

City of Marco Island

COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 1998



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City of Marco Island

Comprehensive Annual Financial Report
For the Year Ended September 30, 1998

Foreword

By A. William Moss, City Manager

The culmination to the production of the Comprehensive Annual Financial Report is for most cities an occurrence that is often accomplished with great diligence, but without much fanfare. This is not the case for the City of Marco Island. For us this is an important and unique event that will not repeat itself in the future—it is our City's first financial report following our first year of incorporation.

The financial statements contained herein represent the results of transactions for our first fiscal year: October 1, 1997 through September 30, 1998. This first year established the foundation that the newly created City of Marco Island will stand upon in the future. The most significant events during this period are the transfer of services and authority from Collier County to the City, and the installation of a City Council and staff.

“Our first year objectives at Marco Island were to bring in a staff, transfer responsibilities from the County to the City and initiate basic ordinances.”

—First City Council Chairman, Harry Cowin.

The City did not levy its own taxes during this first fiscal year, but relied upon the transfers-in of funds from Collier County, the Marco Island Fire Control District, and shared revenues from the State of Florida for its revenues. The City's initial operations during this first year consisted of a minimum City staff and a continuation of the fire control services previously provided by the District.

Significant dates during this period are as follows:

August 28, 1997	Incorporation by Voter Referendum—after six years and five previous attempts, the referendum for incorporation passes
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- 51% to 49%. The Marco Island Fire Control District is dissolved and fire suppression becomes the City's first department and first municipal service.
- November 6, 1997 First City Election—thirty-eight candidates run for seven seats; the voters choose Kjell Pettersen, Ruth J. Schuler, Harry Cowin, John Soldenwagner, Ed R. Day, David E. Brandt, and E. Glenn Tucker.
 - November 11, 1997 First City Council Meeting—Harry Cowin and Ruth J. Schuler elected the first City Chairman and Vice-Chairwoman.
 - March 16, 1998 Permanent City Manager Hired—A. William Moss replaces interim City Manager Charles M. McCool.
 - April 1st, 1998 Assumption of Service Districts—the City assumes the services for median beautification and street lighting from Collier County.
 - May 4, 1998 Permanent Finance Director Hired—Lisa M. Absher, CGFO, chosen for Finance Director, starts the City's first accounting system and first budget.
 - May 18, 1998 Public Safety Initiative—City Council directs the implementation of municipal law enforcement for the City.
 - July 1, 1998 Assumption of Code Enforcement—The City assumes local code enforcement responsibilities from Collier County.
 - September 30, 1998 Assumption of Parks, Public Works, Land-Use Planning, Zoning and Building Services—the City assumes control of six community parks and existing recreation programs, establishes its own public works and community development departments, and takes over building permitting services from Collier County.

We are proud to be Florida's 400th City. Similar to any great endeavor, the City would not have been established if it was not for the hard work of many of our citizens during the drive for incorporation.

While this report is based on the City's "start-up" year, the current year ahead will be our first year of full City services and will set the ideal for future operations and initiatives. Our goals and objectives for this coming year range from very simple to quite complex, but one thing is certain—we have the blessing and the burden of starting from scratch.

October 1, 1998
Marco Island, Florida


A. William Moss
City Manager

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City of Marco Island

COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 1998

PREPARED BY:
DEPARTMENT OF
FINANCE AND ACCOUNTING

**CITY OF MARCO ISLAND, FLORIDA
 COMPREHENSIVE ANNUAL FINANCIAL REPORT
 FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 1998**

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**CITY OF MARCO ISLAND, FLORIDA
 COMPREHENSIVE ANNUAL FINANCIAL REPORT
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CITY OF MARCO ISLAND, FLORIDA

City Officials

September 30, 1998

Elected

Harry Cowin, City Council Chairman
Ruth Schuler, City Council Vice-Chairwoman
David E. Brandt, Councilman
Capt. Ed. R. Day, Councilman
Kjell Pettersen, Councilman
John Soldenwagner, Councilman
E. Glenn Tucker, Councilman

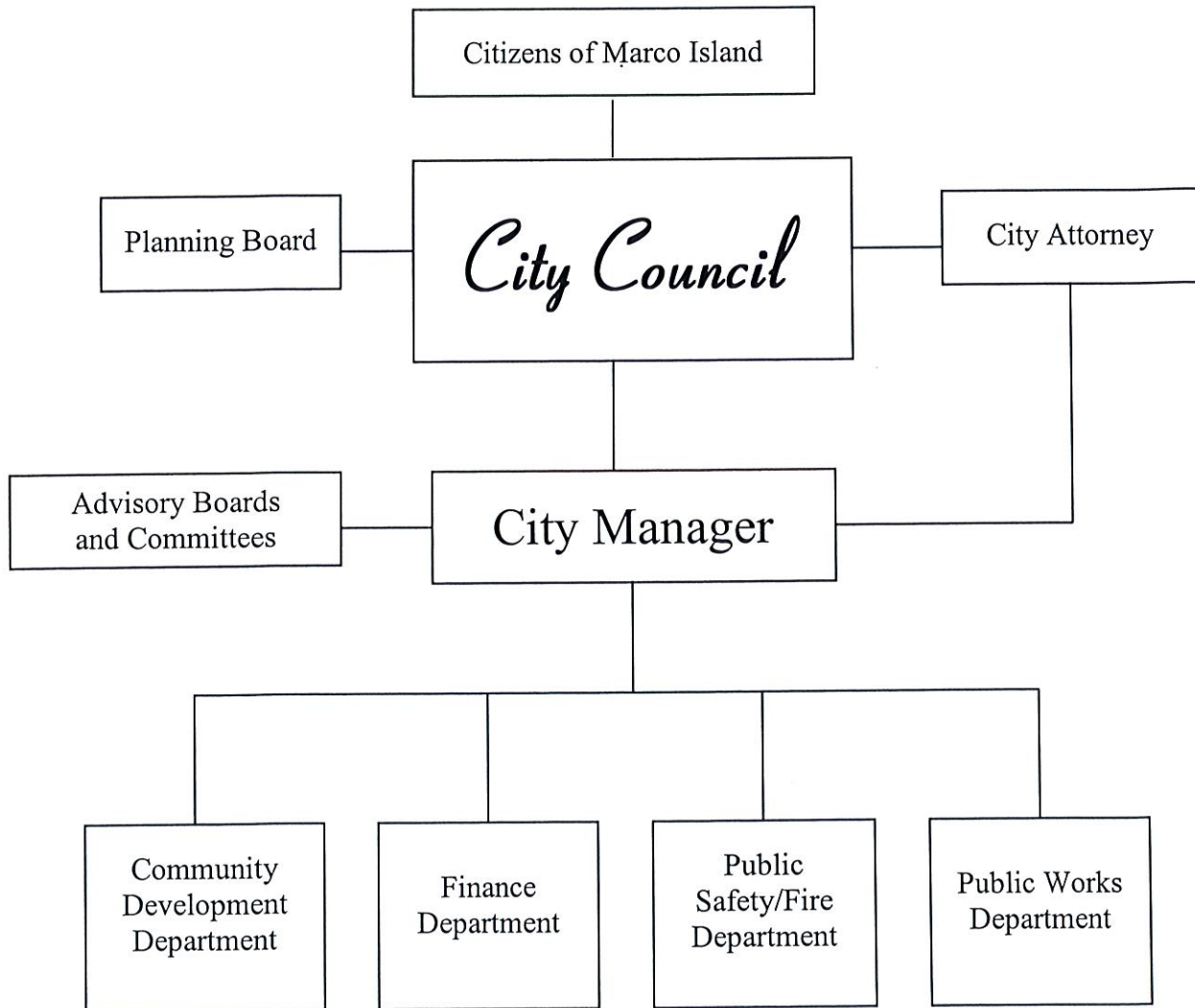
Appointed

A. William Moss, City Manager
Lisa M. Absher, CGFO, Finance Director
K. Greg Niles, Community Development Director
Norman J. Trebilcock, P.E., Public Works Director

CITY OF MARCO ISLAND, FLORIDA

Organization Chart

September 30, 1998



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financial statements and provide an overview for users who require less detailed information about the City's finances than is contained in the balance of this report. This section also includes required supplementary information and supporting schedules.

3. Statistical Section – This section includes a number of tables of unaudited data including information on overlapping governments and demographic and other miscellaneous information.
4. Governmental Auditing Section – This section includes the Management Letter and reports prepared by our auditors in compliance with Government Auditing Standards and Rules of the State of Florida Auditor General.

SIGNIFICANCE OF THE FIRST FISCAL YEAR

The year ended September 30, 1998, is the first fiscal year for the City of Marco Island. The City of Marco Island was incorporated in August of 1997 as Florida's 400th City. Presentation of the Financial Statements for this period represents a unique challenge in that this financial entity has no previous history. During this reporting period the City had its first election and appointed its first staff. In fact, the City went through three-fourths of this first year without a Finance Director and formal accounting system. The year ended September 30, 1998, is considered the City's initial start-up period wherein the basic foundation of an operating local government were established.

ECONOMIC CONDITION AND OUTLOOK

The City of Marco Island is located in the Southwestern portion of the State of Florida and has a permanent population of 12,165, increasing to approximately 35,000 during the peak winter season. The region enjoys a climate that is classified as subtropical. Cold weather is moderated by the warm waters of the Gulf of Mexico and hot summer days are relieved by Gulf breezes.

Marco Island was originally developed as a planned community of exclusive water-access and waterfront residences with hotels, condominiums, and commercial businesses to support the economic viability of the Island lifestyle. Originally marketed as a winter retreat for people with permanent homes in the north, Marco Island continues to attract a retirement population that is among the most affluent and well educated in the State. Today, the business community primarily provides goods and services to the permanent and visitor population.

Marco Island continues to enjoy the results of a planned platted and deed restricted community. Marco Island offers public access to beaches at the north and south end of the Island, and a beach section restricted to Island residents. Beachfront property is almost exclusively high-density multi-family zoning with tourist-oriented accommodations.

The long-term economic outlook for the City is positive. The City currently enjoys an exceptionally strong residential real estate market with high growth in new home starts, and home and condominium resales. Marco Island benefits from a consistent tourism market where most of the tourists are annual return visitors renting single-family homes or condominiums during the January through April tourist season.

