	--	--	41,055,292	65,818,311	41,055,292	65,818,311
Construction work in process	26,014,460	21,723,905	49,043,672	57,791,695	75,058,132	79,515,600
Accumulated Depreciation	(13,933,998)	(17,013,500)	(16,602,995)	(22,165,868)	(30,536,993)	(39,179,368)
	<u>\$ 71,780,785</u>	<u>81,554,491</u>	<u>145,395,375</u>	<u>184,393,032</u>	<u>217,176,160</u>	<u>265,947,523</u>

Additional information on the City's capital assets can be found in Note C of this report.

Long-Term Debt

At the end of the current year, the City had total debt outstanding of \$164 million (excluding accrued compensated absences, bond premiums, and deferred assessments). Of that amount, \$8.2 million is considered general obligation debt, backed by the full faith and credit of the City. The City's revenue bonds are secured solely by specified revenue sources primarily in the water and sewer utility fund.

	Long-Term Debt					
	Governmental Activities		Business-type Activities		Total	
	2007	2008	2007	2008	2007	2008
Revenue Bonds, Series 2000B	\$ 665,000	605,000	--	--	665,000	605,000
General Obligation Bonds Series 2004	8,760,000	8,195,000	--	--	8,760,000	8,195,000
Revenue Bonds, Series 2005	6,000,000	5,655,000	--	--	6,000,000	5,655,000
Capital Lease	316,912	241,825	--	--	316,912	241,825
Revenue Note, Series 2006	3,000,000	2,000,000	--	--	3,000,000	2,000,000
Utility Revenue Bonds, Series 2003	--	--	97,255,000	95,265,000	97,255,000	95,265,000
Utility Revenue Bonds, Series 2007	--	--	5,500,000	5,500,000	5,500,000	5,500,000
Utility Revenue Bonds, Series 2008	--	--	--	7,477,241	--	7,477,241
Utility Revenue Note, Series 2007	--	--	19,996,278	14,411,281	19,996,278	14,411,281
Utility Revenue Note, Series 2008	--	--	--	10,243,017	--	10,243,017
Assessment Bond, Tigertail	--	--	--	2,321,886	--	2,321,886
Assessment Bond, South Barfield	--	--	--	732,378	--	732,378
State Revolving Loan	--	--	1,626,230	11,740,706	1,626,230	11,740,706
	<u>\$ 18,741,912</u>	<u>16,696,825</u>	<u>124,377,508</u>	<u>147,691,509</u>	<u>143,119,420</u>	<u>164,388,334</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2008
CITY OF MARCO ISLAND, FLORIDA

Utility Revenue Bonds, Series 2003, were issued to finance the acquisition of the water and wastewater utility system from Florida Water Services, Inc. in November 2003. Utility Revenue Bonds, Series 2007 and 2008 were used to finance capital improvements to the City's water and wastewater systems.

The Utility Revenue Notes, Series 2007 and 2008, are short duration variable rate credit facilities issued to initially finance each annual phase of the Septic Tank Replacement Program. These are retired with a combination of proceeds from the State Revolving Loan Fund (SRF) and assessment bonds issued for each neighborhood. Additional information on the City's long-term debt can be found in Note C of this report.

Economic Factors and Next Year's Budget and Rates

Property Taxes

Property values in Southwest Florida increased dramatically during the period 2000–2006. Taxable values on Marco Island increased from \$3.9 billion to \$12 billion. These rates of increase proved to be unsustainable and the housing bubble burst in 2006. For fiscal year 2008, the City's assessed valuation decreased approximately 4% to \$11.6 billion. The City of Marco Island complied with the mandate from Florida Tax Reform to reduce property taxes by 9%, reducing the tax levy to 1.2833 mils.

For fiscal year 2009, the City's assessed valuation declined to \$10.5 billion a loss of approximately 10% of taxable value. State of Florida taxation regulations allow municipalities to increase the tax rate to the point where tax revenues equal the rollback tax rate plus growth in Florida personal income with a simple majority vote of the City Council. The tax levy for fiscal year 2009 was increased to 1.4766 mils and the budget is balanced at that level.

Electric Franchise Fee

In November 2004, the City Council entered into a franchise agreement with Lee County Electric Cooperative, Inc. (LCEC). In return for contractual use of public rights-of-way, LCEC pays to the City a franchise fee equal to five percent (5%) of gross revenues. Funds from this franchise have been restricted by City Council to provide for underground power, new street light fixtures, and street lighting throughout the community.

In the fiscal year 2009 budget, City Council reduced the franchise fee to 3.6% and directed staff to eliminate this revenue source in the fiscal year 2010 budget. Fiscal year 2009 revenues will be used to complete the funding for underground power and new lighting fixtures along City roadways and no further projects are contemplated.

MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2008
CITY OF MARCO ISLAND, FLORIDA

Water and Wastewater Utility

City Council has expressed a preference for measured annual increases to reflect the costs of operation of the utility. For fiscal year 2008, water and wastewater operating rates were increased by 13.3%. This rate increase is composed of three components. First is the annual COLA increase of 3.3%. Next, the second of four 2% step increases to fund roadway re-surfacing at the end of each neighborhood's sewer construction from the rate base rather than assessment charges. The last component is an 8% rate increase to reduce each property's sewer assessment by \$2,758, the net present value of monthly sewer fees charged to new sewer customers for upgrades to the existing wastewater treatment plant.

For fiscal year 2009, utility rates were increased by an additional 4.3%. The increase included the annual COLA adjustment of 2.3% and the third of four 2% step increases to fund roadway re-surfacing.

The City has 5,653 single-family properties that are either served by septic systems or vacant properties without central sewer available. City Council has approved a Septic Tank Replacement Program that will extend the central sewer system to all properties by 2012. A companion project is the upgrading and expansion of the wastewater treatment from the current 3.5 MGD to 5.0 MGD. The Program began in 2006 with construction of the first two neighborhood sewer systems and phase one of the wastewater plant upgrading and expansion. The program has continued, with two to three neighborhoods receiving central sewer service each year. Upgrading of the existing wastewater plant is being financed with utility revenue bonds to be issued in fiscal year 2009, paid by increases in the rate base starting in fiscal year 2010. Plant expansion and construction of neighborhood central sewer systems will be financed by assessments on the affected properties, with financial contributions from other City sources.

East Winterberry Bridge

The East Winterberry Bridge, one of the original bridges on Marco Island, was built in the 1960's as part of the initial development of the community. The bridge was functionally obsolete and was scheduled for replacement in the City's long-term capital plan. The bridge sustained damage from both Hurricane Charley in 2004 and Hurricane Wilma in 2005. The City Council appropriated \$4.4 million in the fiscal year 2006 budget for the emergency replacement of this bridge. An additional \$1.1 million was appropriated in the 2007 budget. Construction was completed during fiscal year 2008 and the new bridge was placed into service.

Requests for Information

This financial report is designed to provide interested users with a general overview of the City of Marco Island's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Office of the Finance Director, 50 Bald Eagle Drive, Marco Island, Florida 34145.



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BASIC FINANCIAL STATEMENTS

CITY OF MARCO ISLAND, FLORIDA
STATEMENT OF NET ASSETS
September 30, 2008

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	Hideaway Beach District
Assets				
Pooled cash and investments	\$ 14,317,818	3,108,998	17,426,816	661,490
Receivables:				
Account, net	1,154,216	2,575,476	3,729,692	--
Interest	112,613	--	112,613	--
Assessments, current portion	--	624,697	624,697	--
Assessments interest	--	1,269,743	1,269,743	--
Due from other governments	283,104	--	283,104	--
Internal balances	1,822,909	(1,822,909)	--	--
Prepaid items	35,265	1,354	36,619	--
Restricted cash and investments	558,310	7,454,188	8,012,498	--
Assessments receivable	--	21,955,342	21,955,342	--
Bond issue costs, net	134,075	2,990,235	3,124,310	19,051
Net pension asset	268,543	--	268,543	--
Capital assets:				
Nondepreciable	36,757,042	75,206,754	111,963,796	--
Depreciable	44,797,449	109,186,278	153,983,727	--
Total Assets	\$ 100,241,344	222,550,156	322,791,500	680,541
Liabilities				
Accounts payable	\$ 1,171,089	10,056,216	11,227,305	76,110
Accrued liabilities	741,841	437,761	1,179,602	--
Deposits	21,527	8,922	30,449	--
Accrued interest	181,149	2,720,845	2,901,994	11,377
Noncurrent liabilities:				
Due within one year	2,833,101	5,295,123	8,128,224	490,000
Due in more than one year	14,898,171	154,799,777	169,697,948	1,060,000
Total Liabilities	19,846,878	173,318,644	193,165,522	1,637,487
Net Assets				
Invested in capital assets, net of related debt	64,857,666	35,680,521	100,538,187	--
Restricted for:				
Capital outlay	107,117	521,454	628,571	--
Debt service	558,310	5,804,875	6,363,185	--
Renewal and replacement	--	1,127,859	1,127,859	--
Police, fire and rescue	424,204	--	424,204	--
Unrestricted	14,447,169	6,096,803	20,543,972	(956,946)
Total Net Assets	80,394,466	49,231,512	129,625,978	(956,946)
Total Liabilities and Net Assets	\$ 100,241,344	222,550,156	322,791,500	680,541

See accompanying notes.

CITY OF MARCO ISLAND, FLORIDA
STATEMENT OF ACTIVITIES
For the Year Ended September 30, 2008

Function/Program Activities	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets			
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			Component Unit
					Governmental Activities	Business-Type Activities	Total	Hideaway Beach District
Governmental Activities								
General government	\$ 3,990,986	73,132	130,865	200,000	(3,586,989)	--	(3,586,989)	
Police services	3,394,126	198,951	64,628	24,315	(3,106,232)	--	(3,106,232)	
Fire and rescue	3,902,445	103,240	4,288	244,362	(3,550,555)	--	(3,550,555)	
Code compliance	197,316	244,221	--	--	46,905	--	46,905	
Building services	1,216,644	809,646	--	--	(406,998)	--	(406,998)	
Transportation	3,310,760	--	--	1,459,634	(1,851,126)	--	(1,851,126)	
Culture and recreation	2,266,414	89,880	--	122,364	(2,054,170)	--	(2,054,170)	
Electric	325,969	--	--	--	(325,969)	--	(325,969)	
Interest on long-term debt	647,164	--	--	--	(647,164)	--	(647,164)	
Total Governmental Activities	19,251,824	1,519,070	199,781	2,050,675	(15,482,298)	--	(15,482,298)	
Business-Type Activities								
Water and sewer	21,598,968	22,137,097	--	24,655,181	--	25,193,310	25,193,310	
Recreation	247,977	144,482	122,866	--	--	19,371	19,371	
Total Business-Type Activities	21,846,945	22,281,579	122,866	24,655,181	--	25,212,681	25,212,681	
Total Primary Government	\$ 41,098,769	23,800,649	322,647	26,705,856	(15,482,298)	25,212,681	9,730,383	
Component Unit - Hideaway Beach District	\$ 365,345	--	--	--				(365,345)
General Revenues								
Taxes:								
Property taxes					14,329,937	--	14,329,937	822,769
Communication service tax					980,662	--	980,662	--
Other taxes					665,451	--	665,451	--
Franchise fees					1,920,620	--	1,920,620	--
State shared revenues-unrestricted					1,943,146	--	1,943,146	--
Interest					560,622	1,476,393	2,037,015	25,321
Miscellaneous					352,336	460,470	812,806	--
Total General Revenues					20,752,774	1,936,863	22,689,637	848,090
Change in Net Assets					5,270,476	27,149,544	32,420,020	482,745
Net assets - Beginning of year					75,123,990	22,081,968	97,205,958	(1,439,691)
Net assets - End of year					\$ 80,394,466	49,231,512	129,625,978	(956,946)

See accompanying notes.

CITY OF MARCO ISLAND, FLORIDA
GOVERNMENTAL FUNDS
BALANCE SHEET
September 30, 2008

	General	Electric	Capital Projects	Nonmajor Fund Totals	Total Governmental Funds
Assets					
Pooled cash and investments	\$ 10,122,904	--	409,161	3,389,197	13,921,262
Restricted cash and investments	--	--	--	558,310	558,310
Receivables:					
Account, net	542,525	540,591	--	71,100	1,154,216
Interest	112,613	--	--	--	112,613
Due from other funds	2,817,479	--	--	--	2,817,479
Due from other governments	252,470	--	--	30,634	283,104
Prepaid items	35,265	--	--	--	35,265
Total Assets	\$ 13,883,256	540,591	409,161	4,049,241	18,882,249
Liabilities and Fund Balances					
Liabilities					
Accounts payable	\$ 685,650	29,348	409,161	37,604	1,161,763
Accrued liabilities	463,068	--	--	28,948	492,016
Due to other funds	--	644,762	--	411,699	1,056,461
Unearned revenue	423,835	--	--	--	423,835
Deposits	21,527	--	--	--	21,527
Total Liabilities	1,594,080	674,110	409,161	478,251	3,155,602
Fund Balances					
Reserved for:					
Parks construction or operation	72,611	--	--	--	72,611
Road construction	34,506	--	--	--	34,506
Fire services	85,254	--	--	--	85,254
Police services	338,950	--	--	--	338,950
Debt service	--	--	--	1,886,087	1,886,087
Prepaid items	35,265	--	--	--	35,265
Unreserved, undesignated					
General	2,085,789	--	--	--	2,085,789
Unreserved, designated for:					
Special revenue funds	--	(133,519)	--	1,684,903	1,551,384
Capital projects	5,747,580	--	--	--	5,747,580
Emergency reserve	3,889,221	--	--	--	3,889,221
Total Fund Balances	12,289,176	(133,519)	--	3,570,990	15,726,647
Total Liabilities and Fund Balances	\$ 13,883,256	540,591	409,161	4,049,241	18,882,249

See accompanying notes.

CITY OF MARCO ISLAND, FLORIDA
RECONCILIATION OF THE BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
GOVERNMENTAL FUNDS
September 30, 2008

Fund Balance - Total Governmental Funds		\$ 15,726,647
 Amounts Reported for Governmental Activities in the Statement of Net Assets are Different Because:		
Bond issue costs are not available to pay for current period expenditures and, therefore, are not reported in the governmental funds.		134,075
Net pension assets are not available to pay for current period expenditures and, therefore, are not reported in the governmental funds.		268,543
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds:		
Capital assets	98,567,991	
Less: accumulated depreciation	<u>(17,013,500)</u>	81,554,491
Deferred revenue for code enforcement violations are not available at year end and are not reported as revenue in the governmental funds.		423,835
Internal service funds are used by management to charge costs of insurance to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets.		199,296
Accrued interest is not due and payable in the current period and, therefore, is not reported in the governmental funds.		(181,149)
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds:		
Revenue bond, Series 2000B	(605,000)	
Revenue bond, Series 2004	(8,195,000)	
Revenue bond, Series 2005	(5,655,000)	
Revenue bond, Series 2006	(2,000,000)	
Capital lease	(241,825)	
Compensated absences	<u>(1,034,447)</u>	<u>(17,731,272)</u>
Net Assets of Governmental Activities		<u>\$ 80,394,466</u>

See accompanying notes.

CITY OF MARCO ISLAND, FLORIDA
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Year Ended September 30, 2008

	General	Electric	Capital Projects	Nonmajor Fund Totals	Total Governmental Funds
Revenues					
Taxes	\$ 15,098,513	--	--	877,537	15,976,050
Franchise fees	--	1,920,620	--	--	1,920,620
Licenses and permits	30,590	--	--	809,646	840,236
Intergovernmental	2,114,077	--	598,159	1,130,865	3,843,101
Charges for services	378,902	--	--	--	378,902
Fines and forfeitures	198,951	--	--	--	198,951
Interest income	478,746	--	--	81,876	560,622
Miscellaneous	177,523	--	411,839	--	589,362
Total Revenues	<u>18,477,302</u>	<u>1,920,620</u>	<u>1,009,998</u>	<u>2,899,924</u>	<u>24,307,844</u>
Expenditures					
Current:					
General government	3,931,256	--	--	121,308	4,052,564
Police services	3,462,233	--	--	--	3,462,233
Fire and rescue	3,780,795	--	--	--	3,780,795
Code compliance	220,857	--	--	--	220,857
Electric	--	1,103,886	--	--	1,103,886
Building services	--	--	--	1,255,294	1,255,294
Transportation	1,097,863	--	--	--	1,097,863
Culture and recreation	1,701,382	--	--	--	1,701,382
Debt service:					
Principal	--	--	--	2,045,087	2,045,087
Interest and fiscal charges	--	--	--	661,787	661,787
Capital outlay	--	--	11,745,066	--	11,745,066
Total Expenditures	<u>14,194,386</u>	<u>1,103,886</u>	<u>11,745,066</u>	<u>4,083,476</u>	<u>31,126,814</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>4,282,916</u>	<u>816,734</u>	<u>(10,735,068)</u>	<u>(1,183,552)</u>	<u>(6,818,970)</u>
Other Financing Sources (Uses)					
Transfers in	--	95,000	10,830,068	1,948,044	12,873,112
Transfers out	(12,778,112)	--	(95,000)	--	(12,873,112)
Total Other Financing Sources (Uses)	<u>(12,778,112)</u>	<u>95,000</u>	<u>10,735,068</u>	<u>1,948,044</u>	<u>--</u>
Net Change in Fund Balances	(8,495,196)	911,734	--	764,492	(6,818,970)
Fund Balances - October 1, 2007	<u>20,784,372</u>	<u>(1,045,253)</u>	<u>--</u>	<u>2,806,498</u>	<u>22,545,617</u>
Fund Balances - September 30, 2008	<u>\$ 12,289,176</u>	<u>(133,519)</u>	<u>--</u>	<u>3,570,990</u>	<u>15,726,647</u>

See accompanying notes.

CITY OF MARCO ISLAND, FLORIDA
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE TO THE STATEMENT OF ACTIVITIES
GOVERNMENTAL FUNDS
For the Year Ended September 30, 2008

Net Change in Fund Balance - Total Governmental Funds \$ (6,818,970)

**Amount Reported for Governmental Activities in the Statement of
Activities are Different Because:**

The statement of activities reports changes in the net pension asset.
Conversely, governmental funds do not report any changes in the
net pension asset.

21,773

Governmental funds report capital outlays as expenditures. However, in
the statement of activities, the cost of those assets is allocated over their
estimated useful lives as depreciation expense:

Expenditures for capital assets
Less: current year depreciation

12,898,263
(3,124,557)

9,773,706

Internal service funds are used by management to charge costs of
insurance to individual funds. The net revenue of certain activities of
internal service funds is reported with governmental activities.

186,687

Revenues in the statement of activities that do not provide current financial
resources are not reported in the fund statements.

