

*City of
Marco Island, Florida*

*Comprehensive Annual
Financial Report
For the Fiscal Year Ended
September 30, 2004*

Maria Sanchez

City of Marco Island, Florida

COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2004

PREPARED BY:
CITY OF MARCO ISLAND
FINANCE DEPARTMENT

"Coconuts on San Marco"
Marie Senechal

The City of Marco Island wishes to express appreciation to the artist for
permission to use the artwork on the cover of this report.

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



INTRODUCTION SECTION



TABLE OF CONTENTS

I. INTRODUCTION SECTION	<u>Page</u>
Title Page	i
Table of Contents	ii-iv
Letter of Transmittal	v-ix
Certificate of Achievement for Excellence in Financial Reporting	x
Organizational Chart	xi
Principal Officials	xii
 II. FINANCIAL SECTION	
Independent Auditor's Report	1-2
Management's Discussion and Analysis	3-13
Basic Financial Statements	
Government-Wide Financial Statements:	
Statement of Net Assets	14
Statement of Activities	15
Fund Financial Statements:	
Balance Sheet – Governmental Funds	16
Reconciliation of the Balance Sheet to the Statement of Net Assets – Governmental Funds	17
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds	18
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance to the Statement of Activities – Governmental Funds	19
Statement of Net Assets – Proprietary Funds	20
Statement of Revenues, Expenses, and Changes in Fund Net Assets – Proprietary Funds	21
Statement of Cash Flows – Proprietary Funds	22
Statement of Fiduciary Net Assets – Fiduciary Fund – Pension Trust Fund	23
Statement of Changes in Fiduciary Net Assets – Fiduciary Fund – Pension Trust Fund	24
Notes to Financial Statements	25-41
 Required Supplementary Information	
Pension Trust Fund:	
Schedule of Funding Progress	42
Schedule of Employer and State Contributions	43



TABLE OF CONTENTS
(Continued)

II. FINANCIAL SECTION <i>(Concluded)</i>	<u>Page</u>
Required Supplementary Information <i>(Concluded)</i>	
General Fund:	
Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual – General Fund	44
Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual – Building Services Fund	45
 III. SUPPORTING STATEMENTS AND SCHEDULES	
Nonmajor Governmental Funds	
Combing Balance Sheet	46
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances	47
 Schedules	
Capital Assets Used in the Operation of Governmental Funds	48
Capital Assets Used in the Operation of Governmental Funds – Schedule by Function and Activity	49
Capital Assets Used in the Operation of Governmental Funds – Schedule of Changes by Function and Activity	50
 IV. STATISTICAL SECTION (UNAUDITED)	
Table 1 Governmental Expenditures by Function	51
Table 2 Governmental Revenue by Source	52
Table 3 Property Tax Levies and Collections	53
Table 4 Assessed Value of Exempt and Taxable Property	54
Table 5 Property Tax Rates – Direct and Overlapping Governments	55
Table 6 Special Assessment Billing and Collection	56
Table 7 Computation of Direct and Overlapping General Obligation Debt	57
Table 8 Ratio of Annual Debt Service Expenditures for General and Special Revenue Bonded Debt to Total General Expenditures	58
Table 9 Ratio of Debt Principal Outstanding to Total Assessed Valuation	59
Table 10 Demographic Statistics	60
Table 11 Construction Activity	61
Table 12 Principal Taxpayers	62
Table 13 Miscellaneous Statistics	63

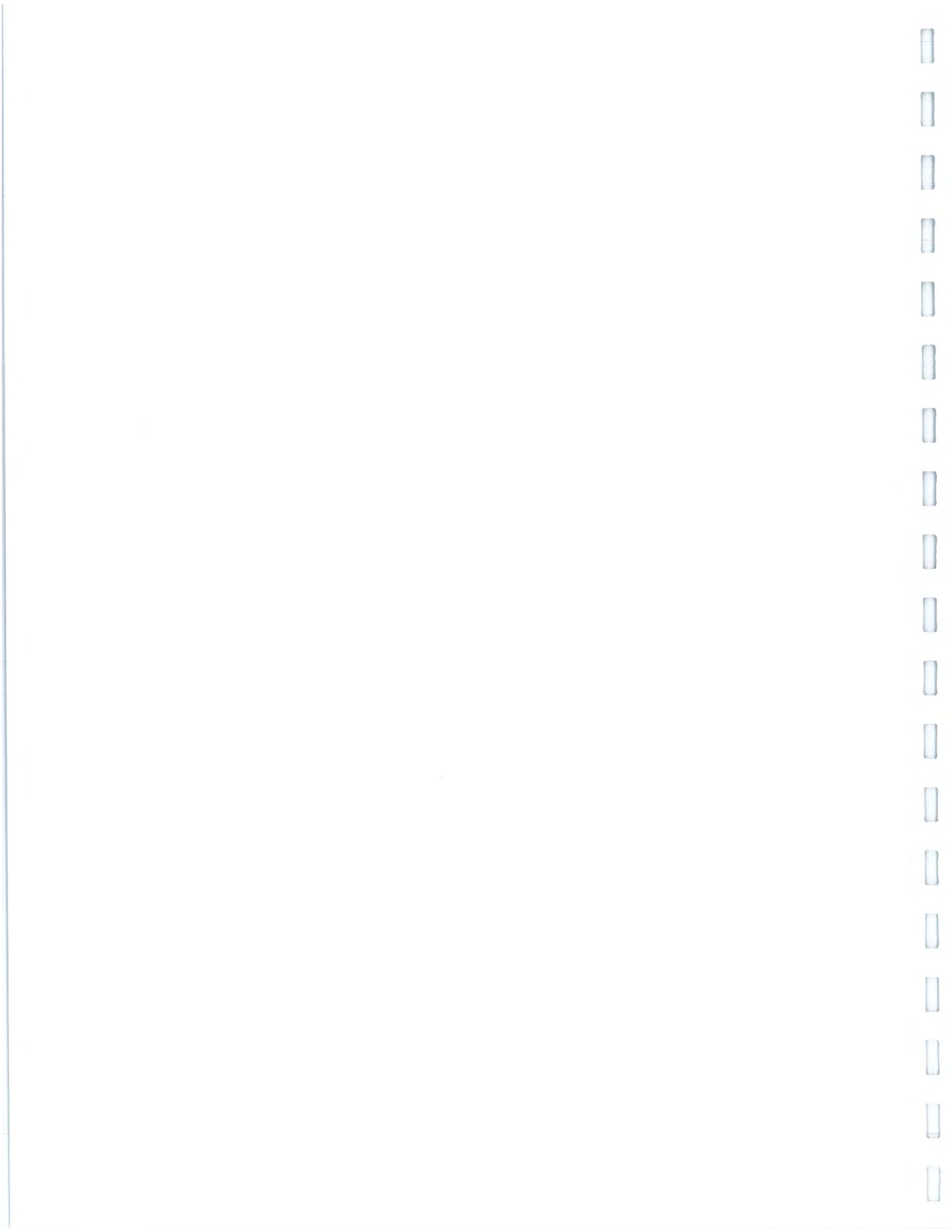


TABLE OF CONTENTS
(Concluded)

V. SINGLE AUDIT AND GRANTS COMPLIANCE SECTION	<u>Page</u>
Schedule of Expenditures of Federal Awards	64
Independent Auditor's Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133	65-66
Schedule of Findings and Questioned Costs for the Year Ended September 30, 2004	67-68
 Governmental Auditing Section	
Independent Auditor's Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Basic Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	69-70
Management Letter	71-74
Response to Management Letter	75





City of Marco Island

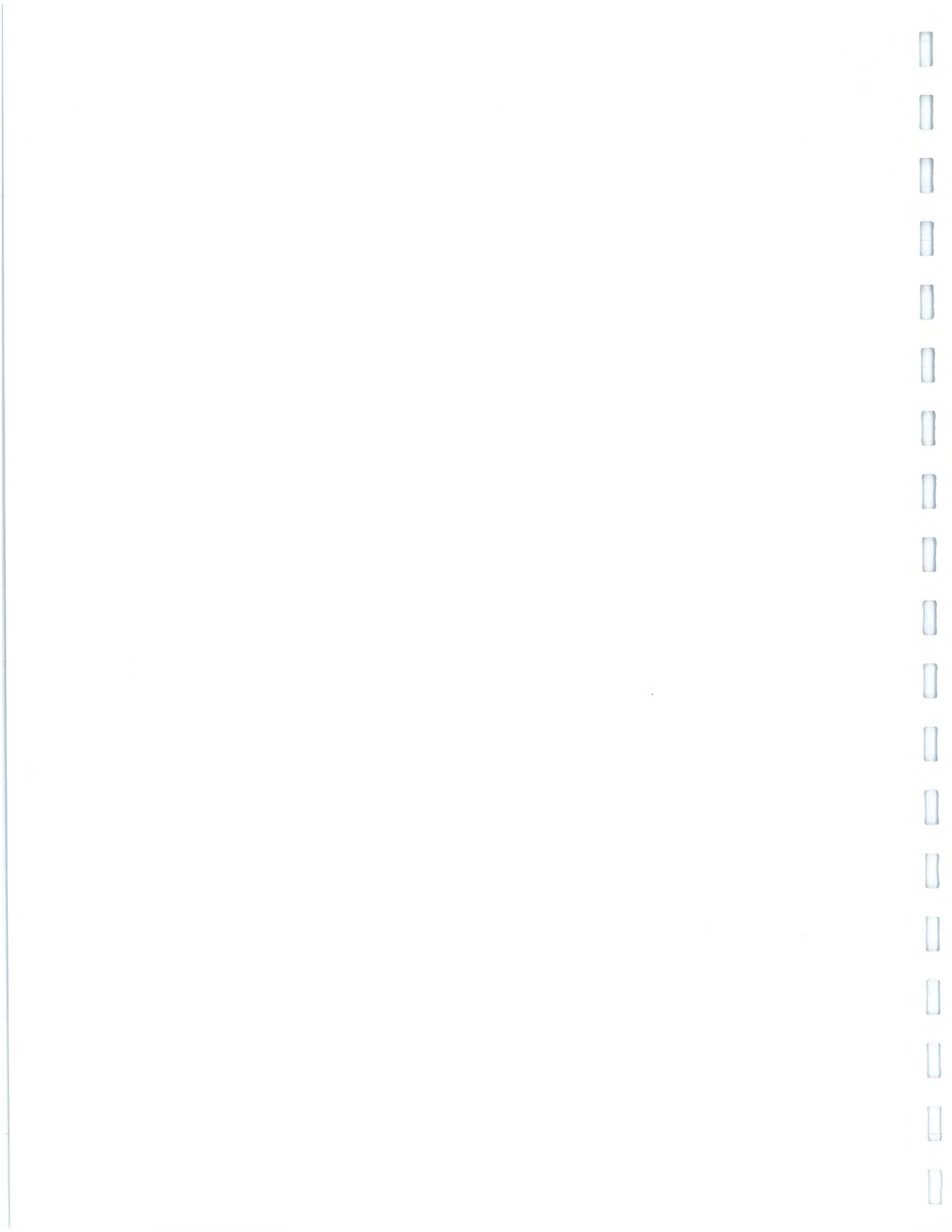
March 15, 2005

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 six 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, 2004.

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, 2004 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,



2004 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 Single Audit 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.

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 over 15,000, which doubles 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 Chairperson 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 at adjacent Marco Shores and now operates those services through the City's Utility Department.

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. 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 each individual governmental fund for which an appropriated budget has been adopted. This information is presented as Required Supplementary Information on pages 44 and 45 for the General Fund and the Building Services Fund, respectfully.

Factors Affecting Financial Condition

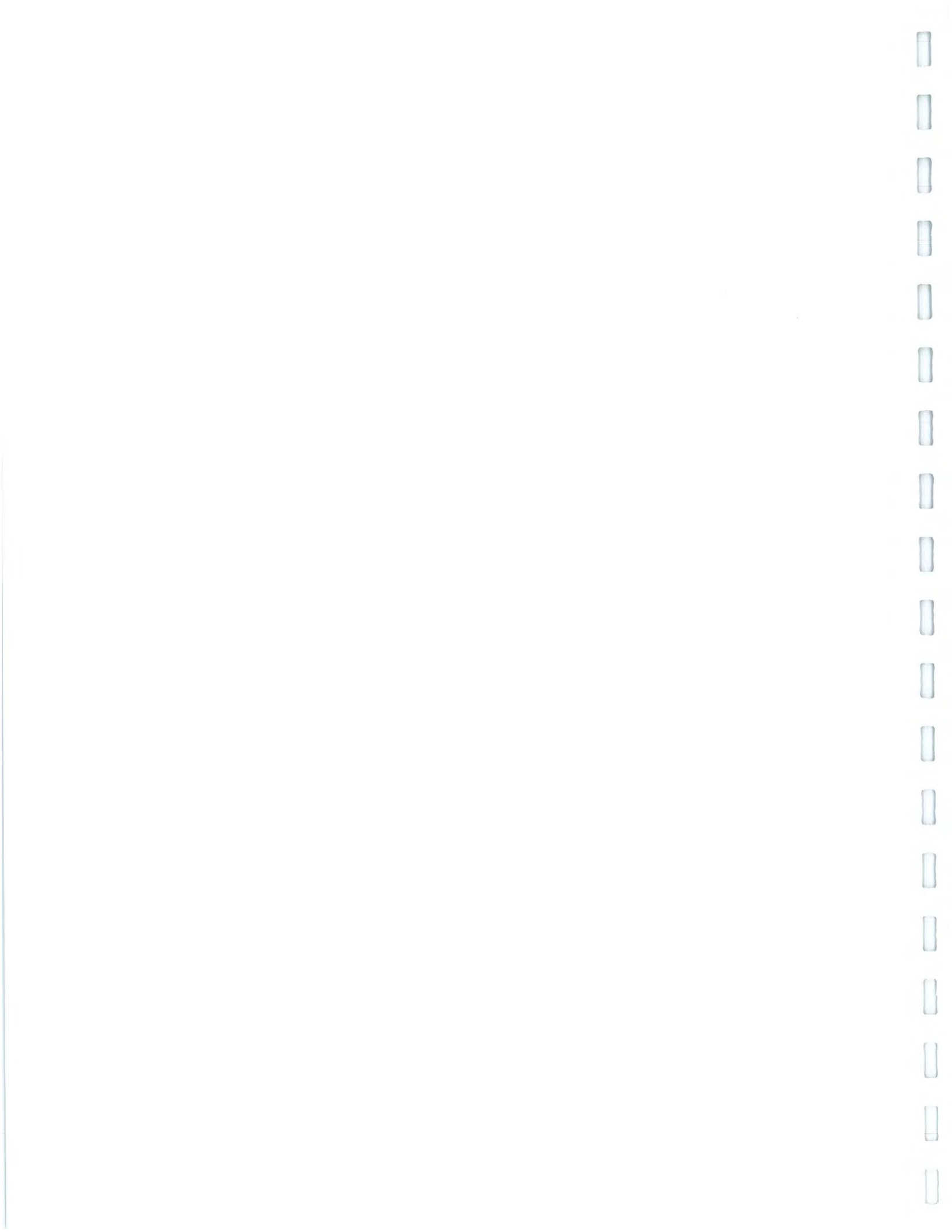
The information presented in the financial statements is perhaps best understood when it is considered from the broader perspective of the specific environment within which the City operates.

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 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. The island economy enjoys an exceptionally strong residential real estate market with high growth in new home starts, and home and condominium resales. Total assessed value has more than doubled in the past five years, 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.

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 adjacent 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 first 11 months of municipal ownership of the utility.

Cash Management Policies and Practices. Cash temporarily idle during the year was invested at favorable rates through a depository banking services agreement and an account maintained with the State Board of Administration Local Investment Pool. In 2002, the City Council approved an investment ordinance and has a program of active portfolio management, purchasing U.S. Treasury and Agency obligations to increase yields while maintaining safety and liquidity. Investment earnings in fiscal year 2004 were \$604,309, up from \$354,970 in 2003. Increase in earnings was primarily from larger investment balances from the sale of utility revenue bonds, noted above.

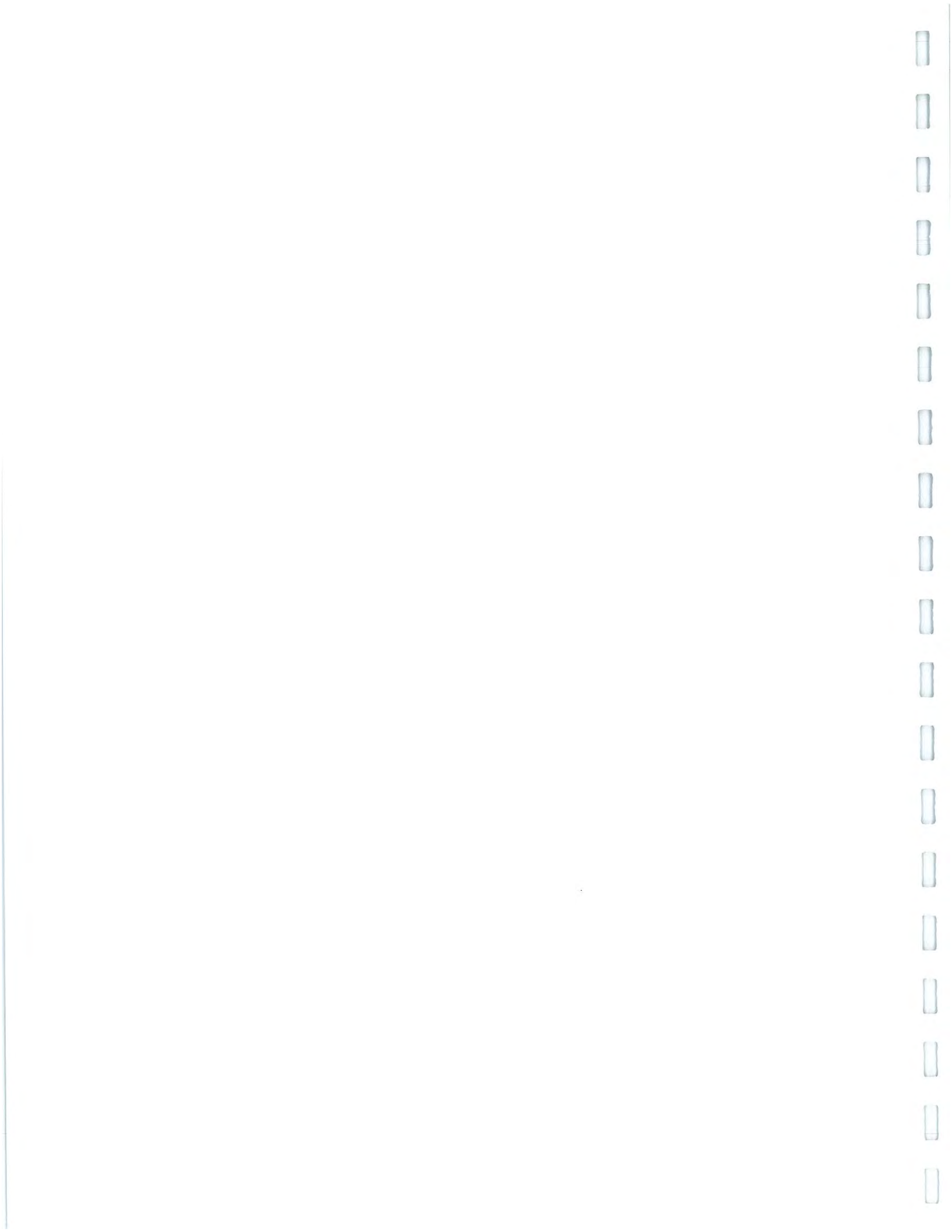
Risk Management. The City of Marco Island, through fiscal year 2004, purchased property, liability, and workers' compensation insurance from the Florida League of Cities Municipal Insurance Trust. Beginning in fiscal year 2005, the City has elected to self-insure a greater degree of risk, retaining the 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 Agency, 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.

Pensions.

Firefighters. Prior to incorporation in August 1997, Marco Island received fire protection from an Independent Fire District. Upon incorporation, the Independent District was dissolved and employees became members of the City's Fire Department. Firefighters were members of the Florida Retirement System, except for Firefighters hired after December 1995, when a Section 175 Local Law plan was created. Membership in those two plans continues under current collective bargaining agreements.

Utility Employees. City Utility Department employees, employed by Florida Water Services prior to the utility acquisition, continue to be eligible for up to a four percent (4%) City match to a Section 401 deferred compensation account. As part of the utility acquisition, the City agreed to continue employee salary and benefits for a minimum of twelve months.

General Employees. General employees of the City are provided with an employee benefits allowance as a percentage of base salary, generally twenty-five percent (25%). Employees are eligible to enroll in Section 401 and Section 457 deferred compensation plans maintained by the City.



Police Officers. Under the collective bargaining agreement with police officers, officers have been provided with a thirty percent (30%) benefits allowance and are eligible to participate in deferred compensation plans as noted above for General Employees. Effective with the new collective bargaining agreement dated January 1, 2005, the benefits allowance has been reduced to twenty-five percent (25%) and Police Officers are eligible for up to a five percent (5%) match of base pay to encourage participation in deferred compensation.

Certificate of Achievement. The Government Finance Officers 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, 2003.

In order to be awarded a Certificate of Achievement, a governmental unit must publish an easily readable and efficiently organized Comprehensive Annual Financial Report, whose contents conform to industry standards. Such 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 our current report continues to conform to Certificate of Achievement program 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 and we express our appreciation to them. We also thank the Chairperson 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.