MAJOR INITIATIVES

The first year objectives were to bring in a staff, organize the daily City operations, facilitate the transfer responsibilities from the Collier County to the City, and to initiate basic ordinances needed for the initial City responsibilities and services.

Upon its inception, the City Council immediately authorized the hiring of a core administrative staff with a City Manager, Finance Director, Community Development Director, Public Works Director, and support staff. By the end of the year, twelve administrative positions had been filled and a central office and location for City Hall had been established. During this year the operations and personnel of the former Marco Island Fire Control District were reorganized into the thirty-member City Fire Department under the management of the City Manager.

Throughout the year the most contentious issues surrounded the transition of services from Collier County to the City. Many services continued to be provided by Collier County during the year including: law enforcement and road patrol from the Collier County Sheriff's Office; advanced life support and responder services from Collier County Emergency Medical Services; road maintenance, parks and recreation, building permitting, code enforcement, planning, and community development services. The County had operated several special taxing districts within the City to provide specific services to Marco Island residents, and the assets and responsibilities of four of those units were transferred effective April 1st: median beautification, street lighting, and the remainder of the funds levied for two beach renourishment units. As of the end of the year several transition issues had been unresolved including: the allocation of cable television franchise fees between the County and the City; the terms of transfer of 100 miles of streets and rights-of-way from County to City management; Sheriff's road patrol funding; and the transfer of development impact fees.

This first year ending September 30, 1998, is considered the City's initial start-up period. The objectives for the coming year are to establish the City's own public works and community development services divisions, as well as assume responsibility for the services previously provided by Collier County for community parks, recreation programs, and building permitting services.

YEAR 2000

The Year 2000 issue is a result of shortcomings in many electronic data processing systems and other equipment, caused by programmers using only the last two digits to denote the year when writing programs. By being a brand-new City, the City of Marco Island has been able to purchase computer resources that are entirely Y2K compliant.

The City has received assurances from critical vendors and service providers that their services and resources used by our citizens will remain uninterrupted by this event.

THE ACCOUNTING SYSTEM AND BUDGETARY CONTROL

In developing and evaluating the City's accounting system, consideration is given to the adequacy of internal accounting controls. Internal accounting controls are designed to provide reasonable, but not absolute, assurance regarding: (1) the safeguarding of assets against loss from unauthorized use or disposition; and (2) the reliability of financial records for preparing financial statements and maintaining accountability for assets. The concept of reasonable assurance recognizes that: a) the cost of a control should not exceed the benefits likely to be derived therefrom; and b) the evaluation of costs and benefits requires estimates and judgments by management.

During most of the reporting period the City operated without a Finance Director or a formal accounting system. Most of the accounting data for the financial transactions for the year ended September 30, 1998, were not collected or available until the last quarter of the year. Although proper and timely accounting procedures were not implemented until late in the first year of operations, we are proud to have completed all required reconciliations and to have received favorable comments and an unqualified opinion on this period from our external Auditors. As of the completion of the audit, proper internal accounting controls had been established to adequately safeguard assets and provide reasonable assurance of proper recording of financial transactions.

The City of Marco Island is committed to the highest standards of integrity and excellence in its financial reporting and accounting procedures. The City's internal control structure and formal accounting procedures are subject to recurrent evaluation and improvement by management.

The budget approval process for the City of Marco Island is governed by the Truth In Millage (TRIM) process as established by the Florida State Statutes. An annual budget is established by ordinance by the governing body on a department level in the general fund, and on a fund level in all other funds.

The City has established standard procedures for budget amendments to control the integrity of the budget system. Budget amendments are prepared by the department director, identifying both the object of expenditure requiring the budget amendment and the source of funds for the amendment. All budget amendments are reviewed by the Finance Director and forwarded to the City Manager. The City Manager has authority to approve budget amendments within each department. All budget amendments between departments or between funds, regardless of the amount, require the approval of the City Council.

The City did not levy property taxes or participate in the TRIM budget approval process for its first year of operations. The budget for its first year of operations for the year ended September 30, 1998, was ratified by the City Council in September of 1998 during

the TRIM process for the 1998-99 fiscal year. However, the budget previously established for the Marco Island Fire Control District for this year was used to maintain budgetary control of the Fire Department activities during this reporting period.

During the course of the year, budgetary control was maintained over appropriations of the Fire Department by use of monthly revenue and expenditure reports which compare budgeted appropriations with actual expenditures and encumbrances and estimated revenues with actual revenues.

The City utilizes the uniform chart of accounts established by the State of Florida for all account names, numbers, and reporting purposes.

THE REPORTING ENTITY AND ITS SERVICES

The financial reporting entity includes all funds and account groups of the City of Marco Island, as well as any component units. The City of Marco Island has no component units. However, the comprehensive annual financial report does include the accounts and transactions of the following entity that does not satisfy the definition of a component unit, since it is not legally separate from the City.

- The City of Marco Island Firefighters' Pension Plan

This report includes all funds and account groups of the City of Marco Island. During this first year ended September 30, 1998, the City of Marco Island provided general administrative services, fire control, and community development and planning services. The City does not own or operate a utility.

The City is operated legislatively by a seven-member Council elected at large for four-year staggered terms. The City Manager, as chief executive officer, manages the operations of the City and reports directly to the Council. The Finance Director is the chief fiscal officer and accountant for the City, and reports directly to the City Manager.

FINANCIAL INFORMATION

Summary of financial results: The following schedules present a summary of general fund revenues and expenditures by function for the fiscal year ended September 30, 1998. Although this is the first comprehensive annual financial report for the City of Marco Island, the prior year's revenues and expenditures for the Marco Island Fire Control District are provided as a memorandum total, only.

General governmental revenues: General fund revenues and other financing sources totaled \$5,871,281 in fiscal year 1998. This was an increase in total revenue of 128% over the Fire Control District's prior year, and is the result of the addition of balance transfers from Collier County, and state revenue sharing funds due to the City from its incorporation.

Revenues and Other Financing Sources:	1998 Actual:	% of Total:	1997 Actual (Memorandum Only):	% Increase (Decrease) over (under) 1997:
Property Taxes	\$2,984,218	51%	\$2,303,914	30%
Licenses and Permits	22,867	-	-	-
Intergovernmental	2,292,319	39%	-	-
Charges for Services	15,653	-	8,361	87%
Fines and Forfeitures	2,375	-	-	-
Interest and Miscellaneous	<u>553,849</u>	<u>10%</u>	<u>260,436</u>	113%
Total Revenues:	\$5,871,281	100%	\$2,572,711	128%

General governmental expenditures: City operating expenses totaled \$3,819,166 in fiscal year 1998. This is an increase in expenses of 37% of the Fire Control District's prior year, and is due to the addition of City services to the fire control activities.

Expenditures and Other Uses:	1998 Actual:	% of Total:	1997 Actual (Memorandum Only):	% Increase (Decrease) over (under) 1997:
General Government	\$ 926,856	24%	\$ -	-
Public Safety	2,509,672	66%	2,787,206	(10%)
Transportation	83,259	2%	-	-
Culture and Recreation	<u>299,379</u>	<u>8%</u>	<u>-</u>	-
Total Expenditures:	\$3,819,166	100%	\$2,787,206	37%

Fiduciary operations: The City operates a defined benefit pension plan which covers new firefighters hired by the Fire Control District after January 1, 1996. There are four (4) current participants in this plan which is funded through contributions from the City and the State of Florida. The pension plan has no unfunded pension benefit liability.

Debt administration: The City of Marco Island has no bonded indebtedness at this time. In addition, the City's Charter does not specify a legal debt limit for the City. The City is obligated under a lease agreement for the fire department building that has a present value of \$901,736 at an imputed interest rate of 7.6%.

Cash management: In order to maximize the City's potential investment earnings, City surplus funds are invested in the State Board of Administration Local Investment Pool. Interest earned by the City this year totaled \$155,524. The City invests funds in accordance with the conservative guidelines established for municipalities in the Florida State Statutes.

Risk management: The City maintains a variety of insurance which is designed to provide adequate coverage and to prevent exposure from property, liability or workers'

compensation claims. The City had not established a safety program during the reporting period, but considers this an important priority in the near future. In addition, the City is self-insured for health and dental insurance benefits for its employees.

Independent Audit: The City Charter and State Statutes require an annual audit by independent certified public accountants. The firm of Purvis, Gray and Company was selected by the City Council. The auditors' report on the general purpose financial statement and combining and individual fund statements and schedules is included in the financial section of this report.

Acknowledgements: The preparation of the comprehensive annual financial report was made possible by the dedicated service of the City's Division Directors, Management, and the entire Finance Department staff. In addition, without the interest and support of the members of the City Council, the preparation of this report would not have been possible.

Respectfully submitted,



Lisa M. Absher, CGFO
Finance Director

INDEPENDENT AUDITORS' REPORT

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying general-purpose financial statements of the City of Marco Island, Florida as of and for the year ended September 30, 1998. These general-purpose financial statements are the responsibility of the City of Marco Island, Florida's management. Our responsibility is to express an opinion on these general-purpose financial statements based on our audit. The statements of the Marco Island Fire Control District (the predecessor entity) for the year ended September 30, 1997, are presented for comparative analysis and were audited by other auditors. The statements of the Marco Island Fire Control District Firefighter's Pension Plan (the predecessor pension trust fund) for the year ended September 30, 1997, are presented for comparative purposes and are unaudited.

We conducted our audit in accordance with generally accepted auditing standards 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 general-purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general-purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall general-purpose financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the general-purpose financial statements referred to above present fairly, in all material respects, the financial position of the City of Marco Island, Florida as of September 30, 1998, and the results of its operations and the cash flows of its proprietary fund types for the year then ended in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued a report dated February 22, 1999, on our consideration of the City of Marco Island, Florida's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants.

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

INDEPENDENT AUDITORS' REPORT
(Concluded)

Our audit was made for the purpose of forming an opinion on the general-purpose financial statements taken as a whole. The required supplementary information and supporting schedules listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the general-purpose financial statements. Such information and schedules have been subjected to the auditing procedures applied in the audit of the general-purpose financial statements and, in our opinion, are fairly presented in all material respects in relation to the general-purpose financial statements taken as a whole.