214,456

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

Change in compensated absences
Accrued interest

(153,353)
14,623

Debt proceeds provide current financial resources to governmental funds,
but issuing debt increases long-term liabilities in the statement of net
assets. Repayment of debt principal is an expenditure in the
governmental funds, but the repayment reduces long-term liabilities
in the statement of net assets:

Amortization of bond issue costs
Add: principal payments

(13,533)
2,045,087

2,031,554

Change in Net Assets of Governmental Activities

\$ 5,270,476

CITY OF MARCO ISLAND, FLORIDA
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
September 30, 2008

	Business-Type Activities - Enterprise Funds			Governmental Activities- Internal Service Fund
	Water and Sewer	Recreation (Nonmajor)	Total	
Assets				
Current Assets				
Pooled cash and investments	\$ 2,953,654	155,344	3,108,998	396,556
Accounts receivable, net	2,575,476	--	2,575,476	--
Assessments receivable - current portion	624,697	--	624,697	--
Assessments interest receivable	1,269,743	--	1,269,743	--
Prepays and other current assets	1,354	--	1,354	--
Total Current Assets	7,424,924	155,344	7,580,268	396,556
Noncurrent Assets				
Restricted cash and investments	7,454,188	--	7,454,188	--
Assessments receivable	21,955,342	--	21,955,342	--
Bond issue costs, net	2,990,235	--	2,990,235	--
Total Noncurrent Assets	32,399,765	--	32,399,765	--
Capital Assets				
Land	17,415,059	--	17,415,059	--
Transmission and distribution	65,818,311	--	65,818,311	--
Buildings and improvements	6,523,487	--	6,523,487	--
Vehicles and equipment	58,971,027	39,321	59,010,348	--
Construction in progress	57,791,695	--	57,791,695	--
Accumulated depreciation	(22,151,166)	(14,702)	(22,165,868)	--
Total Capital Assets (Net of Accumulated Depreciation)	184,368,413	24,619	184,393,032	--
Total Assets	\$ 224,193,102	179,963	224,373,065	396,556
Liabilities				
Current Liabilities				
Accounts payable	\$ 10,052,860	3,356	10,056,216	9,326
Accrued liabilities	435,502	2,259	437,761	249,825
Accrued compensated absences - current portion	201,547	--	201,547	--
Accrued interest	2,720,845	--	2,720,845	--
Deferred assessment revenue - current portion	1,922,488	--	1,922,488	--
Deferred assessment interest revenue	343,925	--	343,925	--
Bonds payable, current portion	2,327,548	--	2,327,548	--
Notes payable, current portion	499,615	--	499,615	--
Due to other funds	1,761,018	--	1,761,018	--
Total Current Liabilities	20,265,348	5,615	20,270,963	259,151
Current Liabilities Payable from Restricted Assets				
Deposits	8,922	--	8,922	--
Noncurrent Liabilities				
Bonds payable	99,458,454	--	99,458,454	--
Notes payable	46,426,894	--	46,426,894	--
Accrued compensated absences	72,667	--	72,667	--
Deferred assessment revenue	8,841,762	--	8,841,762	--
Total Noncurrent Liabilities	154,799,777	--	154,799,777	--
Total Liabilities	175,074,047	5,615	175,079,662	259,151
Net Assets				
Invested in capital assets, net of related debt	35,655,902	24,619	35,680,521	--
Restricted for:				
Construction	521,454	--	521,454	--
Debt service	5,804,875	--	5,804,875	--
Renewal and replacement	1,127,859	--	1,127,859	--
Unrestricted	6,008,965	149,729	6,158,694	137,405
Total Net Assets	49,119,055	174,348	49,293,403	137,405
Total Liabilities and Net Assets	\$ 224,193,102	179,963	224,373,065	396,556
Net assets - above			\$ 49,293,403	
Adjustment to reflect the internal service fund activities reflected in the enterprise funds			(61,891)	
Net assets of business-type activities - page 18			<u>\$ 49,231,512</u>	

See accompanying notes.

CITY OF MARCO ISLAND, FLORIDA
STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
For the Year Ended September 30, 2008

	<u>Business-Type Activities - Enterprise Funds</u>			Governmental Activities- Internal Service Fund
	<u>Water and Sewer</u>	<u>Recreation (Nonmajor)</u>	<u>Total</u>	
Operating Revenues				
Charges for services	\$ 22,137,097	144,482	22,281,579	1,239,557
Operating Expenses				
Personal services	4,117,610	54,292	4,171,902	--
Insurance	527,040	--	527,040	960,743
Utilities	2,177,309	--	2,177,309	--
Contractual fees	858,189	161,478	1,019,667	--
Repairs and maintenance	939,637	--	939,637	--
Supplies	1,407,143	--	1,407,143	--
Rental and lease costs	23,000	--	23,000	--
Other expenses	997,589	27,811	1,025,400	--
Amortization	70,735	--	70,735	--
Depreciation	5,558,477	4,396	5,562,873	--
Total Operating Expenses	<u>16,676,729</u>	<u>247,977</u>	<u>16,924,706</u>	<u>960,743</u>
Operating Income (Loss)	5,460,368	(103,495)	5,356,873	278,814
Non-operating Income (Expense)				
Interest earnings	1,476,393	--	1,476,393	1,215
Interest expense	(5,015,582)	--	(5,015,582)	--
Miscellaneous expense	(5,247)	--	(5,247)	--
Other non-operating income	465,717	122,866	588,583	--
Total Non-operating Income (Expense)	<u>(3,078,719)</u>	<u>122,866</u>	<u>(2,955,853)</u>	<u>1,215</u>
Income before capital contributions	2,381,649	19,371	2,401,020	280,029
Capital contributions	<u>24,655,181</u>	<u>--</u>	<u>24,655,181</u>	<u>--</u>
Change in Net Assets	27,036,830	19,371	27,056,201	280,029
Net Assets - October 1, 2007	<u>22,082,225</u>	<u>154,977</u>		<u>(142,624)</u>
Total Net Assets - September 30, 2008	<u>\$ 49,119,055</u>	<u>174,348</u>		<u>137,405</u>
Adjustment to reflect the internal service fund activities related to the enterprise funds			93,343	
Change in net assets of business-type activities - page 18			<u>27,149,544</u>	

See accompanying notes.

CITY OF MARCO ISLAND, FLORIDA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Year Ended September 30, 2008

	Business-Type Activities - Enterprise Funds			Governmental Activities - Internal Service Fund
	Water and Sewer	Recreation (Nonmajor)	Total	
Cash Flows from Operating Activities				
Cash received from customers and users	\$ 21,625,343	267,830	21,893,173	--
Cash received from interfund services provided	--	--	--	1,239,557
Cash payments to vendors for goods and services	(2,626,936)	(190,020)	(2,816,956)	(992,344)
Cash payments to employees for services	(4,061,690)	(54,292)	(4,115,982)	--
Net Cash Provided by Operating Activities	<u>14,936,717</u>	<u>23,518</u>	<u>14,960,235</u>	<u>247,213</u>
Cash flows from Noncapital Financing Activities				
Repayments to General Fund	(10,689,496)	--	(10,689,496)	--
Net Cash Used in Noncapital Financing Activities	<u>(10,689,496)</u>	<u>--</u>	<u>(10,689,496)</u>	<u>--</u>
Cash Flows from Capital and Related Financing Activities				
Proceeds from issuance of debt	30,774,521	--	30,774,521	--
Utility improvement projects grant	2,150,000	--	2,150,000	--
Utility improvement projects from other sources	465,717	--	465,717	--
Proceeds from special assessment	7,995,724	--	7,995,724	--
Acquisition of property, plant, and equipment	(44,901,422)	--	(44,901,422)	--
Receipts from customers for contracted plumbing	397,602	--	397,602	--
Payments to contracted plumbers	(402,849)	--	(402,849)	--
Principal paid on capital debt	(7,574,997)	--	(7,574,997)	--
Issue costs paid on notes payable	(681,552)	--	(681,552)	--
Payment of interest	(4,719,445)	--	(4,719,445)	--
Net Cash Used in Capital and Related Financing Activities	<u>(16,496,701)</u>	<u>--</u>	<u>(16,496,701)</u>	<u>--</u>
Cash Flows from Investing Activities				
Interest received on investments	1,476,393	--	1,476,393	1,215
Net Increase (Decrease) in Cash and Cash Equivalents	<u>(10,773,087)</u>	<u>23,518</u>	<u>(10,749,569)</u>	<u>248,428</u>
Cash and Cash Equivalents - October 1, 2007	<u>21,180,929</u>	<u>131,826</u>	<u>21,312,755</u>	<u>148,128</u>
Cash and Cash Equivalents - September 30, 2008	<u>\$ 10,407,842</u>	<u>155,344</u>	<u>10,563,186</u>	<u>396,556</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities				
Operating income (loss)	\$ 5,460,368	(103,495)	5,356,873	278,814
Adjustments to reconcile operating income (loss) to Net cash provided by operating activities:				
Depreciation	5,558,477	4,396	5,562,873	--
Amortization	70,735	--	70,735	--
Other non-operating income	--	122,866	122,866	--
Decrease (Increase) in assets and increase (decrease) in liabilities				
Accounts receivable	(520,676)	482	(520,194)	--
Prepays and other assets	(1,354)	--	(1,354)	--
Accounts payable and accrued liabilities	4,347,197	(731)	4,346,466	(31,601)
Deposits	8,922	--	8,922	--
Accrued compensation	13,048	--	13,048	--
Net Cash Provided by Operating Activities:	<u>\$ 14,936,717</u>	<u>23,518</u>	<u>14,960,235</u>	<u>247,213</u>
Reconciliation of Cash and Cash Equivalents				
Pooled cash and investments	\$ 2,953,654	155,344	3,108,998	396,556
Restricted cash and investments	7,454,188	--	7,454,188	--
Cash and Cash Equivalents - September 30, 2008	<u>\$ 10,407,842</u>	<u>155,344</u>	<u>10,563,186</u>	<u>396,556</u>
Noncash Financing Activities:				
Assessments receivable	1,438,060	--	1,438,060	--
Capitalized interest charged under State Revolving Loan	114,477	--	114,477	--
Assessments interest receivable	101,264	--	101,264	--

See accompanying notes.

CITY OF MARCO ISLAND, FLORIDA
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
September 30, 2008

	<u>Pension Trust Funds</u>
Assets	
Cash and cash equivalents	\$ 798,335
Contributions receivable	11,771
Due from other governments	234,216
Due from other funds	73,438
Investments, at fair value:	
Common stock	2,064,208
Government bonds	1,574,050
Accrued interest	12,461
Total Assets	<u>4,768,479</u>
Liabilities	
Accounts payable	8,386
Due to other funds	73,438
Total Liabilities	<u>81,824</u>
Net Assets	
Held in trust for pension benefits and other purposes	<u>\$ 4,686,655</u>

See accompanying notes.

CITY OF MARCO ISLAND, FLORIDA
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
For the Year Ended September 30, 2008

	<u>Pension Trust Funds</u>
Additions	
Contributions:	
Employer	\$ 508,132
Employee	112,868
State of Florida insurance funds, from the City General Fund	628,371
Other	7
Total contributions	1,249,378
Investment earnings (losses):	
Investment earnings	(547,659)
Investment expenses	(39,195)
Net investment earnings (losses)	(586,854)
Total Additions	662,524
Deductions	
Legal	17,638
Actuary	14,588
Administrative	6,292
Refunds to contributors	6,799
Total Deductions	45,317
Change in Net Assets	617,207
Net Assets - October 1, 2007	4,069,448
Net Assets - September 30, 2008	\$ 4,686,655

See accompanying notes.



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NOTES TO FINANCIAL STATEMENTS

CITY OF MARCO ISLAND, FLORIDA
NOTES TO FINANCIAL STATEMENTS

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Reporting Entity

The City of Marco Island, Florida, was established in a special election by mail ballot per Florida House of Representatives HB 1729 on August 28, 1997. The City of Marco Island, Florida (the City), is located on the Gulf of Mexico in the westernmost portion of Collier County. The City operates and is governed by the laws of the State of Florida and its own Charter, which provides for a Council/Manager form of government.

The accompanying financial statements present the City and its component unit, Hideaway Beach District (Hideaway), an entity for which the City is considered to be financially accountable. Hideaway was approved by voters within the Hideaway Beach District during 2004, for the specific purpose of authorizing limited general bond obligations not to exceed \$2,900,000 for the sole purpose of financing a beach re-nourishment project. The seven year general obligation bonds will be financed by a special ad valorem tax within the Hideaway Beach neighborhood.

Hideaway is a discretely presented component unit and is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the City. Separate statements are not issued.

In addition to the discretely presented component unit, this report also includes the accounts and transactions of the City of Marco Island Firefighters' and Police Officers' Pension Plans (the Firefighters' Pension Plan and the Police Officers' Pension Plan). These plans do not satisfy the definition of a component unit because they are not legally separate from the City.

b. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all the non-fiduciary activities of the primary government, and its component unit. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. Likewise, the *primary government* is reported separately from its legally separate *component unit* for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and

CITY OF MARCO ISLAND, FLORIDA
NOTES TO FINANCIAL STATEMENTS

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter 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 government-wide financial statements, the proprietary fund financial statements, and the 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 recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, accrued compensated absences and expenditures related to claims and judgments, are recorded only when payment is due.

Property taxes, licenses and permits, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the City.

The City reports the following major governmental funds:

- The *general fund* is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund. Most of the essential governmental services such as police services, fire/rescue, planning and zoning, code compliance, transportation, culture and recreation, and general administration are provided by the General Fund.

CITY OF MARCO ISLAND, FLORIDA
NOTES TO FINANCIAL STATEMENTS

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- The *capital projects fund* accounts for the activities associated with construction and the preservation of the City's governmental capital assets.
- The *electric special revenue* fund accounts for the revenues and expenditures associated with the franchise agreement with the Lee County Electric Cooperative, Inc. to provide electricity, in addition to the related construction of underground power and street lighting throughout the community. This fund has been reported as a major fund as of September 30, 2008, even though it does not meet the criteria for major fund reporting. The City has elected to treat this fund as major to enhance consistency from year to year.

The City reports the following major proprietary fund:

- The *water and sewer fund* accounts for the water and sewer collection services provided to its customers. All activities necessary to provide such services are accounted for in this fund, including personal services, contractual services and utilities, depreciation and other expenses.

Additionally, the City reports the following fund types:

- The *internal service fund* accounts for the collection of premiums, accumulation of reserves and payment of insurance claims for the City.
- The *pension trust funds* account for the activities of the Firefighters' and Police Officers' Pension Plans, which accumulate resources for defined benefit payments to qualified employees.

Private-sector standards and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected to follow subsequent private-sector guidance.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the government's water and sewer function and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned. In the fund financial statements, the City charged the Building Services Fund \$425,316 for indirect services provided by General Fund departments which have been eliminated in the government-wide statement of activities in accordance with this policy.

CITY OF MARCO ISLAND, FLORIDA
NOTES TO FINANCIAL STATEMENTS

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Amounts reported as *program revenues* include: (1) charges to customers or applicants for goods, services, or privileges provided, (2) operating grants and contributions, and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish *operating* revenues and expenses from *non-operating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's primary ongoing operations. The principal operating revenues of the water and sewer enterprise fund and the recreation enterprise fund are charges to customers for sales and services. The water and sewer fund also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise funds and the internal service fund include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

d. Assets, Liabilities and Net Assets or Equity

1. Deposits and Investments:

The City's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

The City's investment practices are governed by Chapter 280, Florida Statutes, and the City's investment policy Ordinance No. 02-19. These allow the City to invest in certificates of deposit; money market investments; obligations of and securities backed by the U. S. Treasury, its agencies and instrumentalities; repurchase agreements; banker's acceptances; prime commercial paper; state and government debt; fixed-income mutual funds; and the State Board of Administration.

Investments for the City, as well as for its component unit, are reported at fair value.

The pension trust fund may also invest in qualified public depositories, or other investments as determined by an investment advisor, retained by the Pension Board, subject to guidelines prescribed by the Pension Boards.

CITY OF MARCO ISLAND, FLORIDA
NOTES TO FINANCIAL STATEMENTS

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2. Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

All receivables are shown net of an allowance for doubtful accounts. An allowance for doubtful accounts is established based on specific assessment of all amounts that remain unpaid following normal payment periods. All amounts deemed to be uncollectible are charged against the allowance for doubtful accounts in the period the determination is made.

3. Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

4. Restricted Assets

Certain proceeds of the City's enterprise fund revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the balance sheet because they are maintained in separate bank accounts and their use is limited by applicable bond covenants.

5. Capital Assets

Capital assets (which include property, plant, equipment and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items)), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets, other than infrastructure assets, are defined by the City as assets with an initial, individual cost of more than \$1,000 and an estimated useful life in excess of one year. The City reports infrastructure assets on a network and subsystem basis. Accordingly, the amounts spent for construction or acquisition of infrastructure assets are capitalized and reported in the government-wide financial statements regardless of their amount.

In the case of the initial capitalization of general infrastructure, the City was able to estimate the historical cost through back trending (i.e., estimating the current replacement cost of the infrastructure to be capitalized and using an appropriate price-level index to deflate the cost to the acquisition year or estimated acquisition year). As the City constructs or acquires additional capital assets each period, including infrastructure, they are capitalized and reported at historical cost. The reported value excludes normal maintenance and repairs which are essentially amounts

CITY OF MARCO ISLAND, FLORIDA
NOTES TO FINANCIAL STATEMENTS

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

spent in relation to the capital assets that do not increase the capacity or efficiency of the item or extend its useful life beyond the original estimate. In the case of donations, the City values these assets at the estimated fair value of the item at the date of its donation.

Property, plant and equipment of the primary government are depreciated using the straight line method over the following estimated useful lives:

Buildings and Improvements	20-40 Years
Infrastructure	10-40 Years
Vehicles and Equipment	5-10 Years

6. Compensated Absences

It is the government's policy to permit employees to accumulate earned leave, but not unused personal leave. These amounts are accrued when incurred in the government-wide, proprietary, and fiduciary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements. Compensated absences are generally liquidated by the general fund.

Full-time City employees earn from 160 to 224 hours annually, based upon years of service, and can accrue up to 720 hours. Police employees earn from 160 to 200 hours annually, based upon years of service, and can accrue up to 720 hours. City Firefighters under union contract earn from 216 to 336 hours annually, based upon years of service, and can accrue up to 936 hours. Upon termination, these employees are entitled to all accumulated earned leave hours paid out at the hourly rate.

7. Long-term Obligations

Long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses.

Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

CITY OF MARCO ISLAND, FLORIDA
NOTES TO FINANCIAL STATEMENTS

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

8. Fund Equity

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 management plans that are subject to change.

9. Property Tax Calendar

The City levies property taxes each November 1, which become a lien on real and personal property located in the City. The assessment of all properties and the collection of all property taxes are made through the Property Appraiser and Tax Collector of Collier County, Florida. The tax levy is based on taxable assessed real and personal property values totaling \$11,570,581,313 for fiscal year 2008 and \$10,486,293,910 for fiscal year 2009.

Details of the tax calendar are presented below:

Lien Date	January 1, 2007
Levy Date	November 1, 2007
Installment Payments	
First Installment	No Later Than June 30, 2007
Second Installment	No Later Than September 30, 2007
Third Installment	No Later Than December 31, 2007
Fourth Installment	No Later Than March 31, 2008
Regular Payments	
Discount Periods	November 2007 through February 2008
No Discount Period	After March 1, 2008
Delinquent Date	April 1, 2008

NOTE B – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

a. Budgetary Information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles and are prepared for all governmental funds, except for the emergency relief fund.

Prior to May 1, all agencies of the government submit requests for appropriations to the City Manager so that a budget may be prepared. During August, the proposed budget is presented to the City Council for review. The Council holds public hearings and a final budget must be prepared and adopted no later than September 30.

CITY OF MARCO ISLAND, FLORIDA
NOTES TO FINANCIAL STATEMENTS

NOTE B – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (CONTINUED)

The appropriated budget is prepared by fund, function, and department. The City's department heads may make transfers of appropriations within a department. Transfers of appropriations between departments require the approval of the City Council. The legal level of budgetary control (i.e., the level at which expenditures may not legally exceed appropriations) is the fund level, except in the general fund where the legal level of budgetary control is the department level.

Encumbrance accounting is employed in governmental funds. Encumbrances (i.e., purchase orders, contracts) outstanding at year end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be re-appropriated and honored during the subsequent year.

Certain budgeted expenditures are subject to a "spending cap." These expenditures are limited to an increase from the prior year's budgeted expenditures of 3% plus the then-current Federal cost-of-living adjustment. This limitation was amended and clarified in 2002, by voter referendum and in 2003, by Council Resolution.

The spending cap for the 2008 fiscal year, as adopted by City Council, was \$18,827,642. The final actual amount for the 2008 fiscal year was \$18,827,642, which was in accordance with the spending cap limit.

b. Deficit Fund Equity

The electric fund has a deficit fund balance of \$133,519 as of September 30, 2008. The fund incurred capital outlay expenditures when the fund was adopted which significantly impacted its fund balance. The deficit fund balance is expected to be relieved in fiscal year 2009 with revenues in excess of expenditures.

