



# *City of Marco Island, Florida*

*Comprehensive Annual Financial Report  
For the Fiscal Year Ended September 30, 2003*



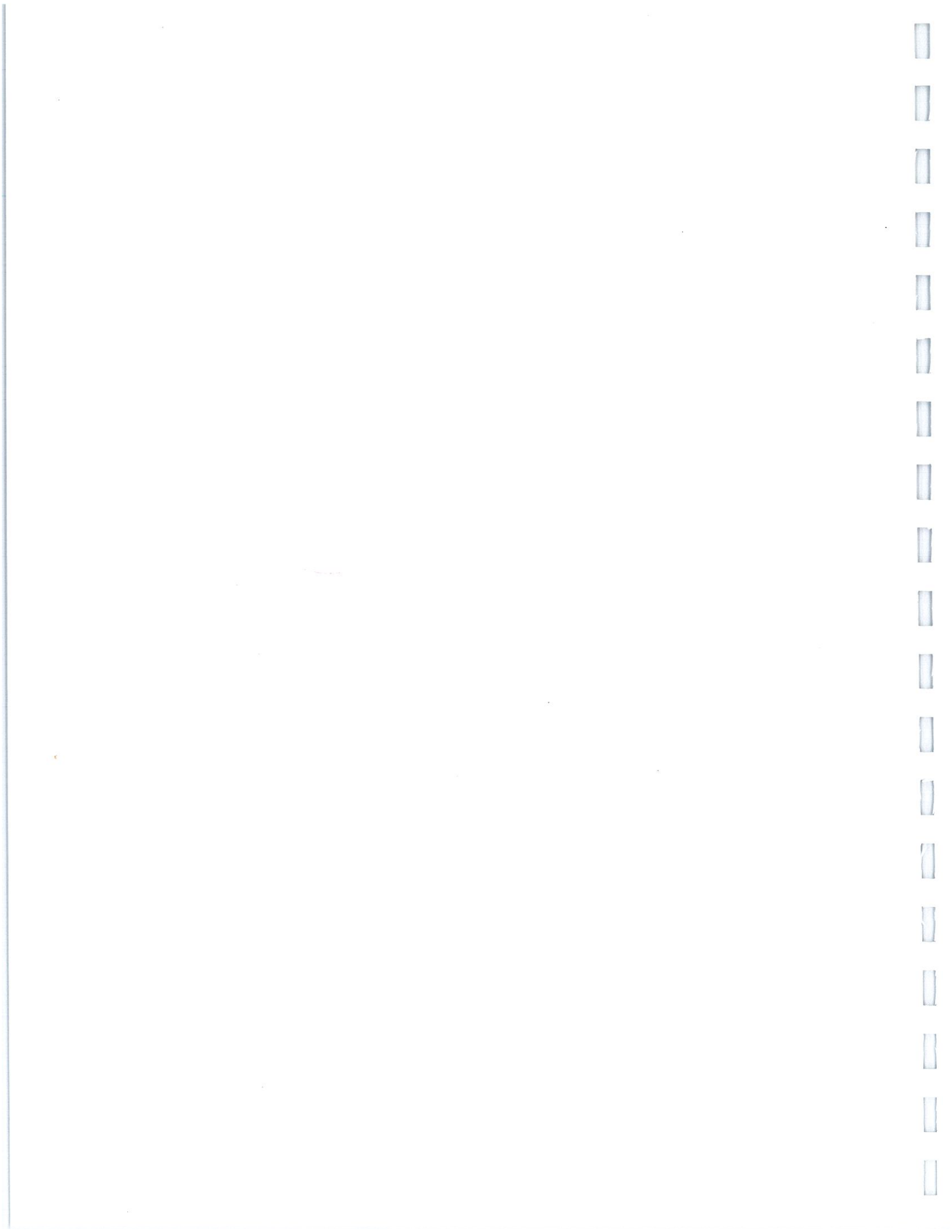
# *City of Marco Island, Florida*

COMPREHENSIVE ANNUAL FINANCIAL REPORT  
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2003

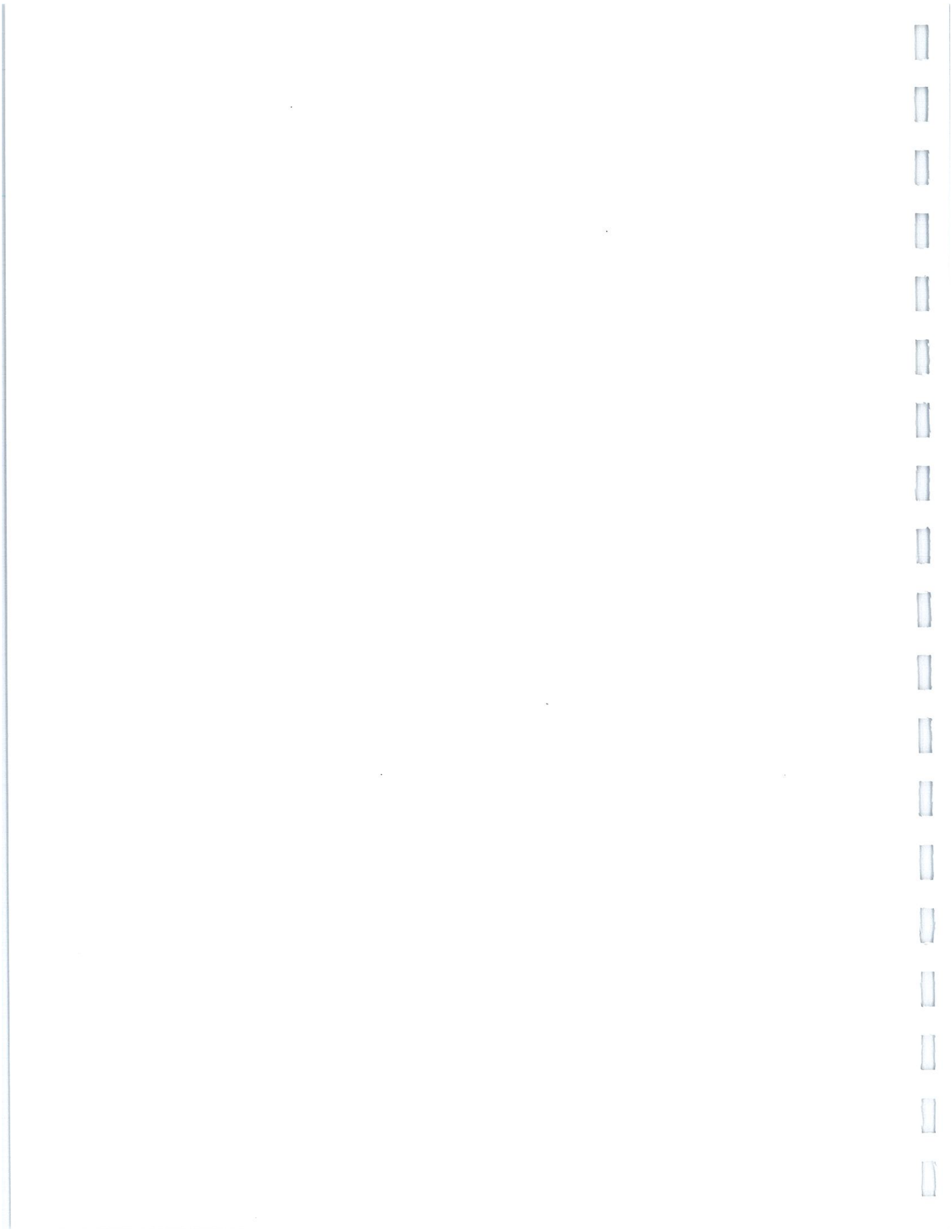
PREPARED BY:  
CITY OF MARCO ISLAND  
FINANCE DEPARTMENT

## Cover Art by Gerry Brynjulson

A resident of Marco Island, Gerry Brynjulson is a well-known artist working primarily in oil and watercolor. He is an active member of the Art League of Marco Island and has served on the Fine Arts Council. Mr. Brynjulson has exhibited widely and has won numerous awards and commendations. *Artwork is provided through cooperation with the Art League of Marco Island.*



**INTRODUCTION SECTION**



**CITY OF MARCO ISLAND, FLORIDA  
 COMPREHENSIVE ANNUAL FINANCIAL REPORT  
 FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2003**

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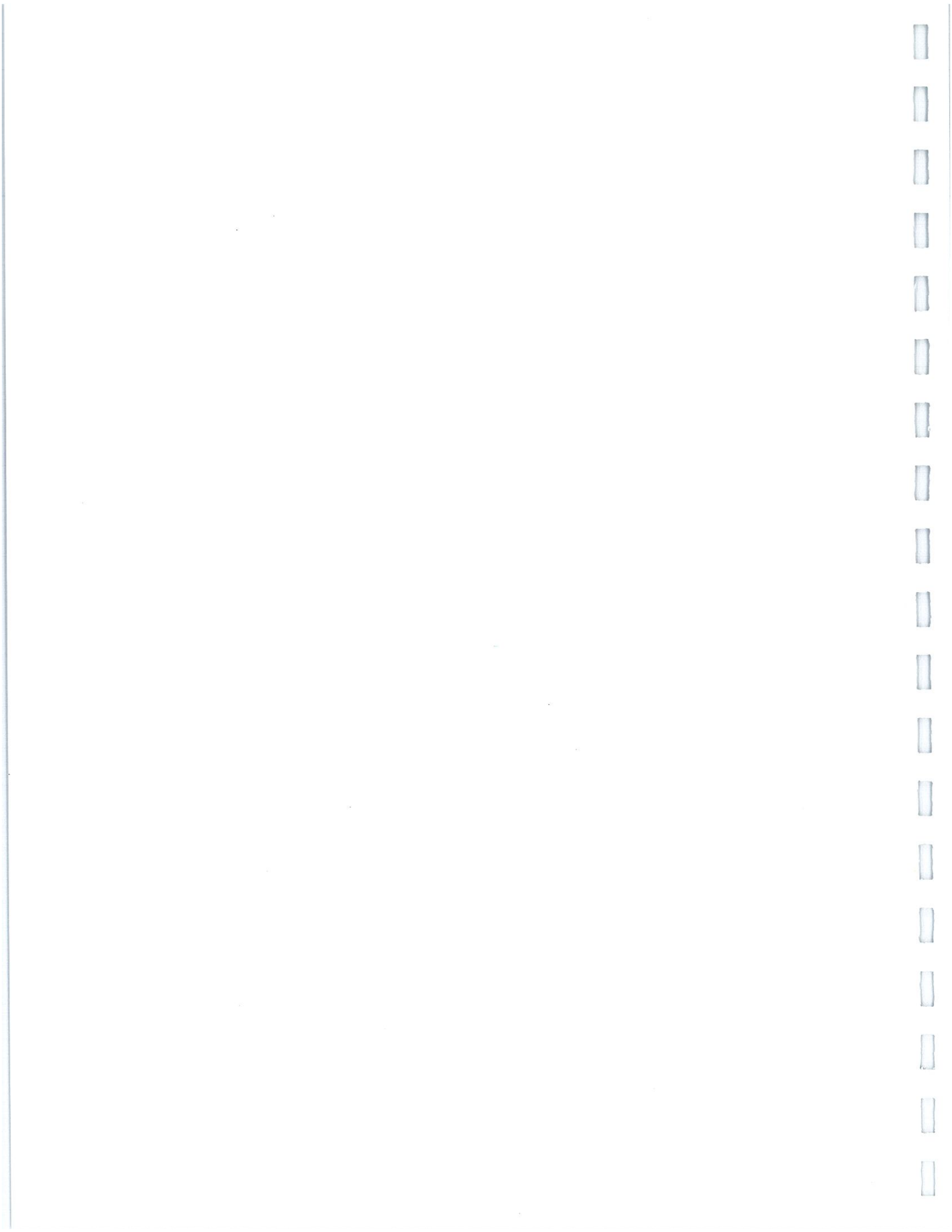