The tables and information included in the statistical section of this report have been summarized by management from the City of Marco Island, Florida's records. Such tables and information have not been subjected to the auditing procedures applied in the audit of the general-purpose financial statements, required supplementary information and supporting schedules and, accordingly, we express no opinion on them.

February 22, 1999
Sarasota, Florida

Purins, Gay and Company

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GENERAL-PURPOSE FINANCIAL STATEMENTS

**COMBINED BALANCE SHEET
ALL FUND TYPES AND ACCOUNT GROUPS
SEPTEMBER 30, 1998
CITY OF MARCO ISLAND, FLORIDA**

	<u>Governmental Fund Type</u>	<u>Proprietary Fund Type</u>	<u>Fiduciary Fund Type</u>
	<u>General</u>	<u>Internal Service</u>	<u>Pension Trust</u>
Assets and Other Debits			
Cash and Cash Equivalents	\$ 3,123,845	\$ 32,491	\$ 67,558
Investments			52,731
Cash With Claims Administrator		14,396	
Accounts Receivable	16,516		
Contributions Receivable			740
Interest Receivable			99
Due From Other Governments	360,574		
Prepaid Items	10,992		
Deposits	2,000		
Fixed Assets:			
Land			
Buildings			
Vehicles and Equipment			
Property Held Under Capital Lease			
Amount to be Provided For Retirement of Long-Term Debt			
Total Assets and Other Debits	<u><u>\$ 3,513,927</u></u>	<u><u>\$ 46,887</u></u>	<u><u>\$ 121,128</u></u>

See accompanying notes.

Account Groups		Totals	
General Fixed Assets	General Long-Term Debt	(Memorandum Only) 1998	(As Restated) 1997
		\$ 3,223,894	\$ 1,217,017
		52,731	49,410
		14,396	0
		16,516	0
		740	128
		99	412
		360,574	20,753
		10,992	10,666
		2,000	0
\$ 565,000		565,000	565,000
150,682		150,682	150,682
1,516,273		1,516,273	1,269,259
1,609,880		1,609,880	1,609,880
	\$ 1,238,988	1,238,988	1,232,144
<u>\$ 3,841,835</u>	<u>\$ 1,238,988</u>	<u>\$ 8,762,765</u>	<u>\$ 6,125,351</u>

See accompanying notes.

**COMBINED BALANCE SHEET
ALL FUND TYPES AND ACCOUNT GROUPS
SEPTEMBER 30, 1998
CITY OF MARCO ISLAND, FLORIDA**

	<u>Governmental Fund Type</u>	<u>Proprietary Fund Type</u>	<u>Fiduciary Fund Type</u>
	<u>General</u>	<u>Internal Service</u>	<u>Pension Trust</u>
Liabilities, Fund Equity and Other Credits			
Liabilities			
Accounts Payable	\$ 126,050		\$ 2,588
Accrued Liabilities	151,519		
Deferred Revenue	9,863		
Obligation Under Capital Lease			
Estimated Liability For Self-Insurance Losses		\$ 18,651	
Accrued Compensated Absences			
Total Liabilities	<u>287,432</u>	<u>18,651</u>	<u>2,588</u>
Fund Equity and Other Credits			
Investment in General Fixed Assets			
Retained Earnings		28,236	
Fund Balances:			
Reserved For Employees' Pension Benefits			118,540
Reserved For Capital Projects	491,586		
Reserved For Prepaid Items	10,992		
Other Reserves			
Undesignated	2,723,917		
Total Fund Equity and Other Credits	<u>3,226,495</u>	<u>28,236</u>	<u>118,540</u>
Total Liabilities, Fund Equity and Other Credits	<u>\$ 3,513,927</u>	<u>\$ 46,887</u>	<u>\$ 121,128</u>

See accompanying notes.

Account Groups		Totals	
General Fixed Assets	General Long-Term Debt	(Memorandum Only) 1998	(As Restated) 1997
		\$ 128,638	\$ 40,181
		151,519	30,442
		9,863	0
	\$ 901,736	901,736	974,957
		18,651	0
	337,252	337,252	257,187
<u>\$ 0</u>	<u>1,238,988</u>	<u>1,547,659</u>	<u>1,302,767</u>
3,841,835		3,841,835	3,594,821
		28,236	0
		118,540	53,383
		491,586	176,505
		10,992	10,666
		0	377,302
		2,723,917	609,907
<u>3,841,835</u>	<u>0</u>	<u>7,215,106</u>	<u>4,822,584</u>
<u>\$ 3,841,835</u>	<u>\$ 1,238,988</u>	<u>\$ 8,762,765</u>	<u>\$ 6,125,351</u>

See accompanying notes.

**STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
ALL GOVERNMENTAL FUND TYPES - GENERAL FUND
FOR THE YEAR ENDED SEPTEMBER 30, 1998
CITY OF MARCO ISLAND, FLORIDA**

	1998		Variance Favorable (Unfavorable)	1997
	Budget	Actual		(Memorandum Only) Actual
Revenues				
Taxes	\$ 3,038,033	\$ 2,984,218	\$ (53,815)	\$ 2,303,914
Licenses and Permits	1,150	22,867	21,717	0
Intergovernmental	1,463,695	2,292,319	828,624	0
Charges For Services	15,000	15,653	653	8,361
Fines and Forfeitures	0	2,375	2,375	0
Interest and Miscellaneous	197,115	553,849	356,734	260,436
Total Revenues	<u>4,714,993</u>	<u>5,871,281</u>	<u>1,156,288</u>	<u>2,572,711</u>
Expenditures				
Current:				
General Government	997,603	926,856	70,747	0
Public Safety	2,693,682	2,509,672	184,010	2,787,206
Transportation	94,613	83,259	11,354	0
Culture and Recreation	347,493	299,379	48,114	0
(Total Expenditures)	<u>(4,133,391)</u>	<u>(3,819,166)</u>	<u>314,225</u>	<u>(2,787,206)</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>\$ 581,602</u>	2,052,115	<u>\$ 1,470,513</u>	(214,495)
Fund Balance, October 1		<u>1,174,380</u>		<u>1,388,875</u>
Fund Balance, September 30		<u>\$ 3,226,495</u>		<u>\$ 1,174,380</u>

See accompanying notes.

**STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN RETAINED EARNINGS
ALL PROPRIETARY FUND TYPES - INTERNAL SERVICE FUND
FOR THE YEAR ENDED SEPTEMBER 30, 1998
CITY OF MARCO ISLAND, FLORIDA**

	<u>1998</u>	<u>Total (Memorandum Only) 1997</u>
Operating Revenues	\$ 186,836	\$ 0
Operating Expenses		
Insurance Premiums and Fees	48,712	0
Claims	109,888	0
(Total Operating Expenses)	<u>(158,600)</u>	<u>0</u>
Operating Income	28,236	0
Retained Earnings, October 1	<u>0</u>	<u>0</u>
Retained Earnings, September 30	<u><u>\$ 28,236</u></u>	<u><u>\$ 0</u></u>

See accompanying notes.

STATEMENT OF CASH FLOWS
ALL PROPRIETARY FUND TYPES - INTERNAL SERVICE FUND
FOR THE YEAR ENDED SEPTEMBER 30, 1998
CITY OF MARCO ISLAND, FLORIDA

	1998	Total (Memorandum Only) 1997
Cash Flows From Operating Activities		
Operating Income	\$ 28,236	\$ 0
Adjustments to Reconcile Operating Income to Net Cash Provided By Operating Activities:		
Increase in Estimated Liability For Self-Insurance Losses	18,651	0
Net Cash Provided By Operating Activities	46,887	0
Net Increase in Cash and Cash Equivalents	46,887	0
Cash and Cash Equivalents, October 1	0	0
Cash and Cash Equivalents, September 30	\$ 46,887	\$ 0
<u>Reconciliation of Cash and Cash Equivalents (Above) to Combined Balance Sheet</u>		
Captions on Combined Balance Sheet		
Cash and Cash Equivalents	\$ 32,491	\$ 0
Cash With Claims Administrator	14,396	0
Total	\$ 46,887	\$ 0

See accompanying notes.

**STATEMENT OF CHANGES IN PLAN NET ASSETS
PENSION TRUST FUND
FOR THE YEAR ENDED SEPTEMBER 30, 1998
CITY OF MARCO ISLAND, FLORIDA**

	<u>1998</u>	<u>Total (Memorandum Only) 1997</u>
Additions		
Contributions		
Employee	\$ 1,850	\$ 1,554
State of Florida	72,389	52,962
Total Contributions	<u>74,239</u>	<u>54,516</u>
Investment Income		
Investment Earnings	2,113	717
(Investment Expenses)	0	0
Net Investment Income	<u>2,113</u>	<u>717</u>
Total Additions	<u>76,352</u>	<u>55,233</u>
Deductions		
Legal	4,856	1,408
Actuary	3,505	600
Administrative	<u>2,834</u>	<u>308</u>
(Total Deductions)	<u>(11,195)</u>	<u>(2,316)</u>
Net Increase	65,157	52,917
Net Assets Held in Trust For Pension Benefits:		
Beginning of Year	<u>53,383</u>	<u>466</u>
End of Year	<u>\$ 118,540</u>	<u>\$ 53,383</u>

See accompanying notes.

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NOTES TO FINANCIAL STATEMENTS

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

Note 1 - Reporting Entity

The City

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 was first adopted by the electorate on August 28, 1997. The Charter provides for a Council/Manager form of government. The installation ceremony for the initial City Council was held on November 10, 1998, and the inaugural meeting of the first City Council was held on November 11, 1998.

The Fire Control District

Upon the effective date of the Charter, the Marco Island Fire Control District (the Fire Control District), an independent special district created by a special act of the Florida Legislature (Laws of Florida, Chapter 65-1413), ceased to exist. The assets, liabilities and contracts of the Fire Control District, including all rights, obligations, duties and relationships existing by law or agreement, immediately became those of the City. All rights, claims, actions, orders, contracts with employees, and legal proceedings of the Fire Control District continued in full force under the jurisdiction of the City. Fire protection services to the area formerly served by the Fire Control District immediately became the responsibility of the City.

The physical transfer of assets, responsibilities, and employees actually occurred in a somewhat gradual manner throughout the fiscal year. The Charter provided that all resolutions and policies of the Fire Control District remained in effect until amended, revised, or repealed by the City Council.