The emergency relief fund has a deficit fund balance of \$329,283 as of September 30, 2008. The fund incurred expenditures related to hurricane relief in excess of revenues received from FEMA and other sources. The emergency relief fund will continue to maintain a deficit fund balance until revenues related to reimbursement of expenditures have been relieved or until FEMA completes its process for reimbursing expenditures for both Hurricane Charley and Hurricane Wilma.

CITY OF MARCO ISLAND, FLORIDA
NOTES TO FINANCIAL STATEMENTS

NOTE C – DETAILED NOTES ON ALL FUNDS

a. Deposits and Investments

As of September 30, 2008, the City had the following deposits and investments:

Deposit and Investment Type	No Specific Maturity	Matures in			Matures in 10 + Years	Total (at Fair Value)
		Less Than 1 Year	Matures in 1-5 Years	Matures in 5-10 Years		
Deposits with bank	\$ --	9,469,115	--	--	--	9,469,115
Money market	--	708,784	--	--	--	708,784
U. S. securities	--	4,825,649	13,469,641	--	--	18,295,290
Common stock	2,064,208	--	--	--	--	2,064,208
Total deposits and investments	\$ 2,064,208	15,003,548	13,469,641	-	-	30,537,397

Interest Rate Risk: As a means of limiting its exposure to fair value losses arising from rising interest rates, the City's investment policy limits the City's investment portfolio, excluding investments held by the pension trust funds, to maturities of five years or less. The investment maturities of the pension trust funds are not limited.

Credit Risk: While authorized by policy, the City has no investments in commercial paper, bankers' acceptances, corporate bonds, or mutual funds except for those investments by pension funds. Federal agencies carry only an implicit guarantee from the government and are not full faith and credit investments such as U.S. Treasury Bills and Bonds. The City has investments, as allowed under the investment policy, in the Federal Home Loan Bank (FHLB), the Federal National Mortgage Association (FNMA) and the Federal Home Loan Mortgage Corporation (FHLMC), all of which carry a AAA rating.

Concentration of Credit Risk: The City's investment policy allows the following investment types and limitations:

Investment Type	Maximum Portfolio Allocation	Maximum Investment with any Institution
Direct obligations of the U.S. Treasury	100%	none
Securities backed by the full faith and credit of the U.S. government	35%	none
Securities backed by federal agencies	75%	50% of the portfolio
Agency-issued mortgage-backed securities	35%	none
Repurchase agreements	50%	none
Certificates of deposit	35%	none
Bankers acceptances	25%	\$1,000,000
Prime commercial paper	25%	\$1,000,000
State/Government taxable and tax-exempt debt	25%	none
Dollar denominated money market mutual funds	25%	none
Fixed-income mutual funds	25%	none
Local Government Surplus Funds Trust	100%	none

CITY OF MARCO ISLAND, FLORIDA
NOTES TO FINANCIAL STATEMENTS

NOTE C – DETAILED NOTES ON ALL FUNDS (CONTINUED)

The pension trust fund investments are determined by the Board of Directors of the pension trust funds. The portfolios of the pension trust funds are geared for long-term growth and are allocated at 60% common stocks and 40% bond funds, with a maximum of 10% of the portfolios being invested in foreign investments.

Custodial Credit Risk: All of the City's public deposits are held in qualified public depositories pursuant to Florida Statutes, Chapter 280. Under the Act, all qualified public depositories are required to pledge eligible collateral having a market value equal to or greater than the average daily or monthly balance of all public deposits, times the depository's collateral pledging level. The pledging level may range from 50% to 125% depending upon the depository's financial condition and establishment period. All collateral must be deposited with an approved financial institution. Any losses to public depositories are covered by applicable deposit insurance, sale of securities pledged as collateral, and, if necessary, assessments against other qualified public depositories of the same type as the depository in default.

Foreign Currency Risk: The City's investment policy does not allow investment of funds in securities denominated in a foreign currency. The Firefighters' and Police Officers' Pension Funds, governed by the Fire and Police Pension Boards, has authorized a maximum of 10% of funds to be invested in foreign securities.

b. Receivables

Receivables as of year end for the City's individual major funds, nonmajor funds, internal service fund, and fiduciary funds, including the applicable allowances for uncollectible accounts, are as follows:

	General	Electric	Nonmajor Governmental	Water and Sewer	Fiduciary	Total
Receivables:						
Accounts	\$ 579,613	540,591	71,100	2,607,553	234,216	4,033,073
Assessments	--	--	--	22,580,039	--	22,580,039
Due from other governments	252,470	--	30,634	--	11,771	294,875
Contributions	--	--	--	--	--	--
Interest	112,613	--	--	1,269,743	12,461	1,394,817
Gross receivables	944,696	540,591	101,734	26,457,335	258,448	28,302,804
Less: allowances for uncollectibles	37,088	--	--	32,077	--	69,165
Net total receivables	<u>\$ 907,608</u>	<u>540,591</u>	<u>101,734</u>	<u>26,425,258</u>	<u>258,448</u>	<u>28,233,639</u>

CITY OF MARCO ISLAND, FLORIDA
NOTES TO FINANCIAL STATEMENTS

NOTE C – DETAILED NOTES ON ALL FUNDS (CONTINUED)

Governmental funds report *deferred revenue* in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. As of September 30, 2008, deferred revenue reported in the governmental funds consists of receivables recognized for code compliance violations which totaled \$423,835 at September 30, 2008.

c. Interfund Receivables, Payables and Transfers

The composition of interfund balances as of September 30, 2008, is as follows:

Receivable Fund	Payable Fund	Amount
General	Emergency Relief	\$ 411,699
General	Electric	644,762
General	Water and Sewer	1,761,018
Police Pension	Fire Pension	73,438
Total		\$ 2,890,917

The outstanding balance between funds result mainly from the time lag between the dates that interfund goods and services are provided or reimbursable expenditures occur, transactions are recorded in the accounting system, and/or payments between funds are made. Interfund balances of \$1,822,909 at September 30, 2008, per the government-wide statement of net assets consists of amounts payable to the general fund from the water and sewer fund for \$1,761,018, in addition to the business-type activities allocation of the internal service fund's net assets as of September 30, 2008, in the amount of \$61,891.

For the year ended September 30, 2008, the interfund transfers were as follows:

Transfers Out	Transfers In:			
	Capital Projects	Debt Service	Electric	Total
General	\$ 10,830,068	1,948,044	--	12,778,112
Capital Project	--	--	95,000	95,000
Total	\$ 10,830,068	1,948,044	95,000	12,873,112

CITY OF MARCO ISLAND, FLORIDA
NOTES TO FINANCIAL STATEMENTS

NOTE C – DETAILED NOTES ON ALL FUNDS (CONTINUED)

Transfers are used to: (1) move revenues from the fund with collection authorization to the debt service fund as debt service principal and interest payments become due; (2) move restricted amounts from borrowings to the debt service fund to establish mandatory reserve accounts; and (3) move unrestricted general fund revenues to finance various programs that the government must account for in other funds in accordance with budgetary authorizations.

d. Capital Assets

The City has the following investment in capital assets activity for the year ended September 30, 2008:

	Beginning Balance	Increases	(Decreases)	Ending Balance
Governmental Activities				
Capital assets not being depreciated:				
Land	\$ 15,040,187	--	(7,050)	15,033,137
Construction in progress	26,014,460	12,522,983	(16,813,538)	21,723,905
Total capital assets not being depreciated	<u>41,054,647</u>	<u>12,522,983</u>	<u>(16,820,588)</u>	<u>36,757,042</u>
Capital assets being depreciated:				
Buildings and improvements	3,726,945	27,981	--	3,754,926
Vehicles and equipment	5,199,254	354,349	(45,055)	5,508,548
Road network	16,084,593	15,399,169	--	31,483,762
Storm water	10,344,647	332,201	--	10,676,848
Pathway	2,790,160	--	--	2,790,160
Parks	236,071	741,102	--	977,173
Bridge network	6,247,543	29,211	--	6,276,754
Beach and waterway	30,923	311,855	--	342,778
Total capital assets being depreciated	<u>44,660,136</u>	<u>17,195,868</u>	<u>(45,055)</u>	<u>61,810,949</u>
Total accumulated depreciation for:				
Buildings and improvements	(1,846,144)	(155,246)	--	(2,001,390)
Vehicles and equipment	(2,619,799)	(576,584)	45,055	(3,151,328)
Road network	(3,520,914)	(1,631,579)	--	(5,152,493)
Storm water	(3,486,656)	(225,690)	--	(3,712,346)
Pathway	(1,036,737)	(149,588)	--	(1,186,325)
Parks	(63,030)	(58,620)	--	(121,650)
Bridge network	(1,359,687)	(326,219)	--	(1,685,906)
Beach and waterway	(1,031)	(1,031)	--	(2,062)
Total accumulated depreciation	<u>(13,933,998)</u>	<u>(3,124,557)</u>	<u>45,055</u>	<u>(17,013,500)</u>
Total capital activities being depreciated, net	<u>30,726,138</u>	<u>14,071,311</u>	<u>--</u>	<u>44,797,449</u>
Total governmental activities capital assets, net	<u>\$ 71,780,785</u>	<u>26,594,294</u>	<u>(16,820,588)</u>	<u>81,554,491</u>

CITY OF MARCO ISLAND, FLORIDA
NOTES TO FINANCIAL STATEMENTS

NOTE C – DETAILED NOTES ON ALL FUNDS (CONTINUED)

Business-Type Activities

Capital assets not being depreciated:

Land	\$ 16,514,861	900,198	--	17,415,059
Construction in progress	49,043,672	43,660,332	(34,912,309)	57,791,695
Total capital assets not being depreciated	<u>65,558,533</u>	<u>44,560,530</u>	<u>(34,912,309)</u>	<u>75,206,754</u>

Capital assets being depreciated:

Transmission and distribution	41,055,292	24,763,019	--	65,818,311
Buildings and improvements	6,523,487	--	--	6,523,487
Vehicles and equipment	48,861,058	10,149,290	--	59,010,348
Total capital assets being depreciated	<u>96,439,837</u>	<u>34,912,309</u>	<u>--</u>	<u>131,352,146</u>

Less accumulated depreciation for:

Transmission and distribution	(6,836,614)	(2,300,786)	--	(9,137,400)
Buildings and improvements	(832,596)	(167,772)	--	(1,000,368)
Vehicles and equipment	(8,933,785)	(3,094,315)	--	(12,028,100)
Total accumulated depreciation	<u>(16,602,995)</u>	<u>(5,562,873)</u>	<u>--</u>	<u>(22,165,868)</u>
Total capital assets being depreciated, net	<u>79,836,842</u>	<u>29,349,436</u>	<u>--</u>	<u>109,186,278</u>

Total business-type activities capital assets, net	<u>\$ 145,395,375</u>	<u>73,909,966</u>	<u>(34,912,309)</u>	<u>184,393,032</u>
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Depreciation Expense was charged to functions/programs of the City as follows:

Governmental Activities:

General government	\$ 110,865
Police services	182,761
Fire and rescue	243,500
Code compliance	6,017
Building services	25,372
Transportation	2,405,086
Culture and recreation	150,956

Total depreciation expense, Governmental activities	<u>3,124,557</u>
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Business-type Activities:

Water and Sewer	5,558,477
Recreation	4,396

Total depreciation expense, Business-type activities	<u>5,562,873</u>
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Total depreciation expense	<u>\$ 8,687,430</u>
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CITY OF MARCO ISLAND, FLORIDA
NOTES TO FINANCIAL STATEMENTS

NOTE C – DETAILED NOTES ON ALL FUNDS (CONTINUED)

e. Leases

The City has entered into a lease agreement as a lessee for financing the acquisition of a fire truck. The City received \$250,000 towards the fire truck obligation with the trade-in of another fire truck. The lease agreement qualifies as a capital lease for accounting purposes and, therefore, has been recorded at the present value of the future minimum lease payments as of the inception date.

The asset acquired through capital lease, as reported in the governmental activities, is as follows:

Asset:	
Vehicles and equipment	\$ 786,292
Less: Accumulated depreciation	<u>(244,687)</u>
Total	<u><u>\$ 541,605</u></u>

The future minimum lease obligations and the net present value of these minimum lease payments, as reported in the governmental activities, as of September 30, 2008, is as follows:

2009	\$ 85,700
2010	85,700
2011	<u>85,700</u>
Total minimum lease payments	257,100
Less: Amount representing interest	<u>(15,275)</u>
Present value of minimum lease payments	<u><u>\$ 241,825</u></u>

CITY OF MARCO ISLAND, FLORIDA
NOTES TO FINANCIAL STATEMENTS

NOTE C – DETAILED NOTES ON ALL FUNDS (CONTINUED)

f. Long-Term Liabilities

Primary Government

Long-term liability activity for the year ended September 30, 2008, was as follows:

	Beginning Balance	Additions	(Reductions)	Ending Balance	Due Within One Year
Governmental Activities					
Revenue bonds	\$ 665,000	--	(60,000)	605,000	65,000
General obligation bonds	8,760,000	--	(565,000)	8,195,000	580,000
Sales tax revenue bonds	6,000,000	--	(345,000)	5,655,000	350,000
Capital improvement bonds	3,000,000	--	(1,000,000)	2,000,000	1,000,000
Capital lease	316,912	--	(75,087)	241,825	77,782
Compensated absences	881,095	764,637	(611,285)	1,034,447	760,319
Total governmental activity long-term liabilities	<u>\$ 19,623,007</u>	<u>764,637</u>	<u>(2,656,372)</u>	<u>17,731,272</u>	<u>2,833,101</u>
Business Activities					
Revenue bonds, 2004					
Principal	\$ 97,255,000	--	(1,990,000)	95,265,000	2,030,000
Premium	1,061,706	--	(40,704)	1,021,002	40,704
Revenue bonds, 2007	5,500,000	--	--	5,500,000	256,844
Revenue note, 2007	19,996,278	--	(5,584,997)	14,411,281	--
Revenue bond, 2008	--	7,477,241	--	7,477,241	--
Assessment revenue bond, 2008	--	2,321,886	--	2,321,886	89,726
Assessment revenue bond, 2008	--	732,378	--	732,378	28,302
Revenue note, 2008	--	6,326,819	--	6,326,819	--
Revenue note, 2008	--	3,916,198	--	3,916,198	--
State revolving loan	1,626,230	10,114,476	--	11,740,706	381,587
Deferred assessments	9,326,190	1,438,060	--	10,764,250	1,922,488
Deferred assessment interest	242,661	101,264	--	343,925	343,925
Compensated absences	261,166	212,756	(199,708)	274,214	201,547
Total business-type activity long-term liabilities	<u>\$ 135,269,231</u>	<u>32,641,078</u>	<u>(7,815,409)</u>	<u>160,094,900</u>	<u>5,295,123</u>

CITY OF MARCO ISLAND, FLORIDA
NOTES TO FINANCIAL STATEMENTS

NOTE C – DETAILED NOTES ON ALL FUNDS (CONTINUED)

During 2000, the City issued revenue bonds for governmental activities for the repair of the Factory Bay Bridge, secured by non-ad valorem revenue. The original amount of the revenue bonds was \$985,000. The bonds are issued as 15-year serial bonds with varying amounts of principal maturing each year from \$55,000 to \$90,000. Interest rates on the bonds vary from 4.25 percent to 5.75 percent. As of September 30, 2008, \$605,000 of the principal was outstanding. Annual debt service requirements for the revenue bonds are as follows:

Fiscal Year	Principal	Interest
2009	\$ 65,000	29,904
2010	65,000	26,865
2011	70,000	23,675
2012	75,000	20,194
2013	75,000	16,519
2014-2016	255,000	22,569
Total	\$ 605,000	139,726

The City issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the City. Additionally, the City issues bonds where the City pledges income derived from taxpayers or from the acquired or constructed assets to pay debt service.

During 2004, the City issued general obligation bonds for governmental activities for the acquisition of land. The original amount of the general obligation bonds was \$9,860,000. The bonds are issued as 15-year serial bonds with varying amounts of principal maturing each year from \$545,000 to \$815,000. Interest rates on the bonds vary from 2 percent to 3.8 percent. As of September 30, 2008, \$8,195,000 of the principal was outstanding. Annual debt service requirements for the general obligation bonds are as follows:

Fiscal Year	Principal	Interest
2009	\$ 580,000	266,534
2010	590,000	254,934
2011	610,000	237,234
2012	625,000	218,934
2013	645,000	200,184
2014-2018	3,545,000	679,356
2019-2020	1,600,000	90,985
Total	\$ 8,195,000	1,948,161

CITY OF MARCO ISLAND, FLORIDA
NOTES TO FINANCIAL STATEMENTS

NOTE C – DETAILED NOTES ON ALL FUNDS (CONTINUED)

During 2005, the City issued sales tax revenue bonds for governmental activities for various capital improvements to be owned by and located within the City, including transportation improvements and a new police station. The original amount of the sales tax revenue bonds was \$6,000,000. The bonds are secured by proceeds of the half-cent sales tax and monies on deposit. The bonds are issued as 15-year serial bonds with varying amounts of principal maturing each year from \$345,000 to \$535,000. Interest rates vary from 3 percent to 3.9 percent. As of September 30, 2008, \$5,655,000 of the principal was outstanding. Annual debt service requirements for the sales tax revenue bonds are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>
2009	\$ 350,000	202,960
2010	365,000	191,585
2011	375,000	179,723
2012	390,000	166,598
2013	400,000	152,948
2014-2018	2,230,000	543,334
2019-2021	<u>1,545,000</u>	<u>120,813</u>
Total	<u>\$ 5,655,000</u>	<u>1,557,961</u>

During 2006, the City issued capital improvement bonds for governmental activities for various capital improvements to be owned by and located within the City, including the reconstruction of North Collier Boulevard. The original amount of the capital improvement bonds was \$4,000,000, secured by non-ad valorem revenues. The bonds are issued as 4-year serial bonds with \$1,000,000 of principal maturing each year. The interest rates on the bonds are 4.39 percent. As of September 30, 2008, \$2,000,000 of the principal was outstanding. Annual debt service requirements for the capital improvement bonds are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>
2009	\$ 1,000,000	87,800
2010	<u>1,000,000</u>	<u>43,900</u>
Total	<u>\$ 2,000,000</u>	<u>131,700</u>

CITY OF MARCO ISLAND, FLORIDA
NOTES TO FINANCIAL STATEMENTS

NOTE C – DETAILED NOTES ON ALL FUNDS (CONTINUED)

During 2004, the City issued revenue bonds for business-type activities for: (1) the acquisition of certain water production, transmission, treatment and disposal facilities, and (2) the improvement of certain assets within these facilities. The original amount of the revenue bonds was \$101,115,000, in addition to a premium paid on the bonds in the amount of \$1,183,818. The bonds are secured by pledged revenues which consist of net revenues of the water and sewer fund and any water and sewer capital facility fees. The bonds are issued as 30-year serial bonds with varying amounts of principal maturing each year from \$1,910,000 to \$6,280,000. Interest rates on the bonds vary from 2 percent to 5.25 percent. As of September 30, 2008, \$95,265,000 of the principal was outstanding. Annual debt service requirements for the revenue bonds are as follows:

Fiscal Year	Principal	Interest
2009	\$ 2,030,000	4,539,418
2010	2,075,000	4,486,526
2011	2,135,000	4,424,369
2012	2,200,000	4,353,343
2013	2,275,000	4,274,424
2014-2018	12,960,000	19,683,403
2019-2023	16,695,000	15,836,794
2024-2028	21,400,000	11,026,313
2029-2033	27,215,000	5,076,294
2034	6,280,000	157,000
Total	\$ 95,265,000	73,857,884

During 2006, the City received funding under the State of Florida Department of Environmental Protection Revolving Loan Program to assist in funding the planning, design, and construction of wastewater pollution control facilities. The City received additional funding under this program in 2007 and 2008. As of September 30, 2008, the City has drawn down loan funds totaling \$11,740,706, including accrued interest of \$179,802. Pledged revenues include water and sewer fund operating revenues, installation and connection fees, impact fees, and any local option sales tax revenues. Upon completion of the project a fixed interest rate will be determined and payments of principal and interest will be made over 20 years. Until the project is completed, interest will be calculated at annual rates ranging from 2.6% to 3.1% and will be added to the principal amount of the project loan.