**CITY OF MARCO ISLAND, FLORIDA  
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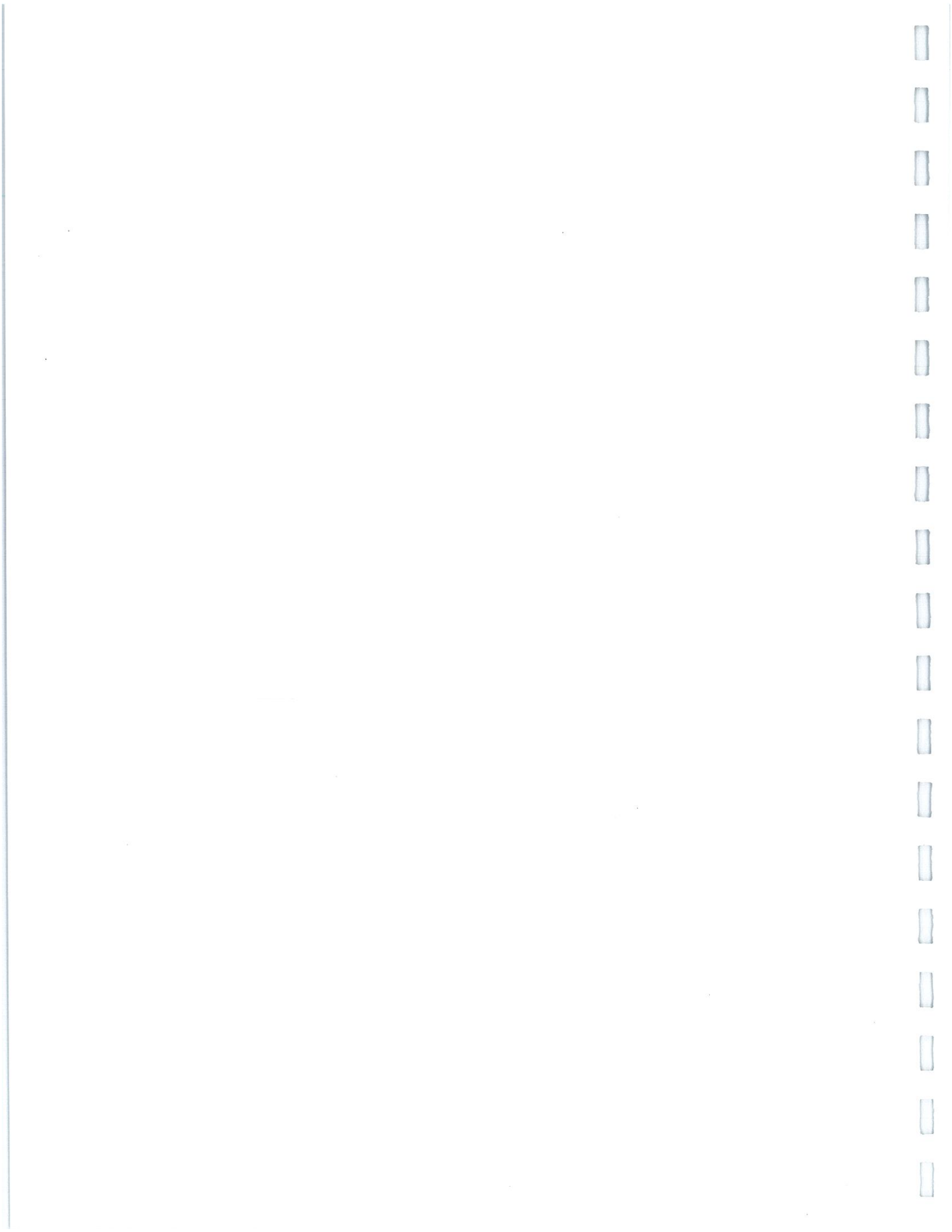
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# City of Marco Island

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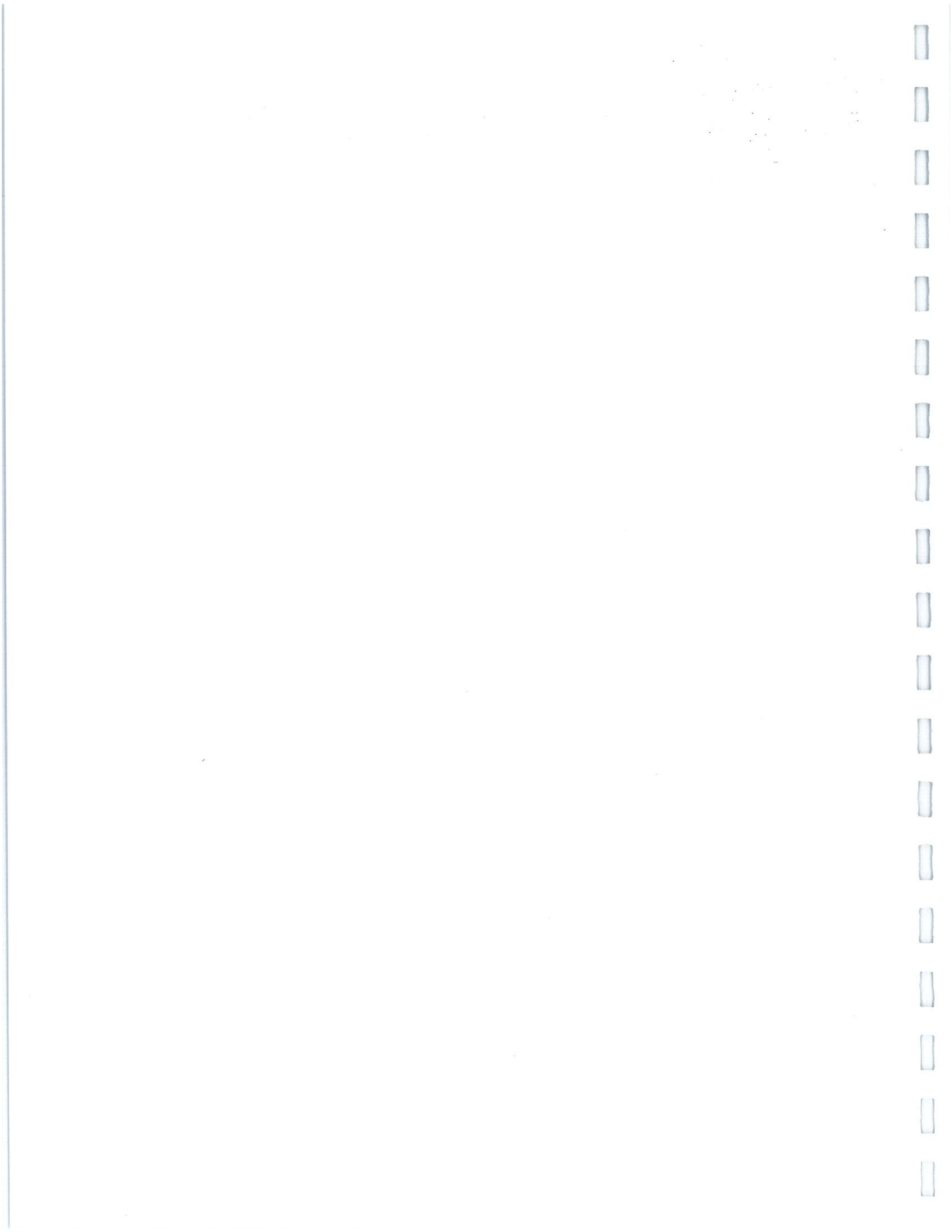
March 15, 2004

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

Florida Statutes require that all general-purpose local governments publish within six months of the close of each fiscal year a complete set of financial statements presented in conformity with generally accepted accounting principles (GAAP) and audited in accordance with generally accepted auditing standards by a firm of independent licensed certified public accountants. Pursuant to that requirement, we hereby issue the comprehensive annual financial report of the City of Marco Island, Florida, for the fiscal year ended September 30, 2003.

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

The City's financial statements have been audited by Purvis, Gray and Company, a firm of independent licensed certified public accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements of the City for the fiscal year ended September 30, 2003 are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unqualified opinion that the City's financial statements for the fiscal year ended September 30, 2003 are fairly presented in conformity with GAAP. The independent auditor's report is presented as the first component of the financial section of this report.



The independent audit of the financial statements of the City was part of a broader, federally mandated "Single Audit" designed to meet the special needs of federal grantor agencies. The standards governing Single Audit engagements require the independent auditor to report not only on the fair presentation of the financial statements, but also on the audited government's internal controls and compliance with legal requirements, with special emphasis on internal controls and legal requirements involving the administration of federal awards. These reports are available in the Single Audit section of this report.

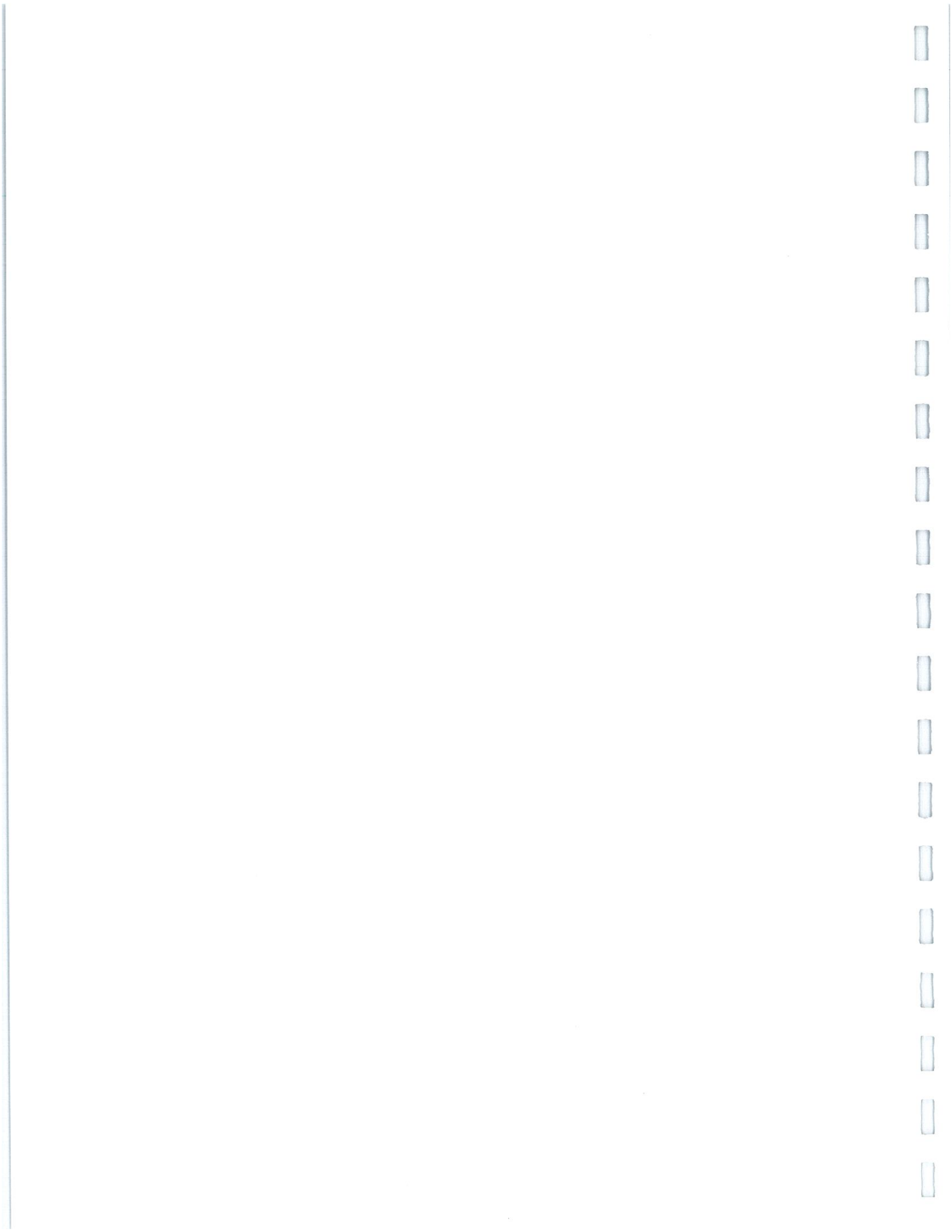
GAAP requires that the management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The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

Marco Island, Florida is located in the southwestern part of the state, on the Gulf of Mexico side of the 10,000 Islands and the Everglades. Development of the island began in the late 1960's by the Deltona Corporation. Prior to incorporation in 1997, the island was a part of unincorporated Collier County and was served by a local Fire Protection District. The City serves a permanent population of over 15,000 which doubles in the peak winter season. The City is empowered to levy a property tax on both real and personal properties located within its boundaries. It also is empowered by state statute to extend its corporate limits by annexation, when deemed appropriate by the City Council.