As required by generally accepted accounting principles, the financial statements of the reporting entity include those of the City (the primary government) and its component units, if any. For comparative purposes, the 1997 amounts on the accompanying statement of revenues, expenditures and changes in fund balance - general fund, represent the results of operations of the Fire Control District for that fiscal year (combined general and capital projects funds), and the beginning fund balance at October 1, 1997, is the ending fund balance of the combined general and capital projects funds of the Fire Control District at September 30, 1997. Similarly, beginning balances of general long-term debt in these notes to the financial statements are the ending balances for the Fire Control District at September 30, 1997. Beginning balances for general fixed assets have been restated, as described in note 6.

Component Units

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)

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

Note 1 - Reporting Entity (Concluded)

The Firefighters' Pension Plan

The 1997 financial statements of the Fire Control District did not report the balances and transactions of the Firefighters' Pension Plan, and there were no separate audited financial statements of the plan. For comparative purposes, the 1997 amounts on the accompanying statement of changes in plan net assets represent the amounts reported in the October 1, 1997 Actuarial Valuation Report for the Firefighters' Pension Plan.

Similarly, the 1997 amounts on the combined balance sheet include the balances at September 30, 1997, of both the Fire Control District (audited) and the Firefighters' Pension Plan (unaudited).

The Municipal Service Taxing Units

On March 30, 1998, the City adopted Resolution 98-12, terminating the following Collier County Municipal Service Taxing Units (MSTU):

- Marco Island Street Lighting MSTU (County Fund 775)
- Marco Island Beautification MSTU (County Fund 131)
- Marco Island Beach Renourishment and Public Access MSTU (County Fund 159)
- Marco Island Beachfront Renourishment Facilities MSTU (County Fund 318)

Immediately upon termination of the MSTU's, and pursuant to the City's Charter, all assets, liabilities and contracts of the MSTU's, including all rights, obligations, duties and relationships existing by law or agreement, remained in full force and became those of the City. All rights, claims, actions, orders, contracts with employees, and legal proceeding of Collier County related to the MSTU's continued in full force and effect under the jurisdiction of the City. Services to the areas formerly served by the Collier County MSTU's immediately became the responsibility of the City.

Beginning in April 1998, Collier County turned over all remaining cash balances in the affected Collier County MSTU funds to the City, and the City assumed all remaining commitments on open purchase orders and unexpired contracts. The cash balances transferred to the City during the fiscal year are reported as intergovernmental revenues on the accompanying statement of revenues, expenditures and changes in fund balance.

Note 2 - Summary of Significant Accounting Policies

Basis of Presentation - Fund Accounting

The accounts of the City are organized on the basis of funds and account groups, each of which is considered a separate accounting entity. The City has created several types of funds and account groups. Each fund is accounted for by a separate set of self-balancing accounts

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

Note 2 - Summary of Significant Accounting Policies (Continued)

Basis of Presentation - Fund Accounting (Concluded)

that comprise its assets, liabilities, fund equity, revenues and expenditures/expenses. The individual funds account for the governmental resources allocated to them for the purpose of carrying on specific activities in accordance with laws, regulations, or other restrictions.

- **Governmental Fund Types** are used to account for all or most of a government's general activities, including the collection and disbursement of earmarked monies and specific revenue sources (special revenue funds), the acquisition or construction of general fixed assets (capital projects funds), and the servicing of general long-term debt (debt service funds). The general fund is used to account for all activities of the general government not accounted for in some other fund. The City has no special revenue, capital projects, or debt service funds.
- **Proprietary Fund Types** are used to account for activities similar to those found in the private sector, where the determination of net income is necessary or useful to sound financial administration. Goods or services from such activities can be provided either to outside parties (enterprise funds) or to other departments or agencies primarily within the government (internal service funds). The City has no enterprise funds, but uses the internal service fund to account for the activities in its self-insurance fund.
- **Fiduciary Fund Types** are used to account for assets held on behalf of outside parties, including other governments, or on behalf of other funds within the government. When these assets are held under the terms of a formal trust agreement, either a pension trust fund or an expendable trust fund is used. The terms "nonexpendable" and "expendable" refer to whether or not the government is under an obligation to maintain the trust principal. Agency funds generally are used to account for assets that the government holds on behalf of others as their agent. The City uses the pension trust fund to account for the activities in the Firefighters' Pension Plan.

In addition to the three broad types of governmental funds, the City also maintains **two account groups**. These two account groups are not funds. They are used to maintain accounting control and accountability for the City's general fixed assets (general fixed assets account group) and the unmatured principal of its general long-term obligations (general long-term debt account group).

Measurement Focus

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. The general fund is accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets.

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

Note 2 - Summary of Significant Accounting Policies *(Continued)*

Measurement Focus *(Concluded)*

The internal service fund and pension trust fund are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the balance sheet. Proprietary fund type operating statements present increases (revenues) and decreases (expenses) in net total assets. Pension trust fund operating statements present increases (additions) and decreases (deductions) in plan net assets.

Basis of Accounting

The general fund uses the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual. In order for the revenues to be susceptible to accrual, they must be both measurable and available. "Measurable" means that the amount of the transaction can be determined. "Available" means the revenues must be collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Property taxes, impact fees, state-shared revenues and investment earnings are recorded when earned (measurable and available). Licenses and permits, charges for services, fines and forfeitures, and miscellaneous revenues are reported as revenues when received in cash. Expenditures are generally recognized in the accounting period in which the related liability is incurred, except that principal and interest on general long-term debt is recognized when due, and accumulated leave time is recognized when paid.

The City reports deferred revenue on its combined balance sheet. Deferred revenues arise in governmental fund types when a potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Deferred revenues also arise when resources are received by the government before it has a legal claim to them, as when grant monies are received prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the government has a legal claim to the resources, the liability for deferred revenue is removed from the combined balance sheet and revenue is recognized.

The internal service fund and the pension trust fund use the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

Applicable Pronouncements

Proprietary fund types follow all applicable Governmental Accounting Standards Board (GASB) pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements:

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

Note 2 - Summary of Significant Accounting Policies *(Continued)*

Applicable Pronouncements *(Concluded)*

- Financial Accounting Standards Board (FASB) Statements and Interpretations;
- Accounting Principles Board (APB) Opinions; and
- Accounting Research Bulletins.

Pursuant to GASB Statement No. 20, the City has elected not to apply all FASB Statements and Interpretations issued after November 30, 1989, to its proprietary fund type activities.

Cash and Investments

Cash and cash equivalents for purposes of the statement of cash flows for the internal service fund includes demand deposits, cash with claims administrator, and state pool investments. Equivalents are defined as short-term, highly liquid investments that are both readily convertible to known amounts of cash and have an original maturity of three months or less.

Investments are valued at fair value in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*.

Receivables

All receivables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible. There is no allowance for doubtful accounts at September 30, 1998.

Property, Plant and Equipment

General fixed assets are not capitalized in the funds used to acquire or construct them. Instead, capital acquisition and construction are reflected as expenditures in governmental funds and the related assets are reported in the general fixed assets account group. Public domain (infrastructure) fixed assets consisting of certain improvements such as roads, sidewalks and bridges are not capitalized as these assets are immovable and of value only to the government. The costs of normal maintenance and repairs that do not add to the value of the assets or materially extend its life are not capitalized. Assets in the general fixed assets account group are not depreciated.

Property, plant and equipment in the internal service fund, if any, are capitalized in that fund. Depreciation of exhaustible fixed assets used by this fund is charged as an expense against operations, and accumulated depreciation is reported on the balance sheets of the fund. Depreciation is provided over the estimated useful life of each asset using the straight-line method. All property, plant and equipment are originally recorded at cost. Property plant and equipment formerly owned by the Fire Control District are recorded at the District's cost, or if donated, at fair value on the date donated.

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

Note 2 - Summary of Significant Accounting Policies (Continued)

Long-Term Obligations

Long-term debt is recognized as a liability in a governmental fund type, if due. The remaining portion of such obligations is reported in the general long-term debt account group. Long-term liabilities expected to be financed from proprietary fund type operations are accounted for in those funds.

Compensated Absences

City firefighters under union contract earn 3.5 hours of sick leave per week, and paid vacation leave based on length of employment. Other employees have been granted paid leave under terms of their employment.

Accumulated unpaid vacation and sick pay are accrued when earned in the accompanying balance sheets. Only the portion of the unpaid vacation and sick pay benefits that are to be paid from current assets are accrued in the general fund. The long-term portion of the unpaid sick and vacation pay is reported in the general long-term debt account group as accrued compensated absences. The internal service and pension trust funds have no employees to which paid leave is provided.

City employees may carry over from one year to the next, the amount of vacation leave they accrue in one year, based on their anniversary date. In general, employees are permitted to accrue up to 560 hours of sick leave. Upon termination of employment, an employee is paid for his/her accrued vacation leave based on their current hourly rate of pay, and a percentage of their accrued sick leave in accordance with the following schedule:

5 - 10 Years	25%
10 - 20 Years	75%
20 Plus Years	100%

Fund Equity

Unreserved retained earnings in the internal service fund represent net assets available for future operations. Reserved retained earnings represent net assets that have been legally restricted for specific purposes.

Unreserved fund balance in the governmental fund type represents that amount available to be budgeted for future operations. Reserved fund balance in the governmental fund type represents the amount that has been legally identified for specific purposes. Designated fund balances represent amounts identified by City management to be used in the future.

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

Note 2 - Summary of Significant Accounting Policies (Concluded)

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.

Columns Captioned "Totals (Memorandum Only)"

Total columns on the combined financial statements are captioned "Totals (Memorandum Only)" to indicate that they are presented only to facilitate financial analysis. The data in these columns does not present financial position, results of operations or cash flows in conformity with generally accepted accounting principles. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data. Minor reclassifications have been made in the 1997 columns to provide more meaningful comparative data.

Note 3 - Legal Compliance - Budgets

The City Council annually adopts a budget ordinance for the general fund of the City pursuant to general law. Budgets are prepared for the internal service and pension trust funds for internal use only. All annual operating budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP). Encumbrances lapse at year end.

Per the City Charter, the budget must be a balanced budget, and operating expenditures shall be limited to an increase from the prior year's expenditures of 3% plus the then-current federal cost of living adjustment, following the third full year of incorporation. This limit shall not apply to expenditures under emergency ordinances or capital expenditures.