CITY OF MARCO ISLAND, FLORIDA
NOTES TO FINANCIAL STATEMENTS

NOTE C – DETAILED NOTES ON ALL FUNDS (CONTINUED)

During the fiscal year ending September 30, 2008, no loan payments were made. Annual estimated installments for the fiscal years ending September 30 are based only on the amount drawn down on the loans, and the payment amounts are as stated in the loan agreements. The amount due within one year as of September 30, 2008, of \$381,587 is based on these estimated installments.

During 2007, the City issued revenue bonds for business-type activities to pay the costs of constructing certain additions, extensions, supplements and replacements to the City’s water and wastewater utility system. The original amount of the revenue bonds was \$5,500,000, secured by net revenues of the water and sewer fund. The bonds are issued as 30-year serial bonds with varying amounts of principal maturing each year from \$256,844 to \$446,412. The interest rate on the bonds is fixed at 3.74 percent. As of September 30, 2008, the entire principal balance was outstanding. Annual debt service requirements for the revenue bonds are as follows:

Fiscal Year	Principal	Interest
2009	\$ 256,844	209,128
2010	267,014	198,818
2011	277,000	188,693
2012	287,360	178,189
2013	297,655	167,751
2014-2018	1,665,924	658,637
2019-2023	2,001,791	318,105
2024	446,412	16,928
Total	\$ 5,500,000	1,936,249

During 2007, the City issued a revenue note for business-type activities to pay the costs of the subordinate wastewater improvement project. The original amount of the revenue note was not to exceed \$20,000,000, and is secured by net revenues of the water and sewer fund. The note requires principal payment in full on May 22, 2010. The interest rate on the note is fixed at 4.07 percent. As of September 30, 2008, \$14,411,281 was outstanding. Annual debt service requirements for the revenue note are as follows:

Fiscal Year	Principal	Interest
2009	\$ --	586,395
2010	14,411,281	228,132
Total	\$ 14,411,281	814,527

CITY OF MARCO ISLAND, FLORIDA
NOTES TO FINANCIAL STATEMENTS

NOTE C – DETAILED NOTES ON ALL FUNDS (CONTINUED)

During 2008, the City issued revenue bonds for business-type activities to pay the costs of the subordinate wastewater improvement project. The original amount of the revenue bonds was not to exceed \$7,477,241, and is secured by net revenues of the water and sewer fund. The bonds have varying amounts of principal maturing each year ranging from \$340,932 to \$619,737. The interest rate on the bonds is fixed at 4.01 percent. As of September 30, 2008, the entire amount was outstanding. Annual debt service requirements for the revenue bonds are as follows:

Fiscal Year	Principal	Interest
2009	\$ --	324,824
2010	--	304,002
2011	340,932	297,090
2012	354,793	283,703
2013	368,462	268,246
2014-2018	2,083,072	1,099,366
2019-2023	2,542,587	630,535
2024-2026	1,787,395	111,170
Total	\$ 7,477,241	3,318,936

During 2008, the City issued special assessment revenue bonds for business-type activities to pay the costs of the subordinate wastewater improvement project for the Tigertail District. The original amount of the revenue bonds was not to exceed \$2,321,886, and is secured by net revenues of the water and sewer fund. The bonds have varying amounts of principal maturing each year ranging from \$89,726 to \$164,258. The interest rate on the bonds is fixed at 4.01 percent. As of September 30, 2008, the entire amount was outstanding. Annual debt service requirements for the revenue bonds are as follows:

Fiscal Year	Principal	Interest
2009	\$ 89,726	81,211
2010	80,184	90,753
2011	83,444	87,493
2012	86,836	84,100
2013	90,146	80,790
2014-2018	509,791	344,892
2019-2023	622,247	232,436
2024-2028	759,512	95,170
Total	\$ 2,321,886	1,096,845

CITY OF MARCO ISLAND, FLORIDA
NOTES TO FINANCIAL STATEMENTS

NOTE C – DETAILED NOTES ON ALL FUNDS (CONTINUED)

During 2008, the City issued special assessment revenue bonds for business-type activities to pay the costs of the subordinate wastewater improvement project for the South Barfield District. The original amount of the revenue bonds was not to exceed \$732,378 and is secured by net revenues of the water and sewer fund. The bonds have varying amounts of principal maturing each year ranging from \$28,302 to \$51,811. The interest rate on the bonds is fixed at 4.01 percent. As of September 30, 2008, the entire amount was outstanding. Annual debt service requirements for the revenue bonds are as follows:

Fiscal Year	Principal	Interest
2009	\$ 28,302	39,811
2010	25,292	28,116
2011	26,320	27,067
2012	27,390	26,045
2013	28,434	24,840
2014-2018	160,800	105,545
2019-2023	196,271	69,359
2024-2028	239,569	25,189
Total	\$ 732,378	345,972

During 2008, the City issued a revenue note for business-type activities to pay the costs of the subordinate wastewater improvement project. The original amount of the revenue note was not to exceed \$18,500,000, and is secured by net revenues of the water and sewer fund. The note requires principal payment in full on August 5, 2011. The interest rate on the note is variable equal to the sum of 63.7% of the 30-day London Interbank Offered Rate (“LIBOR Rate”) as evidenced in The Wall Street Journal, plus 68 basis points (0.68%) and the interest on the note on September 30, 2008, was 3.039%. As of September 30, 2008, \$6,326,819 was outstanding. Annual debt service requirements for the revenue note are as follows:

Fiscal Year	Principal	Interest
2009	\$ --	422,031
2010	--	422,031
2011	6,326,819	386,188
Total	\$ 6,326,819	1,230,250

CITY OF MARCO ISLAND, FLORIDA
NOTES TO FINANCIAL STATEMENTS

NOTE C – DETAILED NOTES ON ALL FUNDS (CONTINUED)

During 2008, the City issued a revenue note for business-type activities to pay the costs of the subordinate wastewater improvement project. The original amount of the revenue note was not to exceed \$4,000,000, and is secured by net revenues of the water and sewer fund. The note requires principal payment in full on August 5, 2011. The interest rate on the note is variable equal to the sum of 63.7% of the 30-day London Interbank Offered Rate (“LIBOR Rate”) as evidenced in The Wall Street Journal, plus 68 basis points (0.68%) and the interest on the note on September 30, 2008, was 3.039%. As of September 30, 2008, \$3,916,198 was outstanding. Annual debt service requirements for the revenue note are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>
2009	\$ --	91,250
2010	--	91,250
2011	<u>3,916,198</u>	<u>83,500</u>
Total	<u>\$ 3,916,198</u>	<u>266,000</u>

Discretely Presented Component Unit

Long-term liability activity for Hideaway for the year ended September 30, 2008, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>(Reductions)</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
General obligation bonds	\$ 2,020,000	--	(470,000)	1,550,000	490,000

During 2005, Hideaway issued general obligation bonds for the re-nourishment of Hideaway Beach. The original amount of the general obligation bonds was \$2,900,000 and is secured by ad valorem tax revenue assessed to Hideaway Beach Tax District. The bonds are issued as 7-year serial bonds with varying amounts of principal maturing each year from \$240,000 to \$520,000. The interest rate on the bonds is 2.89 percent. As of September 30, 2008, \$1,550,000 of the principal was outstanding. Annual debt service requirements for the general obligation bonds are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>
2009	\$ 490,000	37,715
2010	520,000	23,120
2011	<u>540,000</u>	<u>7,803</u>
Total	<u>\$ 1,550,000</u>	<u>68,638</u>

CITY OF MARCO ISLAND, FLORIDA
NOTES TO FINANCIAL STATEMENTS

NOTE C – DETAILED NOTES ON ALL FUNDS (CONTINUED)

g. Wastewater Pollution Control Facility Assessment

During 2006, the City of Marco Island began a project to plan, design, and construct major renovations to its wastewater plan. The renovation project was divided into 17 different assessment districts. Each property owner of each district will be assessed both a capacity charge to cover plan construction and new force mains and a construction charge based on each resident's number of required connections. These assessments are approximately \$5,000 for the capacity portion and from \$12,000 to \$15,000 for the construction portion.

During 2007, construction was completed for two districts, Tigertail and South Barfield. Additionally, three districts (incorporating five neighborhoods: North Barfield, Port Marco, North Marco, Old Marco and West Winterberry) were completed during 2008. Construction is expected to be completed for the Lamplighter and Sheffield Districts in fiscal year 2009; Kendall, Mackle Park, Goldenrod and Copperfield Districts in 2010; and Gulfport, East Winterberry North and the Estates Districts in 2011.

Costs related to each project will be accumulated and paid as each project progresses. Property owners will not be assessed until the project is completed, that is, when the assessment becomes legal, unless the property owner chooses to lock in a rate based on 2006 construction costs.

Property owners have three distinct payment options:

- (1) Payment of cash;
- (2) Pay over 20 years on their property tax bill with interest at 5.57%. Payment is due in full upon sale or transfer of the property; or
- (3) Defer principal and interest at 5.9% for 20 years. Similarly, payment is due in full upon sale of the property.

The City has recognized revenue related to the full amounts assessed on completed projects. Revenue in relation to these assessments has been recognized as capital contributions on the proprietary funds' statement of revenues, expenses, and changes in fund net assets.

Cash collected in advance of project completion is recognized as deferred assessment revenue and deferred assessment interest revenue on the proprietary funds' statement of net assets.

Assessments receivable and assessments interest receivable have been recognized in proprietary funds' statement of net assets in relation to property owners paying on the payment terms outlined above. The current portion of the assessment receivable relates to the portion of payment option 2 above which will be received in the 2009 fiscal year.

CITY OF MARCO ISLAND, FLORIDA
NOTES TO FINANCIAL STATEMENTS

NOTE C – DETAILED NOTES ON ALL FUNDS (CONTINUED)

In addition to the cash collected in advance of project completion, the City has recognized deferred assessment revenue and deferred assessment interest revenue for assessments remitted to the tax collector under payment option 2 above in relation to uncompleted projects.

In addition to the assessments noted above, each property owner will be charged the actual cost of connecting to the sewer line and abandoning their septic tank. This charge will appear on the property owners' utility bill and is expected to be approximately \$2,000. This fee will be paid directly to the contractors who provide the service after collection is made. The fees collected by the City are reported net of payments to contractors as miscellaneous expense on the proprietary funds' statement of revenues, expenses, and changes in fund net assets.

NOTE D – OTHER INFORMATION

a. Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. Effective October 1, 2004, the City became self insured for the following types of risks:

- Workers' Compensation
- Public Officials' Liability
- General and Property Liability
- Automobile Liability
- Crime and Theft Liability

Prior to October 1, 2004, the City was insured against these losses with a commercial insurance agreement with the Florida League of Cities, Inc, under a retrospectively rated policy. Premiums were accrued based upon the ultimate cost-to-date of the City's experience for each type of risk.

The City entered into an agreement with an insurance administrator to reduce the potential for significant risk. The agreement has a deductible per claim of \$350,000 for workers' compensation, \$250,000 for crime and theft liability, and \$100,000 for the other risk types. Additionally, the agreement has a stop-loss policy which caps the aggregate annual loss for the City at \$500,000.

Settlements have not exceeded coverage for each of the past three years.

CITY OF MARCO ISLAND, FLORIDA
NOTES TO FINANCIAL STATEMENTS

NOTE D – OTHER INFORMATION (CONTINUED)

Liabilities are reported when it is probable that a loss occurred and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported (IBNRs). The result of the process to estimate the claims liability is not an exact amount as it depends on many complex factors, such as inflation, changes in legal doctrines, and damage awards. Accordingly, claims are reevaluated periodically to consider the effects of these factors. Changes in the balances of claims liabilities during the prior two fiscal years are as follows:

Estimated unpaid claims, October 1, 2006	\$ 128,671
Incurred claims (including IBNRs)	698,617
Claim payments	<u>(537,833)</u>
Estimated unpaid claims, September 30, 2007	289,455
Incurred claims (including IBNR's)	476,717
Claim payments	<u>(523,026)</u>
Estimated unpaid claims, September 30, 2008	<u><u>\$ 243,146</u></u>

b. Contingent Liabilities

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

The City is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, it is the opinion of the government's counsel that resolution of these matters will not have a material adverse effect on the financial condition of the government.

CITY OF MARCO ISLAND, FLORIDA
NOTES TO FINANCIAL STATEMENTS

NOTE D – OTHER INFORMATION (CONTINUED)

c. Commitments

The City has numerous active construction projects. As of September 30, 2008, the City's commitments with contractors are as follows:

	<u>Expended as of 9/30/2008</u>	<u>Remaining Commitment</u>
Mackle Park expansion (Coral Sands Construction)	\$ 976,561	693,553
East Winterberry Bridge replacement (Thomas Marine Construction)	5,911,709	274,616
Finished water storage (Quality Enterprises)	3,045,540	3,524,638
Wastewater plant upgrade (Cardinal Contractors)	2,312,259	2,458,911
Wastewater plant design/build MBNR (Cardinal Contractors)	17,574,591	5,396,620
Deep well injection (Youngquist Brothers, Inc.)	3,739,279	3,159,807
Kendall Sewer assessment district (D. N. Higgins, Inc.)	321,256	693,896
Lamplighter Sewer assessment district (Mitchell & Stark Construction Co, Inc.)	3,889,070	1,483,130
Sheffield Sewer assessment district (Mitchell & Stark Construction Co, Inc.)	4,973,694	4,170,002
Mackle Park Sewer assessment district (Mitchell & Stark Construction Co, Inc.)	<u>749,099</u>	<u>711,446</u>
Totals	<u>\$ 43,493,058</u>	<u>22,566,619</u>

CITY OF MARCO ISLAND, FLORIDA
NOTES TO FINANCIAL STATEMENTS

NOTE D – OTHER INFORMATION (CONTINUED)

d. Employee Retirement Systems and Pension Plans

The City of Marco Island Firefighters' Pension Plan

The City maintains a single-employer, defined benefit pension plan (the Plan) that covers all full-time firefighters hired after December 31, 1995. The Plan does not prepare separate financial statements and is included as part of the pension trust fund in City's financial reporting entity since it is not legally separate from the City.

Plan Description: The Plan provides retirement benefits, deferred allowances, and death and disability benefits. A participant may retire after reaching the age of 55, with six or more years of service, or accumulating twenty-five years of service with the City, regardless of age.

As of October 1, 2008, (date of the latest annual actuarial valuation), employee membership data related to the Plan were:

Retirees and beneficiaries currently receiving benefits	0
Terminated employees entitled to benefits, but not yet receiving them	<u>0</u>
Retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits, but not yet receiving them	<u><u>0</u></u>
Active plan participants:	
Vested	5
Non-vested	<u>14</u>
Total active plan participants	<u><u>19</u></u>
Vested terminated members	<u><u>0</u></u>

Retired employees or their beneficiaries are entitled to pension payments for the longer of ten years or the retirees' remaining life equal to 3% of their final five-year average compensation times the number of years of credited service. The final five-year average compensation is the average annual compensation of the five highest years within the last ten years of service. Compensation includes overtime, but excludes lump-sum payments of unused leave. Maximum annual pension payments to retirees are the lesser of \$90,000 or 100% of the average aggregate compensation for the three consecutive calendar years during which the firefighter was an active member and had his/her highest aggregate compensation. An additional supplemental benefit is also payable in the monthly amount of \$3 multiplied by credited service.

CITY OF MARCO ISLAND, FLORIDA
NOTES TO FINANCIAL STATEMENTS

NOTE D – OTHER INFORMATION (CONTINUED)

Early retirement is available at age 50, with six years of credited service, with the benefit reduced by 3% per year for each year early. Delayed retirement is permitted, with the benefit calculated the same as the normal retirement benefit, but based on credited service and average final compensation as of the actual retirement date.

Participants are not vested until they reach six years of service, at which time they become 100% vested. Terminated non-vested employees receive refunds of their accumulated member contribution only. Terminated vested employees receive their vested accrued benefit payable at early (after reduction) or normal retirement.

Pension provisions include disability benefits, whereby a disabled employee is entitled to receive the greater of the normal retirement benefits or a percentage of the five-year average annual compensation (42% if service incurred or 25% if non-service incurred). Pension provisions also include death benefits, whereby the surviving spouse is entitled to receive the vested pension benefit over ten years. Plan amendments are initiated by the Pension Board, and adopted by City Ordinance, after the required public hearings.

The cost of administering the Plan is financed by contributions made to the Plan.

Summary of Significant Accounting Policies–Basis of Accounting and Valuation of Investments:

The financial statements of the Plan are prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. The City's contributions are recognized when due and a formal commitment to provide contributions has been made. Benefits and refunds are recognized when due and payable in accordance with the terms of the Plan. All plan investments are reported at fair value. Securities traded on a national exchange are valued at the last reported sales price on the City's balance sheet date. Securities without an established market are reported at estimated fair value.

Funding Policy: Participants in the Plan, are required to pay 1% of their compensation to the Plan, however, the City has been funding this on the participant's behalf. The State of Florida contributes casualty insurance premium taxes pursuant to Chapter 175, Florida Statutes, and the City contributes the required remaining balance, as determined by the actuary.

The City makes periodic contributions totaling 100% of the actuarially determined amount (after state contributions) annually to the Plan. *Florida Statutes* Section 175 requires that an actuarial valuation of the Plan be completed at least once every three years. Since Plan establishment, the Pension Board has had actuarial valuations completed on an annual basis. Contributions for the fiscal year ended September 30, 2008, were based on actuarial computations performed for 2007, in the actuarial report dated October 1, 2006.

For the year ended September 30, 2008, the total annually required contribution amount was \$207,699 with the anticipated state contribution of \$73,936. Accordingly, the required employer contribution made during 2008 was \$133,763.

CITY OF MARCO ISLAND, FLORIDA
NOTES TO FINANCIAL STATEMENTS

NOTE D – OTHER INFORMATION (CONTINUED)

Annual Pension Cost and Net Pension Obligations: The required contribution was determined as part of the October 1, 2006 actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included: (a) 8% investment rate of return (net of administrative expenses); (b) projected salary increases of 6%, based on service; and (c) 4% rate of inflation. Additionally, the assumptions included postretirement benefit increases of 3% per year. Market value was used to determine the actuarial value of assets. The unfunded actuarial accrued liability is being amortized as a level dollar amount over thirty years. The remaining amortization period at October 1, 2008, was thirty years (closed basis).

Three-Year Trend Information:

<u>Fiscal Year Ended September 30,</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
2006	\$ 127,356	99.3%	(218,305)
2007	196,771	114.5%	(246,770)
2008	208,651	99.5%	(245,818)

Changes in the Fire Pension Plan for 2008 are as follows:

	<u>September 30, 2008</u>
Annual required contribution	\$ 207,699
Interest on net pension asset/obligation	(19,742)
Adjustment to annual required contribution	(20,694)
Annual pension cost	208,651
Contributions made	207,699
Increase in net pension asset	952
Net pension asset at beginning of the year	246,770
Net pension asset at end of year	245,818

The City of Marco Island Police Officers' Pension Plan

In 2005, the City established and currently maintains a single-employer, defined benefit pension plan (the Plan) that covers all full-time sworn police officers. The Plan does not prepare separate financial statements and is included as part of the pension trust fund in City's financial reporting entity since it is not legally separate.

Plan Description: The Plan provides retirement benefits, deferred allowances, and death and disability benefits. A participant may retire after reaching the age of 55, with six or more years of service, or accumulating twenty-five years of service with the City, regardless of age.