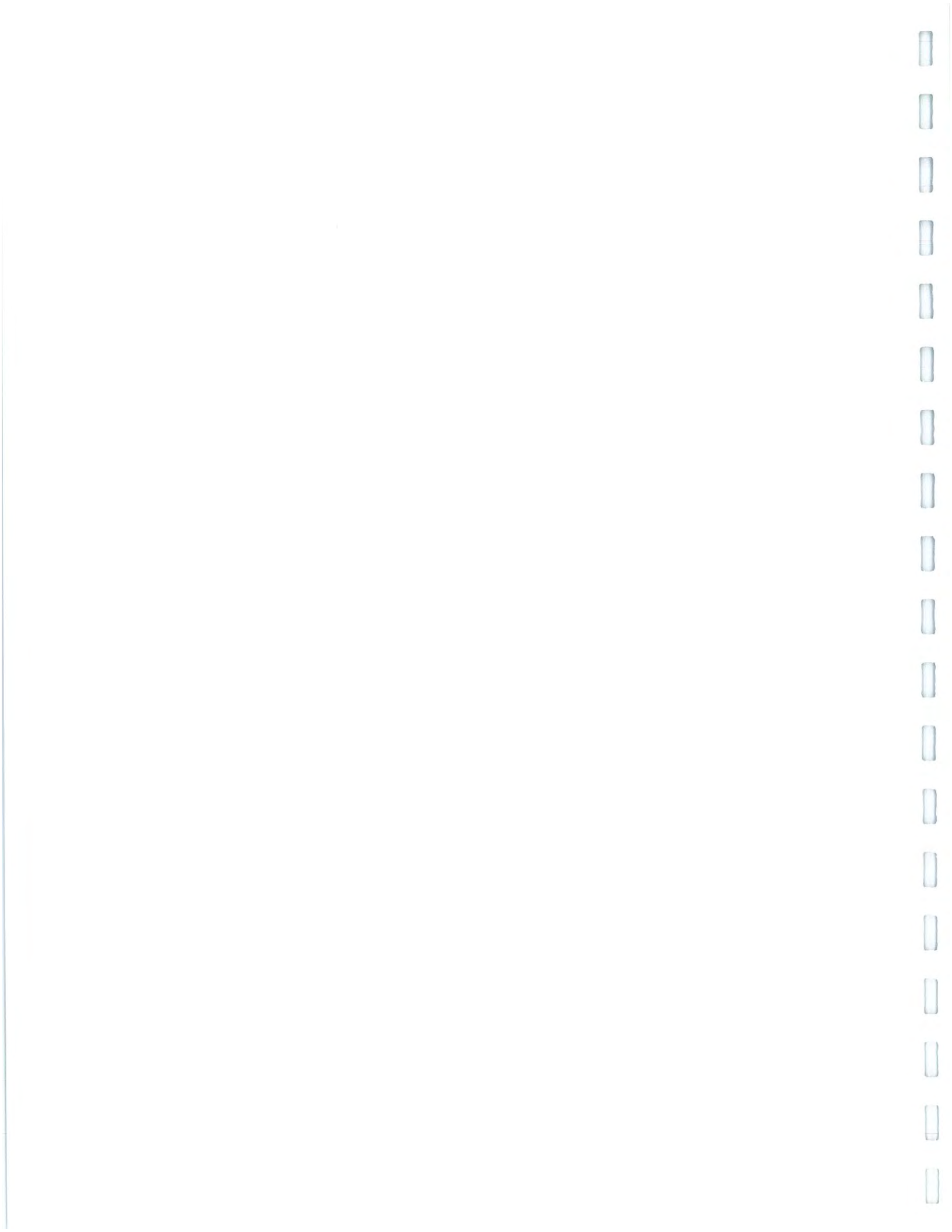
Respectfully Submitted,



A. William Moss
City Manager



William P. Harrison
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, 2003

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

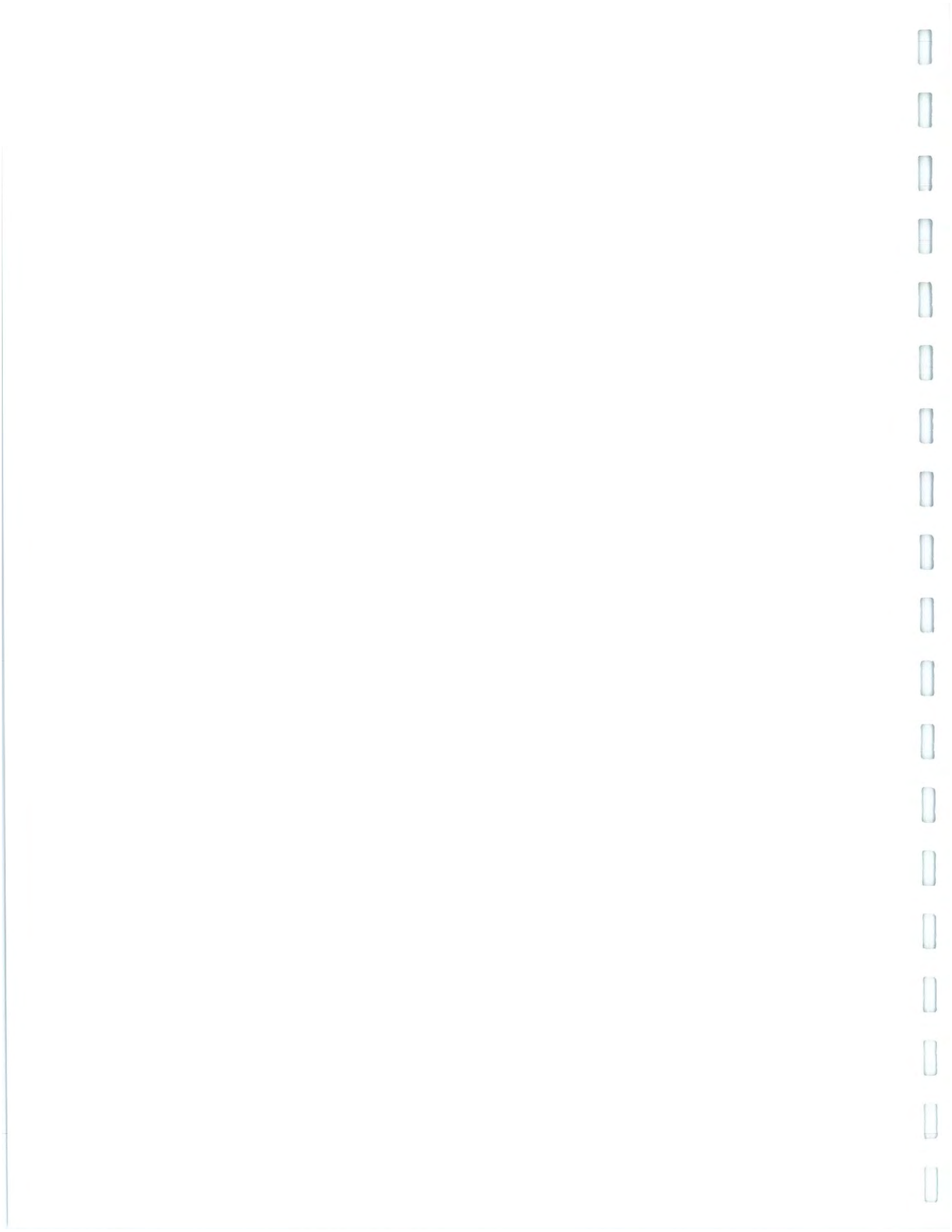


Nancy L. Zjeld

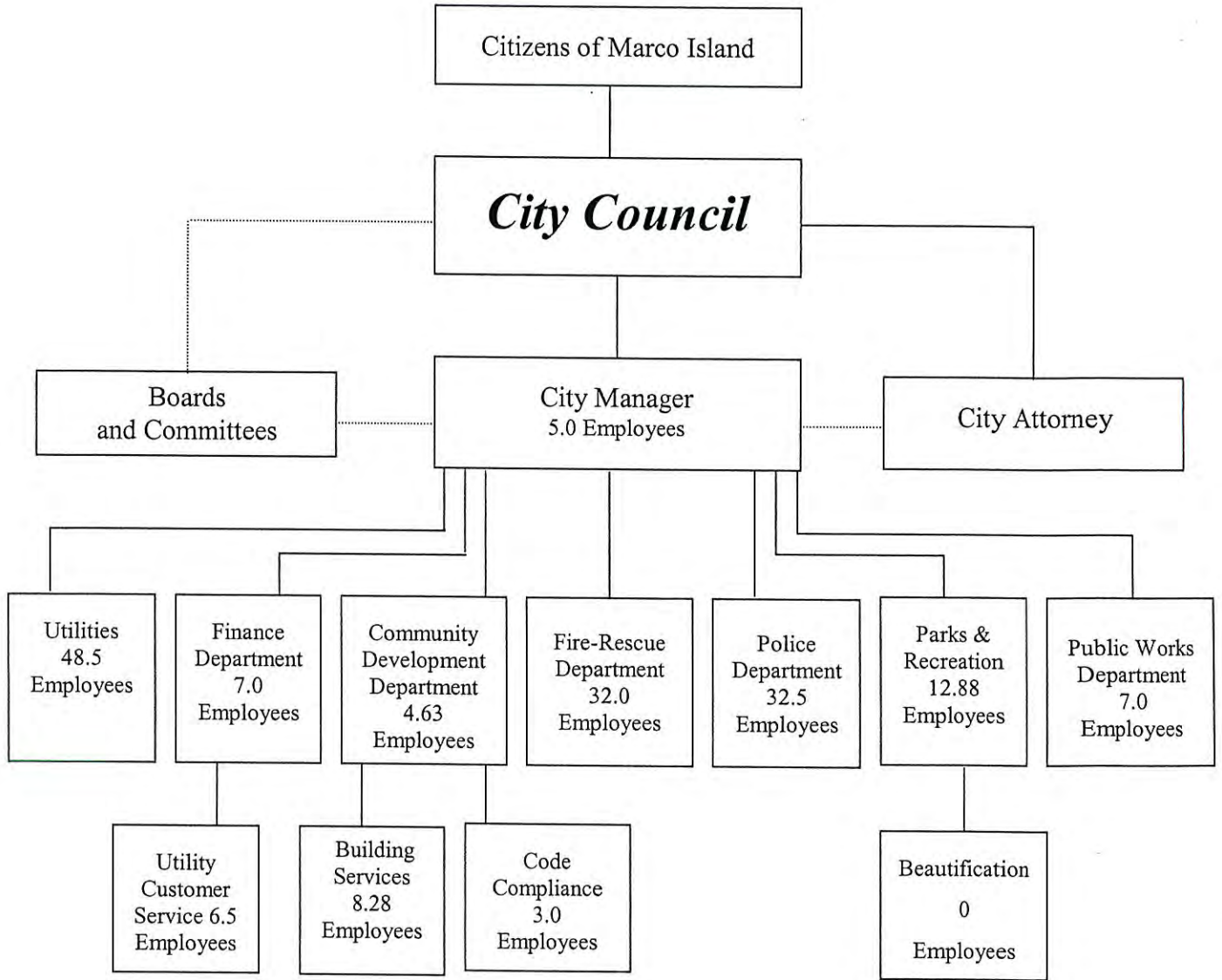
President

Jeffrey R. Emer

Executive Director



ORGANIZATIONAL CHART





City of Marco Island, Florida

PRINCIPAL OFFICIALS:

TERRI DISCIULLO, CITY COUNCIL CHAIRWOMAN
VICKIE KELBER, CITY COUNCIL VICE-CHAIRWOMAN
JOHN A. ARCERI, COUNCILMAN
MICHAEL F. MINOZZI, JR., COUNCILMAN
S. JEANNETTE K. PATTERSON, COUNCILWOMAN
WILLIAM D. TROTTER, COUNCILMAN
E. GLENN TUCKER, COUNCILMAN

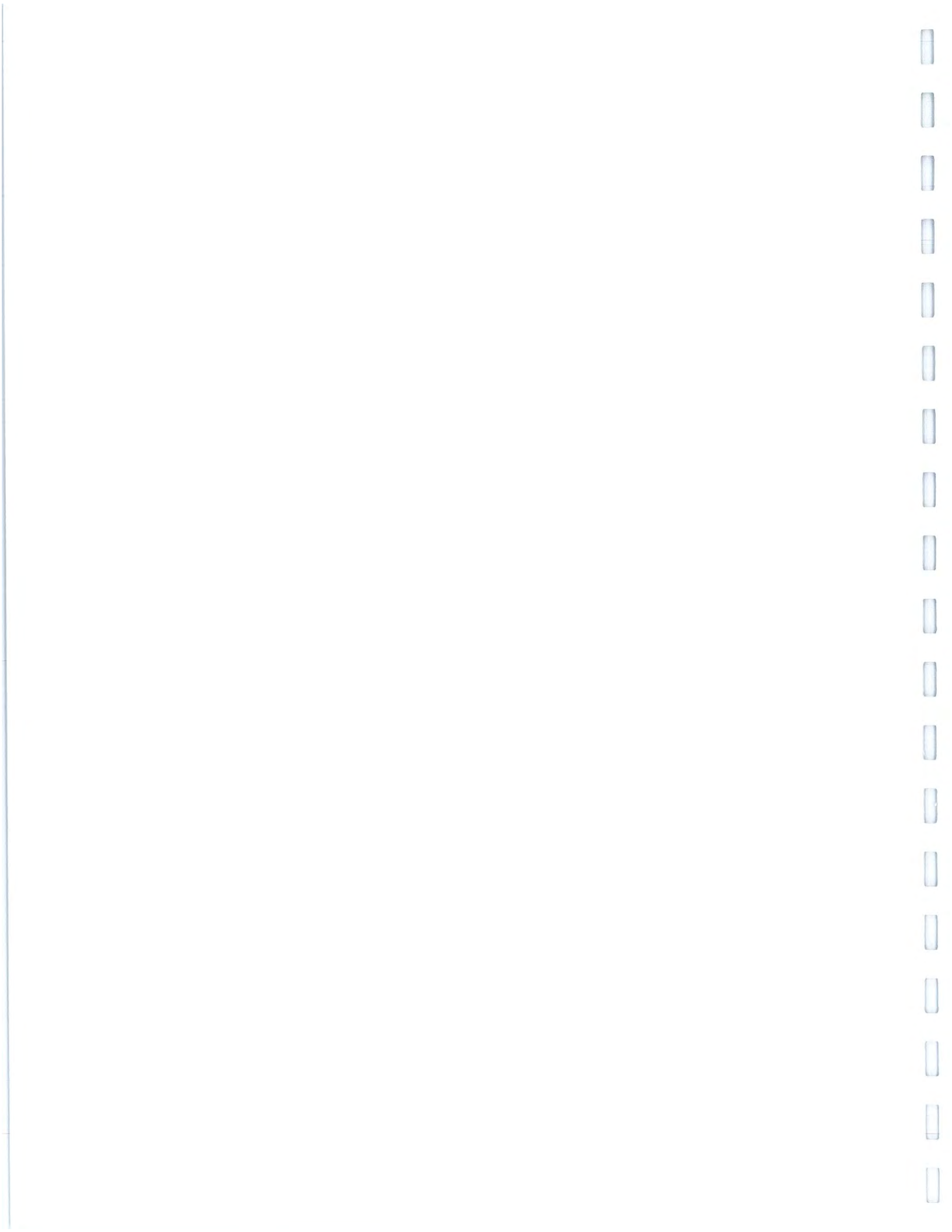
RICHARD D. YOVANOVICH, CITY ATTORNEY

A. WILLIAM MOSS, CITY MANAGER
WILLIAM P. HARRISON, FINANCE DIRECTOR

LAURA M. LITZAN, CITY CLERK
VINCENT A. CAUTERO, COMMUNITY DEVELOPMENT DIRECTOR
MICHAEL MURPHY, FIRE CHIEF
DANA A. SOUZA, PARKS & RECREATION DIRECTOR
ROGER REINKE, POLICE CHIEF
A. RONY JOEL, PUBLIC WORKS DIRECTOR
JACOB ROHRICH, UTILITIES DIRECTOR



FINANCIAL SECTION





Independent Auditor's Report

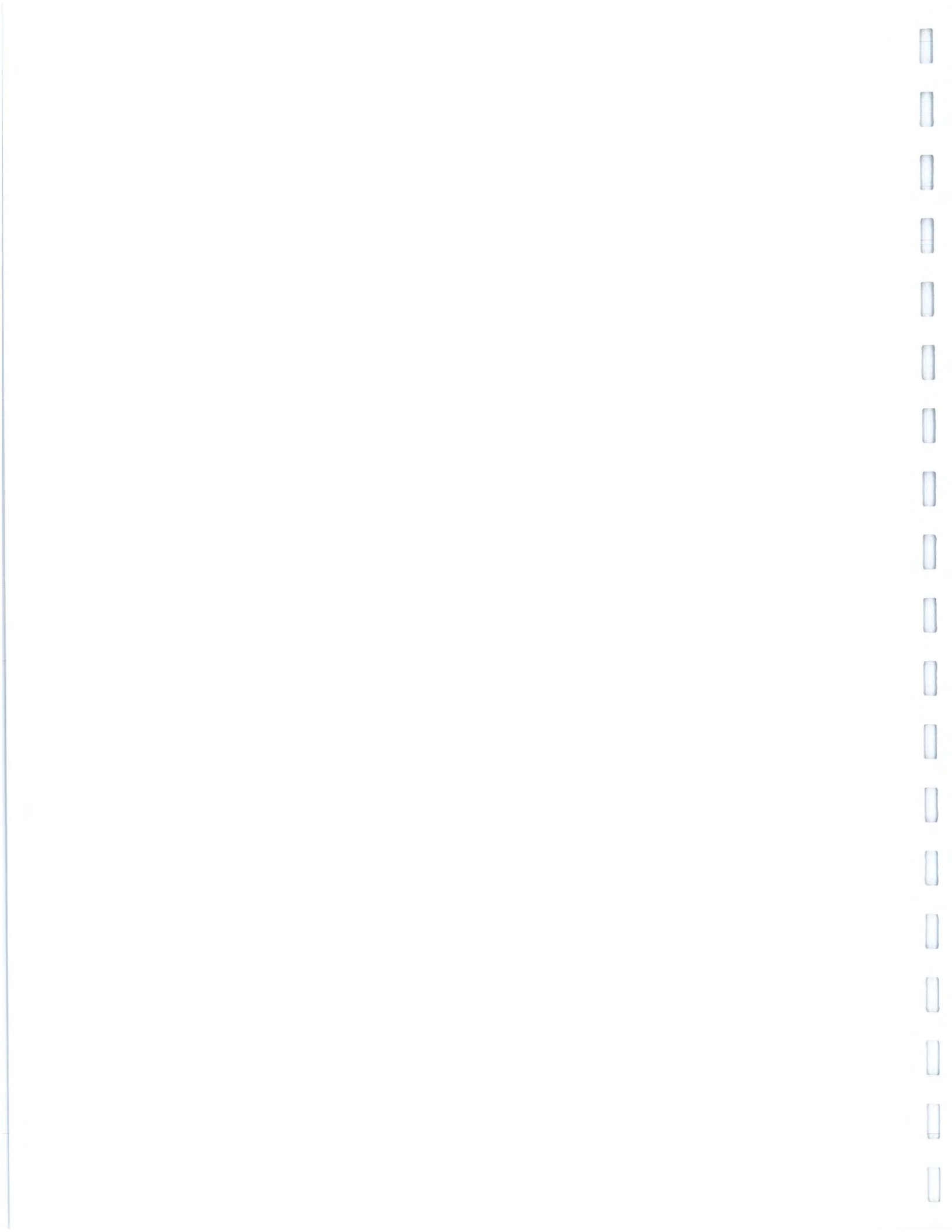
The Honorable Mayor and City Council
City of Marco Island
Marco Island, Florida

We have audited the accompanying financial statements of the governmental activities, the business-type activities, 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, 2004, 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 examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City, as of September 30, 2004, 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 December 23, 2004 on our consideration of the City of Marco Island's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. 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.