Supplemental Appropriations

If, during the fiscal year, revenues in excess of those estimated in the budget are available for appropriation, the City Council may make supplemental appropriations for the year up to the amount of such excess.

Transfer of Appropriations

At any time during the fiscal year, the City Manager may transfer part or all of any unencumbered appropriation balance among programs within a department, office or agency and, upon written request by the City Manager, the City Council may transfer part or all of any unencumbered appropriation balance from one department, office or agency to another.

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

Note 3 - Legal Compliance - Budgets (Concluded)

Fiscal 1998 Budget

The fiscal year for the City begins on October 1 and ends on September 30. Because the City began operations during the 1997-98 fiscal year, the first formal budget was prepared for the 1998-99 fiscal year. As part of that process, a budget for the 1997-98 fiscal year was also adopted retroactively. Incorporated within that budget (in the Fire Department) was the Fire Control District's original budget approved by the District's Board. The budgeted amounts on the accompanying statement of revenues, expenditures and changes in fund balance - general fund, are presented as originally adopted. There were no budget amendments.

Note 4 - Property Taxes

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 property taxes reported in the accompanying statement of revenues, expenditures, and changes in fund balance - general fund, are for the Fire Control District.

Details of the tax calendar are presented below:

Lien Date	January 1, 1997
Levy Date	October 1, 1997
Installment Payments	
First Installment	No Later Than June 30, 1997
Second Installment	No Later Than September 30, 1997
Third Installment	No Later Than December 31, 1997
Fourth Installment	No Later Than March 31, 1998
Regular Payments	
Discount Periods	November 1997 Through February 1998
No Discount Period	After March 1, 1998
Delinquent Date	April 1, 1998

Note 5 - Deposits and Investments

Deposits

At year end, the carrying amount of the City's deposits was \$900,635 and the bank balance was \$962,656. 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

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

Note 5 - Deposits and Investments *(Continued)*

Deposits *(Concluded)*

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.

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

The City's investment practices are also governed by Chapter 280, Florida Statutes, which allows 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.

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.

Generally accepted accounting principles require that the credit risk of most investments be classified into one of the following three categories:

- **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 and money market investments cannot be classified within the categories described above because they are not evidenced by securities that exist in physical or book entry form. These represent the entire investment portfolio of the City at September 30, 1998, as follows:

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

Note 5 - Deposits and Investments (Concluded)

Investments (Concluded)

Investments at September 30, 1998

State Board of Administration - Local Government	\$ 2,323,259
Surplus Trust Funds Investment Pool	52,731
Money Market Investments	
Total Investments	\$ 2,375,990

The investments at the State Board of Administration are included under cash and cash equivalents on the accompanying balance sheet because they are available for immediate withdrawal.

Note 6 - Property, Plant and Equipment

Activity for general fixed assets which are capitalized by the City is summarized below:

	(As Restated)			
	Balance		Balance	
	10/1/97	Additions	(Deductions)	9/30/98
Land	\$ 565,000	\$ 0	\$ 0	\$ 565,000
Buildings	150,682	0	0	150,682
Vehicles and Equipment	1,269,259	247,014	0	1,516,273
Property Held Under Capital Lease	1,609,880	0	0	1,609,880
Total	\$ 3,594,821	\$ 247,014	\$ 0	\$ 3,841,835

The balances of general fixed assets at October 1, 1997, have been restated from the amounts reported by the Fire Control District at September 30, 1997, pursuant to a detailed study and inventory performed by the City during 1998.

Following are the beginning balances as originally reported, and as restated:

	As Originally Reported September 30, 1997	As Restated October 1, 1997
Land	\$ 25,000	\$ 565,000
Buildings	150,683	150,682
Vehicles and Equipment	1,753,346	1,269,259
Capital Lease	1,609,880	1,609,880
Total	\$ 3,538,909	\$ 3,594,821

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

Note 7 - General Long-Term Debt

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 (FCFC). 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.

Also, on January 23, 1992, the Fire Control District signed an agreement with FCFC (Lessor) which granted Lessor a leasehold estate in the land for the purpose of constructing a 13,000 square foot fire station. This agreement was a Lease/Purchase Option Agreement, where FCFC would lease the fire station and certain other personal property to the Fire Control District for \$88,601, semiannually through January 2007 (unless early terminated, or upon payment of the option price). The option price was established and is pursuant to a fixed schedule, which decreases annually to \$1 on January 2007. The option price at July 24, 1998, was \$940,358. Subsequent to the construction of the facility, FCFC assigned their rights to collections under the lease purchase to LaSalle Bank. Upon dissolution of the Fire Control District, the City acquired the Lessee's rights and responsibilities under these leases.

Due to the \$1 purchase option at the end of the lease term, the lease-purchase of the fire station has been accounted for as a capital lease for financial reporting. An asset of \$1,609,880 was recorded in the general fixed assets account group, with a corresponding liability in general long-term debt. The liability is being amortized using an imputed interest rate of 7.60%, the rate implicit in the lease. In January 1994, a prepayment of the liability totalling \$249,040 was made, reducing future minimum lease payments to \$72,976 semiannually.

The following is a schedule of future minimum lease payments under capital leases, together with the net present value of the minimum lease payments as of September 30, 1998:

Year Ending September 30,	General Long-Term Debt Account Group
1999	\$ 145,953
2000	145,953
2001	145,953
2002	145,953
2003	145,953
2004 and Thereafter	510,834
Total Remaining Minimum Lease Payments	1,240,599
(Imputed Interest)	(338,863)
Present Value of Minimum Lease Payments	\$ 901,736

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

Note 7 - General Long-Term Debt (Concluded)

Changes in long-term indebtedness for the year ended September 30, 1998, are summarized below:

	Balance 10/01/97	Additions	(Payments and Other Reductions)	Balance 9/30/98
General Long-Term Debt				
Obligations Under Capital				
Leases	\$ 974,957	\$ 0	\$ (73,221)	\$ 901,736
Accrued Compensated Absences	257,187	80,065	0	337,252
Total General Long-Term Debt	\$ 1,232,144	\$ 80,065	\$ (73,221)	\$ 1,238,988

Note 8 - Firefighters' Pension Plan

Plan Description

Full-time firefighters hired after December 31, 1995, are covered by the City's Firefighters' Pension Plan (formerly the Marco Island Fire Control District Firefighters' Pension Plan).

The City is the administrator of the single-employer, defined benefit pension plan that was established by the Fire Control District on December 12, 1995. The Firefighters' Pension Plan (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, 1997 (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	0
Retirees and Beneficiaries Currently Receiving Benefits and Terminated Employees Entitled to Benefits, But Not Yet Receiving Them	0
Active Plan Participants	
Vested	0
Nonvested	5
Total Active Plan Participants	5
Vested Terminated Members	0

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

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

Note 8 - Firefighters' Pension Plan (Continued)

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 (AFC) 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 ten 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 ten years of service, at which time they become 100% vested. Terminated nonvested employees receive refunds of their accumulated member contributions only. Terminated vested employees receive their vested accrual benefit payable at early (after reduction) or normal retirement.

Pension provisions include disability benefits, whereby a disabled employee is entitled to receive the greater of the normal retirement benefits or a percentage of AFC (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.

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 contributions totalling 100% of the actuarially determined amount (after state contributions) annually to the Plan. For the year ended September 30, 1998, the actuarially determined contribution amount was \$41,924 and the anticipated state contribution was \$52,962. Accordingly, the required employer contribution for 1998 was \$0. For the year ended September 30, 1998, the City's total covered payroll for participants in the Plan amounted to \$185,075. 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, 1998, was \$1,678,692.

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

Note 8 - Firefighters' Pension Plan (Concluded)

Annual Pension Cost and Net Pension Obligation

The City's annual pension cost for the year ended September 30, 1998, was \$0 (the required contribution). The City had no net pension obligation. The annual required contribution for the 1998 fiscal year was determined as part of the October 1, 1997, 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, 1997, valuation included: (a) 8% investment rate of return (net of administrative expenses; (b) projected salary increases of 6% per year; and (c) 4.0% 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 level dollar amount over thirty years. The remaining amortization period at October 1, 1997, was thirty years.

Three-Year Trend Information

<u>Fiscal Year Ended September 30,</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Pension Obligation</u>
1998	\$0	100.0%	\$0
1997	\$0	100.0%	\$0
1996	\$0	100.0%	\$0

Summary of Significant Accounting Policies and Plan Asset Matters

■ **Basis of Accounting**

The pension trust fund statements are prepared on the accrual basis of accounting. Contributions from the City and the City's employees are recognized as revenue in the period in which employees provide services to the City. Interest and dividend income is recognized when earned by the Plan. Realized gains and losses on the sale of investments held by the Plan are recognized when incurred. Net appreciation in the fair value of investments held by the Plan is recorded as an increase to investment income based on the valuation of investments as of the date of the balance sheet. Benefits and refunds are recognized when due and payable in accordance with the terms of the Plan.

■ **Investments**

Investments in securities are reported at fair value. There are no investments in, loans to, or leases with parties related to the Plan.

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

Note 9 - Defined Benefit Pension Plan

All full-time employees of the City, which are not eligible for participation in the Firefighters' Pension Plan, are eligible to participate in the Florida Retirement System (the System). 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 ten years of service. Vested employees may retire after ten 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.

The funding methods and the determination of benefits payable are provided in various acts of the Florida Legislature. These acts provide that employers, such as the City are required to contribute 16.45% of the compensation for regular members and 25.32% for special risk members.

The City's (or Fire Control District's) contributions to the System for the years ended September 30, 1998, 1997, 1996, were \$293,947, \$297,138, and \$303,477, respectively, equal to the required contributions for each year.

Note 10 - Operating Lease

On May 1, 1998, the City began leasing office space for City Hall in the SunTrust Centre on North Collier Boulevard. Prior to that date, City Hall operated out of the main Fire Department facility. The lease term extends through April 30, 2000, with three one-year renewal options available. The annual base rent for the first and second years of the lease is \$40,000, payable in monthly installments of \$3,333. Rent expense for 1998 was \$16,667. Future minimum lease payments are as follows:

<u>Year Ending</u> <u>September 30,</u>	<u>Amount</u>
1999	\$ 40,000
2000	23,333

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

Note 11 - Commitments and Contingencies

Litigation

The City is a party to claims and lawsuits arising in the normal course of business. Management does not expect that these matters will have a material effect on the financial position or results of operations of the City.