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

The City provides a full range of services authorized by statute and local charter. These include Police, Fire, Parks and Recreation, Streets and Drainage, Capital Improvements, Planning and Community Development, and general administrative services. Subsequent to the date of this report, and more fully described later in this report, the City acquired the water and wastewater operations on the island and now operate those services through the City's Utilities Department.

The annual budget serves as the foundation for the City's financial planning and control. All departments of the City are required to submit requests for appropriation to the City Manager. The City Manager uses these requests as the starting point for developing a proposed budget and holds public budget workshops with the City Council on the proposed budget. Two public hearings are held on the budget, with the final budget adopted no later than September 30<sup>th</sup>, the close of the City's fiscal year. The appropriated budget is prepared by fund and by department.





Budget control is maintained at the department level in the General Fund and at the fund level in other funds of the City. The City Manager may make transfers of appropriations within a General Fund department or within other funds. Transfers of appropriations between General Fund departments, and transfers which increase fund appropriations, require the approval of the City Council. Budget-to-actual comparisons are provided in this report for each individual governmental fund for which an appropriated annual budget has been adopted. For the General Fund, this comparison is presented on page 47 as part of the basic financial statements for the governmental funds. For governmental funds, other than the General Fund, with appropriated annual budgets, this comparison is presented in the governmental fund subsection of this report, which starts on page 48.

### **Factors Affecting Financial Condition**

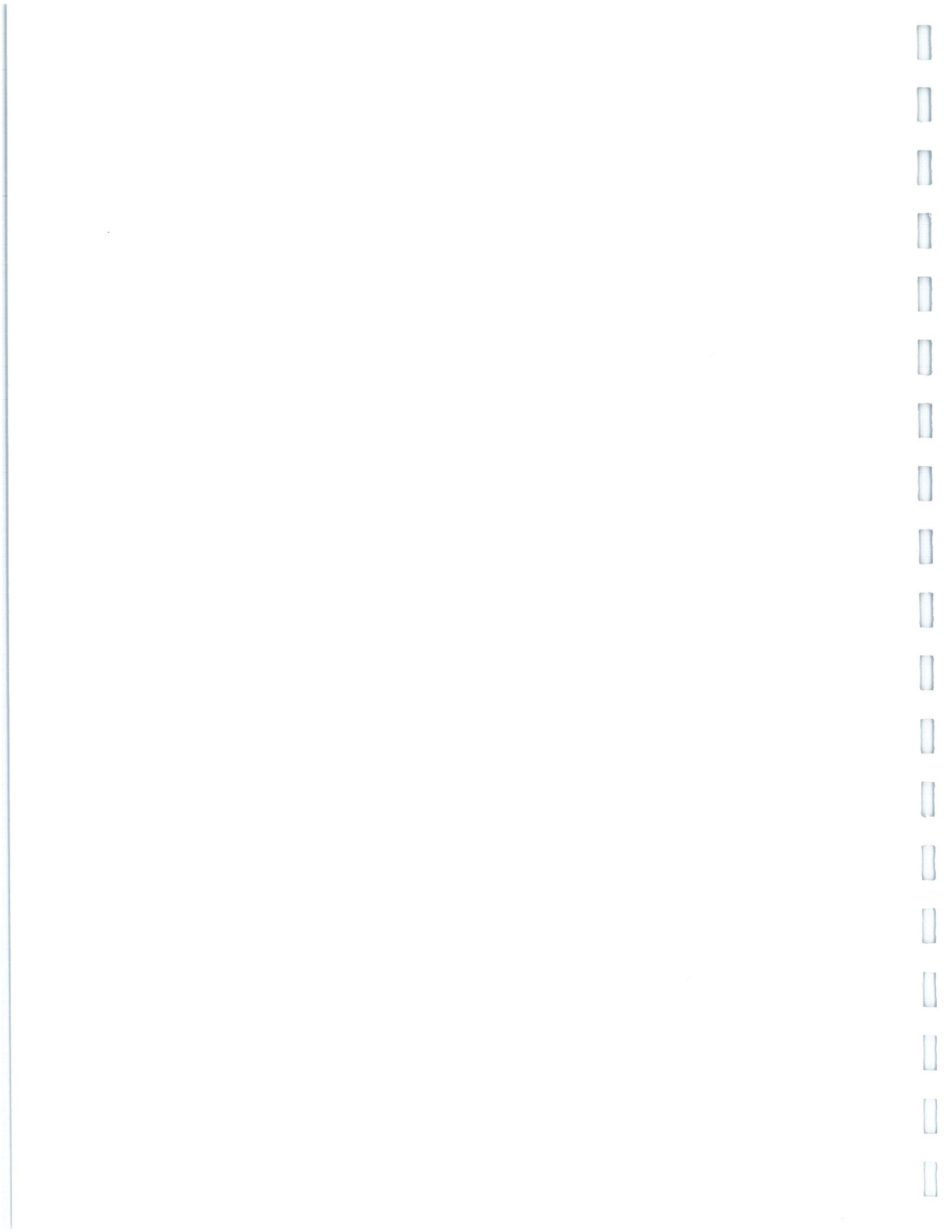
The information presented in the financial statements is perhaps best understood when it is considered from the broader perspective of the specific environment within which the City operates.

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

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

The long-term economic outlook for the City of Marco Island is positive. The island currently enjoys an exceptionally strong residential real estate market with high growth in new home starts, and home and condominium resales. Total assessed value has more than doubled in the past five years, reflecting the population growth in Collier County and the scarcity of waterfront housing. Marco Island will never be duplicated; the U.S. Army Corps of Engineers now prohibits "dredge and fill" coastal development and remaining mangrove forests are federally protected.

**Cash Management Policies and Practices.** Cash temporarily idle during the year was invested through an overnight repurchase agreement as part of the local banking services agreement and through an account maintained with the State Board of Administration Local Investment Pool. In 2002, the City approved an investment ordinance and has a program of active portfolio management, purchasing U. S. Treasury and Agency obligations to increase yields while maintaining safety and liquidity. Investment earnings in Fiscal Year 2003 totaled \$385,296, up from \$342,284 in 2002, a result of larger balances on deposit in a low interest rate environment.



**Risk Management.** The City of Marco Island purchases property, liability, and workers' compensation insurance from the Florida League of Cities Public Risk Services Trust. Selection of insurers is periodically made on a competitive basis. The City is a Drug-Free Workplace and has safety programs in place to minimize risk exposures.

**Pensions.** Prior to incorporation in August 1997, Marco Island received fire protection from an Independent Fire District. Upon incorporation, the Independent District was dissolved and employees became members of the City's Fire Department. Employees employed by the Independent District were members of the Florida State Retirement System and, beginning with employees hired after December 1995, were members of a local Section 175 Pension Plan. The City of Marco Island continues those two plans post-incorporation. All other City employees receive a benefits allowance as a percentage of pay and are eligible to enroll in Section 401(a) and Section 457 Deferred Compensation plans maintained by the City. Please refer to Note 5 and 6 in the notes to the financial statements for additional pension information.

**Certificate of Achievement.** The Government Finance Officers' Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to Marco Island, Florida for our Comprehensive Annual Financial Report for the fiscal year ended September 30, 2002.

In order to be awarded a Certificate of Achievement, a governmental unit must publish an easily readable and efficiently organized Comprehensive Annual Financial Report, whose contents conform to industry standards. Such reports must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe our current report continues to conform to Certificate of Achievement program requirements, and we are submitting it to the GFOA to determine its eligibility for another certificate.