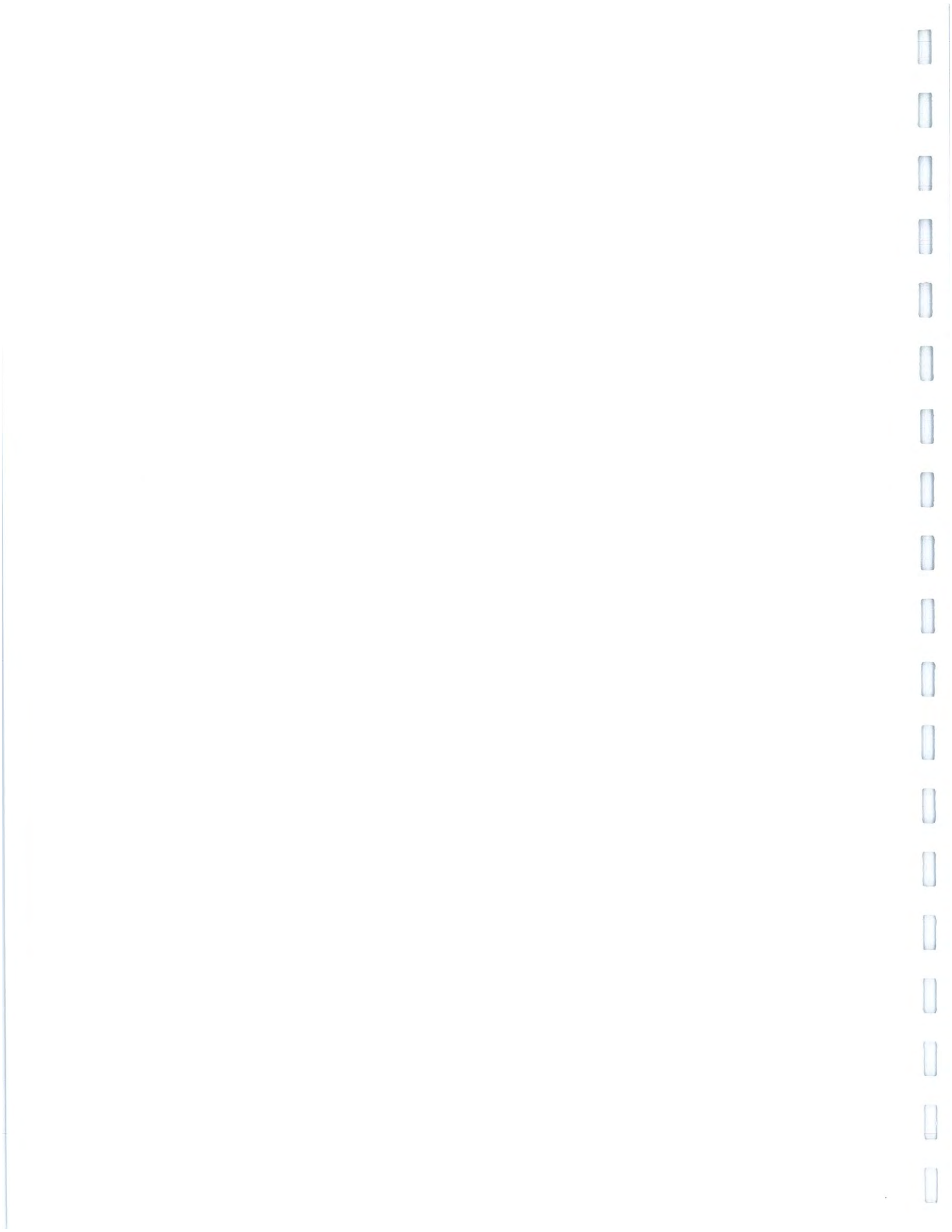
The management's discussion and analysis and budgetary comparison information on pages 3 through 13 and 44 through 45 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We and the other auditors have applied 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 42-43 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The introductory section, combining and individual nonmajor fund financial statements, and statistical tables are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our and the other auditors' opinions, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section and statistical tables have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we and the other auditors express no opinions on them.

CPA Associates

Bradenton, Florida
December 23, 2004



MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2004
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, 2004. 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 v – ix of this report and the City's financial statements beginning on page 14.

Financial Highlights

- The assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$37,496,676 (net assets). Of this amount, \$13,519,851 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 deficit balance of \$12,720,573 in unrestricted net assets. As proceeds of Utility Revenue Bonds are expended for capital investment as mandated by bond covenants, that deficit position will be eliminated.
- The government's total net assets increased by \$7,876,486. Governmental activities accounted for 90.2% of net assets while business-type activities made up the remaining 9.8%.
- As of the close of the current fiscal year, the City's governmental activities reported a combined ending fund balance of \$33,831,004, an increase of \$6,444,791 over the prior year. Of this total amount, \$13,519,851 is available for spending at the City's discretion (unrestricted net assets).
- At the end of the current year at the fund level, the City's governmental funds reported a combined ending fund balance of \$19,609,921, an increase of \$5,271,587 over the prior year. Of this total amount, \$3,221,265 represented unreserved and undesignated fund balance, which is 12.5% of total governmental fund expenditures. That balance of \$3,221,265 is down from \$4,517,362 for the fiscal year ended September 30, 2003, reflecting capital expenditures in fiscal year 2004 to be reimbursed by a Sales Tax Revenue Bond issue scheduled for fiscal year 2005.
- The City has adopted Governmental Accounting Standards Board Statement No. 34 (GASB #34), as required by governmental accounting standards. Governmental infrastructure constructed, acquired, or placed in service prior to the current year have *not* been recorded. GASB #34 provides a four-year deferral period for the recording of these assets.

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.



MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2004
CITY OF MARCO ISLAND, FLORIDA

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, code compliance, building services, transportation, and culture and recreation. The business-type activities of the City include its sewer collection services.

The City's government-wide financial statements can be found on pages 14-15 of this report.

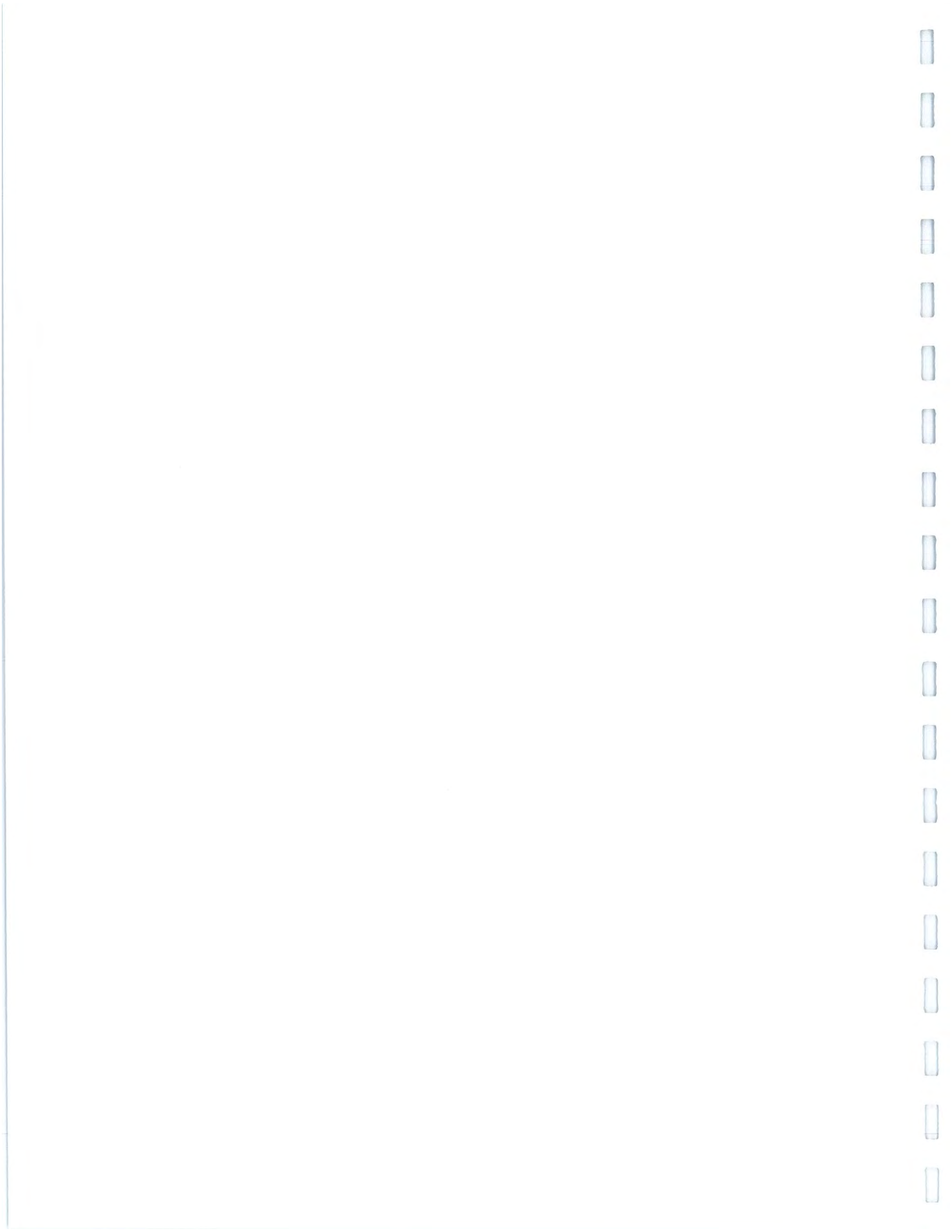
Fund Financial Statements

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,



MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2004
CITY OF MARCO ISLAND, FLORIDA

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, 2004, the City has three non-major funds: the Emergency Relief Fund that accounts for expenditures and pending FEMA reimbursement for storm-related damage, the Building Services Fund, and the Debt Service Fund.

The City's governmental fund financial statements are presented on pages 16-19.

Proprietary Funds

The City of Marco Island has two proprietary funds, an enterprise fund for its recently-acquired water and wastewater utility operations and a nonmajor fund to account for self-supporting 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 20-22 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 one fiduciary fund, a pension trust fund.

The fiduciary fund financial statements are found on pages 23-24 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 25-41 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 plan and a budget-to-actual schedule for the City's general fund. Required supplementary information can be found on pages 42-45 of this report.



MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2004
CITY OF MARCO ISLAND, FLORIDA

This report contains other information including supporting schedules, a statistical section (unaudited), a single audit section, and a government auditing section.

Government-Wide Financial Analysis

The following schedule is a summary of the Statement of Net Assets found on page 14 of this report:

Net Assets at September 30, 2004

	Governmental Activities		Business-Type Activities		Total	
	2004	2003	2004	2003	2004	2003
Current and Other Assets	\$ 21,468,745	\$ 17,180,226	\$ 20,099,653	\$ 711,399	\$ 41,568,398	\$ 17,891,625
Capital Assets	25,397,343	14,265,117	89,518,352	1,617,952	114,915,695	15,883,069
Total Assets	46,866,088	31,445,343	109,618,005	2,329,351	156,484,093	33,774,694
Current and Other Liabilities	1,973,438	2,427,284	3,594,991	95,374	5,568,429	2,522,658
Long-Term Debt	11,061,646	1,631,846	102,357,342	-	113,418,988	1,631,846
Total Liabilities	13,035,084	4,059,130	105,952,333	95,374	118,987,417	4,154,504
Net Assets:						
Investment in Capital Assets,						
Net of Related Debt	14,140,148	12,938,853	4,187,756	1,617,952	18,327,904	14,556,805
Restricted	6,171,005	5,000,281	12,198,489	-	18,369,494	5,000,281
Unrestricted	13,519,851	9,447,079	(12,720,573)	616,025	799,278	10,063,104
Total Net Assets	\$ 33,831,004	\$ 27,386,213	\$ 3,665,672	\$ 2,233,977	\$ 37,496,676	\$ 29,620,190

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 \$37,496,676 at the close of the most recent fiscal year.

A substantial portion of the City's net assets (49%) 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, 2004
CITY OF MARCO ISLAND, FLORIDA

The following is a summary of the information presented in the Statement of Activities found on page 15 of the report:

Changes in Net Assets
For the Year Ended September 30, 2004

	Governmental Activities		Business-Type Activities		Total	
	2004	2003	2004	2003	2004	2003
Revenues:						
Program Revenues:						
Charges for Services	\$ 2,428,605	\$ 1,675,639	\$ 16,608,264	\$ 847,008	\$ 19,036,869	\$ 2,522,647
Operating Grants & Contributions	1,721,352	843,127	37,810	14,615	1,759,162	857,742
Capital Grants & Contributions	2,485,005	2,611,514	-	-	2,485,005	2,611,514
General Revenues:						
Taxes	10,990,090	10,061,620	-	-	10,990,090	10,061,620
State Shared Revenues	1,750,719	1,988,878	-	-	1,750,719	1,988,878
Other Revenues	1,332,110	1,071,386	330,322	7,388	1,332,110	1,071,386
Total Revenues	20,707,881	18,252,164	16,976,396	869,011	37,353,955	19,113,787
Expenses:						
Governmental Activities:						
General Government	2,883,757	1,815,510	-	-	2,883,757	1,815,510
Police Services	2,606,276	2,662,827	-	-	2,606,276	2,662,827
Fire and Rescue	2,768,306	2,664,307	-	-	2,768,306	2,664,307
Code Compliance	199,036	197,457	-	-	199,036	197,457
Building Services	1,020,790	578,572	-	-	1,020,790	578,572
Transportation	1,310,664	1,216,063	-	-	1,310,664	1,216,063
Culture and Recreation	3,334,436	1,410,204	-	-	3,334,436	1,410,204
Interest on Long-Term Debt	139,825	87,548	-	-	139,825	87,548
Business-type Activities:						
Water and Sewer Fund	-	-	15,454,681	808,329	15,454,681	808,329
Recreation	-	-	90,020	16,692	90,020	16,692
Total Expenses	14,263,090	10,632,488	15,544,701	825,021	29,807,791	11,457,509
Increase in Net Assets	6,444,791	7,619,676	1,431,695	43,990	7,876,486	7,663,666
Net Assets – Beginning of Year	27,386,213	19,766,537	2,233,977	2,189,987	29,620,190	21,956,524
Net Assets – End of Year	\$ 33,831,004	\$ 27,386,213	\$ 3,665,672	\$ 2,233,977	\$ 37,496,676	\$ 29,620,190



MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2004
CITY OF MARCO ISLAND, FLORIDA

Governmental Funds

The fund statements for the governmental funds are provided on pages 16-19. 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 \$19,609,921. Of this amount, \$3,221,265 constitutes *unreserved* and *undesignated fund balance*, 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 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	\$ 588,403
* Road Construction	3,000,649
* Fire Services	304,931
* Police Services	75,063
* Building Department	2,201,959
* Prepaid Expenditures	10,915

The fund balance in the General Fund has been designated for the following purposes:

* 2004 Capital Roll Forward	\$7,405,513
* Emergency Reserve	2,801,223

The General Fund is the chief operating fund of the City. At the end of the fiscal year, the unreserved fund balance of the General Fund is \$3,221,265, while the total fund balance is \$17,407,962. 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 undesignated and emergency reserves, represents 51% of General Fund expenditures.

The unreserved, undesignated fund balance of the City's General Fund decreased by \$1,296,097 during the current fiscal year. The key factor for this decrease was expenditure of funds for the North Barfield Bridge at Tarpon Bay project and design services for the reconstruction of North Collier Boulevard. Costs for both of these projects are scheduled to be financed as part of the Sales Tax Revenue Bond, Series 2005.



MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2004
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. Factors concerning the finances of the proprietary funds have been addressed in the discussion of the City's business-type activities.

General Fund Budgetary Highlights

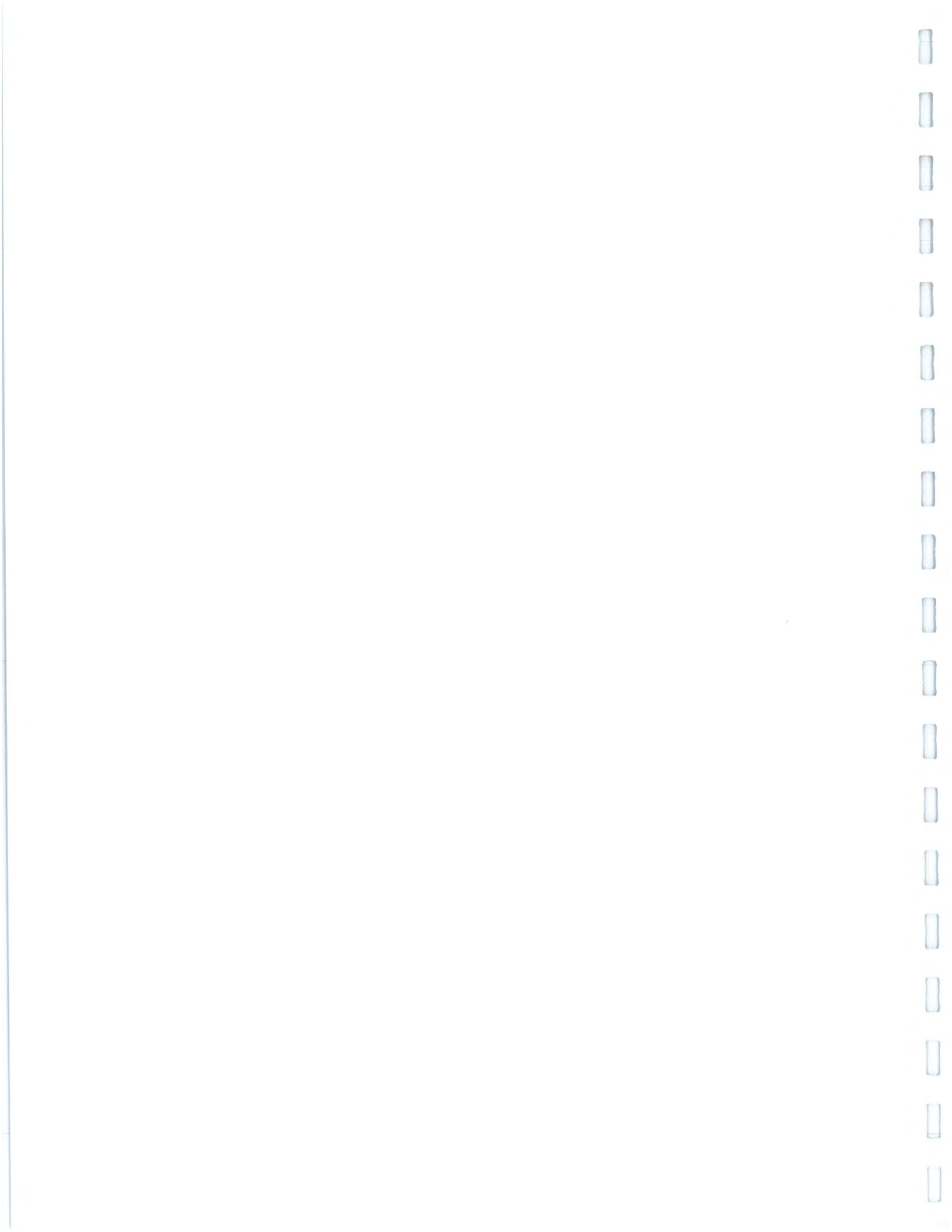
The difference between the original budget and the final amended budget of the City's General fund was an increase in net appropriations of \$216,594.

Both the original budget and the final amended budget were adopted with a budgeted increase in fund balance due to budgeted property tax revenues increasing. During the year, revenues exceeded budgetary estimates and expenditures were less than budgetary appropriations. However, the unreserved, undesignated fund balance in the General Fund declined, as discussed above.

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 consumer price index (COLA adjustment). 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 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 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 not counted against the Spending Cap a second time in the subsequent year.