Construction Commitments

As of September 30, 1998, the City had the following commitments related to significant unfinished capital projects:

<u>Project</u>	<u>Expended as of 9/30/98</u>	<u>Remaining Commitment</u>
Renovations to Medians - South Barfield Road	\$ 73,351	\$ 40,971

Firefighters' Union Contract

The City is not currently under a collective bargaining agreement with its firefighters. The prior agreement expired on September 30, 1997. However, the law in Florida requires any employer that has a bargaining obligation -- and this is true whether it is an initial bargaining obligation after a union is first voted in, or if it is after the expiration of a contract -- to maintain the *status quo* on all wages, hours, and terms and conditions of employment until either a new collective bargaining agreement has been mutually agreed upon or the impasse procedure under state law has been exhausted.

Note 12 - Year 2000

The City is currently addressing year 2000 issues relating to its computer systems. The year 2000 issue refers to the fact that many computer programs use only the last two digits to refer to a year. Therefore, both 1900 and 2000 would be referred to as "00." Computer programs must be adjusted to recognize the difference between those two years or the programs will fail or create errors. Also, some programs may not be able to recognize that 2000 is a leap year. Further, the year 2000 issue could affect electronic equipment such as environmental systems, 911 equipment, and security systems containing computer microchips that have date recognition features. In addition, systems with which the City interfaces including depositories, telephone systems, vendors, federal government grantors, federal forfeitures, and state and county government could be affected.

As of the year end, the City has identified its year 2000 critical systems and was subjecting them to the following stages of work to address year 2000 issues:

- **Awareness Stage**
Establishing a budget and project plan for dealing with the year 2000 issue.
- **Assessment Stage**
Identifying the systems and components for which year 2000 compliance work is needed.

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

Note 12 - Year 2000 (Concluded)

■ **Remediation Stage**

Making changes to systems and equipment.

■ **Validation/Testing Stage**

Validating and testing the changes that were made during the remediation stage.

Because of the unprecedented nature of the year 2000 issue, its effects and the success of related remediation efforts will not be fully determinable until the year 2000 and thereafter. The City cannot assure that it will be year 2000 ready, that the City's remediation efforts will be successful in whole or in part, or that parties with whom the City does business will be year 2000 ready.

Note 13 - 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. Beginning in fiscal year 1998, the City implemented a new self-insurance program with reinsurance for its medical and dental coverage.

During 1998, the City purchased commercial insurance against losses for the following types of risk:

- Real and Personal Property Damage
- General and Automobile Liability
- Commercial Crime

The medical and dental risk management activities are accounted for by the City within its internal service fund. Total expenses for risk management services were \$158,600 in 1998. Following is the change in liabilities for known claims, and incurred but not reported claims, in the internal service fund:

Balance, October 1, 1997	\$ 0
Current Year Claims and Changes in Estimate	109,888
(Claims Paid)	(91,237)
Balance, September 30, 1998	<u>\$ 18,651</u>

The internal service fund is charging other funds of the City for risk management services based on costs incurred subsequent to the implementation of the new program. For 1998, interdepartmental charges exceeded actual costs by \$28,236. That amount has been designated for self-insured losses in the future.

There were no other significant reductions in insurance coverage from 1997 to 1998. In addition, no settlements exceeded insurance coverage in the past three years.

**REQUIRED SUPPLEMENTARY INFORMATION -
PENSION TRUST FUND (UNAUDITED)**

**SCHEDULE OF FUNDING PROGRESS
CITY OF MARCO ISLAND FIREFIGHTERS' PENSION PLAN
SEPTEMBER 30, 1998
CITY OF MARCO ISLAND, FLORIDA**

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
10/01/96	\$ 466	\$ 129	\$ (337)	361.2%	\$ 142,309	(0.2%)
10/01/97	53,383	41,289	(12,094)	129.3%	164,716	(7.3%)

**SCHEDULE OF EMPLOYER AND STATE CONTRIBUTIONS
CITY OF MARCO ISLAND FIREFIGHTERS' PENSION PLAN
SEPTEMBER 30, 1998
CITY OF MARCO ISLAND, FLORIDA**

<u>Fiscal Year Ended</u>	<u>Actuarial Valuation Date</u>	<u>Annual Required Contribution</u>	<u>Actual Contribution (State)</u>	<u>Percentage Contributed</u>
09/30/96		\$ 0	\$ 0	100.0%
09/30/97	10/01/96	37,780	52,962	140.2%
09/30/98	10/01/97	41,924	72,389	172.7%

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, 1997
Actuarial Cost Method	Entry Age
Amortization Method	Level Dollar
Remaining Amortization Period	30 Years
Asset Valuation Method	Market Value
Actuarial Assumptions:	
Investment Rate of Return	8.0%
Projected Salary Increases	6.0%
Inflation Rate	4.0%

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SUPPORTING SCHEDULES

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GENERAL FUND

The general fund is used to account for resources traditionally associated with governments which are not required legally or by sound financial management to be accounted for in another fund.

**STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED SEPTEMBER 30, 1998
CITY OF MARCO ISLAND, FLORIDA**

	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Revenues			
Taxes			
Property Taxes - Current	\$2,419,733	\$2,368,369	\$ (51,364)
Property Taxes - Delinquent	52,000	52,967	967
Local Option Fuel Tax	566,300	562,882	(3,418)
Total Taxes	<u>3,038,033</u>	<u>2,984,218</u>	<u>(53,815)</u>
Licenses and Permits			
Occupational Licenses	0	20,217	20,217
Building Permits	0	1,500	1,500
Fire Permits	1,150	1,150	0
Total Licenses and Permits	<u>1,150</u>	<u>22,867</u>	<u>21,717</u>
Intergovernmental			
Federal Grants			
FEMA	0	55,263	55,263
State-Shared Revenues			
Cigarette Tax	123,795	109,450	(14,345)
Municipal Revenue Sharing	189,871	214,999	25,128
Half-Cent Sales Tax	1,147,229	1,126,678	(20,551)
Firefighters' Supplemental	2,800	5,200	2,400
Total State-Shared Revenues	<u>1,463,695</u>	<u>1,456,327</u>	<u>(7,368)</u>
Other Shared Revenues			
Beautification	0	357,236	357,236
Beach Renourishment	0	262,392	262,392
Lighting District	0	161,101	161,101
Total Other Shared Revenues	<u>0</u>	<u>780,729</u>	<u>780,729</u>
Total Intergovernmental	<u>1,463,695</u>	<u>2,292,319</u>	<u>828,624</u>
Charges For Services			
General Government	0	24	24
Public Safety	15,000	15,254	254
Public Education	0	375	375
Total Charges For Services	<u>15,000</u>	<u>15,653</u>	<u>653</u>

**STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED SEPTEMBER 30, 1998
CITY OF MARCO ISLAND, FLORIDA
(Continued)**

	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Revenues (Concluded)			
Fines and Forfeitures			
Court Fines	\$ 0	\$ 1,875	\$ 1,875
Other Violations	0	500	500
Total Fines and Forfeitures	<u>0</u>	<u>2,375</u>	<u>2,375</u>
Interest and Miscellaneous			
Interest	50,000	155,524	105,524
Rents	1,615	1,615	0
Impact Fees	120,000	349,010	229,010
Sale of Fixed Assets	10,500	10,500	0
Donations	0	872	872
Miscellaneous	15,000	36,328	21,328
Total Interest and Miscellaneous	<u>197,115</u>	<u>553,849</u>	<u>356,734</u>
Total Revenues	<u>4,714,993</u>	<u>5,871,281</u>	<u>1,156,288</u>
Expenditures			
Current:			
General Government			
Legislative			
Personal Services	20,185	46,424	(26,239)
Operating Expenses	129,201	123,709	5,492
Capital Outlay	24,800	23,754	1,046
Total Legislative	<u>174,186</u>	<u>193,887</u>	<u>(19,701)</u>
Executive			
Personal Services	228,837	215,600	13,237
Operating Expenses	166,704	96,748	69,956
Capital Outlay	98,847	95,452	3,395
Total Executive	<u>494,388</u>	<u>407,800</u>	<u>86,588</u>
Finance			
Personal Services	52,130	50,328	1,802
Operating Expenses	12,959	9,601	3,358
Capital Outlay	76,007	70,254	5,753
Total Finance	<u>141,096</u>	<u>130,183</u>	<u>10,913</u>

**STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED SEPTEMBER 30, 1998
CITY OF MARCO ISLAND, FLORIDA
(Continued)**

	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Expenditures (Continued)			
Current: (Continued)			
General Government (Concluded)			
Legal			
Operating Expenses	\$ 111,238	\$ 142,899	\$ (31,661)
Community Development			
Personal Services	33,283	42,900	(9,617)
Operating Expenses	9,912	4,395	5,517
Capital Outlay	7,100	2,900	4,200
Total Community Development	<u>50,295</u>	<u>50,195</u>	<u>100</u>
Other General Government			
Operating Expenses	2,400	1,892	508
Capital Outlay	24,000	0	24,000
Total Other General Government	<u>26,400</u>	<u>1,892</u>	<u>24,508</u>
Total General Government	<u>997,603</u>	<u>926,856</u>	<u>70,747</u>
Public Safety			
Code Compliance			
Personal Services	13,008	11,680	1,328
Operating Expenses	7,812	2,547	5,265
Capital Outlay	7,950	5,776	2,174
Total Code Compliance	<u>28,770</u>	<u>20,003</u>	<u>8,767</u>
Fire Control			
Personal Services	2,089,850	2,072,784	17,066
Operating Expenses	254,863	196,378	58,485
Capital Outlay	90,046	30,528	59,518
Debt Service	145,953	145,953	0
Total Fire Control	<u>2,580,712</u>	<u>2,445,643</u>	<u>135,069</u>
Building Services			
Personal Services	29,325	19,730	9,595
Operating Expenses	14,525	2,885	11,640
Capital Outlay	40,350	21,411	18,939
Total Building Services	<u>84,200</u>	<u>44,026</u>	<u>40,174</u>
Total Public Safety	<u>2,693,682</u>	<u>2,509,672</u>	<u>184,010</u>

**STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED SEPTEMBER 30, 1998
CITY OF MARCO ISLAND, FLORIDA
(Concluded)**

	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Expenditures (Concluded)			
Current: (Concluded)			
Transportation			
Personal Services	\$ 7,763	\$ 8,291	\$ (528)
Operating Expenses	82,850	74,968	7,882
Capital Outlay	4,000	0	4,000
Total Transportation	<u>94,613</u>	<u>83,259</u>	<u>11,354</u>
Culture and Recreation			
Parks and Recreation			
Operating Expenses	<u>10,000</u>	<u>0</u>	<u>10,000</u>
Beautification			
Operating Expenses	217,493	226,028	(8,535)
Capital Outlay	120,000	73,351	46,649
Total Beautification	<u>337,493</u>	<u>299,379</u>	<u>38,114</u>
Total Culture and Recreation	<u>347,493</u>	<u>299,379</u>	<u>48,114</u>
(Total Expenditures)	<u>(4,133,391)</u>	<u>(3,819,166)</u>	<u>314,225</u>
Excess of Revenues Over Expenditures	<u>\$ 581,602</u>	2,052,115	<u>\$ 1,470,513</u>
Fund Balance, October 1		<u>1,174,380</u>	
Fund Balance, September 30		<u>\$3,226,495</u>	

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ACCOUNT GROUP

Account groups are not funds; they do not reflect available financial resources and related liabilities, but are accounting records of the general fixed assets and the general long-term obligations, respectively.