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

Respectfully submitted,

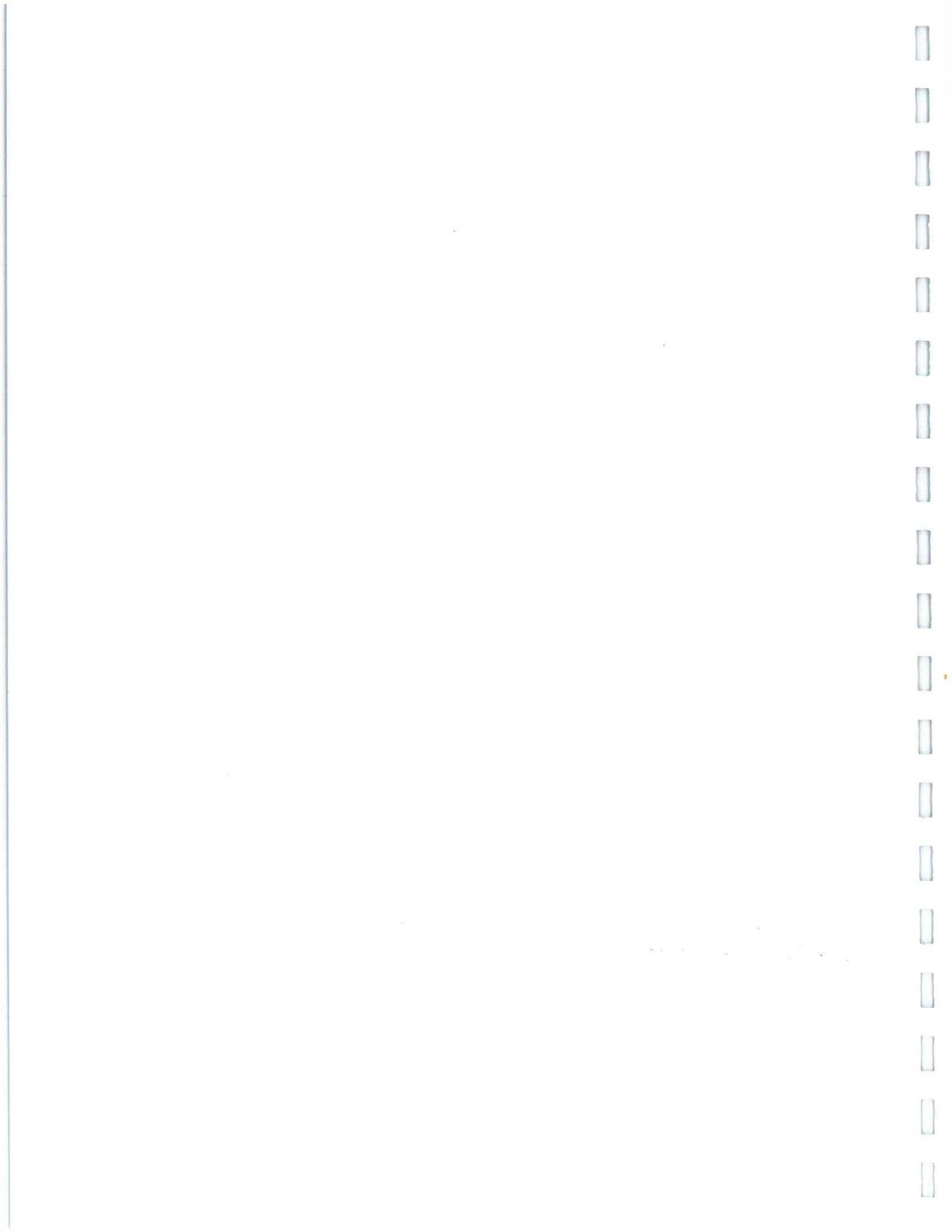


A. William Moss  
City Manager



William P. Harrison  
Finance Director

CAFRTTrans93003



# Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Marco Island,  
Florida

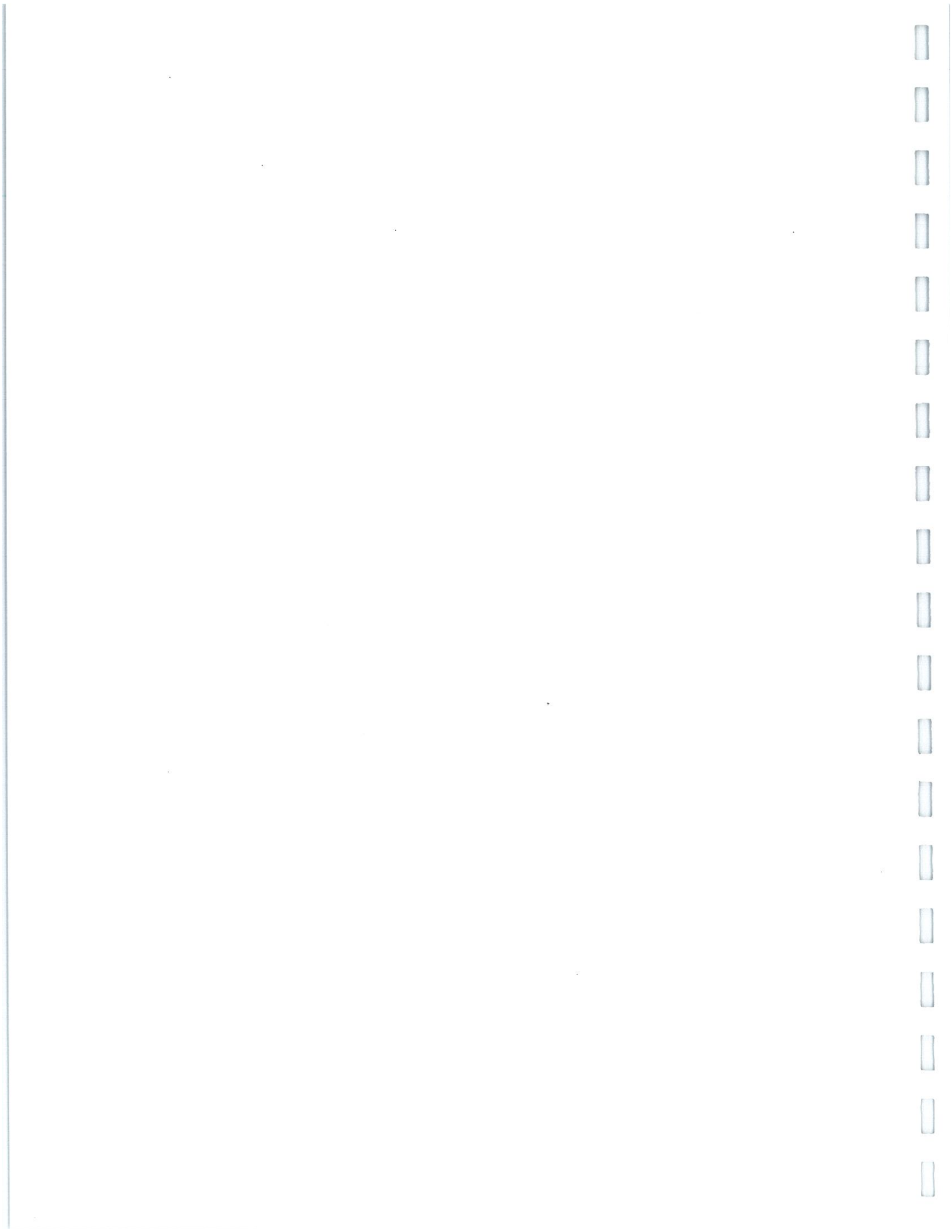
For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended  
September 30, 2002