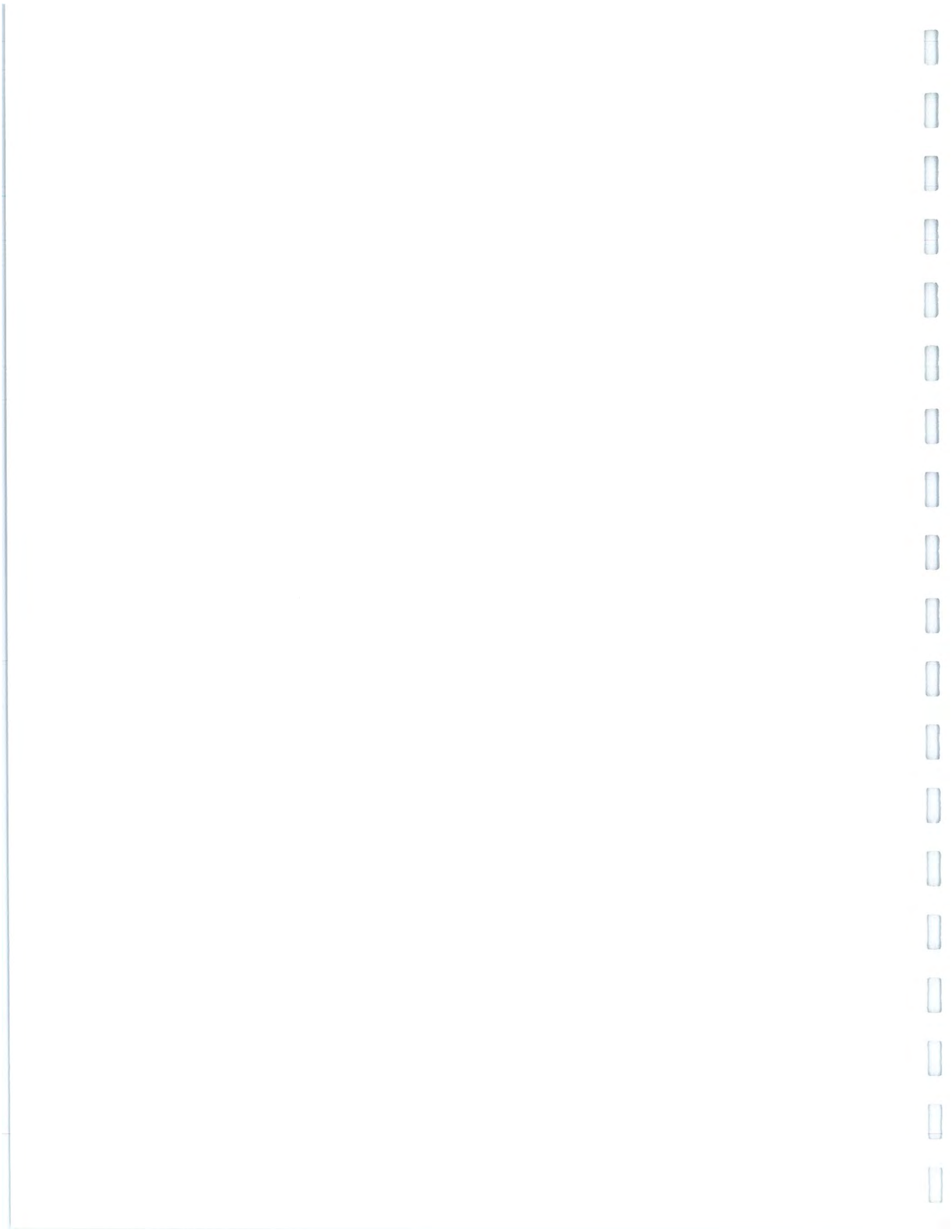


MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2004
CITY OF MARCO ISLAND, FLORIDA

For the fiscal year ended September 30, 2004 the City was in compliance with the Charter Spending Cap:

Expenditures fiscal year 2004:

General Fund	\$ 9,960,104	
Capital Projects Fund	13,780,786	
Building Services Fund	1,012,830	
Debt Service Fund	631,884	
TOTAL OF ALL FUNDS		\$ 25,385,604
Less: Enterprise Fund expenditures:		(894,270)
Less: Expenditures funded by grants and gifts:		(3,692,785)
Less: Expenditures funded by impact fees:		(2,132,812)
Less: Expenditures funded by bond proceeds:		
2004 General Obligation Bonds	(9,860,000)	
2005 Sales Tax Revenue Bonds	(3,015,000)	(12,875,000)
Less: Expenditures funded by cash forward from fiscal year 2003 and subject to 2003 Spending Cap:		(3,514,687)
Add Back: Funding for uncompleted balance of fiscal year 2004 capital projects, subject to Spending Cap in 2004; balanced carried forward to 2005		12,328,933
Add Back: Transfer to fiscal year 2005 Liability Fund		200,000
Audit Adjustment		20,653
Fiscal Year 2004 Expenditures subject to Spending Cap:		\$ 14,825,636
Fiscal Year 2004 Spending Cap:		\$ 14,833,023



MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2004
CITY OF MARCO ISLAND, FLORIDA

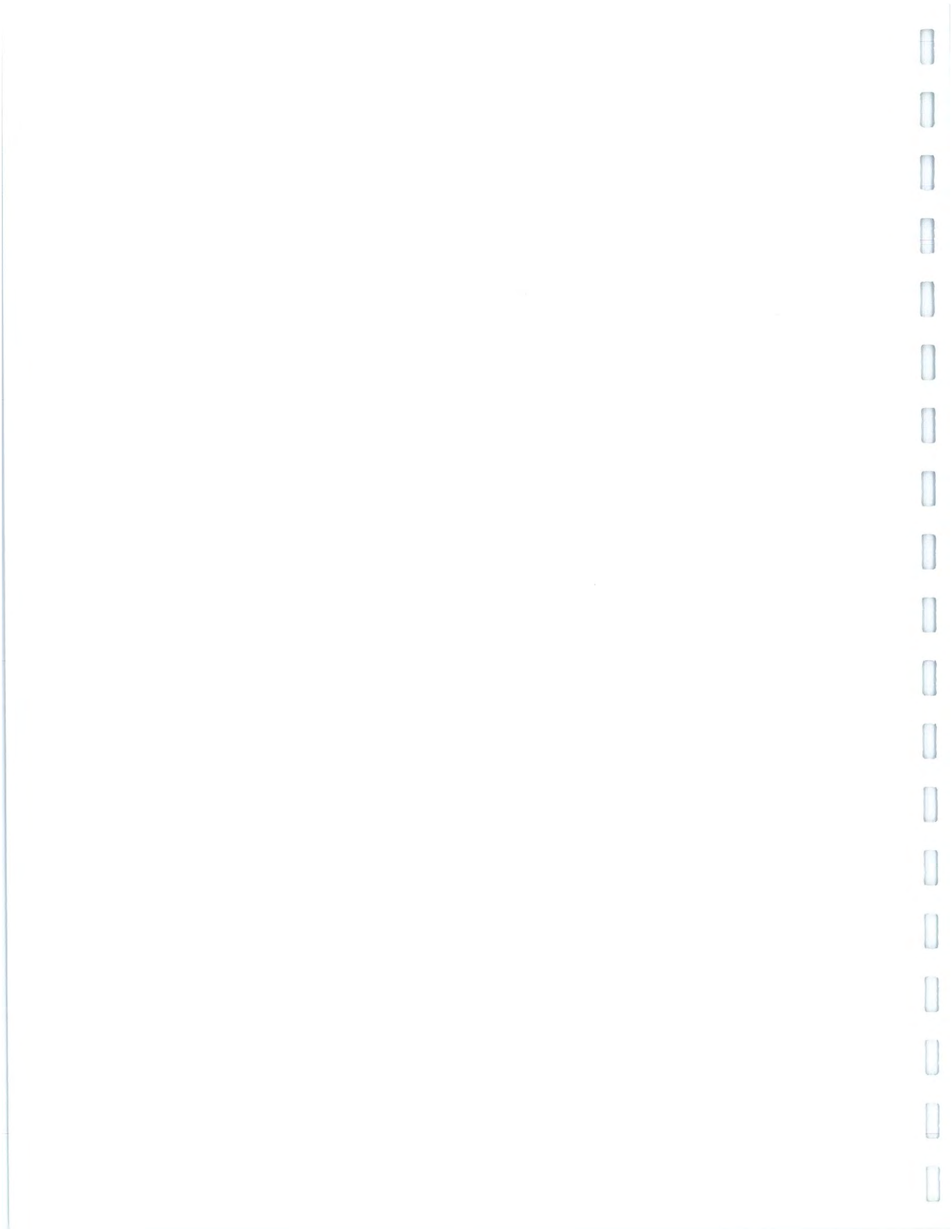
Capital Assets and Debt Administration

Capital Assets

The City's investment in capital assets for its governmental and business-type activities as of September 30, 2004 amounts to \$114,915,695 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, vehicles and equipment, construction in progress, other assets, and utility systems, but excludes governmental infrastructure because the original cost and book value have not been determined.

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

- Acquisition of the water and wastewater facilities from Florida Water Services, financed with the issuance of Utility Revenue Bonds of \$101 million.
- Purchase of the last large, undeveloped tract of land on Marco Island for future development of a park site, financed with the issuance of General Obligation bonds of \$9,860,000.
- Substantial completion of the new bridge on North Barfield Drive over the Tarpon Waterway.
- Engineering for the major reconstruction of South Collier Boulevard, scheduled for construction in fiscal year 2005.
- Upgrade and expansion of the storm water facility at South Collier Boulevard and Valley Avenue.
- Continuation of capital projects for replacement of existing drainage structures, swale drainage grading, and citywide drainage improvements identified in the Storm Water Master Plan.
- Phase II design and land acquisition for major off-street bike-pedestrian pathway to link the Marco Island Racquet Center, Mackle Park, Winterberry Park, and the Winterberry Drive Greenway.



MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2004
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	
	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>
Land and Land Improvements	\$ 14,825,071	\$ 4,943,419	\$ 15,024,010	\$ 2,039,641	\$ 29,849,081	\$ 6,983,060
Buildings and Improvements	3,676,689	2,064,209	5,858,969	-	9,535,658	2,064,209
Roads, Storm Water, Bridges	2,902,932	2,579,886	-	-	2,902,932	2,579,886
Parks & Pathway	353,866	114,836	-	-	353,866	114,836
Vehicles and Equipment	3,456,571	3,008,731	40,184,131	10,676	43,640,702	3,019,407
Transmission & Distribution	-	-	29,905,955	-	29,905,955	-
Capital Lease Assets	-	1,609,880	-	-	-	1,609,880
Construction Work in Process	3,404,996	1,917,794	2,453,568	-	5,858,564	1,917,794
Accumulated Depreciation	<u>(3,222,782)</u>	<u>(1,973,638)</u>	<u>(3,908,281)</u>	<u>(432,365)</u>	<u>(7,131,063)</u>	<u>(2,406,003)</u>
	\$ 25,397,343	\$ 14,265,117	\$ 89,518,352	\$ 1,617,952	\$ 114,915,695	\$ 15,883,069

Additional information on the City's capital assets can be found in Note 3, on pages 34-35 of this report.

Long-Term Debt

At the end of the current year, the City had total debt outstanding of \$111,810,000 (excluding accrued compensated absences and bond premiums). Of that amount, \$9,860,000 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.

	Long-Term Debt					
	Governmental Activities		Business-Type Activities		Total	
	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>
Revenue Bonds, Series 2000B	\$ 835,000	\$ 885,000	\$ -	\$ -	\$ 835,000	\$ 885,000
General Obligation Bonds, Series 2004	9,860,000	-	-	-	9,860,000	-
Capital Lease	-	441,264	-	-	-	441,264
Utility Revenue Bonds, Series 2003	-	-	101,115,000	-	101,115,000	-
Total Long-Term Debt	\$ 10,695,000	\$ 1,326,264	\$ 101,115,000	\$ -	\$ 111,810,000	\$ 1,326,264

The capital lease outstanding at the end of fiscal year 2003 was retired in full with a pre-payment of the balance due during fiscal year 2004. The outstanding balance on Revenue Bonds, Series 2000B was reduced by \$50,000 in 2004, representing payment made on the principal balance outstanding. Both the General Obligation bonds, Series 2004 and the Utility Revenue Bonds, Series 2003 were new debt issues in the fiscal year ending September 30, 2004. Additional information on the City's long-term debt can be found in Note 3, on pages 35-36 of this report.



MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2004
CITY OF MARCO ISLAND, FLORIDA

Economic Factors and Next Year's Budget and Rates

Property Taxes

For fiscal year 2005, the City's assessed valuation increased by 11.9% to \$7,106,800,384. This increase afforded the opportunity for a reduction in the millage rate from 1.620 mils to 1.586 mils, a reduction equal to the statutory increase in the taxable assessed valuation of homesteaded properties.

Electric Franchise Fee

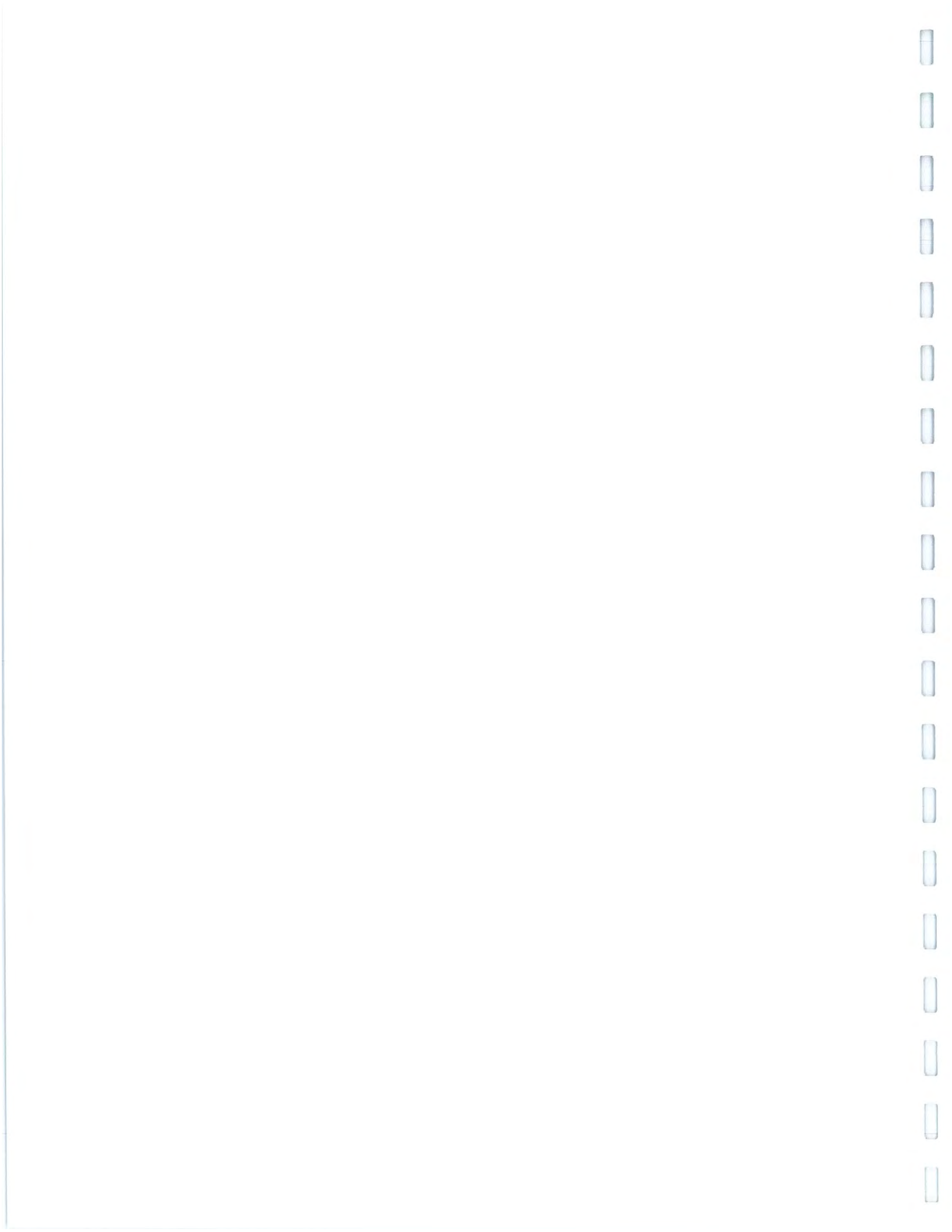
Beginning in fiscal year 2005, the City Council has entered into a franchise agreement with Lee County Electric Cooperative, Inc. (LCEC). In return for contractual use of public rights-of-way, LCEC will pay to the City a franchise fee equal to five percent (5%) of gross revenues. Funds from this franchise have been restricted by the City Council to provide for underground power and street lighting throughout the community. The City has entered into an agreement with LCEC to underground power lines as part of the reconstruction of South Collier Boulevard in fiscal year 2005.

Water and Wastewater Utility

Effective with utility bills rendered on or after November 1, 2004, water and wastewater operating rates were increased by one and six-tenths percent (1.6%), based on the 2004 increase in the Public Service Commission deflator index. City Council has established a policy providing for annual indexing of utility rates in the future.

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.



BASIC FINANCIAL STATEMENTS



CITY OF MARCO ISLAND, FLORIDA
STATEMENT OF NET ASSETS
September 30, 2004

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Assets:			
Pooled cash and investments	\$ 18,996,351	1,721,269	20,717,620
Nonpooled cash and investments	747,153	--	747,153
Receivables:			
Account - Net	547,606	1,504,036	2,051,642
Assessments - Net	61,445	--	61,445
Interest	108,172	--	108,172
Due from other governments	916,168	--	916,168
Prepaid items	10,915	--	10,915
Restricted cash and investments	--	14,661,995	14,661,995
Bond issue costs - Net	80,935	2,212,353	2,293,288
Capital Assets:			
Nondepreciable	18,230,067	17,477,578	35,707,645
Depreciable	7,167,276	72,040,774	79,208,050
Total Assets	<u>\$ 46,866,088</u>	<u>109,618,005</u>	<u>156,484,093</u>
Liabilities			
Accounts payable	\$ 1,499,721	984,352	2,484,073
Accrued liabilities	211,301	73,353	284,654
Deposits	5,422	123,117	128,539
Deferred revenue	61,445	--	61,445
Accrued interest	--	2,340,389	2,340,389
Noncurrent liabilities:			
Due within one year	195,549	73,780	269,329
Due in more than one year	11,061,646	102,357,342	113,418,988
Total Liabilities	<u>13,035,084</u>	<u>105,952,333</u>	<u>118,987,417</u>
Net Assets			
Invested in capital assets, net of related debt	14,140,148	4,187,756	18,327,904
Restricted for:			
Capital outlay	5,791,011	11,140,481	16,931,492
Debt service	--	1,058,008	1,058,008
Other	379,994	--	379,994
Unrestricted	13,519,851	(12,720,573)	799,278
Total Net Assets	<u>33,831,004</u>	<u>3,665,672</u>	<u>37,496,676</u>
Total Liabilities and Net Assets	<u>\$ 46,866,088</u>	<u>109,618,005</u>	<u>156,484,093</u>

See accompanying notes.

CITY OF MARCO ISLAND, FLORIDA
STATEMENT OF ACTIVITIES
For the Year Ended September 30, 2004

Function/Program Activities	Program Revenues				Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Governmental Activities							
General government	\$ 2,883,757	63,039	452,667	12,500	(2,355,551)	--	(2,355,551)
Police services	2,606,276	91,794	358,742	89,535	(2,066,205)	--	(2,066,205)
Fire and rescue	2,768,306	57,364	4,354	574,476	(2,132,112)	--	(2,132,112)
Code compliance	199,036	33,850	--	--	(165,186)	--	(165,186)
Building services	1,020,790	2,095,309	--	--	1,074,519	--	1,074,519
Transportation	1,310,664	--	904,203	1,474,898	1,068,437	--	1,068,437
Culture and recreation	3,334,436	87,249	1,386	333,596	(2,912,205)	--	(2,912,205)
Interest on long-term debt	139,825	--	--	--	(139,825)	--	(139,825)
Total Governmental Activities	14,263,090	2,428,605	1,721,352	2,485,005	(7,628,128)	--	(7,628,128)
Business-Type Activities							
Water and sewer	15,454,681	16,509,717	--	--	--	1,055,036	1,055,036
Recreation	90,020	98,547	37,810	--	--	46,337	46,337
Total Business-Type Activities	15,544,701	16,608,264	37,810	--	--	1,101,373	1,101,373
Total Primary Government	\$ 29,807,791	19,036,869	1,759,162	2,485,005	(7,628,128)	1,101,373	(6,526,755)
General Revenues							
Taxes:							
Property taxes					9,933,131	--	9,933,131
Communication service tax					1,056,959	--	1,056,959
State shared revenues					1,750,719	--	1,750,719
Interest					347,976	256,333	604,309
Miscellaneous					984,134	73,989	1,058,123
Total General Revenues					14,072,919	330,322	14,403,241
Change in Net Assets					6,444,791	1,431,695	7,876,486
Net assets - Beginning of year					27,386,213	2,233,977	29,620,190
Net assets - End of year					\$ 33,831,004	3,665,672	37,496,676

See accompanying notes.

CITY OF MARCO ISLAND, FLORIDA
GOVERNMENTAL FUNDS
BALANCE SHEET
September 30, 2004

	<u>General</u>	<u>Capital Projects</u>	<u>Nonmajor Fund Totals</u>	<u>Total Governmental Funds</u>
Assets				
Pooled cash and investments	\$ 16,760,270	--	2,236,081	18,996,351
Nonpooled cash and investments	747,153	--	--	747,153
Receivables:				
Account - Net	94,939	--	452,667	547,606
Assessments - Net	--	61,445	--	61,445
Interest	108,172	--	--	108,172
Due from other funds	443,834	564,959	--	1,008,793
Due from other governments	916,168	--	--	916,168
Prepaid items	10,915	--	--	10,915
Total Assets	<u>\$ 19,081,451</u>	<u>626,404</u>	<u>2,688,748</u>	<u>22,396,603</u>
Liabilities and Fund Balances				
Liabilities				
Accounts payable	\$ 905,823	564,959	28,939	1,499,721
Accrued liabilities	197,285	--	14,016	211,301
Due to other funds	564,959	--	443,834	1,008,793
Deposits	5,422	--	--	5,422
Deferred revenue	--	61,445	--	61,445
Total Liabilities	<u>1,673,489</u>	<u>626,404</u>	<u>486,789</u>	<u>2,786,682</u>
Fund Balances				
Reserved for:				
Parks construction or operation	588,403	--	--	588,403
Road construction	3,000,649	--	--	3,000,649
Fire services	304,931	--	--	304,931
Police services	75,063	--	--	75,063
Building department	--	--	2,201,959	2,201,959
Prepaid expenditures	10,915	--	--	10,915
Unreserved, undesignated	3,221,265	--	--	3,221,265
Unreserved, designated for:				
Capital projects	7,405,513	--	--	7,405,513
Emergency reserve	2,801,223	--	--	2,801,223
Total Fund Balances	<u>17,407,962</u>	<u>--</u>	<u>2,201,959</u>	<u>19,609,921</u>
Total Liabilities and Fund Balances	<u>\$ 19,081,451</u>	<u>626,404</u>	<u>2,688,748</u>	<u>22,396,603</u>

See accompanying notes.