General Fixed Assets Account Group - This account group is used to maintain control and cost information for all fixed assets other than those accounted for in the proprietary fund types.

**SCHEDULES OF GENERAL FIXED ASSETS BY SOURCE
 SEPTEMBER 30, 1998 AND 1997
 CITY OF MARCO ISLAND, FLORIDA**

	<u>1998</u>	<u>(As Restated) 1997</u>
General Fixed Assets		
Land	\$ 565,000	\$ 565,000
Buildings and Improvements	150,682	150,682
Vehicles and Equipment	1,516,273	1,269,259
Property Held Under Capital Lease	1,609,880	1,609,880
Total General Fixed Assets	<u>3,841,835</u>	<u>3,594,821</u>
 Source		
Fire District Taxes	3,241,835	2,994,821
Contributions	600,000	600,000
Total Investment in General Fixed Assets	<u>\$ 3,841,835</u>	<u>\$ 3,594,821</u>

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**SCHEDULE OF GENERAL FIXED ASSETS
BY FUNCTION AND ACTIVITY
FOR THE YEAR ENDED SEPTEMBER 30, 1998
CITY OF MARCO ISLAND, FLORIDA**

<u>Function and Activity</u>	<u>Land</u>	<u>Buildings and Improvements</u>
General Government		
City Council		
City Manager		
Finance		
Community Development		
Total General Government	<u>\$ 0</u>	<u>\$ 0</u>
Public Safety		
Code Compliance		
Fire Control	565,000	150,682
Building Services		
Total Public Safety	<u>565,000</u>	<u>150,682</u>
Recreation		
Beautification	<u>0</u>	<u>0</u>
Total General Fixed Assets	<u>\$ 565,000</u>	<u>\$ 150,682</u>

<u>Equipment</u>	<u>Property Held Under Capital Lease</u>	<u>Total</u>
\$ 23,754		\$ 23,754
87,664		87,664
70,254		70,254
2,900		2,900
<u>184,572</u>	<u>\$ 0</u>	<u>184,572</u>
5,776		5,776
1,299,787	1,609,880	3,625,349
21,138		21,138
<u>1,326,701</u>	<u>1,609,880</u>	<u>3,652,263</u>
<u>5,000</u>	<u>0</u>	<u>5,000</u>
<u>\$ 1,516,273</u>	<u>\$ 1,609,880</u>	<u>\$ 3,841,835</u>

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STATISTICAL SECTION (UNAUDITED)

CITY OF MARCO ISLAND, FLORIDA

General Governmental Expenditures By Function

	Fiscal Year 1998:	Fiscal Year 1997 (Memorandum Only): (1)
General Government	\$ 876,661	\$ -0-
Community Development	50,195	-0-
Building Services	44,026	-0-
Public Safety	2,465,646	2,787,206
Transportation	83,259	-0-
Parks & Recreation	-0-	-0-
Beautification	<u>299,379</u>	<u>-0-</u>
Total Expenditures:	\$3,819,166	\$2,787,206

(1) Although this is the first year of operations for the City of Marco Island, the prior year's expenditures for the Marco Island Fire Control District are provided as a memorandum total, only. The Marco Island Fire Control District was dissolved in August, 1997, and its operations and personnel were reorganized as the Fire Department for the City of Marco Island during this period.

(2) The schedule includes expenditures for the City of Marco Island's General Fund.

(3) The City of Marco Island was incorporated in August, 1997. This schedule includes expenses for the City's first year of operations, a prior ten years of statistics is not applicable.

CITY OF MARCO ISLAND, FLORIDA

General Governmental Revenues By Source

	Fiscal Year 1998:	Fiscal Year 1997 (Memorandum Only): (2)
Property Taxes (1)	\$2,984,218	\$2,303,914
Licenses and Permits	22,867	-0-
Intergovernmental	2,292,319	-0-
Charges for Services	15,653	8,361
Fines and Forfeitures	2,375	-0-
Interest and Miscellaneous	<u>553,849</u>	<u>260,436</u>
Total Revenues:	\$5,871,281	\$2,572,711

(1) The City of Marco Island did not levy its own property tax for fiscal year 1998. Property tax revenue noted here and in the financial statements for fiscal year 1998 was levied by the Marco Island Fire Control District. This district was dissolved in August, 1997, and its operations and personnel were reorganized as the Fire Department for the City of Marco Island during fiscal year 1998.

(2) Although this is the first year of operations for the City of Marco Island, the prior year's revenues for the Marco Island Fire Control District are provided as a memorandum total, only.

(3) The schedule includes revenues for the City of Marco Island's General Fund.

(4) The City of Marco Island was incorporated in August, 1997. This schedule includes revenue for the City's first year of operations, a prior ten years of statistics is not applicable.

CITY OF MARCO ISLAND, FLORIDA

Property Tax Levies and Collections

Assessed January 1,	Total Tax Levy:	Current Tax Collections:	Percent of Current Taxes Collected:	Delinquent Tax Collections:	Total Tax Collections:	Ratio of Total Collections to Total Tax Levy:	Constitutional Officer Commissions and Charges:
1997	\$2,547,087	\$2,419,717	95.0%	\$1,619	\$2,421,336	95.1%	\$49,812

Source: Collier County Tax Collector

(1) The City of Marco Island did not levy its own property tax for fiscal year 1998. The property taxes collected during fiscal year 1998 were for the Marco Island Fire Control District which was incorporated into the City of Marco Island during the reporting period.

(2) The ratio of tax collections, and fees and charges were specific to the special district levy and are not expected to continue in the future.

(3) Statistics of prior's years collections for the Marco Island Fire Control District is not available.

(4) Outstanding delinquent taxes are not significant.

CITY OF MARCO ISLAND, FLORIDA

Taxable Value of Property

<u>Assessed January 1,</u>	<u>Fiscal Year Ended:</u>	<u>Taxable Values:</u>	<u>Percent Increase Over Prior Year:</u>	<u>Taxable Value of New Construction:</u>
1997	1998	\$2,841,082,435	n/a	\$118,283,165

Source: Collier County Property Appraiser

(1) The City of Marco Island was incorporated in August, 1997. The taxable value of the incorporated City limits for the January 1, 1997 assessment was estimated by the Collier County Property Appraiser.

(2) The City of Marco Island did not levy its own property tax for fiscal year 1998, therefore, a certified estimate of taxable value and exempt value of real and personal property was not calculated for this period. Property value, taxable value, residential or commercial construction statistics, and bank deposit information is not available.

(3) The property taxes collected during fiscal year 1998 as shown in the financial statements were based on the assessed value for the Marco Island Fire Control District. The taxable value of this district was \$2,894,417,285, which is different than the incorporated City limits.

CITY OF MARCO ISLAND, FLORIDA

Property Tax Rates – Direct and Overlapping Governments (Rates per \$1,000 of Assessed Taxable Value)

Assessed January 1, Fiscal Year Ended	1997 1998
Collier County General Fund	3.6813
South Florida Water Management Fund	0.2840
Big Cypress Basin	0.2780
School Board – State Law	5.8340
School Board – Local Board	2.5900
Roads & Streets MSTU #1	0.1950
Collier County Mosquito Control	0.1821
Marco Fire Control District	0.8800
Marco Island Street Lighting MSTD	0.0564
Collier County Unincorporated Services MSTD	0.5721
Marco Island Beautification MSTD	0.1670
Collier County Public Parks and Rec. MSTU	0.0535
Collier County Water Pollution Control Prgm.	0.0452
City of Marco Island General Fund	0.0000
Total:	14.8186

- (1) The City of Marco Island did not levy its own property tax during its first year of operations in fiscal year 1998.

CITY OF MARCO ISLAND, FLORIDA

Ten Largest Taxpayers

Taxpayer:	Type of Business:	January 1, 1997 Assessed Valuation:	% of Total Assessed Valuation:
1.) City National Bank of Miami, dba Marriott Marco Island Resort	Hospitality	\$57,461,454	2.02%
2.) Marco Beach Hotel Inc. dba Marco Island Hilton	Hospitality	\$19,053,316	0.67%
3.) Marco Ssp Ltd. dba Marco Island Radisson Hotel	Hospitality	\$18,323,705	0.64%
4.) Point Marco Development Corp.	Real Estate Developer	\$11,550,832	0.40%
5.) Island County Club	Golf Course	\$5,582,336	0.19%
6.) Marco Town Center Inc.	Shopping Center	\$5,506,419	0.19%
7.) Tract B Inc. dba Mission Plaza	Shopping Center	\$5,155,577	0.18%
8.) Marco Shops Joint Venture dba Shops of Marco	Shopping Center	\$4,135,996	0.14%
9.) Marco Island Hospital Inc. dba Marco Healthcare Center	Hospital	\$3,275,251	0.11%
10.) Farris, Timothy and Jeri	Private Residence	<u>\$2,896,846</u>	0.10%
Total		\$132,941,732	4.67%

Source: Collier County Property Appraiser

(1) The City of Marco Island did not levy property taxes in fiscal year 1998. The ten largest taxpayers as shown are based on the certified taxable value of the January 1, 1997, assessment for the Marco Island Fire Control District.