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

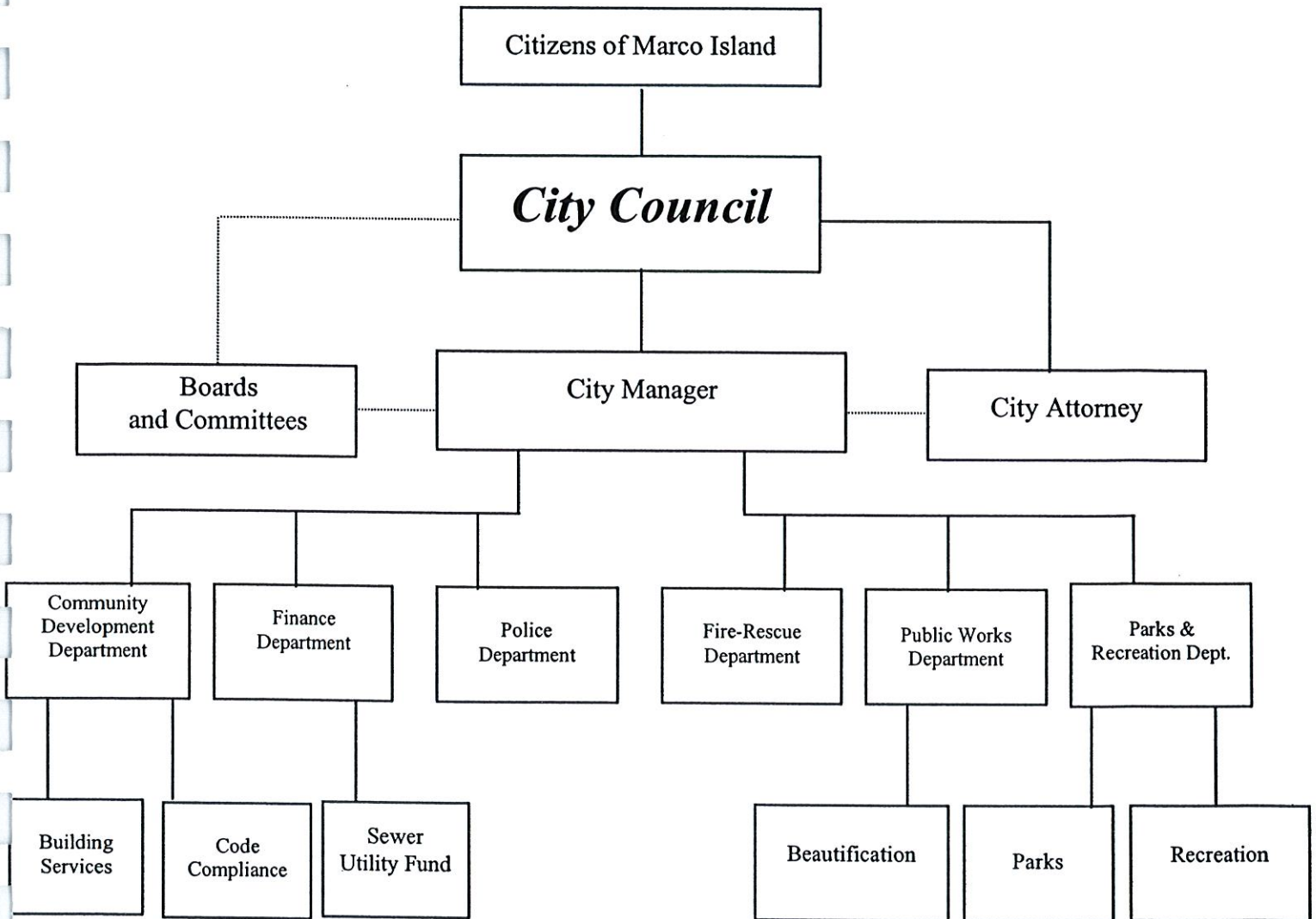


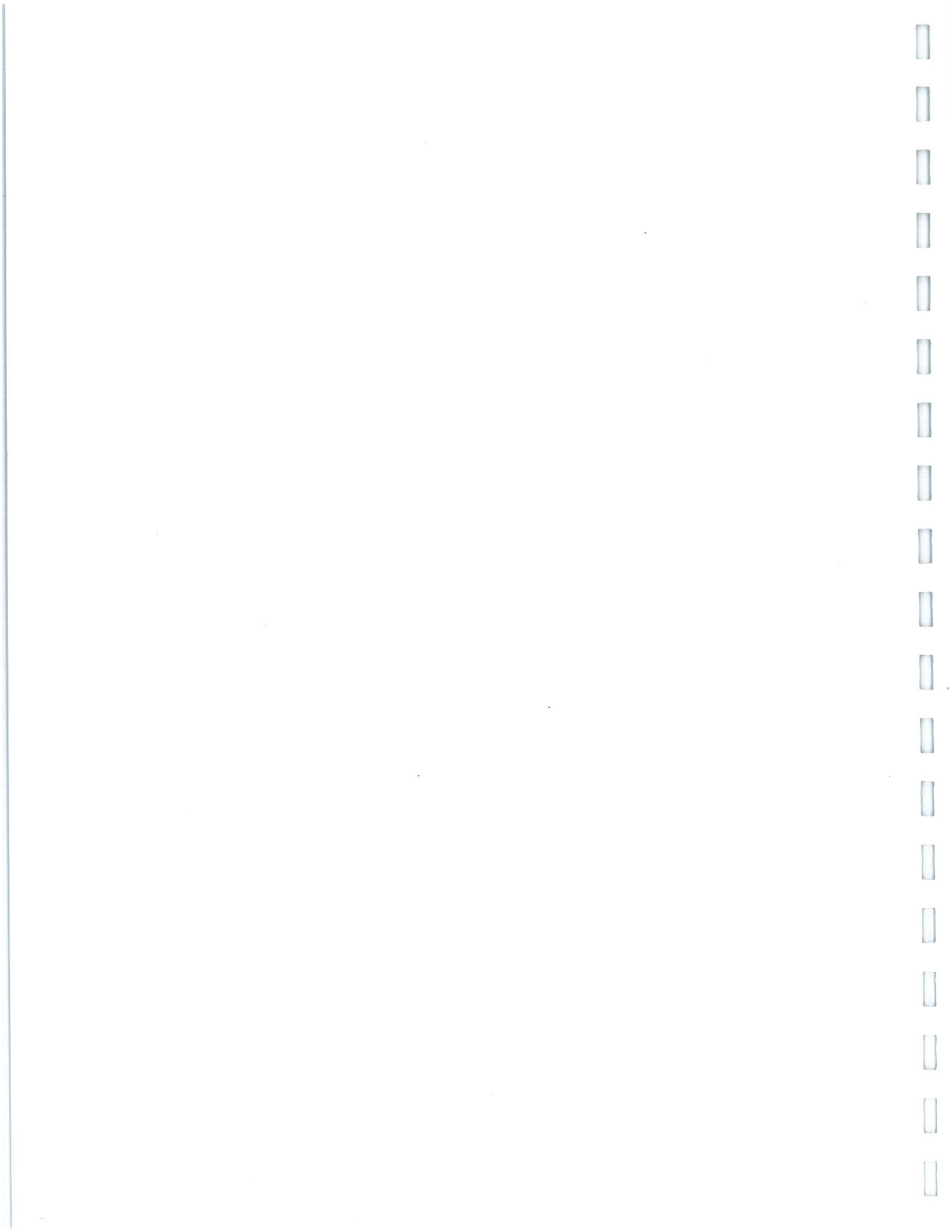
President

Executive Director



# ORGANIZATIONAL CHART







# *City of Marco Island, Florida*

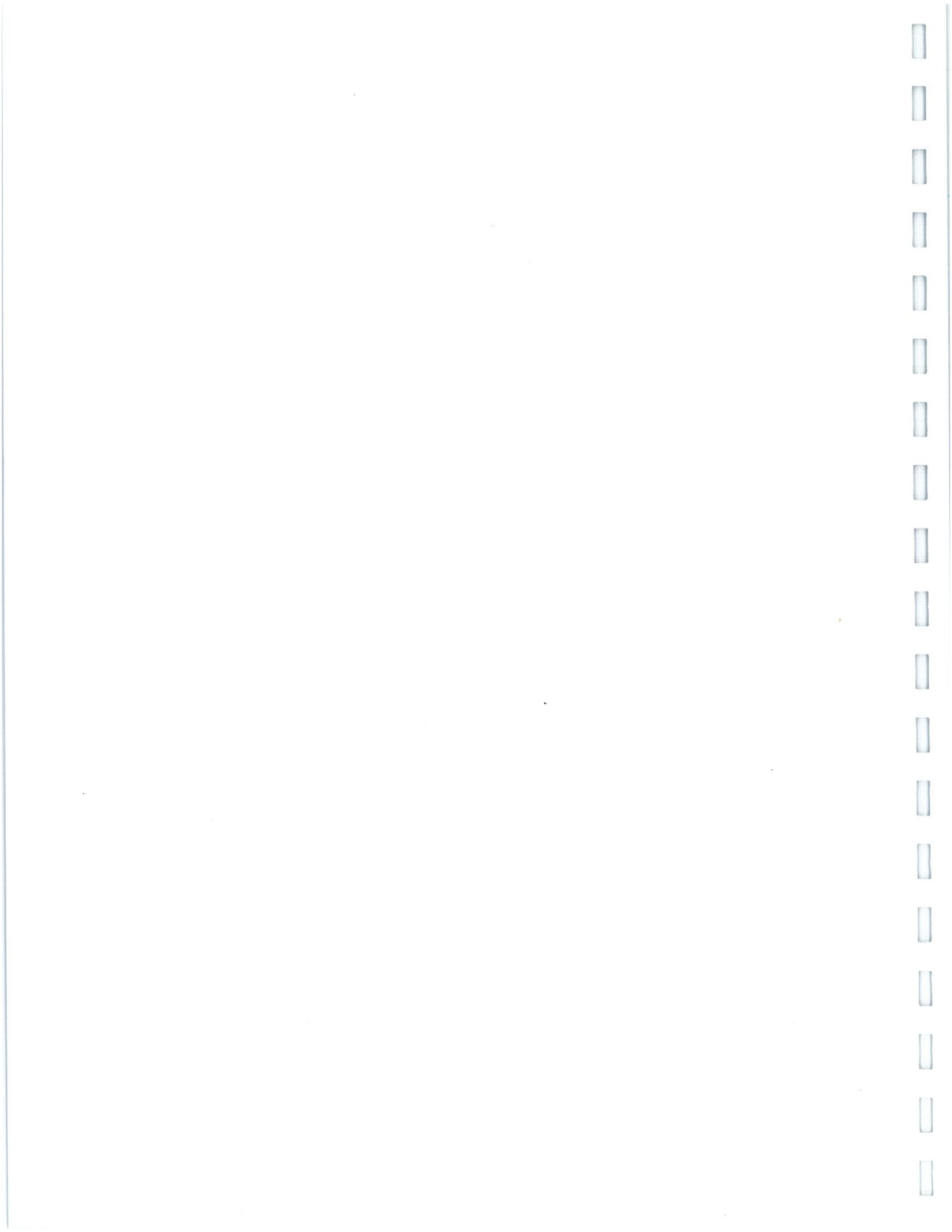
## **PRINCIPAL OFFICIALS:**

MICHAEL F. MINOZZI, JR., CITY COUNCIL CHAIRMAN  
E. GLENN TUCKER, CITY COUNCIL VICE-CHAIRMAN  
JOHN A. ARCERI, COUNCILMAN  
HEYWARD E. BOYCE, COUNCILMAN  
TERRI DiSCIULLO, COUNCILWOMAN  
VICKIE KELBER, COUNCILWOMAN  
S. JEANNETTE K. PATTERSON, COUNCILWOMAN

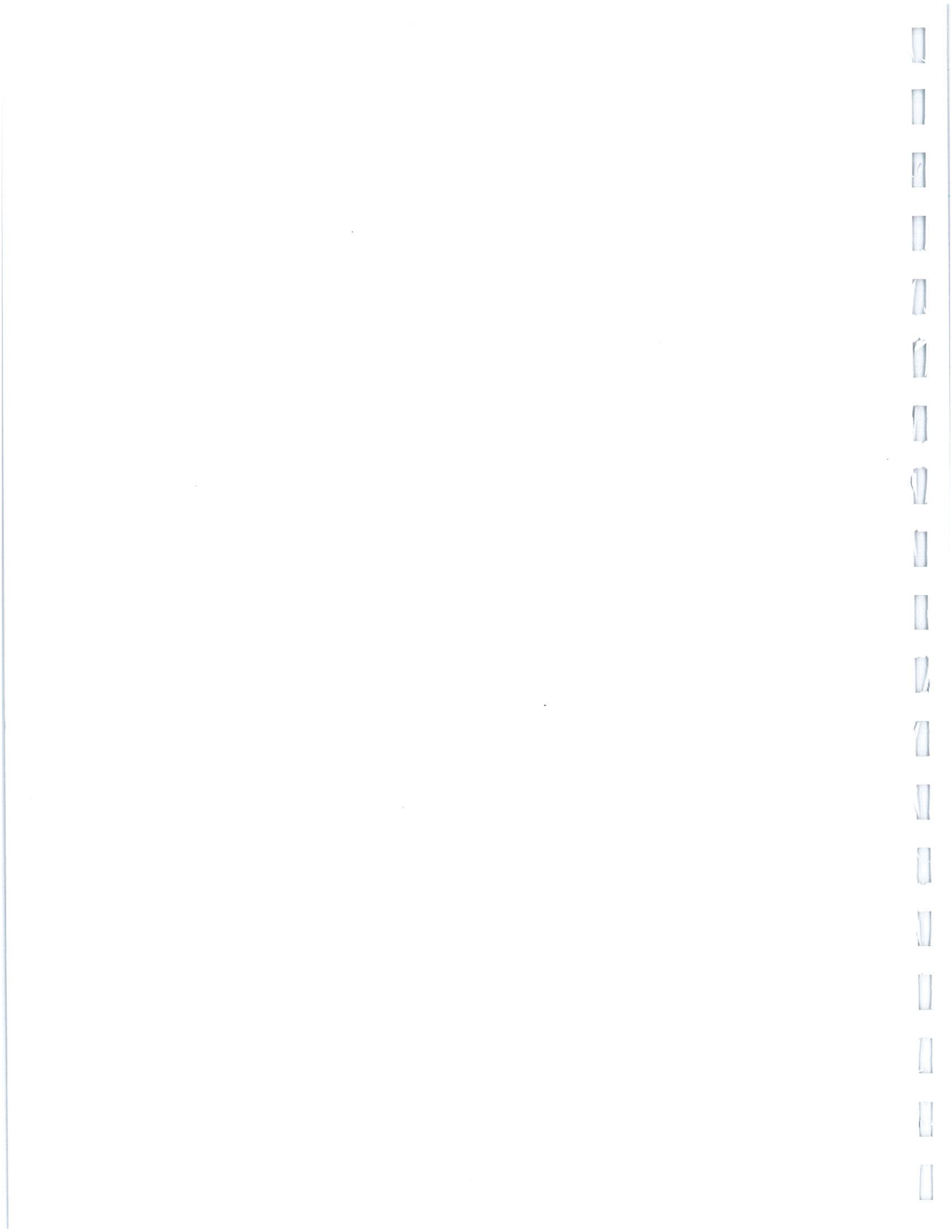
RICHARD D. YOVANOVICH, CITY ATTORNEY

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

LAURA M. LITZAN, CITY CLERK  
K. GREG NILES, COMMUNITY DEVELOPMENT DIRECTOR  
MICHAEL MURPHY, FIRE CHIEF  
DANA A. SOUZA, PARKS & RECREATION DIRECTOR  
ROGER REINKE, POLICE CHIEF  
VLADIMIR A. RYZIW, PUBLIC WORKS DIRECTOR  
JACOB ROHRICH, UTILITIES DIRECTOR



**FINANCIAL SECTION**



**INDEPENDENT AUDITORS' REPORT**

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Marco Island, Florida, (the City) as of and for the year ended September 30, 2003, which collectively comprise the City's basic financial statements as listed in the table of contents. These basic financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City as of September 30, 2003, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in note 1, the City has implemented a new financial reporting model, as required by the provisions of Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, as of September 30, 2003.

The management's discussion and analysis on pages 3 through 13, and required supplementary information on pages 45 through 47 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

**Certified Public Accountants**

P.O. Box 23999 • 222 N.E. 1st Street • Gainesville, Florida 32602 • (352) 378-2461 • FAX (352) 378-2505  
Laurel Ridge Professional Center • 2347 S.E. 17th Street • Ocala, Florida 34471 • (352) 732-3872 • FAX (352) 732-0542  
443 East College Avenue • Tallahassee, Florida 32301 • (850) 224-7144 • FAX (850) 224-1762

1727 2<sup>nd</sup> Street • Sarasota, Florida 34236 • (941) 365-3774 • FAX (941) 365-0238

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

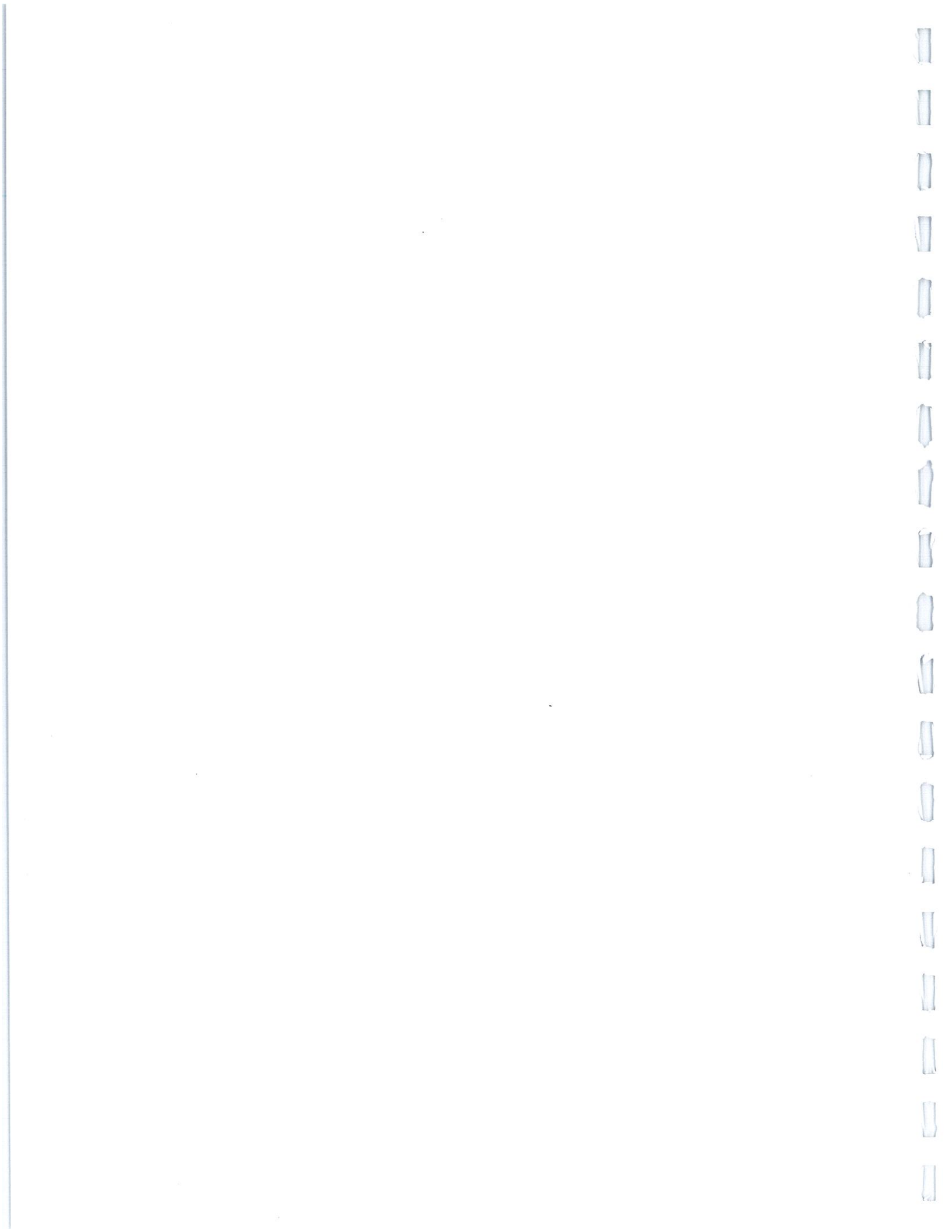
**INDEPENDENT AUDITORS' REPORT**  
*(Concluded)*

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the City's basic financial statements. The supporting statements and schedules as listed in the table of contents, as well as the schedule of expenditures of federal awards and state financial assistance, are presented for purposes of additional analysis and are not a required part of the basic financial statements. These statements and schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The statistical section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued a report dated December 19, 2003, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

December 19, 2003  
Sarasota, Florida

*Purtis, Gray and Company*





## MANAGEMENT'S DISCUSSION AND ANALYSIS

September 30, 2003

City of Marco Island, Florida

As management of the City of Marco Island, Florida, (the "City"), we offer readers of the City's financial statements this narrative overview and analysis of the activities of the City for the fiscal year ended September 30, 2003. We encourage readers to consider the information presented here in conjunction with additional information furnished in our letter of transmittal, which can be found on pages v – viii of this report and the City's financial statements beginning on page 14.