**CITY OF MARCO ISLAND, FLORIDA
RECONCILIATION OF THE BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
GOVERNMENTAL FUNDS
September 30, 2004**

Fund Balance - Total Governmental Funds \$ 19,609,921

**Amounts Reported for Governmental Activities in the Statement
of Net Assets are Different Because:**

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds:

Capital assets	28,620,125	
Less: accumulated depreciation	<u>(3,222,782)</u>	25,397,343

Bond issue costs are not available to pay for current period expenditures and, therefore, are not reported in the governmental funds:

80,935

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	(835,000)	
Revenue bond - Series 2004	(9,860,000)	
Compensated absences	<u>(562,195)</u>	<u>(11,257,195)</u>

Net Assets of Governmental Activities **\$ 33,831,004**

CITY OF MARCO ISLAND, FLORIDA
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Year Ended September 30, 2004

	<u>General</u>	<u>Capital Projects</u>	<u>Nonmajor Fund Totals</u>	<u>Total Governmental Funds</u>
Revenues				
Taxes	\$ 11,870,991	--	--	11,870,991
Licenses and permits	34,726	--	2,095,309	2,130,035
Intergovernmental	2,821,205	2,004,270	452,667	5,278,142
Charges for services	522,944	--	--	522,944
Fines and forfeitures	91,794	--	--	91,794
Interest income	347,976	--	--	347,976
Miscellaneous	391,961	710,994	--	1,102,955
Total Revenues	<u>16,081,597</u>	<u>2,715,264</u>	<u>2,547,976</u>	<u>21,344,837</u>
Expenditures				
Current:				
General government	1,782,224	--	464,232	2,246,456
Police services	2,594,499	--	--	2,594,499
Fire and rescue	2,663,257	--	--	2,663,257
Code compliance	195,834	--	--	195,834
Building services	--	--	1,012,830	1,012,830
Transportation	1,179,243	--	--	1,179,243
Culture and recreation	1,545,047	--	--	1,545,047
Debt service:				
Principal	--	--	491,264	491,264
Interest	--	--	139,825	139,825
Capital outlay	--	13,780,786	--	13,780,786
Total Expenditures	<u>9,960,104</u>	<u>13,780,786</u>	<u>2,108,151</u>	<u>25,849,041</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>6,121,493</u>	<u>(11,065,522)</u>	<u>439,825</u>	<u>(4,504,204)</u>
Other Financing Sources (Uses)				
Transfers in	--	1,289,731	642,654	1,932,385
Transfers out	(1,932,385)	--	--	(1,932,385)
Bond issue costs	--	(84,209)	--	(84,209)
Proceeds from bonds payable	--	9,860,000	--	9,860,000
Total Other Financing Sources (Uses)	<u>(1,932,385)</u>	<u>11,065,522</u>	<u>642,654</u>	<u>9,775,791</u>
Net Change in Fund Balances	4,189,108	--	1,082,479	5,271,587
Fund Balances - October 1, 2003	<u>13,218,854</u>	<u>--</u>	<u>1,119,480</u>	<u>14,338,334</u>
Fund Balances - September 30, 2004	<u>\$ 17,407,962</u>	<u>--</u>	<u>2,201,959</u>	<u>19,609,921</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, 2004

Net Change in Fund Balance - Total Governmental Funds **\$ 5,271,587**

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

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	14,320,672	
Less: disposals	(2,525,248)	
Less: current year depreciation	<u>(663,198)</u>	11,132,226

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:

Proceeds from bonds payable	(9,860,000)	
Bond issue costs	80,935	
Add: principal payments	<u>491,264</u>	(9,287,801)

Revenues in the statement of activities that are not reported as revenues in the governmental funds		(636,956)
---	--	------------

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		<u>(34,265)</u>
--------------------------------	--	------------------

Change in Net Assets of Governmental Activities **\$ 6,444,791**

CITY OF MARCO ISLAND, FLORIDA
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
September 30, 2004

	<u>Business-Type Activities - Enterprise Funds</u>		
	<u>Water and Sewer</u>	<u>Other - Nonmajor</u>	<u>Total</u>
Assets			
Current Assets			
Pooled cash and investments	\$ 1,678,078	43,191	1,721,269
Accounts receivable - Net	1,503,465	571	1,504,036
Total Current Assets	3,181,543	43,762	3,225,305
Noncurrent Assets			
Restricted cash and investments	14,661,995	--	14,661,995
Bond issue costs - Net	2,212,353	--	2,212,353
Total Noncurrent Assets	16,874,348	--	16,874,348
Capital Assets			
Land	15,024,010	--	15,024,010
Transmission and distribution	29,905,955	--	29,905,955
Buildings and improvements	5,858,969	--	5,858,969
Vehicles and equipments	40,164,931	19,200	40,184,131
Construction in progress	2,453,568	--	2,453,568
Accumulated depreciation	(3,906,534)	(1,747)	(3,908,281)
Total Capital Assets (Net of Accumulated Depreciation)	89,500,899	17,453	89,518,352
Total Assets	\$ 109,556,790	61,215	109,618,005
Liabilities			
Current Liabilities			
Accounts payable	\$ 984,156	196	984,352
Accrued liabilities	73,353	--	73,353
Accrued compensated absences	132,304	--	132,304
Total Current Liabilities	1,189,813	196	1,190,009
Current Liabilities Payable from Restricted Assets			
Deposits	123,117	--	123,117
Accrued interest	2,340,389	--	2,340,389
Total Current Liabilities Payable from Restricted Assets	2,463,506	--	2,463,506
Noncurrent Liabilities - Bonds payable	102,298,818	--	102,298,818
Total Liabilities	105,952,137	196	105,952,333
Net Assets			
Invested in capital assets, net of related debt	4,187,756	--	4,187,756
Restricted for:			
Construction	8,031,516	--	8,031,516
Capital reserve	1,653,768	--	1,653,768
Impact fees	1,455,197	--	1,455,197
Renewal and replacement	1,058,008	--	1,058,008
Unrestricted	(12,781,592)	61,019	(12,720,573)
Total Net Assets	3,604,653	61,019	3,665,672
Total Liabilities and Net Assets	\$ 109,556,790	61,215	109,618,005

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, 2004

	<u>Business-Type Activities - Enterprise Funds</u>		
	<u>Water and Sewer</u>	<u>Other - Nonmajor</u>	<u>Total</u>
Operating Revenues			
Charges for services	\$ 16,509,717	98,547	16,608,264
Operating Expenses			
Personal services	2,712,961	--	2,712,961
Insurance	220,764	--	220,764
Utilities	1,563,068	--	1,563,068
Contractual fees	1,309,239	81,612	1,390,851
Repairs and maintenance	544,469	--	544,469
Supplies	1,010,474	--	1,010,474
Rental and lease costs	100,375	--	100,375
Other expenses	260,041	6,661	266,702
Amortization	32,418	--	32,418
Depreciation	3,474,169	1,747	3,475,916
Total Operating Expenses	<u>11,227,978</u>	<u>90,020</u>	<u>11,317,998</u>
Operating Income	5,281,739	8,527	5,290,266
Non-operating Income (Expense)			
Interest earnings	256,333	--	256,333
Interest expense	(4,226,703)	--	(4,226,703)
Other non-operating income	73,989	37,810	111,799
Total Non-operating Income (Expense)	<u>(3,896,381)</u>	<u>37,810</u>	<u>(3,858,571)</u>
Change in Net Assets	1,385,358	46,337	1,431,695
Total Net Assets - October 1, 2003	<u>2,219,295</u>	<u>14,682</u>	<u>2,233,977</u>
Total Net Assets - September 30, 2004	<u>\$ 3,604,653</u>	<u>61,019</u>	<u>3,665,672</u>

See accompanying notes.

CITY OF MARCO ISLAND, FLORIDA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Year Ended September 30, 2004

	<u>Business-Type Activities - Enterprise Funds</u>		
	<u>Water and Utility</u>	<u>Other - Nonmajor</u>	<u>Total</u>
Cash Flows from Operating Activities			
Cash received from customers and users	\$ 15,208,679	136,373	15,345,052
Cash payments to vendors for goods and services	(4,011,368)	(88,130)	(4,099,498)
Cash payments to employees for services	(2,580,657)	--	(2,580,657)
Net Cash Provided by Operating Activities	<u>8,616,654</u>	<u>48,243</u>	<u>8,664,897</u>
Cash Flows from Capital and Related Financing Activities			
Acquisition of property, plant and equipment	(91,357,116)	(19,200)	(91,376,316)
Proceeds from bond issuance	102,336,130	--	102,336,130
Payment of interest	(1,886,314)	--	(1,886,314)
Payment of bond issue costs	(2,282,083)	--	(2,282,083)
Net Cash Provided by (Used in) Capital and Related Financing Activities	<u>6,810,617</u>	<u>(19,200)</u>	<u>6,791,417</u>
Cash Flows from Investing Activities - Interest received on investments	256,333	--	256,333
Net Increase in Cash and Cash Equivalents	15,683,604	29,043	15,712,647
Cash and Cash Equivalents - October 1, 2003	<u>656,469</u>	<u>14,148</u>	<u>670,617</u>
Cash and Cash Equivalents - September 30, 2004	<u>\$ 16,340,073</u>	<u>43,191</u>	<u>16,383,264</u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities			
Operating income	5,281,739	8,527	5,290,266
Adjustments to reconcile operating income to Net cash provided by operating activities:			
Depreciation	3,474,169	1,747	3,475,916
Amortization	32,418	--	32,418
Other non-operating income	73,989	37,810	111,799
Decrease (Increase) in assets and increase (decrease) in liabilities			
Accounts receivable	(1,463,270)	16	(1,463,254)
Accounts payable and accrued liabilities	997,062	143	997,205
Deferred revenue	(34,874)	--	(34,874)
Deposits	123,117		123,117
Accrued compensation	132,304	--	132,304
Net Cash Provided by Operating Activities:	<u>\$ 8,616,654</u>	<u>48,243</u>	<u>8,664,897</u>

See accompanying notes.

CITY OF MARCO ISLAND, FLORIDA
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUND
PENSION TRUST FUND
September 30, 2004

	Pension Trust Fund
Assets:	
Pooled cash and cash equivalents	\$ 113,858
Investments, at fair value:	
Common stock	720,689
Government bonds	471,160
Accrued interest	3,601
Total Assets	<u>\$ 1,309,308</u>
 Net Assets	
Held in trust for pension benefits and other purposes	 <u>\$ 1,309,308</u>

See accompanying notes.

CITY OF MARCO ISLAND, FLORIDA
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUND
PENSION TRUST FUND
For the Year Ended September 30, 2004

	<u>Pension Trust Fund</u>
Additions	
Contributions:	
Employer	\$ 17,281
Employee	4,957
State of Florida	252,011
Total contributions	<u>274,249</u>
Investment income (expense):	
Investment earnings	101,318
Investment expenses	<u>(10,533)</u>
Net investment income	<u>90,785</u>
Total Additions	365,034
Deductions	
Refunds of contributions	978
Legal	6,012
Actuary	450
Audit	1,500
Administrative	2,916
Total Deductions	<u>11,856</u>
Change in Net Assets	353,178
Net Assets - October 1, 2003	<u>956,130</u>
Net Assets - September 30, 2004	<u><u>\$ 1,309,308</u></u>

See accompanying notes.

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NOTES TO FINANCIAL STATEMENTS



**NOTES TO FINANCIAL STATEMENTS
CITY OF MARCO ISLAND, FLORIDA**

Note 1 – 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 City has no component units. However, this report does include the accounts and transactions of the following entity, which does not satisfy the definition of a component unit because it is not legally separate from the city.

- The City of Marco Island Firefighters' Pension Plan (the Firefighters' Pension Plan)

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 nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. *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.

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 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 provided have been met.

NOTES TO FINANCIAL STATEMENTS
CITY OF MARCO ISLAND, FLORIDA
(Continued)

Governmental fund financial statements are reporting 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, code compliance, building services, transportation, culture and recreation, and general administration are provided by the General Fund.
- The **Capital Projects Fund** accounts for the activities associated with construction and preservation of the City's governmental capital assets.

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 funds:

- The **Emergency Relief Fund** accounts for the resources accumulated and payments made by FEMA and outside agencies for emergency measures and debris clean-up on public rights-of-way 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.
- The **Building Services Fund** accounts for revenue received from building permits and application fees to be used for the operation of the building department.
- The **Debt Service Fund** accounts for the resources accumulated and payments made for principal and interest on long-term debt of the governmental funds.

NOTES TO FINANCIAL STATEMENTS
CITY OF MARCO ISLAND, FLORIDA
(Continued)

- The **Recreation Fund** accounts for recreational programs that are self-supporting. It is the only non-major proprietary fund.
- The **Pension Trust Fund** accounts for the activities of the Firefighters' Pension Plan, which accumulates 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.

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 *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the utility enterprise fund and of the recreation enterprise fund are charges to customers for sales and services. The utility 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 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 nonoperating revenues and expenses.

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

In the fund financial statements, the City charged the Building Services Fund \$333,490 for indirect services provided by General Fund departments. This amount has been eliminated in the statement of activities so that only direct costs of programs are included in the expense column. In addition, city-wide workers compensation costs totaling \$435,339 are included in general government expenditures in the fund financial statements, and have been allocated among programs in the statement of activities.

NOTES TO FINANCIAL STATEMENTS
CITY OF MARCO ISLAND, FLORIDA
(Continued)

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 the U.S. Treasury, its agencies and instrumentalities; repurchase and reverse repurchase agreements collateralized by U.S. securities; and the State Board of Administration.

Investments for the government are reported at fair value. The State Board of Administration Pooled Trust Fund operates in accordance with appropriate state laws and regulations.

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 Board.

2. Receivables

All receivables are shown net of an allowance for doubtful accounts.

3. Interfund receivables and payables

During the course of its operations, the City has transactions between funds to provide services and construct assets. To the extent that certain transactions between funds were not paid for or received as of September 30, 2004, balances of interfund receivables and payables expected to be liquidated within one year have been recorded as due from and due to other funds.

4. 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.

5. 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.

6. 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 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. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

NOTES TO FINANCIAL STATEMENTS
CITY OF MARCO ISLAND, FLORIDA
(Continued)

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed.

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	4-10 Years

GASB Statement No. 34 requires the City to report and depreciate new infrastructure assets effective with the beginning of the September 30, 2003 fiscal year. Infrastructure assets include roads, bridges, traffic signals, medians, etc. These infrastructure assets will be the largest asset class of the City. Neither their historical cost nor related depreciation has historically been reported in the financial statements. The retroactive reporting of infrastructure is subject to an extended implementation period and is first effective for the fiscal year ending in 2006. The City has implemented the general provisions of GASB Statement No. 34 and hopes to implement the retroactive infrastructure provisions in the fiscal year ending September 30, 2005.

7. Compensated absences

It is the government's policy to permit employees to accumulate earned but unused personal leave amounts. 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.

Full-time City and Police employees earn from 160 to 200 hours annually, based upon years of service, and can accrue up to 720 hours. Upon termination, the employee is entitled to all personal leave hours paid out at the hourly rate upon termination.

City Firefighters under union contract earn from 216 to 312 hours per year in personal leave time. The amount earned depends upon years of service. City Firefighters can accrue up to a maximum of 936 hours. Upon termination, the employee is entitled to all personal leave hours paid out at the hourly rate upon termination.

8. Long-term obligations

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

NOTES TO FINANCIAL STATEMENTS
CITY OF MARCO ISLAND, FLORIDA
(Continued)

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.

9. 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 represents tentative management plans that are subject to change.

10. Pension costs

The provision for pension costs is recorded on an accrual basis, and the City's policy is to fund pension costs as they accrue.

11. 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 current year's tax levy is based on taxable assessed real and personal property values totaling \$6,352,910,401.

Details of the tax calendar are presented below:

Lien Date	January 1, 2003
Levy Date	October 1, 2003
Installment Payments	
First Installment	No Later Than June 30, 2003
Second Installment	No Later Than September 30, 2003
Third Installment	No Later Than December 31, 2003
Fourth Installment	No Later Than March 31, 2004
Regular Payments	
Discount Periods	November 2003 Through February 2004
No Discount Period	After March 1, 2004
Delinquent Date	April 1, 2004

E. Accounting Estimates

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

NOTES TO FINANCIAL STATEMENTS
CITY OF MARCO ISLAND, FLORIDA
(Continued)

Note 2 – Stewardship, Compliance, and Accountability

A. Budget

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds.

Prior to the end of April, all agencies of the government submit requests for appropriations to the City manager so that a budget may be prepared. Before June 30, 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.

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. The Council made several supplementary budgetary appropriations throughout the year. The supplemental budgetary appropriations made in the general fund were not material.

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 reappropriated and honored during the subsequent year.

Certain budgeted expenditures are subject to a "spending cap." These expenditures shall be 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. Following is a calculation of "spending cap" limitation for 2004 and the calculation of the City's compliance.

The spending cap for the 2004 fiscal year, as adopted by City Council on June 2, 2003, was \$14,833,023. The final actual amount for the 2004 fiscal year was \$14,825,636, which was below the spending cap limit.

Note 3 – Detailed Notes on All Funds

A. Deposits and Investments

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 depositors 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.

NOTES TO FINANCIAL STATEMENTS
CITY OF MARCO ISLAND, FLORIDA
(Continued)

As a result of the provisions of Chapter 280, all cash and time deposits held by banks can be classified as category 1 credit risk (fully insured) as defined in GASB Statement No. 3. Assignment of category 1 credit risk means that the cash and time deposits are fully insured or collateralized.

Investments are categorized into one of these three categories or credit risk:

- **Category 1** – Insured or registered, or securities held by the City or its agent in the City's name.
- **Category 2** – Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the City's name.
- **Category 3** – Uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent, but not in the City's name.

The investments in the State Board of Administration – Local Government Surplus Trust Funds Investment Pool cannot be classified within the categories described above because they are not evidenced by securities that exist in physical or book entry form. These amounts totaled \$747,153 at September 30, 2004. The state pool is a 2a7-like pool, carried at amortized cost, which approximates market. A 2a7-like pool is not registered with the SEC as an investment company, but nevertheless has a policy that will, and does, operate in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940, which comprises the rules governing money market funds. Thus, the pool operates essentially as a money market fund. Throughout the year and as of September 30, 2004, the pool contained certain floating and adjustable rate securities which were indexed based on the prime rate and/or one and three-month LIBOR rates.

At September 30, 2004, the City's investment balances were as follows:

	Investment category			Carrying amount (Fair value)
	1	2	3	
Money market funds	\$ 9,397,247	\$ --	\$ --	\$ 9,397,247
United States Government Agency Securities	22,662,235	--	--	22,662,235
Government Bonds	2,485,265	--	--	2,485,265
Common Stock	2,140,575	--	--	2,140,575
Total Investments	\$ 36,685,320	\$ --	\$ --	\$ 36,685,322

B. Receivables

Receivables as of year end for the City's individual major funds and nonmajor and fiduciary funds in the aggregate, including the applicable allowances for uncollectible accounts, were as follows:

NOTES TO FINANCIAL STATEMENTS
CITY OF MARCO ISLAND, FLORIDA
(Continued)

	<u>General</u>	<u>Capital Project</u>	<u>Utility</u>	<u>Non- major</u>	<u>Total</u>
Receivables:					
Accounts	\$ 112,002	\$ --	\$1,536,113	\$ 452,667	\$ 2,100,782
Assessments	--	61,445	--	--	61,445
Interest	<u>108,172</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>108,172</u>
Gross receivables	220,174	61,445	1,536,113	452,667	2,270,399
Less: allowances for uncollectibles	<u>17,063</u>	<u>--</u>	<u>32,077</u>	<u>--</u>	<u>49,140</u>
Net total receivables	<u>\$ 203,111</u>	<u>\$ 61,445</u>	<u>\$1,504,036</u>	<u>\$ 452,667</u>	<u>\$ 2,221,259</u>

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, 2004, deferred revenue reported in the governmental funds consists of receivables recognized for sidewalk assessments.