CITY OF MARCO ISLAND, FLORIDA
NOTES TO FINANCIAL STATEMENTS

NOTE D – OTHER INFORMATION (CONTINUED)

As of October 1, 2008, (date of the annual actuarial valuation), employee membership data related to the Plan were:

Retirees and beneficiaries currently receiving benefits	0
Terminated employees entitled to benefits, but not yet receiving them	<u>0</u>
Retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits, but not yet receiving them	<u><u>0</u></u>
Active plan participants:	
Vested	0
Non-vested	<u>30</u>
Total active plan participants	<u><u>30</u></u>
Vested (full or partial) deferred terminated members	<u><u>3</u></u>

Retired employees or their beneficiaries are entitled to pension payments for the longer of ten years or the retirees' remaining life equal to 3% of their final five-year average compensation times the number of years of credited service. The final five-year average compensation is the average annual compensation of the five highest years within the last ten years of service. Compensation includes overtime, but excludes lump-sum payments of unused leave. An additional supplemental benefit is also payable in the monthly amount of \$3, multiplied by credited service.

Early retirement is available at age 50, with six years of credited service, with the benefit reduced by 3% per year for each year early.

Participants are not vested until they reach six years of service, at which time they become 100% vested. Terminated non-vested employees receive refunds of their accumulated member contribution only. Terminated vested employees receive their vested accrued benefit payable at normal retirement.

Pension provisions include disability benefits, whereby a disabled employee is entitled to receive the greater of the normal retirement benefits or a percentage of the five-year average annual compensation (42% if service incurred or 25% if non-service incurred, provided the employee has at least 8 years of credited service). Pension provisions also include death benefits, whereby the surviving spouse is entitled to receive the vested pension benefit over ten years. Plan amendments are initiated by the Pension Board, and adopted by City Ordinance, after the required public hearings.

CITY OF MARCO ISLAND, FLORIDA
NOTES TO FINANCIAL STATEMENTS

NOTE D – OTHER INFORMATION (CONTINUED)

The cost of administering the Plan is financed by contributions made to the Plan.

Summary of Significant Accounting Policies–Basis of Accounting and Valuation of Investments: The financial statements of the Plan are prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. The City's contributions are recognized when due and a formal commitment to provide contributions has been made. Benefits and refunds are recognized when due and payable in accordance with the terms of the Plan. All plan investments are reported at fair value. Securities traded on a national exchange are valued at the last reported sales price on the City's balance sheet date. Securities without an established market are reported at estimated fair value.

Funding Policy: Participants in the Plan are required to pay 5% of their compensation to the Plan. The State of Florida contributes casualty insurance premium taxes pursuant to Chapter 185, Florida Statutes, and the City contributes the required remaining balance, as determined by the actuary.

The City makes periodic contributions totaling 100% of the actuarially determined amount (after state contributions) annually to the Plan. *Florida Statutes* Section 185 requires that an actuarial valuation of the Plan be completed at least once every three years. Since Plan establishment, the Pension Board has had actuarial valuations completed on an annual basis. Contributions for the fiscal year ended September 30, 2008, were based on actuarial computations determined as of October 1, 2006.

For the year ended September 30, 2008, the annually required contribution amount was \$447,402 with the anticipated state contribution of \$95,758. Accordingly, the required employer contribution for 2008 was \$374,369.

Annual Pension Cost and Net Pension Obligations: For 2008, the City's annual pension cost of \$351,644 for the Plan was less than the City's required and actual contributions. The required contribution was determined as part of the October 1, 2006, actuarial impact statement using the entry age normal actuarial cost method. The actuarial assumptions included: (a) 8% investment rate of return (net of administrative expenses); (b) projected salary increases of 6% per year; and (c) 3% rate of inflation. Additionally, the assumptions included postretirement benefit increases of 3% per year. Market value was used to determine the actuarial value of assets. The unfunded actuarial accrued liability is being amortized as a level dollar amount over forty years. The remaining amortization period at October 1, 2008, was thirty-seven years (closed basis).

CITY OF MARCO ISLAND, FLORIDA
NOTES TO FINANCIAL STATEMENTS

NOTE D – OTHER INFORMATION (CONTINUED)

Fiscal Year Ended September 30,	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
2006	\$ 257,999	100.0%	--
2007	229,970	100.0%	--
2008	351,644	106.0%	(22,725)

Changes in the Police Pension Plan for 2008 are as follows:

	<u>September 30, 2008</u>
Annual required contribution	\$ 351,644
Interest on net pension asst/obligation	--
Adjustment to annual required contribution	--
Annual pension cost	351,644
Contributions made	374,369
Increase in net pension asset	--
Net pension asset at beginning of the year	--
Net pension asset at end of year	22,725

The combining statement of fiduciary net assets for the pension trust funds as of September 30, 2008 is as follows:

	<u>Fire Pension</u>	<u>Police Pension</u>	<u>Total Fiduciary Funds</u>
Assets			
Cash and cash equivalents	\$ 293,566	504,769	798,335
Contributions receivable	11,771	--	11,771
Due from other governments	234,216	--	234,216
Due from other funds	--	73,438	73,438
Investments, at fair value:			
Common stock	1,713,011	351,197	2,064,208
Government bonds	1,308,102	265,948	1,574,050
Accrued interest	10,355	2,106	12,461
Total Assets	<u>3,571,021</u>	<u>1,197,458</u>	<u>4,768,479</u>
Liabilities			
Accounts payable	5,123	3,263	8,386
Due to other funds	73,438	--	73,438
Total Liabilities	<u>78,561</u>	<u>3,263</u>	<u>81,824</u>
Net Assets			
Held in trust for pension benefits and other purposes	<u>\$ 3,492,460</u>	<u>1,194,195</u>	<u>4,686,655</u>

CITY OF MARCO ISLAND, FLORIDA
NOTES TO FINANCIAL STATEMENTS

NOTE D – OTHER INFORMATION (CONTINUED)

The combining statement of changes in fiduciary net assets for the pension trust funds for the year ended September 30, 2008, is as follows:

	Fire Pension	Police Pension	Total Fiduciary Funds
Additions			
Contributions:			
Employer	\$ 133,763	374,369	508,132
Employee	10,593	102,275	112,868
State of Florida insurance funds, from the City			
General Fund	532,613	95,758	628,371
Other	7	--	7
Total contributions	<u>676,976</u>	<u>572,402</u>	<u>1,249,378</u>
Investment earnings (losses):			
Investment earnings	(407,231)	(140,428)	(547,659)
Investment expenses	(31,930)	(7,265)	(39,195)
Net investment earnings (losses)	<u>(439,161)</u>	<u>(147,693)</u>	<u>(586,854)</u>
Total Additions	237,815	424,709	662,524
Deductions			
Legal	9,538	8,100	17,638
Actuary	9,049	5,539	14,588
Administrative	2,921	3,371	6,292
Refunds to contributors	610	6,189	6,799
Total Deductions	<u>22,118</u>	<u>23,199</u>	<u>45,317</u>
Change in Net Assets	215,697	401,510	617,207
Net Assets - October 1, 2007	<u>3,276,763</u>	<u>792,685</u>	<u>4,069,448</u>
Net Assets - September 30, 2008	<u>\$ 3,492,460</u>	<u>1,194,195</u>	<u>4,686,655</u>

NOTE D – OTHER INFORMATION (CONTINUED)

The Florida Retirement System Plan, Firefighters

The Marco Island Independent Fire Protection District provided fire and rescue services to the community prior to incorporation in 1997. Employees hired by the District prior to December 31, 1995, participated in the pension plan provided by the Florida Retirement System (the System). These "old hire" employees were allowed to continue membership in the System both after the incorporation of the City and the establishment of the City of Marco Island Firefighters' Pension Plan (as noted above).

Plan Description: The System was created by the Florida Legislature as a cost-sharing, multiple-employer defined benefit public retirement plan available to governmental units within the state of Florida. The System provides retirement benefits, death benefits, disability benefits, and cost-of-living adjustments to system members and their beneficiaries, as established by Florida Statute. The System issues a publicly available financial report that includes financial statements and required supplementary information for the System. That report may be obtained by writing to the Florida Retirement System, Division of Retirement, P. O. Box 9000, Tallahassee, Florida 32315-9000.

Under the System, special risk employees who retire at or after age 55, with six years of creditable service, and all other employees who retire at or after age 62, with six years of creditable service, are entitled to a retirement benefit, payable monthly for life, equal to the product of: (1) average monthly compensation in the highest five years of creditable service, (2) creditable service during the appropriate period, and (3) the appropriate benefit percentage. Benefits are fully vested on reaching six years of service. Vested employees may retire after six years of creditable service and receive reduced retirement benefits.

Funding Policy: The contribution requirements of the system members and the City, are established and may be amended by the State. Plan members are not required to make contributions to the System. The City's contribution to the System for the years ended September 30, 2008, 2007 and 2006, were \$341,992, \$342,522 and \$217,718, respectively; and were equal to the required contributions for each year.

e. Other Post-employment Benefits

All City employees, with the exception of firefighters with required membership in either the Plan or the System (as noted in "d" above), based on date of hire, and sworn police officers with required membership in the Plan are provided with a benefits allowance as a percentage of gross pay. From the benefit allowance, employees are eligible for membership in the City's group health, life, and disability plans and may defer compensation into two separate Section 457 plans maintained by the City.

CITY OF MARCO ISLAND, FLORIDA
NOTES TO FINANCIAL STATEMENTS

NOTE D – OTHER INFORMATION (CONTINUED)

The City is a single employer that contributes to a defined contribution pension plan created in accordance with Internal Revenue Code 401(a). The Plan is available to all employees not covered under the Firefighters' or Police Officers' Pension Plans.

For employees hired by the City as part of its acquisition of the water system from Florida Utility, Inc., the City contributes 5% of annual covered payroll plus a match up to 4% of any employee's voluntary contribution. For all other employees, the City contributes 5% of annual covered payroll, and employees do not contribute. Employer contributions for FY08 were approximately \$278,370. Plan provision and contribution requirements are established and may be amended by the City Manager.

f. Subsequent Events

Long-term Liabilities

During fiscal year 2006, the City started a major program titled the Septic Tank Replacement Program (STRP) to bring central sewer to approximately 5,700 single-family residential parcels currently using septic tanks. The program has been divided into seventeen neighborhoods, to be constructed over seven years. Interim financing for the program to date has been provided through bank lines of credit at interest rates tied to LIBOR. Permanent financing, secured by assessments on properties being improved with central sewer, is obtained after each neighborhood has been constructed and actual costs are known. Permanent financing is obtained through a combination of subsidized interest rate financing from the State of Florida Revolving Loan Fund Program (SRF) and fixed rate bank loans. During fiscal year 2009, the City received the second half of SRF financing for central sewer neighborhood construction begun in fiscal year 2007 and completed in fiscal year 2008, financed on an interim basis by a bank line of credit. Bank loans will be completed during fiscal year 2009, with funding from these two sources used to retire the 2007 bank line of credit. During 2008, the City negotiated a second bank line of credit to finance Year 3 of the STRP. Draws on that line of credit were completed during fiscal year 2009. That line of credit will be refunded by permanent financing through the above-noted sources completed during fiscal years 2009 and 2010.

In November 2008, the City issued \$11 million in short-term financing as partial financing of the STRP. The City is also working on a utility revenue bond issue, scheduled for completion in August 2009. That bond issue will be in the range of \$52 million, financed by the utility rate base, and used to complete the financing needed for upgrade of the wastewater treatment plant to new micro bio-reactor technology to complement the plant expansion paid from sewer assessments. The November 2008 short-term financing will also be refunded from this bond issue.

CITY OF MARCO ISLAND, FLORIDA
NOTES TO FINANCIAL STATEMENTS

NOTE D – OTHER INFORMATION (CONTINUED)

Volatility in Financial Markets

Subsequent to year end, the credit and liquidity crisis in the United States and throughout the global financial system has resulted in substantial volatility in financial markets and the banking system. These and other economic events have had a significant adverse impact on the investment portfolios, including the pension funds. As a result the City's investments have incurred a decline in fair value since September 30, 2008.



**REQUIRED SUPPLEMENTARY
INFORMATION**

CITY OF MARCO ISLAND, FLORIDA
SCHEDULE OF FUNDING PROGRESS
CITY OF MARCO ISLAND FIREFIGHTERS' PENSION PLAN

Actuarial Valuation Date	(a) Actuarial Value of Assets	(b) Actuarial Accrued Liability (AAL) Entry Age	(b-a) Unfunded (Overfunded) AAL (UAAL)	(A/B) Funded Ratio	(c) Covered Payroll	(b-a)/(c) UAAL as a Percentage of Covered Payroll
10/1/1997	\$ 53,383	41,289	(12,094)	129.3%	164,716	(7.3)%
10/1/2000	364,049	105,398	(258,651)	345.4%	90,046	(287.2)%
10/1/2002	331,733	248,387	(83,346)	133.6%	365,065	(22.8)%
10/1/2004	684,654	523,963	(160,691)	130.7%	528,346	(30.4)%
10/1/2006	1,142,686	998,736	(143,950)	114.4%	812,703	(17.7)%
10/1/2007	1,629,498	1,448,921	(180,577)	112.5%	977,418	(18.5)%
10/1/2008	1,386,519	1,917,711	531,192	72.3%	1,154,776	46.0%

Note: Latest valuation was October 1, 2008

CITY OF MARCO ISLAND, FLORIDA
 SCHEDULE OF EMPLOYER AND STATE CONTRIBUTIONS
 CITY OF MARCO ISLAND FIREFIGHTERS' PENSION PLAN

<u>Fiscal Year Ended</u>	<u>Annual Required Contribution</u>	<u>City Contribution</u>	<u>State Contribution</u>	<u>Percentage Contributed</u>
9/30/2002	\$ 15,306	--	73,936	483.1%
9/30/2003	91,217	17,281	73,936	100.0%
9/30/2004	91,217	17,281	73,936	100.0%
9/30/2005	124,866	50,930	73,936	100.0%
9/30/2006	126,510	52,574	73,936	100.0%
9/30/2007	195,928	151,300	73,936	115.0%
9/30/2008	207,699	133,763	73,936	100.0%

CITY OF MARCO ISLAND, FLORIDA
SCHEDULE OF FUNDING PROGRESS
CITY OF MARCO ISLAND POLICE OFFICER'S PENSION PLAN

Actuarial Valuation Date	(a) Actuarial Value of Assets	(b) Actuarial Accrued Liability (AAL) Entry Age	(b-a) Unfunded (Overfunded) AAL (UAAL)	(A/B) Funded Ratio	(c) Covered Payroll	(b-a)/(c) UAAL as a Percentage of Covered Payroll
10/1/2005	\$ --	1,722,719	1,722,719	0.0%	1,459,781	118.00%
10/1/2006	375,400	2,799,941	2,424,541	13.4%	1,702,158	142.4%
10/1/2007	792,685	3,686,865	2,894,180	21.5%	1,844,318	156.90%
10/1/2008	1,363,977	4,977,447	3,613,470	27.4%	2,010,512	179.70%

Note: Latest valuation was October 1, 2008

CITY OF MARCO ISLAND, FLORIDA
SCHEDULE OF EMPLOYER AND STATE CONTRIBUTIONS
CITY OF MARCO ISLAND POLICE OFFICER'S PENSION PLAN

<u>Fiscal Year Ended</u>	<u>Annual Required Contribution</u>	<u>City Contribution</u>	<u>State Contribution</u>	<u>Percentage Contributed</u>
9/30/2006	\$ 312,780	257,999	54,781	100.0%
9/30/2007	322,163	229,970	92,193	100.0%
9/30/2008	447,402	374,369	95,758	105.1%

CITY OF MARCO ISLAND, FLORIDA
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES - BUDGET AND ACTUAL
GENERAL FUND
For the Year Ended September 30, 2008

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Taxes	\$ 14,948,200	14,948,200	15,098,513	150,313
Licenses and permits	33,000	33,000	30,590	(2,410)
Intergovernmental	2,356,900	2,386,131	2,114,077	(272,054)
Charges for services	290,000	290,000	378,902	88,902
Fines and forfeitures	102,000	102,000	198,951	96,951
Interest income	505,000	400,000	478,746	78,746
Miscellaneous	50,000	155,000	177,523	22,523
Total Revenues	<u>18,285,100</u>	<u>18,314,331</u>	<u>18,477,302</u>	<u>162,971</u>
Expenditures				
Current:				
General government:				
Legislative	59,399	59,460	55,448	4,012
Executive	621,120	767,722	707,656	60,066
Finance	1,425,192	1,493,009	1,333,730	159,279
Legal	191,864	432,136	435,958	(3,822)
Debt service	--	--	--	--
Community development	567,530	568,111	495,782	72,329
Other - unclassified	837,451	380,244	902,682	(522,438)
Total general government	<u>3,702,556</u>	<u>3,700,682</u>	<u>3,931,256</u>	<u>(230,574)</u>
Public safety:				
Police services	3,805,763	3,953,708	3,462,233	491,475
Fire and rescue	4,075,572	4,184,780	3,780,795	403,985
Code compliance	182,761	221,360	220,857	503
Total public safety	<u>8,064,096</u>	<u>8,359,848</u>	<u>7,463,885</u>	<u>895,963</u>
Highways and streets	1,258,486	1,259,775	1,097,863	161,912
Culture and recreation:				
Parks maintenance	544,510	545,068	486,658	58,410
Recreation programs	772,002	864,022	657,740	206,282
Racquet center	170,621	170,796	159,930	10,866
Beautification	539,880	540,434	397,054	143,380
Total culture and recreation	<u>2,027,013</u>	<u>2,120,320</u>	<u>1,701,382</u>	<u>418,938</u>
Total Expenditures	<u>15,052,151</u>	<u>15,440,625</u>	<u>14,194,386</u>	<u>1,246,239</u>
Excess of Revenues Over Expenditures	3,232,949	2,873,706	4,282,916	1,409,210
Other Financing Sources (Uses)				
Transfers in	--	940,824	--	(940,824)
Transfers out	--	(681,581)	(12,778,112)	(12,096,531)
Total Other Financing Sources (Uses)	<u>--</u>	<u>259,243</u>	<u>(12,778,112)</u>	<u>(13,037,355)</u>
Net Change in Fund Balances	3,232,949	3,132,949	(8,495,196)	(11,628,145)
Fund Balances - Beginning Balance	<u>20,784,372</u>	<u>20,784,372</u>	<u>20,784,372</u>	<u>--</u>
Fund Balances - Ending Balance	<u>\$ 24,017,321</u>	<u>23,917,321</u>	<u>12,289,176</u>	<u>(11,628,145)</u>

Annual budgets are adopted on a basis consistent with generally accepted accounting principles.

CITY OF MARCO ISLAND, FLORIDA
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES - BUDGET AND ACTUAL
ELECTRIC FUND
For the Year Ended September 30, 2008

	Budgeted Amounts		Actual Amounts	Variance With Final Budget
	Original	Final		
Revenues				
Taxes	\$ 1,800,000	1,800,000	1,920,620	120,620
Total Revenues	<u>1,800,000</u>	<u>1,800,000</u>	<u>1,920,620</u>	<u>120,620</u>
Expenditures				
Electric	750,000	1,533,530	1,103,886	429,644
Total Expenditures	<u>750,000</u>	<u>1,533,530</u>	<u>1,103,886</u>	<u>429,644</u>
Excess of Revenues Over Expenditures	1,050,000	266,470	816,734	550,264
Other Financing Sources				
Transfers in	--	95,000	95,000	--
Total Other Financing Sources	--	95,000	95,000	--
Net Change in Fund Balance	1,050,000	361,470	911,734	550,264
Fund Balances - Beginning Balance	<u>(1,045,253)</u>	<u>(1,045,253)</u>	<u>(1,045,253)</u>	<u>--</u>
Fund Balances - Ending Balance	<u>\$ 4,747</u>	<u>(683,783)</u>	<u>(133,519)</u>	<u>550,264</u>

Annual budgets are adopted on a basis consistent with generally accepted accounting principles.



SUPPORTING STATEMENTS AND SCHEDULES

Nonmajor Governmental Funds

Special Revenue Funds

Special revenue funds are used to account for specific revenues that are legally restricted to expenditure for particular purposes.

Emergency Relief Fund: This fund accounts for the resources accumulated and payments made by FEMA and outside agencies for emergency measures and debris clean up on public right-of-ways on Marco Island as a result of named storm events, and for the City to provide public safety personnel to assist other communities in their recovery efforts.