### Financial Highlights

- The assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$29,620,190 (net assets). Of this amount, \$10,063,104 (unrestricted net assets) may be used to meet government's ongoing obligations to citizens and creditors.
- The government's total net assets increased by \$7,663,666. Governmental activities accounted for 99.4% while business type activities made up the remaining .6% of the increase.
- As of the close of the current fiscal year, the City's governmental activities reported a combined ending fund balance of \$27,386,213, an increase of \$7,619,676 over the prior year. Of this total amount, \$9,447,079 is available for spending at the City's discretion (unrestricted net assets).
- At the end of the current year at the fund level, the City's governmental funds reported a combined ending fund balance of \$14,338,334, an increase of \$2,925,450 over the prior year. Of this total amount, \$4,517,362 represented unreserved and undesignated fund balance, which is 29.3% of total governmental fund expenditures.
- The City adopted Governmental Accounting Standards Board Statement No. 34 (GASB #34) for the current year, as required by governmental accounting standards. Governmental infrastructure constructed, acquired, or placed in service prior to the current year have *not* been recorded. GASB #34 provides a four-year deferral period for the recording of these assets.

### Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements are comprised of three components: 1) government-wide financial statements; 2) fund financial statements; and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements.



## MANAGEMENT'S DISCUSSION AND ANALYSIS

September 30, 2003

City of Marco Island, Florida

### Government-Wide Financial Statements

The *government-wide financial statements* are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

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

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

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

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

### Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City of Marco Island, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The City's fund financial statements are divided into three categories: 1) governmental funds; 2) proprietary funds; and 3) fiduciary funds.

### **Governmental Funds**

*Governmental funds* are used to account for essentially the same functions as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.



## MANAGEMENT'S DISCUSSION AND ANALYSIS

September 30, 2003

City of Marco Island, Florida

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The City presents, in separate columns, funds that are the most significant to the City (major funds). All other governmental funds are aggregated and reported in a single column (non-major funds). Budget-to-actual schedules are also presented for both major and non-major funds.

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

### ***Proprietary Funds***

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

The proprietary fund financial statement can be found on pages 20-22 of this report.

### ***Fiduciary Funds***

*Fiduciary funds* are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are *not* reflected in the government-wide financial statements because the resources of those funds are *not* available to support the City's own programs. The City has one fiduciary fund, a pension trust fund.

The fiduciary fund financial statements are found on pages 23-24 of this report.

### **Notes to the Financial Statements**

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 25-44 of this report.

### **Other Information**

In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information* concerning the City's defined benefit pension plan and a budget-to-actual schedule for the City's General Fund. Required supplementary information can be found on pages 45-47 of this report.



## MANAGEMENT'S DISCUSSION AND ANALYSIS

September 30, 2003

City of Marco Island, Florida

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

### Government-Wide Financial Analysis

In accordance with GASB Statement No. 34, the City is not required to restate prior periods for the purpose of providing comparative information. In future years, this section will contain a comparative analysis of changes in net assets and a comparison of revenues and expenses with explanations for significant differences.

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

#### Net Assets at September 30, 2003

	Governmental Activities	Business-Type Activities	Total
Current & Other Assets	\$ 17,180,226	\$ 711,399	\$ 17,891,625
Capital Assets	14,265,117	1,617,952	15,883,069
<b>Total Assets</b>	<b>31,445,343</b>	<b>2,329,351</b>	<b>33,774,694</b>
Current & Other Liabilities	2,427,284	95,374	2,522,658
Long Term Debt	1,631,846		1,631,846
<b>Total Liabilities</b>	<b>4,059,130</b>	<b>95,374</b>	<b>4,154,504</b>
<b>Net Assets:</b>			
Investment in Capital Assets, Net of Related Debt	12,938,853	1,617,952	14,556,805
Restricted	5,000,281		5,000,281
Unrestricted	9,447,079	616,025	10,063,104
<b>Total Net Assets</b>	<b>\$ 27,386,213</b>	<b>\$ 2,233,977</b>	<b>\$ 29,620,190</b>

As noted above, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City, assets exceeded liabilities by \$29,620,190 at the close of the most recent fiscal year.

A substantial portion of the City's net assets (49%) reflect its investment in capital assets (e.g., land, buildings, improvements, infrastructure, and equipment), less any related debt used to acquire those assets that are still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should still be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.





## MANAGEMENT'S DISCUSSION AND ANALYSIS

September 30, 2003

City of Marco Island, Florida

incorporation of the City in 1997. Fiscal year 2003 was the first payment year under this agreement, and the funds received have been restricted under Road Construction for the 2004 rebuilding of Collier Boulevard.

- Assessed property values in the community continue to increase at double-digit rates annually. Valuation increases more than offset the reduction in the mil levy from 1.7437 mils to 1.6900 mils.

### Proprietary Funds

The fund financial statements for the City's proprietary funds provide essentially the same type of information found in the government-wide financial statements. Factors concerning the finances of the proprietary funds have been addressed in the discussion of the City's business-type activities.

### General Fund Budgetary Highlights

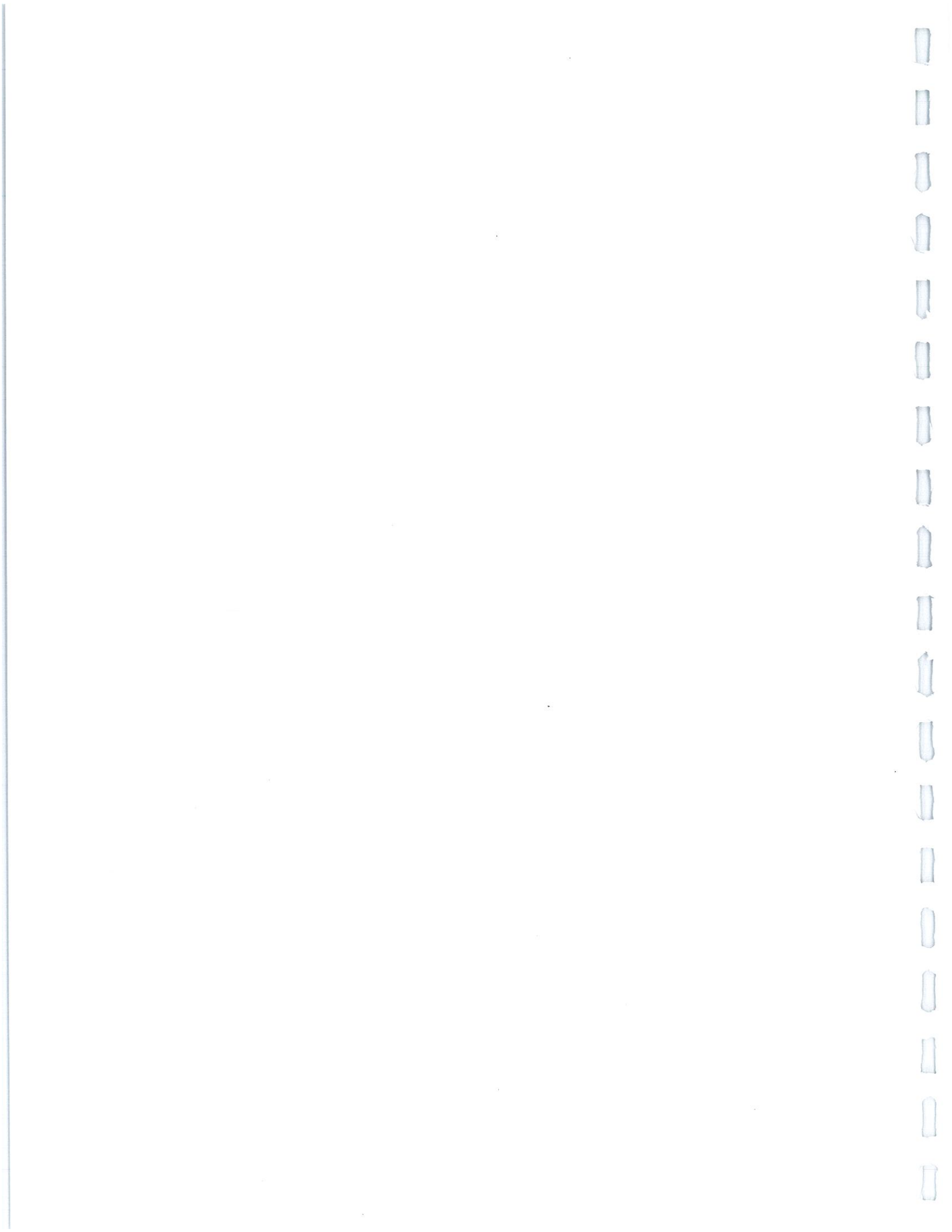
The difference between the original budget and the final amended budget of the City's General Fund was an increase in net appropriations of \$217,254.

Both the original budget and final amended budget were adopted with a budgeted increase in fund balance due to budgeted property tax revenues increasing. During the year, revenues exceeded budgetary estimates and expenditures were less than budgetary appropriations, resulting in an increase in fund balance larger than budgeted.

### Spending Cap

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

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



## MANAGEMENT'S DISCUSSION AND ANALYSIS

September 30, 2003

City of Marco Island, Florida

a subsequent year and those expenditures not counted against the Spending Cap a second time in the subsequent year.

For the Fiscal Year ended September 30, 2003 the City was in compliance with the Spending Cap:

### Expenditures Fiscal Year 2003:

General Fund	\$9,926,828
Capital Projects Fund	4,613,409
Building Services Fund	879,514
Sewer Utility Fund	808,329
Recreation Fund	16,692

Total of all Funds \$ 16,244,772

Less: Enterprise Fund Expenditures: (825,021)

Less: Expenditures Funded by Grants and Gifts: (1,533,619)

Less: Expenditures Funded by Impact Fees: (250,805)

Less: Expenditures Funded by Bond Proceeds: (468,741)

Less: Expenditures Funded by Cash Forward from Fiscal Year 2002 and Subject to 2002 Spending Cap: (168,230)

Add Back: Funding for Uncompleted Balance of 2003 Capital Projects, Subject to 2003 Spending Cap to Balances Carried Forward to 2004 1,448,975

**Expenditures Subject to Spending Cap: \$14,447,331**

**Fiscal Year 2003 Spending Cap: \$14,689,100**

### Capital Asset and Debt Administration

#### Capital Assets

The City's investment in capital assets for its governmental and business-type activities as of September 30, 2003 amounts to \$15,883,069 (net of accumulated depreciation). This investment in capital assets includes land, construction in progress, buildings, improvements, vehicles, and equipment, assets acquired under capital leases, other assets and utility systems, but excludes governmental infrastructure because the original cost and book value have not been determined. The total increase in the City's investment in capital assets for the current fiscal year was 41%.