C. Interfund Receivables, Payables, and Transfers

Due from/to other funds represent primarily loans to cover other funds' deficits in pooled cash and investments, which are used to finance the construction of capital assets. At September 30, 2004, the balance in due from/to other funds consists of the following:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Emergency Relief	\$ 443,834
Capital Projects	General	564,959
Total		<u>\$ 1,008,793</u>

For the year ended September 30, 2004, the interfund transfers were as follows:

	<u>Transfers in:</u>		
	<u>Capital project</u>	<u>Non-major</u>	<u>Total</u>
Transfers out – General	\$1,289,731	\$ 642,654	\$1,932,385

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) move receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

NOTES TO FINANCIAL STATEMENTS
CITY OF MARCO ISLAND, FLORIDA
(Continued)

Capital assets

	Beginning Balance	Increases	(Decreases)	Ending Balance
Governmental Activities				
Capital assets not being depreciated:				
Land	\$ 4,943,419	\$ 9,882,545	\$ (893)	\$ 14,825,071
Construction in progress	1,917,794	3,404,996	(1,917,794)	3,404,996
Total capital assets not being depreciated	<u>6,861,213</u>	<u>13,287,541</u>	<u>(1,918,687)</u>	<u>18,230,067</u>
Capital assets being depreciated:				
Buildings and improvements	3,674,089	2,600	--	3,676,689
Vehicles and equipment	3,008,731	468,455	(20,615)	3,456,571
Road network	788,924	--	--	788,924
Storm water	1,407,715	323,046	--	1,730,761
Pathway	16,907	121,951	--	138,858
Parks	97,929	117,079	--	215,008
Bridge network	383,247	--	--	383,247
Total capital assets being depreciated	<u>9,377,542</u>	<u>1,033,131</u>	<u>(20,615)</u>	<u>10,390,058</u>
Total accumulated depreciation for:				
Buildings and improvements	(1,224,619)	(154,367)	--	(1,378,986)
Vehicles and equipment	(1,296,952)	(341,718)	20,615	(1,618,055)
Road network	(32,754)	(57,502)	--	(90,256)
Storm water	(18,061)	(67,662)	--	(85,723)
Pathway	(845)	(6,943)	--	(7,788)
Parks	(6,529)	(9,456)	--	(15,985)
Bridge network	(439)	(25,550)	--	(25,989)
Total accumulated depreciation	<u>(2,580,199)</u>	<u>(663,198)</u>	<u>20,615</u>	<u>(3,222,782)</u>
Total capital activities being depreciated, net	<u>6,797,343</u>	<u>369,933</u>	<u>--</u>	<u>7,167,276</u>
Total governmental activities capital assets, net	<u>\$ 13,658,556</u>	<u>\$ 13,657,474</u>	<u>\$ (1,918,687)</u>	<u>\$ 25,397,343</u>
Business-Type Activities				
Capital assets not being depreciated:				
Land	\$ --	\$ 15,024,010	\$ --	15,024,010
Construction in progress	--	2,453,568	--	2,453,568
Total capital assets not being depreciated	<u>--</u>	<u>17,477,578</u>	<u>--</u>	<u>17,477,578</u>
Capital assets being depreciated:				
Transmission and distribution	2,039,641	27,866,314	--	29,905,955
Buildings and improvements	--	5,858,969	--	5,858,969
Vehicles and equipment	10,676	40,173,845	(390)	40,184,131
Total capital assets being depreciated	<u>2,050,317</u>	<u>73,899,128</u>	<u>(390)</u>	<u>75,949,055</u>
Less accumulated depreciation for:				
Buildings and improvements	(423,565)	(1,596,837)	--	(2,020,402)
Vehicles and equipment	(8,800)	(1,879,079)	--	(1,887,879)
Total accumulated depreciation	<u>(432,365)</u>	<u>(3,475,916)</u>	<u>--</u>	<u>(3,908,281)</u>
Total capital assets being depreciated, net	<u>1,617,952</u>	<u>70,423,212</u>	<u>(390)</u>	<u>72,040,774</u>
Total business-type activities capital assets, net	<u>\$ 1,617,952</u>	<u>\$ 87,900,790</u>	<u>\$ (390)</u>	<u>\$ 89,518,352</u>

Depreciation Expense was charged to functions/programs of the City as follows:

Governmental Activities:	
General government	\$ 78,983
Police services	109,304
Fire and rescue	169,062
Code compliance	3,699
Building services	7,225
Transportation	162,777
Culture and recreation	132,148
Total depreciation expense – Governmental activities	<u>\$ 663,198</u>

NOTES TO FINANCIAL STATEMENTS
CITY OF MARCO ISLAND, FLORIDA
(Continued)

Business-Type Activities:	
Water and sewer	\$ 3,474,169
Recreation	1,747
Total depreciation expense – Business-type activities	<u>3,475,916</u>
 Total Depreciation Expense	 <u>\$ 4,139,114</u>

D. Operating Leases

The City is obligated under certain lease agreements originally between the Fire Control District and other parties. On January 23, 1992, under terms of a Ground Lease, the Fire Control District agreed to lease approximately 1.5 acres of undeveloped land, upon which the current main fire protection facility is located, to First Continental Financial Corporation, Little Rock, Arkansas (FCPC). The lease called for payments of \$1 per year through January 25, 2007, and included up to eight automatic renewal periods of five years each.

E. Long-Term Debt

Long-term liability activity for the year ended September 30, 2004, was as follows:

	Beginning Balance	Additions	(Reductions)	Ending Balance	Due Within One Year
Governmental Activities					
Revenue bonds	\$ 885,000	\$ --	\$ (50,000)	\$ 835,000	\$ 55,000
General obligation bonds	--	9,860,000	--	9,860,000	--
Capital lease	441,264	--	(441,264)	--	--
Compensated absences	527,930	166,248	(131,983)	562,195	140,549
Total governmental activity long-term liabilities	<u>\$ 1,854,194</u>	<u>\$ 10,026,248</u>	<u>\$ (623,247)</u>	<u>\$ 11,257,195</u>	<u>\$ 195,549</u>
Business Activities					
Revenue bonds					
Principal	\$ --	\$ 101,115,000	\$ --	\$ 101,115,000	\$ --
Premium	--	1,221,130	(37,312)	1,183,818	40,704
Compensated absences	--	132,304	--	132,304	33,076
Total business-type activity long-term liabilities	<u>\$ --</u>	<u>\$ 102,468,434</u>	<u>\$ (37,312)</u>	<u>\$ 102,431,122</u>	<u>\$ 73,780</u>

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 the acquired or constructed assets to pay debt service.

During 2000, the City issued revenue bonds for governmental activities for the repair of the Factory Bay Bridge. 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, 2004, \$835,000 of the principal was outstanding.

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, 2004, the entire balance of the principal was outstanding.

NOTES TO FINANCIAL STATEMENTS
CITY OF MARCO ISLAND, FLORIDA
(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 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, 2004, the entire balance of the principal was outstanding.

Annual debt service requirements to maturity for the general obligation bonds and the revenue bonds as of September 30, 2004, are as follows:

Governmental Activities					
Fiscal Year	Revenue Bond		General Obligation Bond		Total Principal
	Principal	Interest	Principal	Interest	
2005	\$ 55,000	\$ 40,604	\$ --	\$ 299,834	\$ 55,000
2006	55,000	38,143	545,000	299,834	600,000
2007	60,000	35,540	555,000	299,834	615,000
2008	60,000	32,795	565,000	277,834	625,000
2009	65,000	29,904	580,000	266,534	645,000
2010-2014	365,000	99,615	3,135,000	1,092,119	3,500,000
2015-2019	175,000	10,208	3,665,000	558,538	3,840,000
2020-2024	--	--	815,000	30,971	815,000
Total	\$ 835,000	\$ 286,809	\$ 9,860,000	\$ 3,125,498	\$10,695,000

Business-Type Activities		
Fiscal Year	Revenue Bond	
	Principal	Interest
2005	\$ --	\$ 4,680,778
2006	1,910,000	4,661,678
2007	1,950,000	4,623,078
2008	1,990,000	4,583,678
2009	2,030,000	4,539,418
2010-2014	11,045,000	21,726,726
2015-2019	13,605,000	19,003,181
2020-2024	17,565,000	14,951,538
2025-2029	22,465,000	9,935,863
2030-2034	28,555,000	3,701,161
Total	\$ 101,115,000	\$ 92,407,099

Note 4 – 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 for which the City carries commercial

**NOTES TO FINANCIAL STATEMENTS
CITY OF MARCO ISLAND, FLORIDA**

(Continued)

insurance. During the year ended September 30, 2004, insurance against losses was provided through the Florida League of Cities, Inc. for the following types of risks:

- Workers' Compensation and Employer's Liability
- General and Automobile Liability
- Real and Personal Property Damage
- Public Officials' Liability

The City's coverage for workers' compensation is under a retrospectively rated policy. Premiums are accrued based upon the ultimate cost-to-date of the City's experience for this type of risk.

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

B. Subsequent Events

Sales Tax Bonds – City Council has authorized the issuance of not-to-exceed \$6 million in sales tax revenue bonds during Fiscal Year 2005. Proceeds will be used to finance the replacement bridge on Barfield Drive over the Tarpon Waterway, under construction at the end of Fiscal Year 2004, construction of a new Police station, and a portion of the engineering costs for the reconstruction of Collier Boulevard.

Hideaway Beach Special Tax District – In August 2004, voters in Hideaway Beach approved the issuance of not-to-exceed \$2.9 million in limited general obligation bonds for beach re-nourishment along the Gulf of Mexico beaches in this gated residential community. The referendum also provided for a mil levy of not-to-exceed 2.6 mils for repayment of the debt. As part of the project, Collier County has agreed to use Tourist Development tax funds to build T-groins along the beach to prevent future beach deterioration. Bonds were issued in February 2005, with construction scheduled to commence in Spring 2005.

Electric Franchise Fee – The City has entered into a franchise agreement with Lee County Electric Co-operative, Inc. Under terms of the agreement, LCEC will provide to the City a 5% franchise fee on power sales on Marco Island. The City has agreed to use all proceeds of the franchise fee for the under-grounding of electric lines on the island.

C. 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 government 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.

NOTES TO FINANCIAL STATEMENTS
CITY OF MARCO ISLAND, FLORIDA
(Continued)

D. Retirement Systems

Plan Description

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 (reporting as a pension trust fund) of the City's financial reporting entity since it is not legally separate.

As of October 1, 2004 (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>0</u>
Active plan participants:	
Vested	2
Nonvested	<u>10</u>
Total active plan participants	<u>12</u>
Vested terminated members	<u>0</u>

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.

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 is 100% of their final five-year average compensation. 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. Delayed retirement is permitted, with the benefit calculated the same as the normal retirement benefit, but based on credited service and AFC 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 nonvested 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.

**NOTES TO FINANCIAL STATEMENTS
CITY OF MARCO ISLAND, FLORIDA**

(Continued)

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 nonservice 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.

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 of the Plan. 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 contribution totaling 100% of the actuarially determined amount (after state contributions) annually to the Plan. The City's policy currently is to have actuarial studies conducted every three years. Contributions for the fiscal year ended September 30, 2004, were based on actuarial computations performed for 2002, in the actuarial report dated October 1, 2002.

For the year ended September 30, 2004, the actuarially determined contribution amount was \$91,217 with the anticipated state contribution of \$73,936. Accordingly, the required employer contribution for 2004 was \$17,281. For the year ended September 30, 2004, the City's total covered payroll for participants in the Plan amounted to \$495,670. Covered payroll refers to all compensation paid by the City to active employees covered by the Plan on which contributions to the Plan are based. Total payroll for the City (covered, state retirement system, and uncovered) for the year ended September 30, 2004, was \$9,040,388.

Annual Pension Cost and Net Pension Obligations

The City's annual pension cost for the year ended September 30, 2004, was \$17,281. The City had no net pension obligation. The annual required contribution for the 2004 fiscal year was based on the 2001 year, and was determined as part of the October 1, 2002, actuarial valuation using the entry age actuarial costs method (with allocation of future normal costs based on earnings and determined by individual). The actuarial assumptions in the October 1, 2002, valuation included: (a) 8% investment rate of return (net of administrative expenses); (b) projected salary increases of 6% per year; and (c) 4% rate of inflation. 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

NOTES TO FINANCIAL STATEMENTS
CITY OF MARCO ISLAND, FLORIDA
(Continued)

level dollar amount over thirty years. The remaining amortization period at October 1, 2002, was thirty years (closed basis).

Three-Year Trend Information

Fiscal Year Ended September 30,	Annual Pension Cost (APC)	Percentage of APC Contributed	Pension Obligation
2003	\$ 17,281	100.0%	\$--
2002	\$ --	100.0%	\$--
2001	\$ --	100.0%	\$--

Summary of Significant Accounting Policies and Plan Assets Matters

E. Defined Benefit Pension Plan

All City employees, with the exception of firefighters with required membership in either the Plan or the System, based on date of hire, 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.

The Marco Island Independent Fire Protection District provided fire and rescue services to the community prior to the 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 establishment of the local Firefighters' Pension Plan (see "F" above) and after incorporation of the City.

This system was created by the Florida Legislature and is a cost-sharing, multiple-employer defined benefit public retirement plan available to governmental units within the state of Florida. 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, 2639-C North Monroe Street, Tallahassee, Florida 32399-1560, or by calling (850) 488-5706.

Under the System, special risk employees who retire at or after age 55, with ten years of creditable service; and all other employees who retire at or after age 62, with ten 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. The System also provides death benefits, disability benefits, and cost of living adjustments, as established by Florida Statute.

NOTES TO FINANCIAL STATEMENTS
CITY OF MARCO ISLAND, FLORIDA
(Concluded)

The funding methods and the determination of benefits payable are provided in various acts of the Florida Legislature. Firefighters are considered special risk employees; contribution rates paid into the System are determined annually on an actuarial basis. These acts provide that employers, such as the City, are required to contribute 20.29% for special risk members up to June 30, 2003; 16.0% thereafter.

The City's contributions to the System for the years ended September 30, 2004, 2003, and 2002, were \$167,348, \$164,934, and \$154,420, respectively, equal to the required contributions for each year.

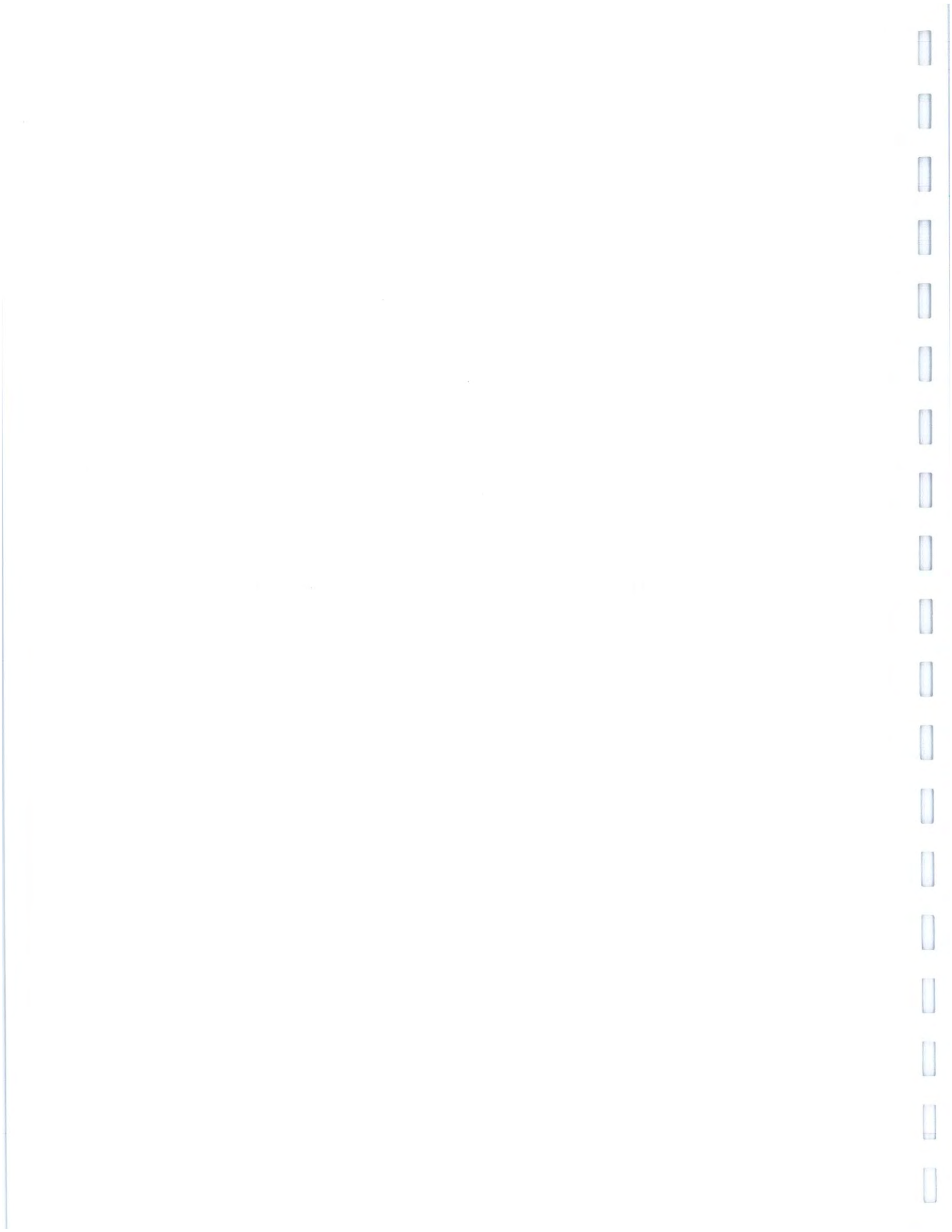
F. Commitments

As of September 30, 2004, the City had the following commitments related to significant unfinished capital projects:

<u>Projects</u>	<u>Expended as of 9/30/04</u>	<u>Remaining Commitment</u>
North Barfield Bridge project (Kelly Brothers)	\$ 1,186,132	678,720
R.O. Plant Wells (Global Technology)	550,489	654,001
A.S.R. Wells (Southern Well Drilling)	500,581	1,187,531
Totals	<u>\$ 2,237,202</u>	<u>2,520,252</u>

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REQUIRED SUPPLEMENTARY INFORMATION



CITY OF MARCO ISLAND, FLORIDA
SCHEDULE OF FUNDING PROGRESS
CITY OF MARCO ISLAND FIREFIGHTERS' PENSION PLAN
September 30, 2004

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)%

Note: Latest valuation was October 1, 2004

CITY OF MARCO ISLAND, FLORIDA
SCHEDULE OF EMPLOYER AND STATE CONTRIBUTIONS
CITY OF MARCO ISLAND FIREFIGHTERS' PENSION PLAN
September 30, 2004

Fiscal year ended	Actuarial valuation date	Annual required contribution	Actual contribution	Percentage contributed
9/30/1999	10/1/1997	\$ 41,924	\$ 69,045	164.7%
9/30/2000	10/1/2000	41,924	178,945	426.8%
9/30/2002	10/1/2002	15,306	73,936	483.1%
9/30/2004	10/1/2004	91,217	91,217	100.0%

The information presented in the required supplementary schedules was determined as part of the actuarial valuations at the dates indicated. Additional information as of the latest actuarial valuation follows:

Valuation date	October 1, 2004
Actuarial cost method	Entry Age
Amortization method	Level Dollar, Closed
Remaining amortization period	30 Years
Asset valuation method	Market Value
Actuarial assumptions:	
Investment rate of return*	8.0%
Projected salary increases*	6.0%
Cost of living adjustments	3.0%

* Includes inflation at 4%

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, 2004

	<u>Budgeted amounts</u>		<u>Actual amounts</u>	<u>Variance with final budget over (under)</u>	<u>September 30, 2003 actual amounts</u>
	<u>Original</u>	<u>Final</u>			
Revenues					
Taxes	\$ 11,384,000	11,384,000	11,870,991	486,991	10,776,436
Licenses and permits	28,000	28,000	34,726	6,726	33,833
Intergovernmental	2,132,700	2,132,700	2,821,205	688,505	2,179,652
Charges for services	332,000	332,000	522,944	190,944	321,882
Fines and forfeitures	62,000	62,000	91,794	29,794	130,744
Interest income	275,000	275,000	347,976	72,976	347,907
Miscellaneous	275,000	1,133,750	391,961	(741,789)	297,804
Total Revenues	<u>14,488,700</u>	<u>15,347,450</u>	<u>16,081,597</u>	<u>734,147</u>	<u>14,088,258</u>
Expenditures					
Current:					
General government:					
Legislative	60,308	59,872	58,570	(1,302)	54,763
Executive	401,687	413,104	395,652	(17,452)	364,760
Finance	317,453	403,467	401,183	(2,284)	295,619
Legal	158,671	157,524	133,720	(23,804)	145,295
Community development	391,787	388,955	362,500	(26,455)	351,316
Other	1,006,658	1,355,095	840,537	(514,558)	927,485
Total general government	<u>2,336,564</u>	<u>2,778,017</u>	<u>2,192,163</u>	<u>(585,855)</u>	<u>2,139,238</u>
Public safety:					
Police services	2,557,448	2,612,685	2,464,443	(148,242)	2,537,611
Fire and rescue	2,543,654	2,614,054	2,529,754	(84,300)	2,378,665
Code compliance	199,057	197,618	186,017	(11,601)	183,189
Total public safety	<u>5,300,160</u>	<u>5,424,357</u>	<u>5,180,214</u>	<u>(244,143)</u>	<u>5,099,464</u>
Highways and streets	1,213,822	1,205,048	1,120,130	(84,918)	1,102,416
Culture and recreation:					
Parks maintenance	405,695	567,447	491,532	(75,915)	338,215
Recreation programs	504,288	500,643	437,692	(62,951)	523,923
Racquet center	118,481	124,785	123,206	(1,579)	--
Beautification	478,790	475,329	415,167	(60,162)	488,088
Total culture and recreation	<u>1,507,254</u>	<u>1,668,204</u>	<u>1,467,597</u>	<u>(200,606)</u>	<u>1,350,226</u>
Debt service	501,231	--	--	--	235,494
Total Expenditures	<u>10,859,032</u>	<u>11,075,626</u>	<u>9,960,104</u>	<u>(1,115,522)</u>	<u>9,926,838</u>
Excess of Revenues Over Expenditures	3,629,668	4,271,824	6,121,493	1,849,669	4,161,420
Other Financing Uses					
Transfers out	(3,877,100)	(3,877,100)	(1,932,385)	1,944,715	(2,355,450)
Net Change in Fund Balances	(247,432)	394,724	4,189,108	3,794,384	1,805,970
Fund Balances - October 1, 2003	13,218,854	13,218,854	13,218,854	--	11,412,884
Fund Balances - September 30, 2004	<u>\$ 12,971,422</u>	<u>13,613,578</u>	<u>17,407,962</u>	<u>3,794,384</u>	<u>13,218,854</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, 2004

	<u>Budgeted amounts</u>		<u>Actual amounts</u>	<u>Variance with final budget over (under)</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Licenses and permits	\$ 928,377	1,017,377	2,095,309	1,077,932
Expenditures				
Current:				
Building services:				
Personal services	424,712	451,712	459,062	7,350
Operating expenses	503,665	565,665	551,470	(14,195)
Capital outlay	--	--	2,298	2,298
Total Expenditures	<u>928,377</u>	<u>1,017,377</u>	<u>1,012,830</u>	<u>(4,547)</u>
Excess of Revenues Over Expenditures	<u>--</u>	<u>--</u>	<u>1,082,479</u>	<u>1,082,479</u>
Fund Balance - October 1, 2003	<u>1,119,480</u>	<u>1,119,480</u>	<u>1,119,480</u>	<u>--</u>
Fund Balance - September 30, 2004	<u>\$ 1,119,480</u>	<u>1,119,480</u>	<u>2,201,959</u>	<u>1,082,479</u>