Building Services Fund: This fund accounts for revenue received from building permits and application fees to be used for the operation of the building department.

Debt Service Fund

The debt service fund accounts for the resources accumulated and payments made for principal and interest on long-term debt of the governmental funds.



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CITY OF MARCO ISLAND, FLORIDA
NONMAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
September 30, 2008

	<u>Special Revenue Funds</u>			Nonmajor Fund Totals
	<u>Emergency Relief</u>	<u>Building Services</u>	<u>Debt Service</u>	
Assets				
Pooled cash and investments	\$ --	2,061,420	1,327,777	3,389,197
Restricted cash and investments	--	--	558,310	558,310
Accounts receivable - Net	71,100	--	--	71,100
Due from other governments	30,634	--	--	30,634
Total Assets	<u>101,734</u>	<u>2,061,420</u>	<u>1,886,087</u>	<u>4,049,241</u>
Liabilities and Fund Balances				
Liabilities				
Accounts payable	19,318	18,286	--	37,604
Accrued liabilities	--	28,948	--	28,948
Due to other funds	411,699	--	--	411,699
Total Liabilities	<u>431,017</u>	<u>47,234</u>	<u>--</u>	<u>478,251</u>
Fund Balances				
Reserved for debt service	--	--	1,886,087	1,886,087
Unreserved, designated	(329,283)	2,014,186	--	1,684,903
Total Fund Balances	<u>(329,283)</u>	<u>2,014,186</u>	<u>1,886,087</u>	<u>3,570,990</u>
Total Liabilities and Fund Balances	<u>\$ 101,734</u>	<u>2,061,420</u>	<u>1,886,087</u>	<u>4,049,241</u>

CITY OF MARCO ISLAND, FLORIDA
NONMAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES
For the Year Ended September 30, 2008

	Special Revenue Funds			Nonmajor Fund Totals
	Emergency Relief	Building Services	Debt Service	
Revenues				
Taxes	\$ --	--	877,537	877,537
Licenses and permits	--	809,646	--	809,646
Intergovernmental	130,865	--	1,000,000	1,130,865
Interest	--	81,876	--	81,876
Total Revenues	<u>130,865</u>	<u>891,522</u>	<u>1,877,537</u>	<u>2,899,924</u>
Expenditures				
Current:				
General government	121,308	--	--	121,308
Building services	--	1,255,294	--	1,255,294
Debt service:				
Principal	--	--	2,045,087	2,045,087
Interest and fiscal charges	--	--	661,787	661,787
Total Expenditures	<u>121,308</u>	<u>1,255,294</u>	<u>2,706,874</u>	<u>4,083,476</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	9,557	(363,772)	(829,337)	(1,183,552)
Other Financing Sources - Transfers in	--	--	1,948,044	1,948,044
Net Change in Fund Balances	9,557	(363,772)	1,118,707	764,492
Fund Balances - October 1, 2007	<u>(338,840)</u>	<u>2,377,958</u>	<u>767,380</u>	<u>2,806,498</u>
Fund Balances - September 30, 2008	<u><u>\$ (329,283)</u></u>	<u><u>2,014,186</u></u>	<u><u>1,886,087</u></u>	<u><u>3,570,990</u></u>

CITY OF MARCO ISLAND, FLORIDA
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES - BUDGET AND ACTUAL
CAPITAL PROJECTS FUND
For the Year Ended September 30, 2008

	<u>Budgeted amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Intergovernmental	\$ 1,008,500	1,294,014	598,159	(695,855)
Miscellaneous	350,000	350,000	411,839	61,839
Total Revenues	<u>1,358,500</u>	<u>1,644,014</u>	<u>1,009,998</u>	<u>(634,016)</u>
Expenditures				
Capital outlay	<u>3,960,047</u>	<u>17,026,865</u>	<u>11,745,066</u>	<u>5,281,799</u>
Total Expenditures	<u>3,960,047</u>	<u>17,026,865</u>	<u>11,745,066</u>	<u>5,281,799</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures				
	<u>(2,601,547)</u>	<u>(15,382,851)</u>	<u>(10,735,068)</u>	<u>4,647,783</u>
Other Financing Sources (Uses)				
Transfers in	2,601,547	15,477,851	10,830,068	(4,647,783)
Transfers out	--	(95,000)	(95,000)	--
Total Other Financing Sources (Uses)	<u>2,601,547</u>	<u>15,382,851</u>	<u>10,735,068</u>	<u>(4,647,783)</u>
Net Change in Fund Balance	--	--	--	--
Fund Balance - October 1, 2007	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>
Fund Balance - September 30, 2008	<u>\$ --</u>	<u>--</u>	<u>--</u>	<u>--</u>

Annual budgets are adopted on a basis consistent with generally accepted accounting principles.

CITY OF MARCO ISLAND, FLORIDA
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES - BUDGET AND ACTUAL
BUILDING SERVICES FUND
For the Year Ended September 30, 2008

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Licenses and permits	\$ 1,526,943	1,526,943	809,646	(717,297)
Interest	--	--	81,876	81,876
Total Revenues	<u>1,526,943</u>	<u>1,526,943</u>	<u>891,522</u>	<u>(635,421)</u>
Expenditures				
Current:				
Building services:				
Personal services	786,605	786,605	719,908	66,697
Operating expenses	625,338	625,338	535,386	89,952
Capital outlay	115,000	115,000	--	115,000
Total Expenditures	<u>1,526,943</u>	<u>1,526,943</u>	<u>1,255,294</u>	<u>271,649</u>
Deficiency of Revenues Under Expenditures	--	--	(363,772)	(363,772)
Fund Balance - October 1, 2007	<u>2,377,958</u>	<u>2,377,958</u>	<u>2,377,958</u>	--
Fund Balance - September 30, 2008	<u><u>\$ 2,377,958</u></u>	<u><u>2,377,958</u></u>	<u><u>2,014,186</u></u>	<u><u>(363,772)</u></u>

Annual budgets are adopted on a basis consistent with generally accepted accounting principles.

CITY OF MARCO ISLAND, FLORIDA
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES - BUDGET AND ACTUAL
DEBT SERVICE FUND
For the Year Ended September 30, 2008

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Taxes	\$ 862,800	862,600	877,537	14,937
Intergovernmental	1,000,000	1,000,000	1,000,000	--
Miscellaneous	--	733,098	--	(733,098)
Total Revenues	<u>1,862,800</u>	<u>2,595,698</u>	<u>1,877,537</u>	<u>(718,161)</u>
Expenditures				
Debt service:				
Principal	2,045,087	2,045,087	2,045,087	--
Interest and fiscal charges	662,545	662,545	661,787	758
Total Expenditures	<u>2,707,632</u>	<u>2,707,632</u>	<u>2,706,874</u>	<u>758</u>
Deficiency of Revenues Under Expenditures	(844,832)	(111,934)	(829,337)	(717,403)
Other Financing Sources -				
Transfers in	864,798	131,700	1,948,044	1,816,344
Net Change in Fund Balance	19,966	19,766	1,118,707	1,098,941
Fund Balance - October 1, 2007	<u>767,380</u>	<u>767,380</u>	<u>767,380</u>	<u>--</u>
Fund Balance - September 30, 2008	<u>\$ 787,346</u>	<u>787,146</u>	<u>1,886,087</u>	<u>1,098,941</u>

Annual budgets are adopted on a basis consistent with generally accepted accounting principles.



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Fiduciary Funds

The pension trust funds account for the activities of the Firefighters' and Police Officers' Pension Plans, which accumulate resources for defined benefit payments to qualified employees.



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CITY OF MARCO ISLAND, FLORIDA
 COMBINING STATEMENT OF FIDUCIARY NET ASSETS
 FIDUCIARY FUNDS
 September 30, 2008

	Fire Pension	Police Pension	Total Fiduciary Funds
Assets			
Cash and cash equivalents	\$ 293,566	504,769	798,335
Contributions receivable	11,771	--	11,771
Due from other governments	234,216	--	234,216
Due from other funds	--	73,438	73,438
Investments, at fair value:			
Common stock	1,713,011	351,197	2,064,208
Government bonds	1,308,102	265,948	1,574,050
Accrued interest	10,355	2,106	12,461
Total Assets	3,571,021	1,197,458	4,768,479
Liabilities			
Accounts payable	5,123	3,263	8,386
Due to other funds	73,438	--	73,438
Total Liabilities	78,561	3,263	81,824
Net Assets			
Held in trust for pension benefits and other purposes	\$ 3,492,460	1,194,195	4,686,655

CITY OF MARCO ISLAND, FLORIDA
 COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
 FIDUCIARY FUNDS
 For the Year Ended September 30, 2008

	Fire Pension	Police Pension	Total Fiduciary Funds
Additions			
Contributions:			
Employer	\$ 133,763	374,369	508,132
Employee	10,593	102,275	112,868
State of Florida insurance funds, from the City			
General Fund	532,613	95,758	628,371
Other	7	--	7
Total contributions	<u>676,976</u>	<u>572,402</u>	<u>1,249,378</u>
Investment earnings (losses):			
Investment earnings	(407,231)	(140,428)	(547,659)
Investment expenses	(31,930)	(7,265)	(39,195)
Net investment earnings (losses)	<u>(439,161)</u>	<u>(147,693)</u>	<u>(586,854)</u>
Total Additions	237,815	424,709	662,524
Deductions			
Legal	9,538	8,100	17,638
Actuary	9,049	5,539	14,588
Administrative	2,921	3,371	6,292
Refunds to contributors	610	6,189	6,799
Total Deductions	<u>22,118</u>	<u>23,199</u>	<u>45,317</u>
Change in Net Assets	215,697	401,510	617,207
Net Assets - October 1, 2007	<u>3,276,763</u>	<u>792,685</u>	<u>4,069,448</u>
Net Assets - September 30, 2008	<u>\$ 3,492,460</u>	<u>1,194,195</u>	<u>4,686,655</u>



OTHER SCHEDULES

CITY OF MARCO ISLAND, FLORIDA
 CAPITAL ASSETS USED IN THE OPERATION OF GOVERNMENTAL ACTIVITIES
 SCHEDULE BY FUNCTION AND ACTIVITY
 September 30, 2008

	Land	Buildings and Improvements	Infrastructure	Vehicles and Equipment	Construction in Process	Total
Governmental Activities						
City council	\$ --	--	--	40,182	--	40,182
Executive	--	--	--	109,414	--	109,414
Finance	--	--	--	188,880	--	188,880
Community development	45,000	--	--	66,115	--	111,115
Other general government	890,030	672,556	--	377,569	--	1,940,155
Total General Government	<u>935,030</u>	<u>672,556</u>	<u>--</u>	<u>782,160</u>	<u>--</u>	<u>2,389,746</u>
Electric						
Electric	--	--	2,165,705	--	4,984,469	7,150,174
Public Safety						
Code compliance	--	--	--	74,652	--	74,652
Police services	--	15,587	--	1,333,174	5,693,272	7,042,033
Fire and rescue	575,227	1,843,205	--	2,129,423	--	4,547,855
Building services	--	13,857	--	147,137	--	160,994
Total Public Safety	<u>575,227</u>	<u>1,872,649</u>	<u>--</u>	<u>3,684,386</u>	<u>5,693,272</u>	<u>11,825,534</u>
Culture and Recreation						
Park maintenance	221,137	19,755	--	423,077	--	663,969
Recreation	3,366,625	1,168,240	--	106,995	--	4,641,860
Beautification	121,988	21,726	--	139,454	43,144	326,312
Pathways	--	--	2,790,160	--	75,230	2,865,390
Beaches and waterways	--	--	342,778	--	--	342,778
Parks	9,813,130	--	977,175	--	1,789,033	12,579,338
Total Culture and Recreation	<u>13,522,880</u>	<u>1,209,721</u>	<u>4,110,113</u>	<u>669,526</u>	<u>1,907,407</u>	<u>21,419,647</u>
Transportation						
Public works	--	--	--	372,476	--	372,476
Road network	--	--	29,318,087	--	2,183,130	31,501,217
Storm water	--	--	10,676,846	--	285,653	10,962,499
Bridge network	--	--	6,276,724	--	6,669,974	12,946,698
Total Primary Government	<u>--</u>	<u>--</u>	<u>46,271,657</u>	<u>372,476</u>	<u>9,138,757</u>	<u>55,782,890</u>
Total Governmental Funds						
Capital Assets	<u>\$ 15,033,137</u>	<u>3,754,926</u>	<u>52,547,475</u>	<u>5,508,548</u>	<u>21,723,905</u>	<u>98,567,991</u>

CITY OF MARCO ISLAND, FLORIDA
CAPITAL ASSETS USED IN THE OPERATION OF GOVERNMENTAL ACTIVITIES
SCHEDULE OF CHANGES BY FUNCTION AND ACTIVITY
For the Year Ended September 30, 2008

	Capital Assets 10/1/07	Acquisitions	Disposals	Transfers	Capital Assets 9/30/08
Governmental Activities					
City Council	\$ 53,118	15,606	--	(28,542)	40,182
Executive	30,586	25,954	--	52,874	109,414
Finance	110,155	24,957	--	53,768	188,880
Community development	118,541	--	--	(7,426)	111,115
Other general government	1,904,306	2,473	--	33,376	1,940,155
Total General Government	2,216,706	68,990	--	104,050	2,389,746
Electric					
Electric	6,372,256	777,918	--	--	7,150,174
Public Safety					
Code compliance	45,799	--	--	28,853	74,652
Police services	6,389,725	581,056	--	71,252	7,042,033
Fire and rescue	4,437,123	47,412	--	63,320	4,547,855
Building services	84,609	--	--	76,385	160,994
Total Public Safety	10,957,256	628,468	--	239,810	11,825,534
Culture and Recreation					
Park maintenance	683,272	30,292	(45,055)	(4,540)	663,969
Recreation	4,826,328	4,735	--	(189,203)	4,641,860
Beautification	143,714	43,144	--	139,454	326,312
Pathways	3,386,719	42,730	--	(564,059)	2,865,390
Beaches and waterways	302,893	39,885	--	--	342,778
Parks	11,510,845	904,677	--	163,816	12,579,338
Total Culture and Recreation	20,853,771	1,065,463	(45,055)	(454,532)	21,419,647
Transportation					
Public works	183,793	78,011	--	110,672	372,476
Road network	27,527,257	3,973,960	--	--	31,501,217
Storm water	10,390,739	571,760	--	--	10,962,499
Bridge network	7,213,005	5,733,693	--	--	12,946,698
Total Primary Government	45,314,794	10,357,424	--	110,672	55,782,890
Total Capital Assets	\$ 85,714,783	12,898,263	(45,055)	--	98,567,991



STATISTICAL SECTION

STATISTICAL SECTION

This part of the City of Marco Island, Florida'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 City's overall financial health. The following types of information are presented:

Financial Trends

These schedules contain trend information to help the reader understand how the City's financial performance and well-being have changed over time.

Revenue Capacity

These schedules contain information to help the reader assess the City's most significant local revenue source, the property tax.

Debt Capacity

These schedules present information to help the reader assess the affordability of the City's current levels of outstanding debt, and the City's ability to issue additional debt in the future. The City has no overlapping debt or legal debt margin.

Demographic and Economic Information

These schedules offer demographic and economic indicators to help the reader understand the environment within which the City's financial activities take place. Demographic and economic information for total personal income, per capita income, unemployment rates, and total employment are not available specific to the City. County-wide data is available at www.colliergov.net.

Operating Information

These schedules contain service and infrastructure data to help the reader understand how the information in the City's financial report relates to the services the government provides and the activities it performs.

Sources: Unless otherwise noted, the information in these schedules is derived from the comprehensive annual financial reports for the relevant year.



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CITY OF MARCO ISLAND, FLORIDA
NET ASSETS BY COMPONENT
LAST FIVE FISCAL YEARS ⁽¹⁾
(accrual basis of accounting)

	2008	2007	2006	2005	2004
Governmental Activities					
Invested in capital assets, net of related debt	\$ 64,857,666	53,038,873	37,670,845	25,914,490	14,140,148
Restricted	6,856,789	14,549,105	23,500,743	18,455,208	3,969,046
Unrestricted	8,680,011	7,536,012	6,102,668	12,478,696	15,721,810
Total governmental activities net assets	80,394,466	75,123,990	67,274,256	56,848,394	33,831,004
Business-type Activities					
Invested in capital assets, net of related debt	35,680,521	19,956,161	13,601,948	8,520,919	4,187,756
Restricted	7,454,188	5,878,767	7,510,845	13,044,910	12,198,489
Unrestricted	6,096,803	(3,752,960)	(10,572,102)	(13,285,715)	(12,720,573)
Total Business-type activities net assets	49,231,512	22,081,968	10,540,691	8,280,114	3,665,672
Primary Government					
Invested in capital assets, net of related debt	100,538,187	72,995,034	51,272,793	34,435,409	18,327,904
Restricted	14,310,977	20,427,872	31,011,588	31,500,118	16,167,535
Unrestricted	14,776,814	3,783,052	(4,469,434)	(807,019)	3,001,237
Total primary government net assets	\$ 129,625,978	97,205,958	77,814,947	65,128,508	37,496,676

⁽¹⁾ The City began to report accrual information when it implemented GASB Statement 34 in fiscal year 2004. Ultimately, this schedule will contain information for the last ten years.

CITY OF MARCO ISLAND, FLORIDA
 CHANGES IN NET ASSETS
 LAST FIVE FISCAL YEARS ⁽¹⁾
 (accrual basis of accounting)

	2008	2007	2006	2005	2004
Expenses					
Governmental Activities					
General government	\$ 3,990,986	3,769,788	4,799,331	3,187,492	2,883,757
Police services	3,394,126	3,570,381	3,024,973	2,690,359	2,606,276
Fire and rescue	3,902,445	3,633,748	3,156,845	2,547,211	2,768,306
Code compliance	197,316	179,376	148,161	116,787	199,036
Building services	1,216,644	1,350,070	1,128,468	680,662	1,020,790
Transportation	3,310,760	3,008,553	2,726,090	373,196	1,310,664
Culture and recreation	2,266,414	1,922,094	1,574,669	911,520	3,334,436
Electric	325,969	--	--	--	--
Interest on long-term debt	647,164	713,034	628,218	499,811	139,825
Total governmental activities expenses	<u>19,251,824</u>	<u>18,147,044</u>	<u>17,186,755</u>	<u>11,007,038</u>	<u>14,263,090</u>
Business-Type Activities					
Water and sewer	21,598,968	19,576,391	17,736,604	16,796,415	15,454,681
Recreation	247,977	148,389	118,309	107,047	90,020
Total business-type activities expenses	<u>21,846,945</u>	<u>19,724,780</u>	<u>17,854,913</u>	<u>16,903,462</u>	<u>15,544,701</u>
Total primary government expenses	<u>41,098,769</u>	<u>37,871,824</u>	<u>35,041,668</u>	<u>27,910,500</u>	<u>29,807,791</u>
Program Revenues					
Governmental Activities					
Charges for services - building services	809,646	972,129	1,162,729	1,191,347	2,095,309
Charges for services - other activities	709,424	527,208	454,273	493,709	333,296
Operating grants and contributions	199,781	321,497	2,259,878	1,115,222	1,721,352
Capital grants and contributions	2,050,675	2,423,999	2,481,096	4,831,353	2,485,005
Total governmental activities program revenues	<u>3,769,526</u>	<u>4,244,833</u>	<u>6,357,976</u>	<u>7,631,631</u>	<u>6,634,962</u>
Business-Type Activities					
Charges for services - water and sewer	22,137,097	20,635,378	19,050,271	17,584,305	16,509,717
Charges for services - other activities	144,482	116,095	105,011	1,635,934	98,547
Operating grants and contributions	122,866	55,127	45,003	42,389	37,810
Capital grants and contributions	24,655,181	6,925,418	1,450,000	504,360	-
Total business-type activities program revenues	<u>47,059,626</u>	<u>27,732,018</u>	<u>20,650,285</u>	<u>19,766,988</u>	<u>16,646,074</u>
Net (Expenses) Revenues					
Governmental activities	(15,482,298)	(13,902,211)	(10,828,779)	(3,375,407)	(7,628,128)
Business-type activities	25,212,681	8,007,238	2,795,372	2,863,526	1,101,373
Total primary government net expense	<u>9,730,383</u>	<u>(5,894,973)</u>	<u>(8,033,407)</u>	<u>(511,881)</u>	<u>(6,526,755)</u>

(Continued)

CITY OF MARCO ISLAND, FLORIDA
 CHANGES IN NET ASSETS
 LAST FIVE FISCAL YEARS (1)
 (accrual basis of accounting)
 (continued)

	2008	2007	2006	2005	2004
General Revenues and Other Changes in Net Assets					
Governmental Activities					
Taxes:					
Property taxes	14,329,937	15,315,942	11,852,368	10,554,795	9,933,131
Communication service tax	980,662	914,729	997,457	967,296	1,056,959
Other taxes	665,451	676,038	870,728	315,630	--
Franchise fees	1,920,620	1,913,134	1,882,013		
State shared revenues	1,943,146	1,952,268	2,393,388	2,270,293	1,750,719
Interest	560,622	919,185	1,279,907	621,291	347,976
Gain on sale of capital assets	--	20,000	--	250,000	--
Miscellaneous	352,336	40,649	446,924	2,048,983	984,134
Transfers	--	--	--	108,759	--
Total governmental activities	<u>20,752,774</u>	<u>21,751,945</u>	<u>19,722,785</u>	<u>17,137,047</u>	<u>14,072,919</u>
Business-type Activities					
Interest	1,476,393	797,892	518,451	306,738	256,333
Miscellaneous	460,470	2,736,147	478,610	1,552,937	73,989
Transfers	--	--	--	(108,759)	--
Total Business-type activities	<u>1,936,863</u>	<u>3,534,039</u>	<u>997,061</u>	<u>1,750,916</u>	<u>330,322</u>
Total primary government	<u>22,689,637</u>	<u>25,285,984</u>	<u>20,719,846</u>	<u>18,887,963</u>	<u>14,403,241</u>
Change in Net Assets					
Governmental Activities	5,270,476	7,849,734	8,894,006	13,761,640	6,444,791
Business-type Activities	27,149,544	11,541,277	3,792,433	4,614,442	1,431,695
Total Primary Government	<u>\$ 32,420,020</u>	<u>19,391,011</u>	<u>12,686,439</u>	<u>18,376,082</u>	<u>7,876,486</u>

⁽¹⁾ The City began to report accrual information when it implemented GASB Statement 34 in fiscal year 2004. Ultimately, this schedule will contain information for the last ten years.