## MANAGEMENT'S DISCUSSION AND ANALYSIS

September 30, 2003  
City of Marco Island, Florida

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<b>Total of all Funds</b>	<b>\$ 16,244,772</b>
Less: Enterprise Fund Expenditures:	(825,021)
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<b>Fiscal Year 2003 Spending Cap:</b>	<b>\$14,689,100</b>

### Capital Asset and Debt Administration

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

September 30, 2003  
City of Marco Island, Florida

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

- Completion of the Tallwood Street storm drainage project, funded with Community Development Block Grant funds.
- Continuation of capital projects for replacement of existing drainage structures, swale drainage grading, and citywide drainage improvements as identified in the Stormwater Master Plan.
- Engineering for 2004 replacement of the North Barfield Bridge over Tarpon Waterway.
- Capital renovation to Caxambas Court Bridge over Roberts Bay and Blackmore Court Bridge over Clam Bay.
- Engineering for major roadway rebuilding of Collier Boulevard, scheduled for construction in 2004-05.
- Phase I design and land acquisition for major off-street bike/pedestrian pathway to link the Marco Island Racquet Center, Mackle Park, Winterberry Park, and the Winterberry Drive Greenway.
- Construction of District IV sidewalk program.

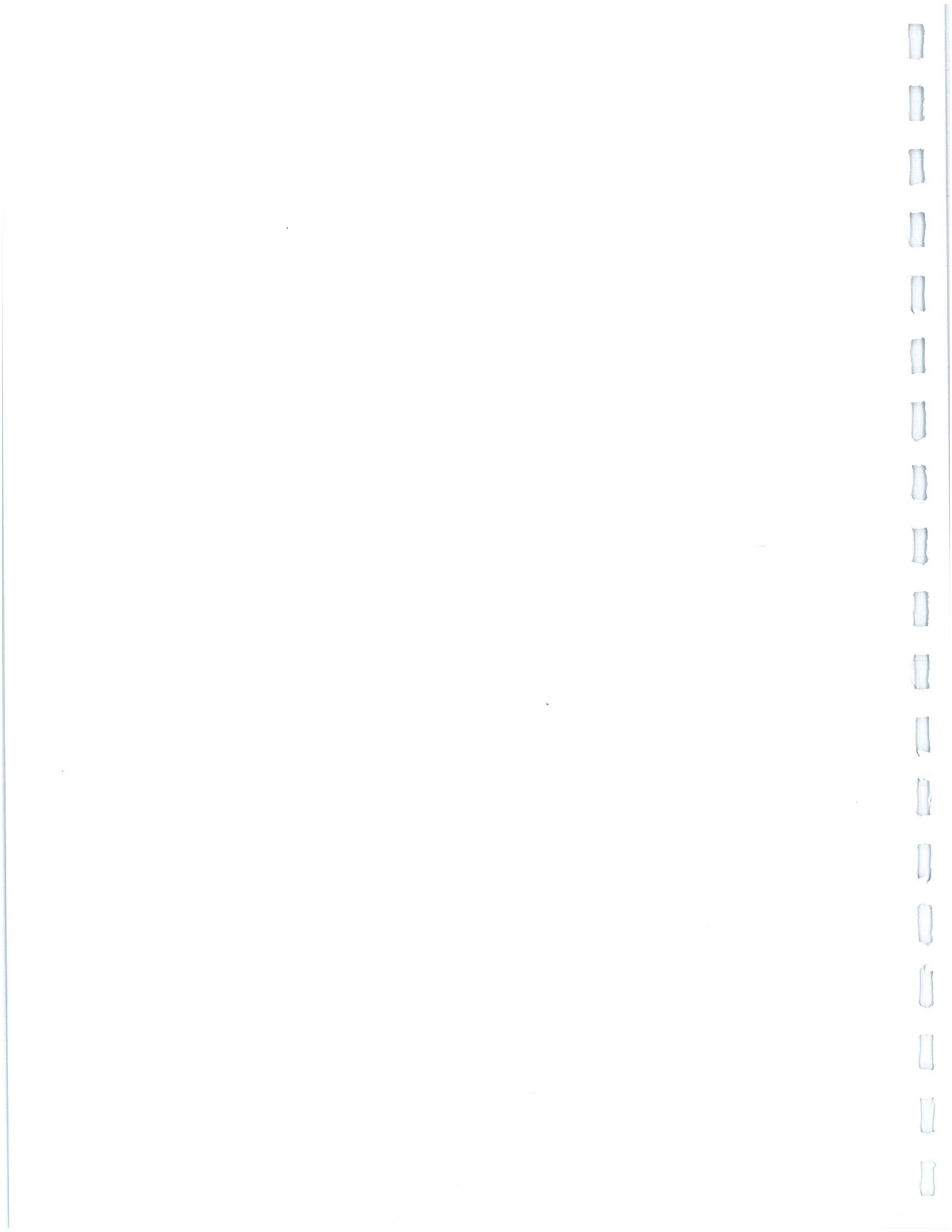
Major capital asset balances at the end of the current fiscal year are summarized as follows:

	<b>Capital Assets (Net of Depreciation)</b>		
	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Land	\$ 4,943,419		\$ 4,943,419
Buildings and Improvements	1,465,932	\$ 1,616,076	3,082,008
Vehicles and Equipment	2,313,072	1,876	2,314,948
Capital Lease Assets	988,806		988,806
Other Assets	2,636,094		2,636,094
Construction in Progress	<u>1,917,794</u>		<u>1,917,794</u>
	\$ 14,265,117	\$ 1,617,952	\$ 15,883,069

Additional information on the City's capital assets can be found in Note 3 beginning on page 36 of this report.

### Long-Term Debt

At the end of the current year, the City had total debt outstanding of \$1,326,264 (excluding accrued compensated absences). None of this debt is considered general obligation debt, backed by the full faith and credit of the City. The City's revenue bonds are secured solely by specified revenue sources.





## MANAGEMENT'S DISCUSSION AND ANALYSIS

September 30, 2003

City of Marco Island, Florida

### Long-Term Debt

#### Governmental Activities

Revenue Bonds, Series 2000B	\$	885,000
Capital Lease		<u>441,264</u>
<b>Total Long-Term Debt</b>	<b>\$</b>	<b>1,326,264</b>

The City's total debt decreased by \$88,666, representing payments made on principal balances outstanding during the year. Additional information on the City's long-term debt can be found in Note 3, on pages 37 – 39 of the report.

### Economic Factors and Next Year's Budget and Rates

#### Property Taxes

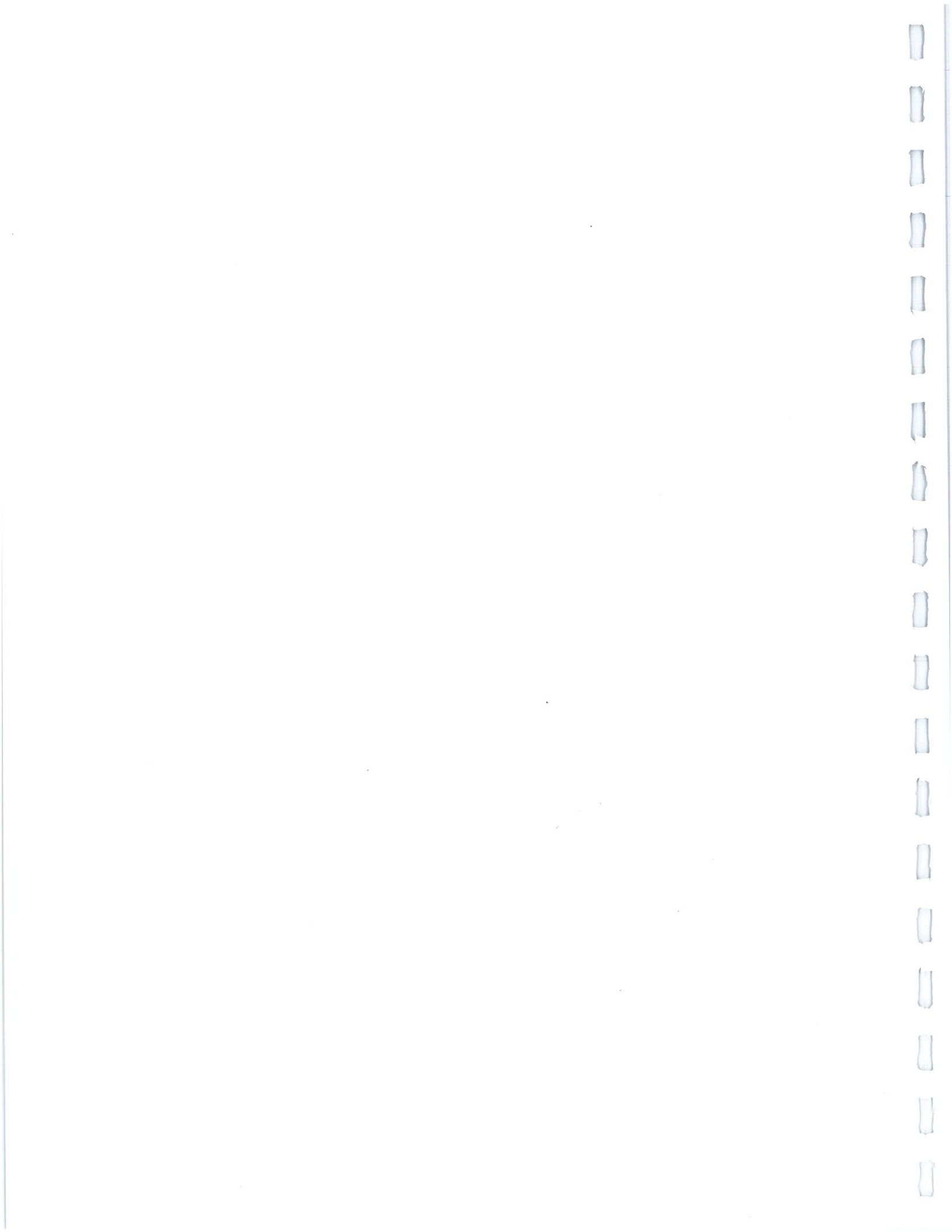
For fiscal year 2004, the City's assessed valuation increased by 13.2% to \$6,352,910,401. This increase afforded the opportunity for a reduction in the millage rate from 1.6900 mils to 1.6200 mils.

#### Water and Wastewater Utility

On November 6, 2003, the City of Marco Island completed the acquisition of the water and wastewater utility operations on Marco Island and at Marco Shores from Florida Water Services. The cost of this acquisition was \$85,313,000, financed by a revenue bond issue in the amount of \$101,115,000. Funding over the cost of the acquisition has been used to purchase current accounts receivable and to fund an aggressive capital improvements program. Water and sewer rates have remained constant at Florida Water Services approved rate tariffs with the Collier County Public Utilities Commission.

#### General Obligation Bond Referendum

In December 2003, voters approved a \$10 million general obligation bond issue for the purchase of the last large undeveloped tract of land on the island in the amount of \$9.7 million. City Council has committed that fiscal year 2005 and subsequent budgets will include debt service on this bond issue within the existing constraints of the Spending Cap and will not result in a tax increase. The City's five-year capital improvements program will be modified to meet this budget requirement.