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

SUPPORTING STATEMENTS AND SCHEDULES



CITY OF MARCO ISLAND, FLORIDA
NONMAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
September 30, 2004

	Emergency Relief	Building Services	Debt Service	Nonmajor Fund Totals
Assets				
Pooled cash and investments	\$ --	2,236,081	--	2,236,081
Accounts receivable - Net	452,667	--	--	452,667
Total Assets	<u>452,667</u>	<u>2,236,081</u>	<u>--</u>	<u>2,688,748</u>
Liabilities and Fund Balances				
Liabilities				
Accounts payable	7,408	21,531	--	28,939
Accrued liabilities	1,425	12,591	--	14,016
Due to other funds	443,834	--	--	443,834
Total Liabilities	<u>452,667</u>	<u>34,122</u>	<u>--</u>	<u>486,789</u>
Fund Balances - Reserved for building department	<u>--</u>	<u>2,201,959</u>	<u>--</u>	<u>2,201,959</u>
Total Liabilities and Fund Balances	<u>\$ 452,667</u>	<u>2,236,081</u>	<u>--</u>	<u>2,688,748</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, 2004

	<u>Emergency Relief</u>	<u>Building Services</u>	<u>Debt Service</u>	<u>Nonmajor Fund Totals</u>
Revenues				
Licenses and permits	\$ --	2,095,309	--	2,095,309
Intergovernmental	452,667	--	--	452,667
Total Revenues	<u>452,667</u>	<u>2,095,309</u>	<u>--</u>	<u>2,547,976</u>
Expenditures				
Current:				
General government	463,437	--	795	464,232
Building services	--	1,012,830	--	1,012,830
Debt service:				
Principal	--	--	491,264	491,264
Interest	--	--	139,825	139,825
Total Expenditures	<u>463,437</u>	<u>1,012,830</u>	<u>631,884</u>	<u>2,108,151</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	(10,770)	1,082,479	(631,884)	439,825
Other Financing Sources (Uses) - Transfers in	<u>10,770</u>	<u>--</u>	<u>631,884</u>	<u>642,654</u>
Net Change in Fund Balances	--	1,082,479	--	1,082,479
Fund Balances - October 1, 2003	<u>--</u>	<u>1,119,480</u>	<u>--</u>	<u>1,119,480</u>
Fund Balances - September 30, 2004	<u>\$ --</u>	<u>2,201,959</u>	<u>--</u>	<u>2,201,959</u>

CITY OF MARCO ISLAND, FLORIDA
CAPITAL ASSETS USED IN THE OPERATION OF
GOVERNMENTAL FUNDS
September 30, 2004

Governmental Fund Capital Assets

Land	\$ 14,825,071
Building and improvements	3,676,689
Infrastructure	3,256,798
Vehicles and equipment	3,456,571
Construction in process	3,404,996

Total Governmental Funds Capital Assets \$ 28,620,125

Investments in Governmental Fund

Capital Assets by Source

General fund revenue	\$ 21,072,693
Fire district taxes	2,626,946
Contributions	4,920,486

Total Investments in Governmental Funds
Capital Assets

\$ 28,620,125

CITY OF MARCO ISLAND, FLORIDA
CAPITAL ASSETS USED IN THE OPERATION OF GOVERNMENTAL FUNDS
SCHEDULE BY FUNCTION AND ACTIVITY
For the Year Ended September 30, 2004

	Land	Buildings and Improvements	Infrastructure	Vehicles and Equipment	Construction in Process	Total
Governmental Activities						
City council	\$ --	--	--	23,310	--	23,310
Executive	--	--	--	34,211	--	34,211
Finance	--	--	--	75,146	--	75,146
Community development	45,000	--	--	43,353	--	88,353
Other general government	890,030	665,506	--	213,557	--	1,769,093
Total General Government	935,030	665,506	--	389,577	--	1,990,113
Public Safety						
Code compliance	--	--	--	23,914	--	23,914
Police services	--	9,750	--	824,701	65,800	900,251
Fire and rescue	575,227	1,800,306	--	1,542,312	--	3,917,845
Building services	--	6,041	--	65,832	--	71,873
Total Public Safety	575,227	1,816,097	--	2,456,759	65,800	4,913,883
Culture and Recreation						
Park maintenance	212,596	17,155	--	312,093	--	541,844
Recreation	3,167,100	1,156,205	--	96,688	--	4,419,993
Beautification	121,988	21,726	--	87,336	--	231,050
Pathways	--	--	--	--	308,523	447,381
Beaches and waterways	--	--	--	--	35,748	35,748
Parks	9,813,130	--	215,008	--	234,478	10,262,616
Total Culture and Recreation	13,314,814	1,195,086	353,866	496,117	578,749	15,938,632
Transportation						
Public works	--	--	--	114,118	--	114,118
Road network	--	--	788,924	--	886,830	1,675,754
Storm water	--	--	1,730,761	--	605,435	2,336,196
Bridge network	--	--	383,247	--	1,268,182	1,651,429
Total Primary Government	--	--	2,902,932	114,118	2,760,447	5,777,497
Total Governmental Funds Capital Assets	\$ 14,825,071	3,676,689	3,256,798	3,456,571	3,404,996	28,620,125

CITY OF MARCO ISLAND, FLORIDA
CAPITAL ASSETS USED IN THE OPERATION OF GOVERNMENTAL FUNDS
SCHEDULE OF CHANGES BY FUNCTION AND ACTIVITY
For the Year Ended September 30, 2004

	Governmental funds capital assets 10/1/03	Acquisitions	Transfers and deductions	Governmental funds capital assets 9/30/04
Governmental Activities				
City council	\$ 23,310	--	--	23,310
Executive	33,062	1,149	--	34,211
Finance	74,063	1,083	--	75,146
Community development	84,005	4,348	--	88,353
Other general government	1,738,041	31,052	--	1,769,093
Total General Government	<u>1,952,481</u>	<u>37,632</u>	<u>--</u>	<u>1,990,113</u>
Public Safety				
Code compliance	22,830	1,084	--	23,914
Police services	729,151	191,715	(20,615)	900,251
Fire and rescue	3,845,853	71,992	--	3,917,845
Building services	69,574	2,299	--	71,873
Total Public Safety	<u>4,667,408</u>	<u>267,090</u>	<u>(20,615)</u>	<u>4,913,883</u>
Culture and Recreation				
Park maintenance	327,460	214,384	--	541,844
Recreation	6,286,096	51,691	(1,917,794)	4,419,993
Beautification	231,050	--	--	231,050
Pathways	16,907	430,474	--	447,381
Beaches and waterways	--	35,748	--	35,748
Parks	98,822	10,164,687	(893)	10,262,616
Total Culture and Recreation	<u>6,960,335</u>	<u>10,896,984</u>	<u>(1,918,687)</u>	<u>15,938,632</u>
Transportation				
Public works	78,645	35,473	--	114,118
Road network	788,924	886,830	--	1,675,754
Storm water	1,407,715	928,481	--	2,336,196
Bridge network	383,247	1,268,182	--	1,651,429
Total Primary Government	<u>2,658,531</u>	<u>3,118,966</u>	<u>--</u>	<u>5,777,497</u>
Total Capital Assets	<u>\$ 16,238,755</u>	<u>14,320,672</u>	<u>(1,939,302)</u>	<u>28,620,125</u>

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STATISTICAL SECTION (UNAUDITED)

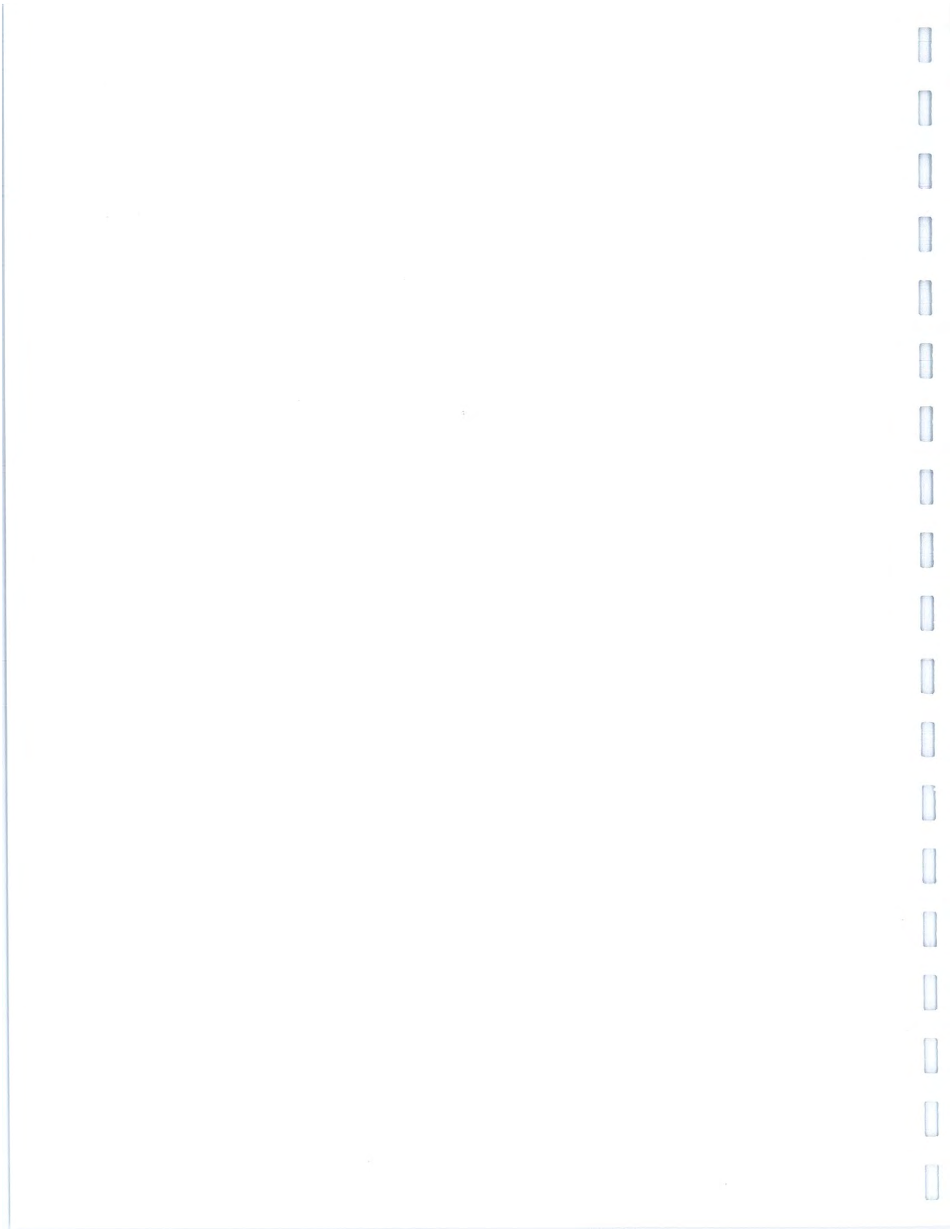


Table 1

CITY OF MARCO ISLAND, FLORIDA

Governmental Expenditures by Function (1)

Last Seven Fiscal Years (2)

	2004	2003 (3)	2002	2001	2000	1999	1998
Police Services	\$ 2,594,499	\$ 2,619,126	\$ 2,297,618	\$ 1,966,908	\$ 1,937,778	\$ -	\$ -
Fire & Rescue Services	2,663,257	2,601,028	2,537,960	2,544,666	2,189,745	-	-
Public Safety (4)	-	-	-	-	-	3,118,387	2,299,690
Transportation	1,179,243	1,234,933	1,007,203	911,790	795,072	648,162	83,259
Culture & Recreation	1,545,047	1,393,598	1,215,340	1,160,876	928,508	890,758	299,379
Community Development	-	-	1,285,598	1,073,103	1,053,064	742,772	114,224
Code Compliance	195,834	189,074	-	-	-	-	-
Building Services	1,012,830	879,514	-	-	-	-	-
General Government	2,246,456	1,646,020	1,372,799	1,209,349	1,191,416	963,214	876,661
Debt Service	631,089	243,059	244,724	166,996	145,953	145,952	145,953
Capital Projects (5)	13,780,786	4,613,409	3,388,617	4,614,758	2,432,489	508,368	-
TOTAL	\$ 25,849,041	\$ 15,419,761	\$ 13,349,859	\$ 13,648,446	\$ 10,674,025	\$ 7,017,613	\$ 3,819,166

(1) Includes the General, Capital Projects, Building Services, Emergency Relief, and Debt Service Funds.

(2) The City of Marco Island was incorporated in August 1997. A ten-year schedule of expenditures is not applicable.

(3) Expenditure categories beginning in Fiscal Year 2003 based on those used by GASB-34 statement presentation.

(4) Police Services and Fire & Rescue Services were reported combined as Public Safety prior to Fiscal Year 2000.

(5) 2004 capital outlay expenditures include land acquisition of the Park Avenue Property financed by General Obligation Bonds.

Table 2

CITY OF MARCO ISLAND, FLORIDA

Governmental Revenue by Source (1)

Last Seven Fiscal Years (2)

	2004	2003	2002	2001	2000	1999	1998
Ad Valorem Tax (3)	\$ 9,933,131	\$ 9,156,048	\$ 7,908,375	\$ 5,647,540	\$ 5,539,370	\$ 6,248,575	\$ 2,421,336
Other Taxes	1,937,859	1,620,388	1,456,842	916,544	832,635	782,929	562,882
Licenses & Permits	2,130,035	1,320,363	1,538,919	1,143,518	1,147,608	1,054,380	22,867
Intergovernmental Revenues	5,278,142	4,684,368	2,653,599	2,532,798	2,244,772	1,727,424	2,292,319
Charges for Services	522,944	321,882	439,640	224,104	202,721	159,460	15,653
Fines & Forfeitures	91,794	130,744	111,235	83,972	79,198	59,732	2,375
Interest Income	347,976	347,907	342,284	589,333	611,434	370,834	155,524
Miscellaneous	1,102,955	763,511	1,221,158	1,343,349	1,134,144	1,516,452	398,325
TOTAL	\$ 21,344,836	\$ 18,345,211	\$ 15,672,052	\$ 12,481,158	\$ 11,791,882	\$ 11,919,786	\$ 5,871,281

(1) Includes the General, Capital Projects, Building Services, Emergency Relief, and Debt Service Funds.

(2) The City of Marco Island was incorporated in August 1997. A ten-year schedule of revenues is not applicable.

(3) Property tax revenues for Fiscal Year 1998 were levied by the Marco Island Fire Control District. District was dissolved upon incorporation and reorganized as the Fire Department for the City of Marco Island.

Table 3

CITY OF MARCO ISLAND, FLORIDA

Property Tax Levies and Collections (1)

Last Seven Fiscal Years (2)

Fiscal Year	Taxes Assessed January 1st	Total Tax Levy	Current Tax Collections	Percent of Current Taxes Collected	Delinquent Tax Collections
1998	1997 (3)	\$ 2,547,087	\$ 2,419,717	95.0%	\$ 1,619
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

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.

(2) The City of Marco Island was incorporated in August 1997. A ten-year history of tax levies and collections is not applicable.

(3) Property taxes collected in Fiscal Year 1998, assessed on January 1, 1997 were for the Marco Island Fire District, subsequently incorporated into the City of Marco Island.

Table 4

CITY OF MARCO ISLAND, FLORIDA
Assessed Value of Exempt and Taxable Property

Fiscal Year	Assessed January 1st	Taxable Values	Percent Increase Over Prior Year	Taxable Value of New Construction
1998	1997 (2)	\$ 2,841,082,435	n/a	\$ 70,936,479
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 (3)	2004	7,106,800,384	11.9%	139,193,267

Source: Collier County Property Appraiser

- (1) The City of Marco Island was incorporated in August 1997. A ten-year schedule of property values is not applicable.
- (2) Taxable values of the incorporated city limits for January 1, 1997 were estimated by the Collier County Property Appraiser.
- (3) Information only. 2004 assessed values are used for fiscal year 2005 tax revenues.

Table 5

CITY OF MARCO ISLAND, FLORIDA

**Property Tax Rates - Direct and Overlapping Governments
(Per \$1,000 of Assessed Value)**

Last Eight Fiscal Years (1)

Fiscal Year Ended	City Operating	City Debt Service	Marco Fire District	Roads & Streets MSTU#1	Collier County Unincorp. MSTD	Marco Beautific'n MSTD	Collier County Parks & Rec MSTU	Collier County Board	Mosquito Control	South FL Water Managm't	Water Pollution Control	Big Cypress Basin	Conservation Collier	TOTAL LEVY
1998 (2)	-	-	0.8800	0.1950	0.5721	0.1670	0.0535	8.4240	0.1821	0.2840	0.0452	0.2780	-	14.7622
1999 (3)	2.1112	-	-	-	-	-	0.0495	8.5100	0.1953	0.2840	0.0413	0.2780	-	14.7423
2000	1.6500	-	-	-	-	-	0.0436	7.7600	0.1923	0.2840	0.0355	0.2780	-	13.4357
2001	1.5087	-	-	-	-	-	0.0377	7.7220	0.1748	0.2840	0.0445	0.2780	-	13.2300
2002	1.7437	-	-	-	-	-	0.0318	7.2310	0.1465	0.2840	0.0420	0.2425	-	13.3142
2003	1.6900	-	-	-	-	-	0.0268	6.9110	0.1167	0.2840	0.0347	0.2425	-	13.1829
2004	1.6200	-	-	-	-	-	-	6.5240	0.1051	0.2840	0.0347	0.2425	0.2500	12.9375
2005 (4)	1.5400	0.0460	-	-	-	-	-	6.2200	0.0962	0.2840	0.0347	0.2425	0.2500	12.5906

(1) The City of Marco Island was incorporated in August 1997. A ten-year schedule of property tax rates is not applicable.

(2) Property tax rates for Fiscal Year 1998 are for unincorporated Collier County. The City of Marco Island collected property taxes for the Fire Control District.

(3) City operating tax levy of 2.1112 mills in Fiscal Year 1999 was set at a level to allow the City to be eligible for Florida Municipal Revenue Sharing.

(4) Information only. Tax levies are for revenues to be received in Fiscal Year 2005.

Table 6

CITY OF MARCO ISLAND, FLORIDA
Special Assessment Billing and Collection
Last Seven Fiscal Years (1)

Fiscal Year	Liens Assessed	Collections	Unpaid Balance (2)
1998	\$ -	\$ -	\$ -
1999	-	-	-
2000	-	-	-
2001	358,586 (2)	131,566	226,819
2002	139,809 (3)	165,109	201,519
2003	-	118,690	82,829
2004	202,362 (4)	131,271	71,091

(1) The City of Marco Island was incorporated in August 1997.

A ten-year schedule of Special Assessments is not applicable.

(2) Sidewalk assessment districts I and II completed in Fiscal Year 2001.

(3) Sidewalk Assessment District III completed in Fiscal Year 2002.

(4) Sidewalk Assessment District IV completed in Fiscal Year 2004.

Table 7

CITY OF MARCO ISLAND, FLORIDA

Computation of Direct and Overlapping General Obligation Debt

As of September 30, 2004

Direct Debt

Florida Municipal Bond Pool Series 2000B November 15, 2000	835,000
City of Marco Island General Obligation Bonds Series 2004 March 1, 2004	9,860,000
TOTAL DIRECT DEBT	\$ 10,695,000

Overlapping Debt (1)

TOTAL DIRECT AND OVERLAPPING DEBT	\$ 10,695,000
--	----------------------

(1) There is currently no overlapping debt.

Table 8

CITY OF MARCO ISLAND, FLORIDA

Ratio of Annual Debt Service Expenditures for General and Special Revenue Bonded Debt to Total General Expenditures

Last Seven Fiscal Years (1)

Fiscal Year	Principal	Interest	Total	Total General Expenditures	Debt Service as a Percent of Total General Expenditures
1998	\$ 72,272	\$ 73,680	\$ 145,952	\$ 3,819,166	3.82%
1999	78,677	67,275	145,952	7,017,613	2.08%
2000	85,132	60,820	145,952	10,674,025	1.37%
2001	91,587	75,409	166,996	13,648,446	1.22%
2002	148,673	96,051	244,724	13,349,859	1.83%
2003	156,319	86,740	243,059	15,419,761	1.58%
2004	491,264 (2)	139,825	631,089	25,849,041	2.44%

(1) The City of Marco Island was incorporated in August 1997.
A ten-year schedule of debt service is not applicable.

(2) Includes pre-payment of outstanding balance on fire station
lease-purchase agreement dated January 23, 1992.

Table 9

CITY OF MARCO ISLAND, FLORIDA

**Ratio of Debt Principal Outstanding
to Total Assessed Valuation**

Last Seven Fiscal Years (1)

Fiscal Year	Debt Principal Outstanding End of Fiscal Year	Total Assessed Valuation	Debt Principal as a Percent of Total Valuation
1998	\$ 901,652	\$ 2,841,082,435	0.03%
1999	822,975	3,060,987,023	0.03%
2000	737,843	3,466,113,897	0.02%
2001	1,265,649	3,874,706,433	0.03%
2002	1,482,583	4,691,374,309	0.03%
2003	1,326,264	5,609,081,378	0.02%
2004	10,695,000	6,352,910,401	0.17%

(1) The City of Marco Island was incorporated in August 1997.
A ten-year schedule of debt to assessed valuations is not applicable.