CITY OF MARCO ISLAND, FLORIDA
 FUND BALANCES OF GOVERNMENTAL FUNDS
 LAST FIVE FISCAL YEARS ⁽¹⁾
 (modified accrual basis of accounting)

	2008	2007	2006	2005	2004
General fund					
Reserved	\$ 550,899	1,139,950	908,293	4,355,795	3,979,961
Unreserved:					
Designated	9,636,801	17,146,589	26,222,575	17,395,304	10,206,736
Undesignated	2,101,476	2,497,833	2,027,228	6,354,549	3,221,265
Total unreserved	<u>11,738,277</u>	<u>19,644,422</u>	<u>28,249,803</u>	<u>23,749,853</u>	<u>13,428,001</u>
Total general fund	<u>\$ 24,027,453</u>	<u>40,428,794</u>	<u>57,407,899</u>	<u>51,855,501</u>	<u>30,835,963</u>
All other governmental funds					
Reserved					
Debt service fund	\$ 1,886,087	767,380	447,019	508,100	--
Unreserved					
Special revenue funds	1,551,384	993,865	374,843	2,431,981	2,201,959
Total all other governmental funds	<u>\$ 3,437,471</u>	<u>1,761,245</u>	<u>821,862</u>	<u>2,940,081</u>	<u>2,201,959</u>
Total governmental funds					
Reserved	\$ 2,436,986	1,907,330	1,355,312	4,863,895	3,979,961
Unreserved	13,289,661	20,638,287	28,624,646	26,181,834	15,629,960
Total governmental funds	<u>\$ 15,726,647</u>	<u>22,545,617</u>	<u>29,979,958</u>	<u>31,045,729</u>	<u>19,609,921</u>

⁽¹⁾ The City began to report accrual information when it implemented GASB Statement 34 in fiscal year 2004. Ultimately, this schedule will contain information for the last ten years.

CITY OF MARCO ISLAND, FLORIDA
 CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
 LAST FIVE FISCAL YEARS ⁽¹⁾
 (modified accrual basis of accounting)

	2008	2007	2006	2005	2004
Revenues					
Taxes	\$ 17,896,670	18,819,843	16,341,065	12,585,979	11,870,991
Licenses and permits	840,236	1,008,708	1,199,975	1,229,030	2,130,035
Intergovernmental	3,843,101	4,271,471	6,451,616	8,842,937	5,278,142
Charges for services	378,902	435,456	302,343	355,670	522,944
Fines and forfeitures	198,951	82,001	37,047	252,832	91,794
Interest income	560,622	919,185	1,279,907	621,291	347,976
Miscellaneous	589,362	355,365	344,177	528,190	1,102,955
Total Revenues	<u>24,307,844</u>	<u>25,892,029</u>	<u>25,956,130</u>	<u>24,415,929</u>	<u>21,344,837</u>
Expenditures					
Current:					
General government	4,052,564	3,602,926	3,905,826	2,868,842	2,246,456
Police services	3,462,233	3,468,913	3,282,913	2,593,972	2,594,499
Fire and rescue	3,780,795	3,553,821	3,140,112	3,371,921	2,663,257
Code compliance	220,857	177,469	177,085	112,562	195,834
Electric	1,103,886	1,027,835	--	--	--
Building services	1,255,294	1,326,773	1,105,985	1,011,005	1,012,830
Transportation	1,097,863	1,153,895	951,800	1,106,152	1,179,243
Culture and recreation	1,701,382	1,712,998	1,413,631	1,244,657	1,545,047
Debt service:					
Principal	2,045,087	1,687,485	669,973	131,922	491,264
Interest	661,787	728,053	568,046	349,192	139,825
Bond issue costs	--	--	33,810	71,228	84,209
Capital outlay	<u>11,745,066</u>	<u>14,906,202</u>	<u>15,680,011</u>	<u>6,690,666</u>	<u>13,780,786</u>
Total Expenditures	<u>31,126,814</u>	<u>33,346,370</u>	<u>30,929,192</u>	<u>19,552,119</u>	<u>25,933,250</u>
Excess (deficiency) of revenues over (under) expenditures	(6,818,970)	(7,454,341)	(4,973,062)	4,863,810	(4,588,413)
Other Financing Sources (Uses)					
Transfers in	12,873,112	14,617,571	5,648,748	6,572,583	1,932,385
Transfers out	(12,873,112)	(14,617,571)	(5,648,748)	(6,786,877)	(1,932,385)
Proceeds from sale of capital asset	--	20,000	--	--	--
Capital leases	--	--	--	786,292	--
Bonds issued	--	--	4,000,000	6,000,000	9,860,000
Total other financing sources (uses)	<u>--</u>	<u>20,000</u>	<u>4,000,000</u>	<u>6,571,998</u>	<u>9,860,000</u>
Net change in fund balance	<u>\$ (6,818,970)</u>	<u>(7,434,341)</u>	<u>(973,062)</u>	<u>11,435,808</u>	<u>5,271,587</u>
Debt service as a percentage of non-capital expenditures	14.85%	14.13%	8.56%	5.35%	6.16%

⁽¹⁾ The City began to report accrual information when it implemented GASB Statement 34 in fiscal year 2004. Ultimately, this schedule will contain information for the last ten years.

Capital outlay (per above)	\$ 11,745,066	14,906,202	15,680,011	6,690,666	13,780,786
Capital outlay included in current expenditures	1,153,197	1,340,988	396,895	2,546,777	539,886
Total capital outlay	<u>\$ 12,898,263</u>	<u>16,247,190</u>	<u>16,076,906</u>	<u>9,237,443</u>	<u>14,320,672</u>

CITY OF MARCO ISLAND, FLORIDA
 ASSESSED VALUE OF TAXABLE PROPERTY
 LAST TEN FISCAL YEARS

Fiscal Year	Assessed January 1st	Taxable Values	Percent Increase (Decrease) Over Prior Year	Taxable Value of New Construction
1999	1998	\$ 3,060,987,023	7.7%	118,283,165
2000	1999	3,466,113,897	13.2%	61,749,131
2001	2000	3,874,706,433	11.8%	151,720,050
2002	2001	4,691,374,309	21.1%	84,105,188
2003	2002	5,609,081,378	19.5%	195,235,590
2004	2003	6,352,910,401	13.2%	114,746,362
2005	2004	7,117,033,513	11.9%	139,193,267
2006	2005	9,487,437,304	33.3%	451,529,721 ⁽¹⁾
2007	2006	12,026,168,600	26.8%	311,400,976
2008	2007	11,570,581,313	(3.8)%	267,022,229
2009 ⁽²⁾	2008	10,486,293,910	(9.4)%	70,019,776

Source: Collier County Property Appraiser

⁽¹⁾ Includes annexation of Key Marco, approximately 4% of the annual growth.

⁽²⁾ Information only. 2008 assessed values are used for fiscal year 2009 tax revenues.

CITY OF MARCO ISLAND, FLORIDA
PROPERTY TAX RATES - DIRECT AND OVERLAPPING GOVERNMENTS
(PER \$1,000 ASSESSED VALUES)
LAST TEN FISCAL YEARS

Fiscal Year Ended	Direct		Overlapping										TOTAL LEVY
	City Operating	City Debt Service	Marco Fire District	Collier County Unincorp. MSTD's ⁽¹⁾	Collier County Parks and Rec MSTU	Collier County Operating	Collier School Board	Mosquito Control	South FL Water Management	Water Pollution Control	Big Cypress Basin	Collier County Other	
1999 ⁽²⁾	2.1112	--	--	--	0.0495	3.5510	8.5100	0.1953	0.2840	0.0413	0.2780	--	15.0203
2000	1.6500	--	--	--	0.0436	3.5058	7.7600	0.1923	0.2840	0.0355	0.2780	--	13.7492
2001	1.5087	--	--	--	0.0377	3.5028	7.7220	0.1748	0.2840	0.0445	0.2780	--	13.5525
2002	1.7437	--	--	--	0.0318	3.8772	7.2310	0.1465	0.2840	0.0420	0.2425	--	13.5987
2003	1.6900	--	--	--	0.0268	3.8772	6.9110	0.1167	0.2840	0.0347	0.2425	--	13.1829
2004	1.6200	--	--	--	--	3.8772	6.5240	0.1051	0.2840	0.0347	0.2425	0.2500	12.9375
2005	1.5400	0.0460	--	--	--	3.8772	6.2200	0.0962	0.2840	0.0347	0.2425	0.2500	12.5906
2006	1.2925	0.0950	--	--	--	3.8772	5.9730	0.0830	0.2840	0.0347	0.2425	0.2500	12.1319
2007	1.2445	0.0736	--	--	--	3.7290	5.5250	0.0680	0.2840	0.0320	0.2425	0.2500	11.4486
2008	1.2048	0.0785	--	--	--	3.1469	5.3510	0.0635	0.2549	0.0280	0.2265	0.3742	10.7283
2009 ⁽³⁾	1.3917	0.0849	--	--	--	3.2969	4.9090	0.0635	0.2549	0.0293	0.2265	0.2329	10.4896

⁽¹⁾ Includes Roads and Streets MSTU#1 0.195 mils; Unincorporated MSTD 0.5721 mils; Marco Beautification MSTD 0.167 mils.

⁽²⁾ The City operating tax levy of 2.112 mils for Fiscal Year 1999 was set at a level to allow the City to be eligible for Florida Municipal Revenue Sharing.

⁽³⁾ Information only.

CITY OF MARCO ISLAND, FLORIDA
PRINCIPAL PROPERTY TAXPAYERS
CURRENT YEAR AND NINE YEARS AGO

Taxpayer	Property by Type	January 1, 2008 Assessed Valuation	Rank	% of Total Assessed Valuation	January 1, 1999 Valuation	Rank	% of Total Assessed Valuation
Marco Beach Hotel, Inc.	Hospitality	\$ 79,476,000	1	0.76%	29,201,816	2	0.84%
City National Bank of Miami Marriott Marco Island Resort	Hospitality	63,710,000	2	0.61%	73,980,277	1	2.13%
Marriott Ownership Properties	Hospitality	46,471,000	3	0.44%	25,555,770	3	0.73%
Marco Town Center, Inc.	Real Estate Developer	27,338,000	4	0.26%	5,588,853	6	0.16%
A & N of Marco, Inc.	Real Estate Developer	21,368,000	5	0.20%	4,568,568	10	0.13%
Bates, Wesley C.	Residence	14,151,000	6	0.13%	--	--	--
Gregg Holdings, Inc.	Real Estate Developer	13,898,000	7	0.13%	--	--	--
Island Country Club	Golf Course	13,540,000	8	0.13%	5,888,814	5	0.16%
Venetian Investments, Inc.	Real Estate Developer	12,647,000	9	0.12%	--	--	--
Island Plaza Center, LLD	Real Estate Developer	12,585,000	10	0.12%	--	--	--
Point Marco Development Corp. dba Cape Marco	Real Estate Developer	--		--	7,111,602	4	0.20%
Winn-Dixie Stores	Grocery Store	--		--	5,423,236	7	
Tract B, Inc. dba Mission Plaza	Real Estate Developer	--		--	5,252,702	8	0.15%
Shops of Marco	Real Estate Developer	--		--	4,785,343	9	0.13%
Total		\$ 305,184,000		2.90%	167,356,981		4.63%

Source: Collier County Property Appraiser

CITY OF MARCO ISLAND, FLORIDA
PROPERTY TAX LEVIES AND COLLECTIONS ⁽¹⁾
LAST TEN FISCAL YEARS

Fiscal Year	Taxes Assessed January 1st	Total Tax Levy	Current Tax Collections	Percent of Current Taxes Collected	Delinquent Tax Collections
1999	1998	6,462,356	6,243,114	96.6%	5,461
2000	1999	5,726,991	5,525,097	96.5%	14,273
2001	2000	5,850,687	5,642,805	96.4%	4,735
2002	2001	8,180,349	7,904,281	96.7%	4,094
2003	2002	9,480,531	9,150,389	96.5%	5,659
2004	2003	10,291,715	9,919,609	96.4%	13,523
2005	2004	11,287,615	10,866,603	96.3%	3,823
2006	2005	13,163,819	12,713,792	96.6%	9,304
2007	2006	16,857,132	16,212,857	96.2%	11,693
2008	2007	15,683,488	15,124,912	96.4%	27,794

Source: Collier County Tax Collector

⁽¹⁾ Under Florida State Statutes, property owners are entitled to up to a 4% reduction in ad valorem tax payments for early payment. Outstanding delinquent taxes for the City of Marco Island are not significant.

CITY OF MARCO ISLAND, FLORIDA
RATIOS OF OUTSTANDING DEBT BY TYPE
LAST TEN FISCAL YEARS

Fiscal Year	Governmental Activities			Business-Type Activities			Total Primary Government	Per Capita
	General Obligation Bonds	Capital Improvement Revenue Bonds	Capital Leases	Water/Sewer Revenue Bonds ⁽¹⁾	STRP ⁽²⁾ Assessment Bonds & Notes			
1999	\$ --	--	898,901	--	--	--	898,901	63
2000	--	--	822,844	--	--	--	822,844	55
2001	--	--	737,843	--	--	--	737,843	49
2002	--	935,000	664,826	--	--	--	1,599,826	105
2003	--	885,000	535,743	--	--	--	1,420,743	93
2004	9,860,000	835,000	396,664	101,115,000	--	--	112,206,664	7,204
2005	9,860,000	6,780,000	459,370	101,115,000	--	--	118,214,370	7,421
2006	9,315,000	10,725,000	389,397	99,205,000	--	--	119,634,397	7,374
2007	8,760,000	9,665,000	316,912	102,755,000	21,622,508	--	143,119,420	9,044
2008	8,195,000	8,260,000	241,825	100,765,000	46,926,509	--	164,388,334	9,753

Source: City of Marco Island Finance Department.

⁽¹⁾ Water and wastewater operations on Marco Island and at Marco Shores acquired from Florida Water Services in November 2003.

⁽²⁾ Septic Tank Replacement Program: Bank line of credit and state revolving loan.

CITY OF MARCO ISLAND, FLORIDA
RATIOS OF GENERAL BONDED DEBT OUTSTANDING
LAST TEN FISCAL YEARS

Fiscal Year	General Obligation Bonds	Capital Improvement Revenue Bonds	Total	Percentage of Taxable Assessed Value	Per Capita
1999	\$ --	--	--	--	--
2000	--	--	--	--	--
2001	--	--	--	--	--
2002	--	935,000	935,000	0.02%	61
2003	--	885,000	885,000	0.02%	58
2004	9,860,000	835,000	10,695,000	0.17%	687
2005	9,860,000	6,780,000	16,640,000	0.23%	1,045
2006	9,315,000	10,725,000	20,040,000	0.21%	1,235
2007	8,760,000	9,665,000	18,425,000	0.15%	1,164
2008	8,195,000	8,260,000	16,455,000	0.14%	976

Source: City of Marco Island Finance Department.

CITY OF MARCO ISLAND, FLORIDA
 PLEDGED REVENUE BOND COVERAGE
 WATER/SEWER REVENUE BONDS
 LAST FIVE FISCAL YEARS⁽¹⁾

Fiscal Year	Water/Sewer Operating Revenues	Water/Sewer Impact Fees	Less: Operating Expenses	Net Revenues With Impact Fees	Net Revenues Without Impact Fees	Debt Service ⁽²⁾	Coverage With Impact Fees ⁽³⁾	Coverage Without Impact Fees ⁽⁴⁾
2004 ⁽⁵⁾	\$ 15,396,743	1,443,296	7,753,809	9,086,230	7,642,934	4,226,703	2.15	1.81
2005	18,069,517	1,374,463	8,314,877	11,129,103	9,754,640	6,597,764	1.69	1.48
2006	19,640,936	406,396	8,928,958	11,118,374	10,711,978	6,578,700	1.69	1.63
2007	20,635,378	254,524	9,813,521	11,076,381	10,821,857	6,574,398	1.68	1.65
2008	22,137,097	426,496	11,047,517	11,516,076	11,089,580	6,955,086	1.74	1.68

⁽¹⁾ The City purchased the water and sewer utility operations in November 2003 from Florida Water Services, Inc. \$101 million in utility revenue bonds were issued to finance the acquisition.

⁽²⁾ Excludes sewer assessment long-term debt.

⁽³⁾ Debt service coverage requirement, with impact fees included in net revenues, is 1.20.

⁽⁴⁾ Debt service coverage requirement, with impact fees excluded from net revenues, is 1.10.

⁽⁵⁾ Utility was acquired November 7, 2003. Fiscal Year 2004 is a partial year for revenues and expenses. Debt service is interest only.

Source: City of Marco Island Finance Department

CITY OF MARCO ISLAND, FLORIDA
 DEMOGRAPHIC AND ECONOMIC STATISTICS
 LAST TEN CALENDAR YEARS

Fiscal Year	Population			Income			Florida Unemployment Rate ⁽³⁾
	City of Marco Island ⁽²⁾	Collier County ⁽²⁾	State of Florida ⁽²⁾	Florida Personal Income (in millions of dollars) ⁽³⁾	Naples-Marco Island Per Capita Personal Income ⁽⁴⁾	Florida Per Capita Personal Income ⁽³⁾	
1980 ⁽¹⁾	4,679	85,971	9,746,400	\$ NA	NA	NA	NA
1990 ⁽¹⁾	9,493	152,099	12,937,926	NA	NA	NA	NA
1995 ⁽¹⁾	11,343	186,504	14,149,317	NA	NA	NA	NA
2000	14,879	251,377	15,982,978	NA	NA	NA	NA
2001	15,080	264,475	16,331,739	486,866	NA	29,039	6.0
2002	15,206	277,457	16,674,608	503,348	NA	29,451	5.5
2003	15,346	286,634	17,019,068	537,536	NA	29,803	4.9
2004	15,576	306,186	17,516,732	590,405	NA	31,476	4.4
2005	15,659	319,905	17,872,295	641,866	53,867	33,377	3.5
2006	15,742	326,881	18,276,331	684,382	59,895	34,919	3.3
2007	15,825	333,858	18,680,367	722,631	63,276	36,273	4.3
2008	16,856	332,854	18,807,219	NA	NA	NA	NA

⁽¹⁾ Population statistics for the City of Marco Island prior to incorporation in 1997 based on the current City limits.