CITY OF MARCO ISLAND, FLORIDA

Demographic Statistics

<u>Year</u>	<u>City of Marco Island</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
1991	9,863	161,600	13,195,952
1992	10,233	168,514	13,424,416
1993	10,603	174,664	13,608,627
1994	10,973	180,540	13,878,905
1995	11,343	186,504	14,149,317
1996	11,713	193,036	14,411,563
1997	11,805	200,024	14,712,922
1998	12,165	213,439	14,934,950
<u>Population Projections</u>			
1999	* 12,536	** 224,229	N/A
2000	* 12,918	** 235,645	15,512,900
2005	* 15,012	** 270,116	16,757,000

Sources: University of Florida Bureau of Economic and Business Research.
 * Collier County Department of Community Development 1998
 ** 1980 US Census Marco Island

Population by Age Group - 1990

<u>Age</u>	<u>City</u>	<u>County</u>
0-14	951	27,258
15-24	592	14,940
25-44	1,851	41,751
45-64	3,097	33,567
65+	3,002	34,583

Source: University of Florida Bureau of Economic and Business Research, 1994.

(1) Other demographic information such as per capita income, school enrollment, education level, and unemployment rate was not available for the City of Marco Island at the time of publication.

(2) Population statistics for the City of Marco Island prior to incorporation are estimated based on the current incorporated City limits.

CITY OF MARCO ISLAND, FLORIDA

Miscellaneous Statistical Data

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	101 centerline miles of paved streets.
Fire Protection:	
Number of Stations	2
Number of employees as of 9/30/98	29
Police Protection:	
Number of employees	0
Employees as of September 30, 1998	55
Election:	
Number of registered voters	8,932
Number of votes cast last election	6,301
Last election	November 6, 1998 by mail-in ballot
Number of street lights	1,550
Number of signalized intersections	7
Number of Bridges	12
Marco Island Beaches:	
Total beach length	5.7 miles
Total area	230 acres
Number of Parks:	
Community	6
Regional	3
Number of Hospitals	0
Number of Schools	1 Elementary School

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**ADDITIONAL ELEMENTS OF REPORT PREPARED IN
ACCORDANCE WITH *GOVERNMENT AUDITING
STANDARDS*, ISSUED BY THE COMPTROLLER GENERAL
OF THE UNITED STATES; AND THE *RULES OF THE
AUDITOR GENERAL* OF THE STATE OF FLORIDA**

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND ON INTERNAL CONTROL
OVER FINANCIAL REPORTING BASED ON AN AUDIT OF GENERAL-PURPOSE
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 general-purpose financial statements of the City of Marco Island, Florida as of and for the year ended September 30, 1998, and have issued our report thereon dated February 22, 1999, which was unqualified.

We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the City of Marco Island, Florida's general-purpose financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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*.

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 general-purpose financial statements and not to provide assurance on the internal control over financial reporting. However, we noted two matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City of Marco Island, Florida's ability to record, process, summarize and report financial data consistent with the assertions of management in the general-purpose financial statements. The reportable conditions are as follows:

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

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND ON INTERNAL CONTROL
OVER FINANCIAL REPORTING BASED ON AN AUDIT OF GENERAL-PURPOSE
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS
(Continued)**

Internal Controls

Because the City began operations in fiscal year 1998, and did not have a full-time finance staff for the entire period, certain accounting controls appear to have been absent or deficient in the initial months. Evidence to support the proper authorization of purchases was not always available, and timely reconciliations of accounts were not always performed. However, all the necessary procedures were performed and documented prior to commencement of the year-end audit fieldwork. As such, there were periods during the initial year where accounting controls were not ideal, but that situation has since been resolved to our satisfaction. We encourage management to continue to design, strengthen, and document internal controls as the City acquires new activities.

Fixed Assets

The City was unable to provide a list of property, plant and equipment which supported the ending audited fixed assets balances at September 30, 1997, for the Fire Control District. The Fire Chief did have a vehicle and equipment inventory, but it could not be reconciled to the audited numbers. Upon instruction from management, we contacted the prior auditors and obtained what information they were able to provide, and attempted to reconcile that information to the Fire Chief's inventory. In general, the prior auditors were still carrying on the Fire Control District's books, a number of old vehicles and items of equipment from the 1970's and early 1980's, which the Fire Chief did not have on his inventory lists. In fact, the Fire Chief produced evidence of the appropriate disposition of many of these items. Accordingly, we have proposed an adjustment to the beginning audited figure to more accurately reflect vehicles and equipment on hand at September 30, 1997. We recommend the City incorporate our new fixed asset schedules into the City's accounting system, and maintain those schedules in the future. In addition, we recommend physical inventories be performed annually.

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 misstatements in amounts that would be material in relation to the general-purpose 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. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. Since the two reportable conditions identified above have been resolved to our satisfaction, we do not consider them to be material weaknesses.

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

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND ON INTERNAL CONTROL
OVER FINANCIAL REPORTING BASED ON AN AUDIT OF GENERAL-PURPOSE
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS
(Concluded)**

This report is intended for the information of the Chairman and City Council members, management, and the State of Florida. However, this report is a matter of public record and its distribution is not limited.

February 22, 1999
Sarasota, Florida

Purvis Gray and Company

MANAGEMENT LETTER

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 fiscal year ended September 30, 1998, and have issued our report thereon dated February 22, 1999, which was unqualified.

We have issued our independent auditors' report on compliance and on internal control over financial reporting based on an audit of financial statements performed in accordance with *Government Auditing Standards* dated February 22, 1999. Disclosures in that report, if any, should be considered in conjunction with this management letter.

We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Additionally, our audit was conducted in accordance with the provisions of Chapter 10.550, *Rules of the Auditor General*, which govern the conduct of local governmental entity audits performed in the state of Florida and require that certain items be addressed in this letter.

The *Rules of the Auditor General* (Section 10.554(1)(e)1.) require that we comment as to whether or not irregularities or certain other matters reported in the preceding annual financial audit report have been corrected. Since this is the City's initial audit report, there were no irregularities or such other matters disclosed in the preceding audit report.

The *Rules of the Auditor General* (Section 10.554(1)(e)2.) require that we comment as to whether or not recommendations made in the preceding annual financial audit report have been followed. Since this is the City's initial audit report, there were no recommendations made in the preceding annual financial audit report.

As required by the *Rules of the Auditor General* (Section 10.554(1)(e)3.), the scope of our audit included a review of the provisions of Section 218.503(1), Florida Statutes, "Determination of Financial Emergency." 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)(e)4.), we determined that the financial information for the City of Marco Island, Florida, for the year ended September 30, 1998, included in the annual City of Marco Island, Florida's financial report filed with the Department of Banking and Finance pursuant to Section 218.32, Florida Statutes, is in agreement with the annual financial audit report for the fiscal year ended September 30, 1998.

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MEMBERS OF AMERICAN AND FLORIDA INSTITUTES OF CERTIFIED PUBLIC ACCOUNTANTS
MEMBER OF AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS PRIVATE COMPANIES AND S.E.C. PRACTICE SECTIONS

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

MANAGEMENT LETTER
(Concluded)

The *Rules of the Auditor General* (Sections 10.554(1)(e)6., 7., 8., and 9.) require disclosure in the management letter of the following matters if not already addressed in the auditors' report on compliance and on internal control over financial reporting: recommendations to improve financial management, accounting procedures and internal controls; violations of laws, rules, and regulations which may or may not materially affect the financial statements; illegal or improper expenditures which may or may not materially affect the financial statements; improper or inadequate accounting procedures (e.g., the omission of required disclosures from the financial statements); failures to properly record financial transactions; and other inaccuracies, irregularities, shortages, and defalcations discovered by the auditor. Our audit disclosed two matters required to be disclosed by *Rules of the Auditor General* ([Sections 10.554(1)(e)6., 7., 8., and 9.]). They can be found in our internal auditors' report on compliance and on internal control over financial reporting.

The *Rules of the Auditor General* (Section 10.554(1)(e)10.) 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, unless disclosed in the notes to the financial statements. 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, the annual financial audit report for the City of Marco Island, Florida also includes the accounts and transactions 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 96-004 of the Marco Island Fire Control District, the predecessor entity to the City.

This management letter is intended for the information of the Chairman and City Council members, management, and the State of Florida. However, this report is a matter of public record and its distribution is not limited.

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.

February 22, 1999
Sarasota, Florida

Purvis, Gray and Company



City of Marco Island

May 27, 1999

RESPONSE TO AUDIT MANAGEMENT LETTER

Honorable Chairman and City Council
City of Marco Island, Florida

During the Audit of the Financial Reports for the year ended September 30, 1998, the City's Auditors noted two matters involving internal control weaknesses for this period.

Internal Controls

During most of the reporting period the City operated without a Finance Director or a formal accounting system. Most of the accounting data for the financial transactions for the year ended September 30, 1998, were not collected or available until the last quarter of the year. Although proper and timely accounting procedures were not implemented until late in the first year of operations, we are proud to have completed all required reconciliations and to have received favorable comments and an unqualified opinion on this period from our external Auditors. As of the completion of the audit, proper internal accounting controls had been established to adequately safeguard assets and provide reasonable assurance of proper recording of financial transactions.

Fixed Assets

During its first year of operations, the City of Marco Island reorganized the Marco Island Fire Control District as its Fire Department. The vehicle and equipment inventory provided in the transition did not reconcile to the prior audit figures for the District, and it was discovered through extensive audit work that the prior figures had not been accurate. We intend to carefully maintain this data in the future, and we do not expect this situation to occur again.

We believe there are no irregularities, inaccuracies, nor material weaknesses in our City's financial reporting operations and internal control components. All audit comments and suggestions have been accepted and incorporated into our accounting procedures.

The City of Marco Island is committed to the highest standards of integrity and excellence in its financial reporting and accounting procedures. The City's internal control structure and formal accounting procedures are subject to recurrent evaluation and improvement by management.

Sincerely,


A. William Moss
City Manager

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