Table 10

CITY OF MARCO ISLAND, FLORIDA

Demographic Statistics

Population:

<u>Year</u>	<u>City of Marco Island (1)</u>	<u>Collier County</u>	<u>State of Florida</u>
1980	4,679	85,971	9,746,400
1990	9,493	152,099	12,937,926
1995	11,343	186,504	14,149,317
2000	14,879	251,377	15,982,978
2001	15,080	264,475	16,331,739
2002	15,206	277,457	16,674,608
2003	15,346	286,634	17,019,068

Projections:

2005	15,930	329,400	17,748,325
2010	17,055	405,000	19,301,900

Population by Age Group - 2000 Census:

Age:			
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.

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

Table 11

CITY OF MARCO ISLAND, FLORIDA

Construction Activity

Last Seven Years (1)

Calendar Year (2)	New Single-Family Residences	New Multi-Family Units	Total Permits Issued	Estimated Value of Work Permitted
1998 (3)	40	12	669	\$ 12,365,583
1999	336	79	3,684	105,659,151
2000	369	237	3,758	134,497,043
2001	257	111	3,495	131,113,481
2002	202	254	4,304	244,080,609
2003	211	172	4,981	250,881,391
2004	233	123	4,836	254,203,953

Source: City of Marco Island Building Department.

(1) The City of Marco Island was incorporated in August 1997.
The City began issuing building permits October 1, 1998.

(2) The Building Department maintains records on a calendar year basis.

(3) Three months' data.

Table 12

CITY OF MARCO ISLAND, FLORIDA

Principal Taxpayers
As of September 30, 2003⁴

Taxpayer:	Property by Type:	January 1, 2004 Assessed Valuation	% of Total Assessed Valuation
1) City Natl Bank of Miami dba Marriott Marco Island Resort	Hospitality	\$ 93,310,481	1.31%
2) Marco Beach Hotel, Inc.	Hospitality	35,022,396	0.49%
3) Boykin Marco LLC, dba Marco Island Radisson Hotel	Hospitality	24,136,104	0.34%
4) Marco Town Center, Inc.	Shopping Center	14,613,435	0.21%
5) Marco Island Condo LLC, Inc.	Real Estate Developer	11,338,338	0.16%
6) A & N of Marco Inc.	Real Estate Developer	10,021,838	0.14%
7) Gregg Holdings, Inc.	Real Estate Developer	7,335,545	0.10%
8) Island Country Club, Inc.	Golf Course	7,188,740	0.10%
9) Venetian Investments, LLC	Real Estate Developer	7,080,448	0.10%
10) Jack & Dorothy Skoog	Residence	6,573,487	0.09%
Total		\$ 210,047,325	2.95%

Source: Collier County Property Appraiser

Table 13

CITY OF MARCO ISLAND, FLORIDA

Miscellaneous Statistics

Date of Incorporation	August 28, 1997
Date of Adoption of City Charter	August 28, 1997
Form of Government	Council - Manager
Area	7.4 Square Miles
Streets	127 Centerline Miles Paved
Fire Protection:	
Number of Firefighters	29
Police Protection:	
Number of Sworn Officers	30
Total City Employees	160
Election:	
Number of Registered Voters	12,150
Votes Cast in Last Election	10,065
Last Election	General Election 11/2/2004
Signalized Intersections	7
Bridges	12
Marco Island Beaches:	
Total Beach Length	5.7 Miles
Total Area	230 Acres
Parks:	
Community Parks	6
Regional Parks	3
Hospitals:	Marco Healthcare Center (Naples Community Hospital)
Schools:	1 Elementary School 1 Charter Middle School

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SINGLE AUDIT AND GRANTS COMPLIANCE SECTION



CITY OF MARCO ISLAND, FLORIDA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended September 30, 2004

	<u>CFDA number</u>	<u>Receipts</u>	<u>Expenditures</u>
Federal Awards:			
Federal Emergency Management Agency			
Passed through the Florida Department of Community Affairs Disaster Relief Funding	97.036	384,765	384,765
U.S. Department of Transportation, National Highway Traffic Safety Administration			
Passed through the Florida Department of Transportation Marco Island Enhanced DUI Traffic Safety	20.601	20,506	20,506
U.S. Department of Justice			
Passed through the State of Florida Department of Law Enforcement Office of Criminal Justice			
Island Drug Reduction/Eradication	16.592	7,320	7,320
COPS MORE 01	16.710	77,219	77,219
COPS Universal Hiring Award 2000	16.710	38,283	38,283
COPS Universal Hiring Award 2004	16.710	26,405	26,405
Total Federal Awards		<u>\$ 554,498</u>	<u>\$ 554,498</u>

NOTE A - GENERAL

The accompanying schedule of expenditures of federal awards presents the activity of all federal programs of the City of Marco Island, Florida. The City of Marco Island reporting entity is defined in Note A of the City's basic financial statements. All federal awards received directly from federal agencies, as well as federal awards passed through other government agencies, is included in this schedule.

NOTE B - BASIS OF ACCOUNTING

The accompanying schedule of expenditures of federal awards is presented using the modified accrual basis of accounting, which is described in Note A of the City's basic financial statements.



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

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

Compliance

We have audited the compliance of the City of Marco Island, Florida 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, 2004. The City of Marco Island, Florida's major federal programs are identified in the summary of audit 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 of Marco Island, Florida'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; 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 of Marco Island, Florida'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 of Marco Island, Florida's compliance with those requirements.

In our opinion, the City of Marco Island, Florida 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, 2004.



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

Internal Control Over Compliance

The management of the City of Marco Island, Florida 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 of Marco Island, Florida's internal control over compliance with 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 and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the City Council members, 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 parties.

CPA Associates

Bradenton, Florida
December 23, 2004



SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED SEPTEMBER 30, 2004
CITY OF MARCO ISLAND, FLORIDA

Part I – Summary of Auditor's Results

Financial Statement Section

Type of auditor's report issued: Unqualified Opinion

Internal control over financial reporting:

Material weakness(es) identified? yes x no

Reportable condition(s) identified not considered to be material weaknesses? yes x no

Noncompliance material to financial statements noted? yes x no

Federal Awards Section

Dollar threshold used to determine Type A programs: \$300,000

Auditee qualified as low-risk auditee? x yes no

Type of auditor's report on compliance for major programs: Unqualified Opinion

Internal control over compliance:

Material weakness(es) identified? yes x no

Were reportable condition(s) identified not considered to be material weakness(es)? yes x no

Any audit findings disclosed that are required to be reported in accordance with Circular A-133 (Section .510(a))? yes x no

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
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97.036	Federal Emergency Management Agency – Disaster Relief Funding
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SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED SEPTEMBER 30, 2004
CITY OF MARCO ISLAND, FLORIDA

Part II – Schedule of Financial Statement Findings

This section identifies the reportable conditions, material weaknesses, and instances of noncompliance related to the financial statements that are required to be reported in accordance with Chapter 5.18 through 5.20 of Government Auditing Standards.

No reportable conditions, material weaknesses and instances of noncompliance, including questioned costs, related to the financial statements were noted.

Part III – Schedule of Federal Findings and Questioned Costs

This section identifies reportable conditions, material weaknesses, and instances of noncompliance, including known fraud and questioned costs, related to the audit of federal programs, as required to be reported by Circular A-133 Section .510(a) and Rule 10.656, Rules of the Auditor General of the State of Florida.

No reportable conditions, material weaknesses, and instances of noncompliance, including known fraud and questioned costs, related to the audit of federal and state projects were identified.

Part IV – Summary Schedule of Prior Audit Findings

There were no prior audit findings.



GOVERNMENTAL AUDITING SECTION



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

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

We have audited the financial statements of the City of Marco Island, Florida as of and for the year ended September 30, 2004 and have issued our report thereon dated December 23, 2004. 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, Florida's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance

As part of obtaining reasonable assurance about whether the City of Marco Island, Florida'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 that are required to be reported under *Government Auditing Standards*.



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

This report is intended solely for the information and use of the City Council members, 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 parties.

CPA Associates

December 23, 2004
Bradenton, Florida



MANAGEMENT LETTER

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

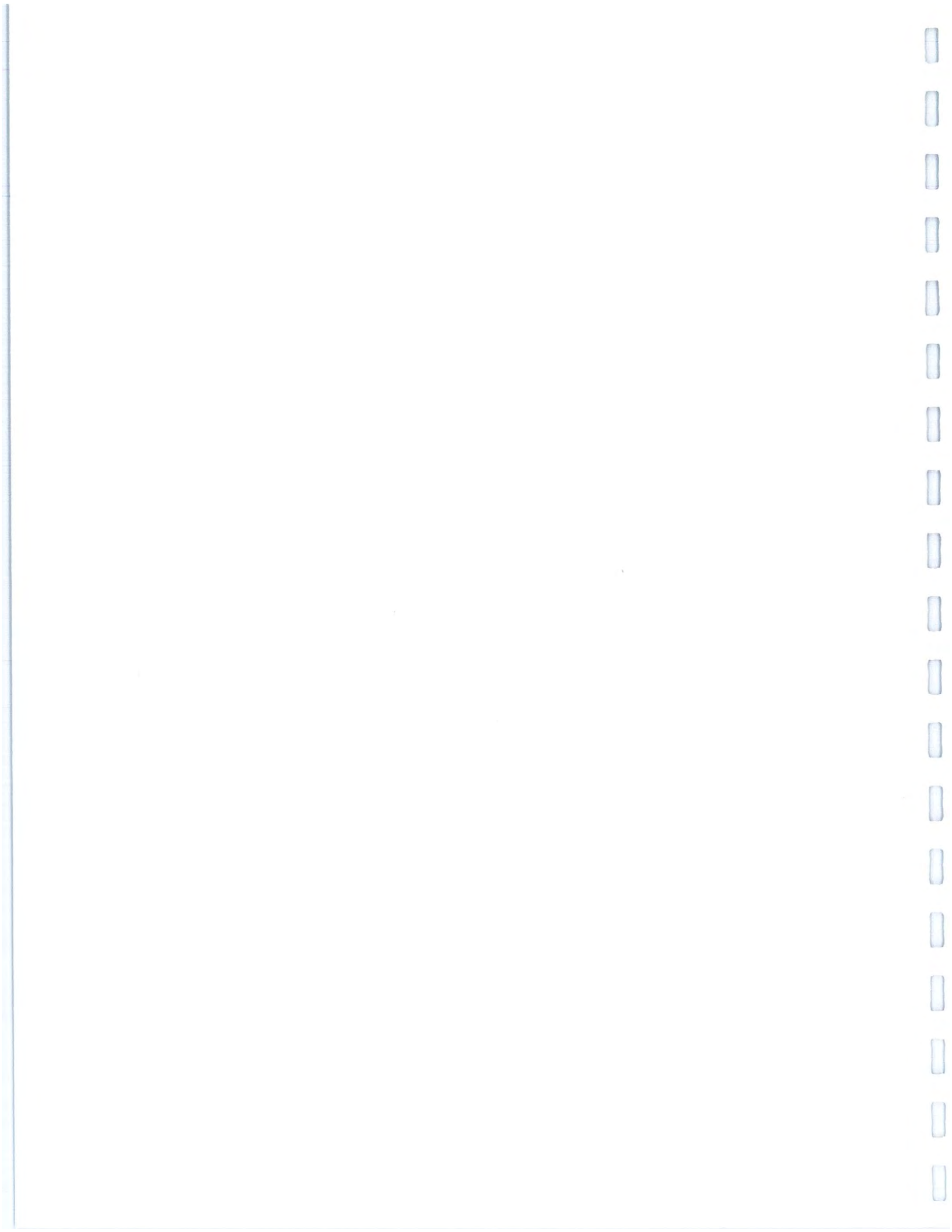
We have audited the basic financial statements of the City of Marco Island, Florida, as of and for the fiscal year ended September 30, 2004, and have issued our report thereon dated December 23, 2004, which was unqualified.

We conducted our audit in accordance with United States generally accepted auditing standards; 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*. We have issued our Independent Auditor's Report on Compliance and Internal Control over Financial Reporting, Independent Auditor's Report on Compliance and Internal Control over Compliance Applicable to each Major Federal Program and State Project, and Schedule of Findings and Questioned Costs. Disclosures in those reports and schedule, which are dated December 23, 2004, 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. Those rules [Section 10.544(1)(g)1.(a)] require that we address in the management letter, if not already addressed in the auditor's reports on compliance and internal controls or schedule of findings and questioned costs, whether or not inaccuracies, shortages, defalcations, fraud, and/or violations of laws, rules, regulations, and contractual provisions reported in the preceding annual financial audit report have been corrected. There were no such matters disclosed in the preceding audit reports and schedules.

The Rules of the Auditor General [Section 10.554(1)(g)1.(b)] require that we address in the management letter, if not already addressed in the auditor's reports on compliance and internal controls or schedule of findings and questioned costs, whether or not recommendations made in the preceding annual financial audit report have been followed. There were no such matters disclosed in the preceding audit reports and schedules.

As required by the Rules of the Auditor General [Section 10.554(1)(g)2.], the scope of the audit included 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.



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

The Rules of the Auditor General [Section 10.554(1)(g)4.] require disclosure in the management letter of the following matters if not already addressed in the auditor's reports on compliance and internal controls or schedule of findings and questioned costs: (1) violations of laws, rules, regulations, and contractual provisions that have occurred, or are likely to have occurred; (2) illegal or improper expenditures; (3) improper or inadequate accounting procedures (e.g., the omission of required disclosures from the financial statements); (4) failure to properly record financial transactions; and (5) other inaccuracies, shortages, and defalcations and instances of fraud discovered by, or that come to the attention of, the auditor. There were no such matters disclosed in the preceding audit reports and schedules.

The Rules of the Auditor General [Section 10.554(1)(g)5.] also require 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. 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. In addition, an annual financial report for the City of Marco Island, Florida also includes the accounts and transaction of the following entity, which does not satisfy the definition of component units because it is not legally separate from the City:

<u>Entity</u>	<u>Presentation</u>
City of Marco Island Firefighters' Pension Plan	Blended

The Firefighters' Pension Plan was established by Resolution 95-006 of the Marco Island Fire Control District, the predecessor entity to the City.

As required by the Rules of the Auditor General [Section 10.554(1)(g)6.a.], the scope of our audit included a review of the provisions of Section 218.503(1), Florida Statutes, regarding financial emergencies. In connection with our audit, we determined that the City of Marco Island, Florida is not in a state of financial emergency as a consequence of the conditions described in Section 218.503(1), Florida Statutes.

As required by the Rules of the Auditor General [Section 10.554(1)(g)6.b.], we determined that the annual financial report of for the City of Marco Island, Florida for the fiscal year ended September 30, 2004, filed with the Department of Banking Finance pursuant to Section 218.32, Florida Statutes, is in agreement with the annual financial audit report for the fiscal year ended September 30, 2004.

As required by the Rules of the Auditor General [Sections 10.554(g)(6)c. and 10.556], we applied financial condition assessment procedures. It is management's responsibility to monitor the entity'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 the same.



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

This management letter is intended solely for the information 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.

We wish to take this opportunity to thank you and your staff for the cooperation and courtesies extended to us during the course of our audit. Please let us know if you have any questions or comments concerning this letter, our accompanying reports, or other matters.

CPA Associates

December 23, 2004
Bradenton, Florida



CURRENT AUDIT FINDINGS AND RECOMMENDATIONS

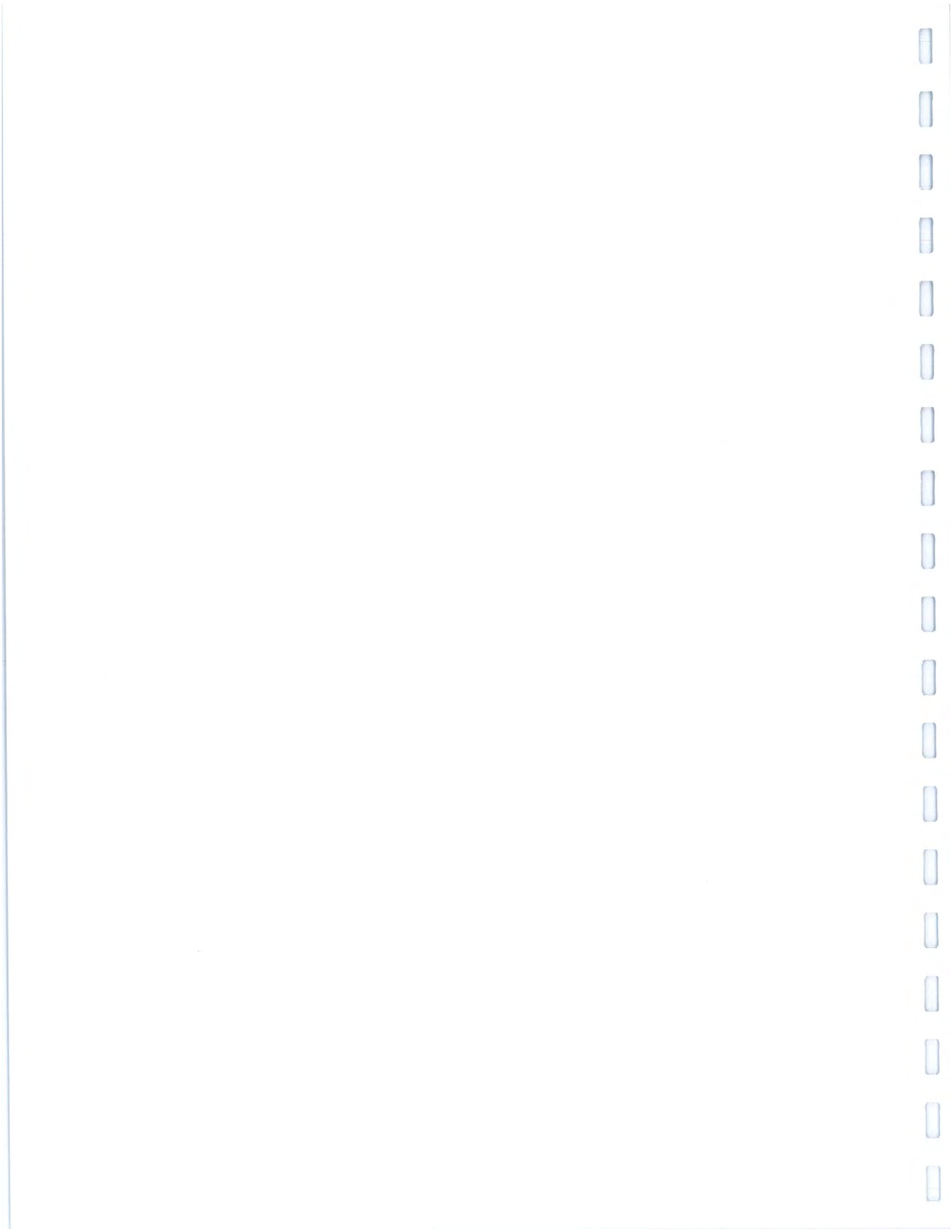
INTERNAL CONTROLS OVER PAYROLL

Currently, an individual in the finance department utilizes software to prepare payroll for submission to Paychex. These duties also include adding new employees to the software, deleting terminated employees from the software, as well as updating pay rates. In addition to these duties, the same individual receives the payroll checks from Paychex and issues them to employees. An individual independent of preparation should be responsible for the receipt and disbursement of payroll checks. By segregating preparation duties from access to payroll checks, the ability to create inappropriate checks and cash them would require collusion amongst employees. If these duties cannot be segregated, other controls that could be put into place would include review of detailed payroll reports independent of preparation; adding, deleting, and updating employees in the software independent of preparation, or review of payroll checks prior to receipt by the preparer.

BANK RECONCILIATIONS

Accounting personnel perform the bank reconciliation function. However, there is currently no procedure in place to review the bank reconciliation after it is completed. This practice would greatly enforce the checks and balances necessary for strong controls over cash. We suggest that a member of management, such as the Finance Director, review the bank reconciliations for any unusual items, investigate and fully resolve any such items, and document his or her approval by initialing the form.

This report is intended solely for the information and use of the Honorable Chairman, City Council, management, and others within the City of Marco Island and is not intended to be and should not be used by anyone other than these specified parties.





City of Marco Island

CPA Associates
1301 Sixth Ave West, Suite 600
Bradenton, FL 34205-7440

Ladies and Gentlemen:

The City of Marco Island is appreciative of the auditing services provided by your firm for the review of our financial statements for the fiscal year ending September 30, 2004. Staff assigned to this audit were professional and experienced in the requirements of governmental auditing.

We appreciate the opportunity to respond to the two items raised in your management letter. Although we have never had a reason to doubt the integrity or abilities of our finance staff, strong internal controls serve to protect the financial assets entrusted to us by our citizens.

INTERNAL CONTROLS OVER PAYROLL

Based on your recommendation, we have separated a number of payroll responsibilities among members of the Finance Department staff. One of our Accounts Payable clerks has been assigned the responsibility of adding and deleting employees and updating pay rates. The Payroll Clerk will prepare the payroll and transmit to Paychex. Completed payroll will be returned to the Accounts Payable clerk for review. Only the department Accountant and the Finance Director are authorized to transfer funds from the operating checking account to the payroll account. The Accountant will review the payroll edit and enter into the general ledger. Quarterly payroll summaries will be distributed to department heads for their review.

BANK RECONCILIATIONS

Effective immediately, the Finance Director will review and initial bank reconciliations.

Sincerely,

William P. Harrison
Finance Director