⁽²⁾ Source: Bureau of Economic Research, University of Florida

⁽³⁾ Source: Florida Tax Watch

⁽⁴⁾ Source: Florida Office of Economic & Demographic Research

2000 Population by Age Group		
Age Group	Marco Island	Collier County
0 - 14	1,327	41,552
15 - 24	753	25,090
25 - 44	2,153	61,730
45 - 65	4,931	61,492
65+	5,715	61,513

Source: U.S. Census Bureau, 2000 Census

CITY OF MARCO ISLAND, FLORIDA
 FULL-TIME EQUIVALENT EMPLOYEES
 BY DEPARTMENT AS OF SEPTEMBER 30
 LAST SEVEN FISCAL YEARS

Department	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004⁽¹⁾</u>	<u>2003</u>	<u>2002⁽²⁾</u>
General Fund:							
Executive Administration	8	6	5	5	5	5	5
Finance	14	15	15	14	14	4	4
Community Development	8	8	8	8	8	8	8
Fire / Rescue	35	35	32	32	31	31	31
Police	36	36	33	33	31	30	29
Public Works	11	11	9	8	8	8	8
Parks and Recreation	<u>15</u>	<u>15</u>	<u>14</u>	<u>12</u>	<u>12</u>	<u>8</u>	<u>3</u>
Total General Fund	127	126	116	112	109	94	88
Water / Sewer Enterprise Fund	61	58	51	49	49	1	1
Building Services Fund	10	10	8	8	7	7	7
Recreation Enterprise Fund	3	1	1	1	--	--	--
TOTAL	201	195	176	170	165	102	96

⁽¹⁾ Water and wastewater operations on Marco Island and at Marco Shores acquired from Florida Water Services in November 2003.

⁽²⁾ Detailed information not available prior to fiscal year 2002.

Source: City of Marco Island annual budgets.

CITY OF MARCO ISLAND, FLORIDA
 OPERATING INDICATORS BY DEPARTMENT
 LAST SEVEN FISCAL YEARS

Department	Fiscal Year						
	2008	2007	2006	2005	2004	2003	2002 ⁽²⁾
Police Department							
Calls for Service	61,430	52,273	29,291	33,480	41,527	32,290	27,920
Fire Department							
Calls for Service	2,448	2,911	2,467	2,481	2,358	2,095	2,329
Building Department							
New Single-Family Homes	28	43	72	136	233	211	202
New Multi-Family Units	7	0	0	33	123	172	254
Total Permits Issued	5,194	5,456	7,121	4,917	4,836	4,981	4,304
Water Production ⁽¹⁾							
Number of Customers	9,496	9,517	8,929	8,784	8,329	NA	NA
Average Daily Production (Millions of gallons)	8.72	8.83	8.90	9.35	7.72	NA	NA
Maximum Daily Production (Millions of gallons)	11.27	14.15	11.28	10.93	10.96	NA	NA
WasteWater Treatment ⁽¹⁾							
Number of Customers	5,669	5,032	4,120	4,061	4,020	NA	NA
Average Daily Treatment (Millions of gallons)	1.80	1.80	1.80	1.89	1.83	NA	NA
Maximum Daily Treatment (Millions of gallons)	4.50	2.65	2.88	3.96	3.81	NA	NA

⁽¹⁾ Water and wastewater operations on Marco Island and at Marco Shores were acquired from Florida Water Services in November 2003.

⁽²⁾ Detailed information not available prior to fiscal year 2002.

Source: City of Marco Island

CITY OF MARCO ISLAND, FLORIDA
 CAPITAL ASSET STATISTICS BY FUNCTION/PROGRAM
 LAST SEVEN FISCAL YEARS

Function/Program	Fiscal Year						
	2008	2007	2006	2005	2004	2003	2002 ⁽²⁾
Police Department							
Number of Stations	1	1	1	1	1	1	1
Number of Patrol Units	12	12	12	12	11	11	10
Fire Department							
Number of Stations	2	2	2	2	2	2	2
Parks and Recreation							
Number of Parks	8	8	8	8	8	8	7
Park Acreage	53.8	53.8	53.8	53.8	53.8	53.8	47.0
Tennis Courts	10	10	10	10	10	10	10
Bocce Ball Courts	3	2	2	2	2	2	0
Suffleboard Courts	4	4	4	4	4	4	4
Racquetball Courts	2	2	2	2	2	2	2
Basketball Courts	1	1	1	1	1	1	1
Baseball/Softball Diamonds	2	2	2	2	2	2	2
Teen Center	1	0	0	0	0	0	0
Public Beach Access	1	1	0	0	0	0	0
Public River Access	1	1	1	0	0	0	0
Public Works							
Streets (Centerline Miles)	127	127	127	127	127	127	127
Signalized intersections	10	8	8	7	7	7	7
Bridges	15	12	12	12	12	12	12
Utilities ⁽¹⁾							
Number of Water Plants	3	3	3	3	3	NA	NA
Number of Wastewater Plants	2	2	2	2	2	NA	NA
Water Lines (Miles)	140	140	140	140	140	NA	NA
Sewer Lines (Miles)	132	86	82	82	82	NA	NA

⁽¹⁾ Water and wastewater operations on Marco Island and at Marco Shores were acquired from Florida Water Services in November 2003.

⁽²⁾ Detailed information not available prior to fiscal year 2002.

Source: City of Marco Island



OTHER REPORTS AND LETTERS



INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

The Honorable Chairman and City Council
City of Marco Island, Florida

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Marco Island, Florida, (the City) as of and for the year ended September 30, 2008, which collectively comprise the City's basic financial statements and have issued our report thereon dated June 23, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Marco Island's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider deficiency 08-01 described under the heading Current Year Findings and Recommendations in the Management Letter to be a significant deficiency in internal control over financial reporting.

A *material weakness* is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal controls.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. We believe the significant deficiency described above is also material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Chairman and Members of the Council, management, federal awarding agencies and pass-through entities, and the Auditor General of the State of Florida and is not intended to be and should not be used by anyone other than these specified parties.

CPA Associates

Bradenton, Florida
June 23, 2009



INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL
OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

The Honorable Chairman City Council
City of Marco Island, Florida

Compliance

We have audited the compliance of the City of Marco Island, Florida (the City), with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major Federal programs for the year ended September 30, 2008. The City's major Federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major Federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City of Marco Island, Florida's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major Federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the City's compliance with those requirements.

In our opinion, the City complied, in all material respects, with the requirements referred to above that are applicable to each of its major Federal programs for the year ended September 30, 2008.

Internal Control Over Compliance

The management of the City is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to Federal programs. In planning and performing our audit, we considered the City's internal

control over compliance with the requirements that could have a direct and material effect on a major Federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

A *control deficiency* in the entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a Federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a Federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a Federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A *material weakness* is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material noncompliance with a type of compliance requirement of a Federal program will not be prevented or detected by the entity's internal controls.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information of the Chairman and Members of the Council, management, and Federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified users.

CPA Associates

Bradenton, Florida
June 23, 2009

CITY OF MARCO ISLAND, FLORIDA
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 For the Year Ended September 30, 2008

Part I – Summary of Auditor's Results

Basic Financial Statement Section

Type of auditor's report issued:	Unqualified Opinion
Internal control over financial reporting:	
Material weakness(es) identified?	<input checked="" type="checkbox"/> yes <input type="checkbox"/> no
Significant deficiency(ies) identified that are not considered to be material weaknesses?	<input type="checkbox"/> yes <input checked="" type="checkbox"/> no
Noncompliance material to the basic financial statements noted?	<input type="checkbox"/> yes <input checked="" type="checkbox"/> no

Federal Awards Section

Dollar threshold used to determine Type A programs:	\$310,005
Auditee qualified as low-risk auditee?	<input checked="" type="checkbox"/> yes <input type="checkbox"/> no
Type of auditor's report on compliance for major programs:	Unqualified Opinion
Internal Control over compliance:	
Material weakness(es) identified?	<input type="checkbox"/> yes <input checked="" type="checkbox"/> no
Significant deficiency(ies) identified not considered to be material weakness(es)?	<input type="checkbox"/> yes <input checked="" type="checkbox"/> no
Any audit findings disclosed that are required to be reported in accordance with Circular A-133 (Section .510(a))?	<input type="checkbox"/> yes <input checked="" type="checkbox"/> no

Identification of major programs

CFDA Number(s)	Name of Federal Program or Cluster
66.458	U.S. Environmental Protection Agency - Capitalization Grants for Clean Water, State Revolving Funds

CITY OF MARCO ISLAND, FLORIDA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended September 30, 2008

Part II – Schedule of Basic Financial Statement Findings

This section identifies the significant deficiencies, material weaknesses, fraud, illegal acts, violations of provisions of contracts and grant agreements, and abuse related to the basic financial statements that are required to be reported in accordance with Chapter 5.18 through 5.20 of *Government Auditing Standards*.

A material weakness was noted and has been reported as Finding 08-01 described under the heading Current Year Findings and Recommendations in the Management Letter.

Part III – Schedule of Federal Award Findings and Questioned Costs

This section identifies significant deficiencies, material weaknesses, and material instances of noncompliance, including known fraud, questioned costs, and abuse related to the audit of Federal programs, as required to be reported by Circular A-133 Section .510 (a).

No significant deficiencies, material weaknesses, and material instances of noncompliance, including known fraud, questioned costs, and abuse related to the audit of Federal programs were identified.

Part IV – Summary Schedule of Prior Audit Findings

There were no prior audit findings for Federal programs.

CITY OF MARCO ISLAND, FLORIDA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED SEPTEMBER 30, 2008

Federal Awards	CFDA Number	Pass-through Grantor's Number	Expenditures
Indirect			
U.S. Department of Transportation			
Passed through Florida Department of Transportation			
Highway Planning and Construction	20.205	415541.1	\$ 73,499
Highway Planning and Construction	20.205	414115.1	20,833
Highway Planning and Construction	20.205	417941.1	17,571
Highway Planning and Construction	20.205	419238.1	57,638
Highway Planning and Construction	20.205	412560.1	12,211
Total U.S. Department of Transportation			<u>181,752</u>
U.S. Environmental Protection Agency			
Passed through Florida Department of Environmental Protection			
Capitalization Grants for Clean Water			
State Revolving Funds	66.458	WW715040	4,366,656
State Revolving Funds	66.458	WW715050	3,648,704
State Revolving Funds	66.458	WW715060	1,984,640
State Revolving Funds (capitalized interest on loans above)	66.458		114,476
			<u>10,114,476</u>
U.S. Department of Justice			
Passed through Florida Department of Law Enforcement			
Edward Byrne Memorial Justice Assistance Grant	16.738	2008-JAGD-COLL-2-Q0-142	2,374
Total indirect			10,298,602
Direct			
U.S. Department of Justice			
Federal Equitable Sharing Agreement	16.UNKNOWN	FL0110300	34,903
Total direct			<u>34,903</u>
Total Federal Awards			<u>\$ 10,333,505</u>

CITY OF MARCO ISLAND, FLORIDA
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Basis of Presentation

The accompanying schedule of expenditures of Federal awards includes the Federal grant activity of the City of Marco Island, Florida, and is presented using the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

Loans Outstanding

The City of Marco Island, Florida, had the following loan balance outstanding at September 30, 2008. Loans made during the year, including accrued interest of \$179,802, are included in the Federal expenditures presented in the schedule.

State Revolving Fund Loan—Capitalization Grants for Clean Water	\$	11,740,706
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MANAGEMENT LETTER

The Honorable Chairman and City Council
City of Marco Island, Florida

We have audited the basic financial statements of the City of Marco Island, Florida, as of and for the fiscal year ended September 30, 2008, and have issued our report thereon dated June 23, 2009, which was unqualified.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to the financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. We have issued our Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*, Independent Auditor's Report on Compliance with Requirements Applicable to Each Major Federal Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133, and Schedule of Findings and Questioned Costs. Disclosures in those reports and schedule, which are dated June 23, 2009, should be considered in conjunction with this management letter.

Additionally, our audit was conducted in accordance with the provisions of Chapter 10.550, Rules of the Auditor General which govern the conduct of local governmental entity audits performed in the State of Florida. This letter includes the following information, which is not included in the aforementioned auditor's reports or schedule:

- Section 10.554(1)(i)1., Rules of the Auditor General, requires that we determine whether or not corrective actions have been taken to address significant findings and recommendations made in the preceding annual financial audit report. The status of prior year findings are reported under the heading *Prior Year Findings and Recommendations*.
- Section 10.554(1)(i)2., Rules of the Auditor General, requires our audit to include a review of the provisions of Section 218.415, Florida Statutes, regarding the investment of public funds. In connection with our audit, we determined that the City of Marco Island, Florida complied with Section 218.415, Florida Statutes.
- Section 10.554(1)(i)3., Rules of the Auditor General, requires that we address in the management letter any recommendations to improve financial management, accounting procedures, and internal controls. Matters required to be disclosed are reported under the heading *Current Year Findings and Recommendations*.

- Section 10.554(1)(i)4., Rules of the Auditor General, requires that we address violations of laws, regulations, contracts or grant agreements, or abuse that have occurred, or are likely to have occurred, that have an effect on the determination of financial statement amounts that is less than material but more than inconsequential. In connection with our audit, we did not have any such findings.
- Section 10.554(1)(i)5., Rules of the Auditor General, provides that the auditor may, based on professional judgment, report the following matters that are inconsequential to the determination of financial statement amounts, considering both quantitative and qualitative factors: (1) violations of laws, regulations, contracts or grant agreements, or abuse that have occurred, or are likely to have occurred, and, (2) control deficiencies that are not significant deficiencies, including, but not limited to: (a) improper or inadequate accounting procedures (e.g. the omission of required disclosures from the annual financial statements); (b) failures to properly record financial transactions; and (c) other inaccuracies, shortages, defalcations, and instances of fraud discovered by, or that come to the attention of, the auditor. In connection with our audit, we did not have any such findings.
- Section 10.554(1)(i)6., requires that the name or official title and legal authority for the primary government and each component unit of the reporting entity be disclosed in the management letter, unless disclosed in the notes to the financial statements. This information has been disclosed in the notes to the financial statements.
- Section 10.554(1)(i)7.a., Rules of the Auditor General, requires a statement be included as to whether or not the local government entity has met one or more of the conditions described in Section 218.503(1), Florida Statutes, and identification of the specific condition(s) met. In connection with our audit, we determined that the City of Marco Island, Florida, did not meet any of the conditions described in Section 218.503(1), Florida Statutes.
- Section 10.554(1)(i)7.b., Rules of the Auditor General, requires that we determine whether the annual financial report for the City of Marco Island, Florida for the fiscal year ended September 30, 2008, filed with the Florida Department of Financial Services pursuant to Section 218.32(1)(a), Florida Statutes, is in agreement with the annual financial audit report for the fiscal year ended September 30, 2008. In connection with our audit, we determined that these two reports were in agreement.
- Pursuant to Sections 10.554(1)(i)7.c. and 10.556(7), Rules of the Auditor General, we applied financial condition assessment procedures. It is management's responsibility to monitor the City of Marco Island, Florida's financial condition, and our financial condition assessment was based in part on representations made by management and the review of financial information provided by same.

Pursuant to Chapter 119, Florida Statutes, this management letter is a public record and its distribution is not limited. Audit standards generally accepted in the United States of America require us to indicate that this letter is intended solely for the information and use of the Honorable Chairman and City Council members, management, and the State of Florida Office of the Auditor General, and is not intended to be and should not be used by anyone other than these specified parties.

CPA Associates

Bradenton, Florida

June 23, 2009

PRIOR YEAR FINDINGS AND RECOMMENDATIONS

07-01 Journal Entries Identified By the Auditor

The City of Marco Island, Florida, is responsible for accurate financial reporting which includes detecting and preventing misstatements in the financial statements, as well as within the underlying records. Our prior year audit work revealed numerous material misstatements related to the posting of transactions to various accounts, specifically in relation to accrued expenses, pooled cash allocations among funds, cash restrictions, capital assets, and assessments.

Although the City relies on the independent auditor for the accuracy of the financial statements, the auditor cannot be a part of the client's internal control system. Therefore, the City has a material weakness regarding the accuracy of financial reporting.

Subsequent to September 30, 2007, the Controller for the City resigned. A replacement was made in late November 2007, however, the timing of this hire did not allow for adequate preparation of the audit. We recommended that City personnel perform a detailed review of their general ledger subsequent to year end and ensure that all journal entries made as part of the September 30, 2007, audit which are applicable to 2008, are made prior to the commencement of the audit. Additionally, we recommended that the detailed review of the general ledger include adjustments to accounts with unusual balances, such as receivables with credit balances. Furthermore, we recommended that the City should review the journal entries and the general ledger detail on a monthly basis.

Status – The number of journal entries identified by the auditor during the September 30, 2008 audit had been reduced, however, a material weakness still exists. See finding 08-1 under *Current Year Findings and Recommendations*.

CURRENT YEAR FINDINGS AND RECOMMENDATIONS

08-01 Journal Entries Identified By the Auditor

The City of Marco Island, Florida, is responsible for accurate financial reporting which includes detecting and preventing misstatements in the financial statements, as well as within the underlying records. Our audit work revealed numerous material misstatements related to the posting of transactions to various accounts, specifically in relation to deferred revenue, accounts payable, accrued expenses and interest, the capitalization of bond issue costs, and recording debt service fees.

Although the City relies on the independent auditor for the accuracy of the financial statements, the auditor cannot be a part of the client's internal control system. Therefore, the City has a material weakness regarding the accuracy of financial reporting.

Subsequent to September 30, 2008, the Finance Director for the City resigned. A replacement for the Finance Director was made in late March 2009, which added increased responsibilities on the Controller that affected the Controller's overall ability to prepare for

the audit in a thorough, timely manner. Similar to the prior year, we recommend that City personnel perform a detailed review of the general ledger subsequent to year end and ensure that all journal entries made as part of the September 30, 2008, audit which are applicable to 2009 are made prior to the commencement of the audit. Additionally, we recommend that the detailed review of the general ledger includes adjustments to accounts with unusual balances, such as receivables with credit balances or payables with debit balances. We also recommend the City perform an in depth review of the posted journal entries and general ledger balances (including the detail within each balance) on a monthly basis.



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City of Marco Island

June 23, 2009

Office of the Auditor General
Claude Denson Pepper Building
111 West Madison Street
Tallahassee, Florida 32399-1450

This is the City of Marco Island's response to the Management Letter for the 2008 fiscal year audit.

Finding 08-01

The City of Marco Island concurs with Finding 08-01; however, it should be noted that the number of auditor-generated journal entries decreased from the prior year despite insufficient staffing levels and continued staff turnover again at fiscal year end. The problems encountered are temporary and were due primarily to the staffing issues. With the hiring of both the new Finance Director and Controller, additional review of reports prior to commencement of the audit engagement will be completed. The Finance Department will be updating its procedures manual to include a checklist of accounts to be reviewed and of balance sheet account reconciliations to be performed prior to the start of the audit. This pre-audit review should have the effect of reducing the quantity of journal entries made after the start of the audit fieldwork. During the FY2010 budget process, a new accountant position has been proposed. With changes in procedures and once full staffing is achieved, this weakness should be resolved.

Sincerely,

Patricia K. Bliss
Finance Director