**MANAGEMENT'S DISCUSSION AND ANALYSIS**

September 30, 2003

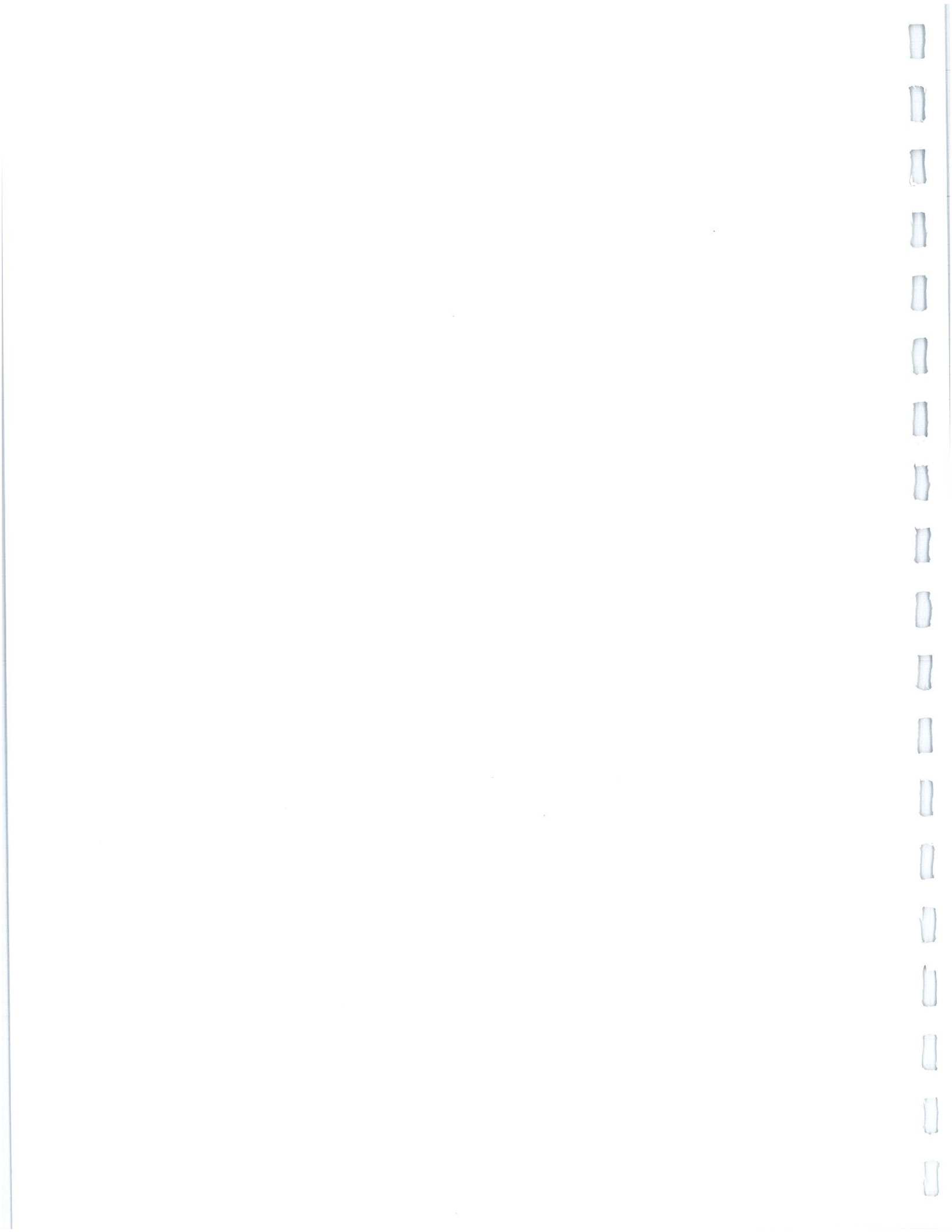
City of Marco Island, Florida

**Requests for Information**

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



**BASIC FINANCIAL STATEMENTS**



**STATEMENT OF NET ASSETS**  
**SEPTEMBER 30, 2003**  
**CITY OF MARCO ISLAND, FLORIDA**

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
<b>Assets</b>			
Pooled Cash and Investments	\$ 13,525,899	\$ 670,617	\$ 14,196,516
Nonpooled Cash and Investments	2,735,731		2,735,731
Receivables:			
Accounts, Net	98,993	39,345	138,338
Assessments, Net	82,829	1,437	84,266
Interest	53,619		53,619
Due from Other Governments	554,127		554,127
Inventories	716		716
Prepaid Items	128,312		128,312
Capital Assets:			
Nondepreciable	6,861,213		6,861,213
Depreciable	7,403,904	1,617,952	9,021,856
<b>Total Assets</b>	<u>31,445,343</u>	<u>2,329,351</u>	<u>33,774,694</u>
<b>Liabilities</b>			
Accounts Payable	1,834,524	59,609	1,894,133
Accrued Liabilities	365,990	891	366,881
Deposits	4,422		4,422
Deferred Revenues		34,874	34,874
Noncurrent Liabilities:			
Due Within One Year	222,348		222,348
Due in More Than One Year	1,631,846		1,631,846
<b>Total Liabilities</b>	<u>4,059,130</u>	<u>95,374</u>	<u>4,154,504</u>
<b>Net Assets</b>			
Invested in Capital Assets, Net of Related Debt	12,938,853	1,617,952	14,556,805
Restricted for:			
Parks Construction or Operation	660,533		660,533
Road Construction	2,568,531		2,568,531
Fire Services	594,123		594,123
Police Services	57,614		57,614
Building Department	1,119,480		1,119,480
Unrestricted	9,447,079	616,025	10,063,104
<b>Total Net Assets</b>	<u>\$ 27,386,213</u>	<u>\$ 2,233,977</u>	<u>\$ 29,620,190</u>

See accompanying notes.

**STATEMENT OF ACTIVITIES**  
**AS OF SEPTEMBER 30, 2003**  
**CITY OF MARCO ISLAND, FLORIDA**

Function/Program Activities	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities
<b>Governmental Activities</b>						
General Government	\$ 1,815,510	\$ 71,435			\$ (1,744,075)	\$ (1,744,075)
Police Services	2,662,827	130,744	\$ 41,109		(2,490,974)	(2,490,974)
Fire/Rescue	2,664,307	57,514	32,387	\$ 362,924	(2,211,482)	(2,211,482)
Code Compliance	197,457	32,733			(164,724)	(164,724)
Building Services	578,572	1,286,530			707,958	707,958
Stormwater Drainage				600,136	600,136	600,136
Transportation	1,216,063		764,087	1,502,653	1,050,677	1,050,677
Culture and Recreation	1,410,204	96,683	5,544	145,801	(1,162,176)	(1,162,176)
Interest on Long-term Debt	87,548				(87,548)	(87,548)
<b>Total Governmental Activities</b>	<b>10,632,488</b>	<b>1,675,639</b>	<b>843,127</b>	<b>2,611,514</b>	<b>(5,502,208)</b>	<b>\$ 0</b>
<b>Business-type Activities</b>						
Sewer	808,329	830,249			21,920	21,920
Recreation	16,692	16,759	14,615		14,682	14,682
<b>Total Business-type Activities</b>	<b>825,021</b>	<b>847,008</b>	<b>14,615</b>	<b>0</b>	<b>36,602</b>	<b>36,602</b>
<b>Total Primary Government</b>	<b>\$ 11,457,509</b>	<b>\$ 2,522,647</b>	<b>\$ 857,742</b>	<b>\$ 2,611,514</b>	<b>(5,502,208)</b>	<b>(5,465,606)</b>
<b>General Revenues</b>						
Taxes:						
Property Taxes					9,158,057	9,158,057
Communication Service Tax					903,563	903,563
State Shared Revenues					1,988,878	1,988,878
Interest					347,907	354,970
Miscellaneous					723,479	723,804
<b>Total General Revenues</b>					<b>13,121,884</b>	<b>13,129,272</b>
<b>Change in Net Assets</b>					<b>7,619,676</b>	<b>7,663,666</b>
<b>Net Assets - Beginning of Year</b>					<b>19,766,537</b>	<b>21,956,524</b>
<b>Net Assets - End of Year</b>					<b>\$ 27,386,213</b>	<b>\$ 29,620,190</b>

See accompanying notes.



**BALANCE SHEET  
GOVERNMENTAL FUNDS  
SEPTEMBER 30, 2003  
CITY OF MARCO ISLAND, FLORIDA**

	<u>General</u>	<u>Capital Projects</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Assets</b>				
Cash and Pooled Investments	\$ 12,374,675		\$ 1,151,224	\$ 13,525,899
Other Investments	2,735,731			2,735,731
Receivables:				
Accounts, Net	98,993			98,993
Assessments, Net		\$ 82,829		82,829
Interest	53,619			53,619
Due from Other Funds		815,839		815,839
Due from Other Governmental units	554,127			554,127
Inventory	716			716
Prepaid Items	128,312			128,312
<b>Total Assets</b>	<u>15,946,173</u>	<u>898,668</u>	<u>1,151,224</u>	<u>17,996,065</u>
<b>Liabilities and Fund Balances</b>				
<b>Liabilities</b>				
Accounts and Retainages Payable	997,497	815,839	21,188	1,834,524
Accrued Liabilities	355,434		10,556	365,990
Due to Other Funds	815,839			815,839
Deposits	4,422			4,422
Deferred Revenue	554,127	82,829		636,956
<b>Total Liabilities</b>	<u>2,727,319</u>	<u>898,668</u>	<u>31,744</u>	<u>3,657,731</u>
<b>Fund Balances</b>				
Reserved for:				
Parks Construction or Operation	660,533			660,533
Road Construction	2,568,531			2,568,531
Fire Services	594,123			594,123
Police Services	57,614			57,614
Building Department			1,119,480	1,119,480
Inventory	716			716
Prepaid Expenditures	128,312			128,312
Designated	4,691,663			4,691,663
Unreserved, Undesignated	4,517,362			4,517,362
<b>Total Fund Balances</b>	<u>13,218,854</u>	<u>0</u>	<u>1,119,480</u>	<u>14,338,334</u>
<b>Total Liabilities and Fund Balances</b>	<u>\$ 15,946,173</u>	<u>\$ 898,668</u>	<u>\$ 1,151,224</u>	<u>\$ 17,996,065</u>

See accompanying notes.

**RECONCILIATION OF THE BALANCE SHEET  
TO THE STATEMENT OF NET ASSETS  
GOVERNMENTAL FUNDS  
AS OF SEPTEMBER 30, 2003  
CITY OF MARCO ISLAND, FLORIDA**

**Fund Balance - Total Governmental Funds** \$ 14,338,334

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

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

Capital Assets	\$ 16,238,755	
Less: Accumulated Depreciation	<u>(1,973,638)</u>	14,265,117

Some revenues have been deferred on the balance sheet because they were not measurable and available at year end		636,956
--	--	---------

Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds:

Revenue Bond	(885,000)	
Capital Lease	(441,264)	
Compensated Absences	<u>(527,930)</u>	<u>(1,854,194)</u>

**Net Assets of Governmental Activities** \$ 27,386,213

See accompanying notes.

**STATEMENT OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED SEPTEMBER 30, 2003  
CITY OF MARCO ISLAND, FLORIDA**

	<u>General</u>	<u>Capital Projects</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Revenues</b>				
Taxes	\$ 10,776,436			\$ 10,776,436
Licenses and Permits	33,833		\$ 1,286,530	1,320,363
Intergovernmental	2,179,652	\$ 2,504,716		4,684,368
Charges for Services	321,882			321,882
Fines and Forfeitures	130,744			130,744
Interest Income	347,907			347,907
Miscellaneous	297,804	465,707		763,511
<b>Total Revenues</b>	<u>14,088,258</u>	<u>2,970,423</u>	<u>1,286,530</u>	<u>18,345,211</u>
<b>Expenditures</b>				
Current:				
General Government	1,889,079			1,889,079
Police Services	2,619,126			2,619,126
Fire/Rescue	2,601,028			2,601,028
Code Compliance	189,074			189,074
Building Services			879,514	879,514
Transportation	1,234,933			1,234,933
Culture and Recreation	1,393,598			1,393,598
Capital Outlay		4,613,409		4,613,409
<b>(Total Expenditures)</b>	<u>(9,926,838)</u>	<u>(4,613,409)</u>	<u>(879,514)</u>	<u>(15,419,761)</u>
<b>Excess (Deficiency) of Revenues Over (Under) Expenditures</b>	<u>4,161,420</u>	<u>(1,642,986)</u>	<u>407,016</u>	<u>2,925,450</u>
<b>Other Financing Sources (Uses)</b>				
Transfers in		1,642,986	712,464	2,355,450
Transfers (out)	(2,355,450)			(2,355,450)
<b>Total Other Financing Sources (Uses)</b>	<u>(2,355,450)</u>	<u>1,642,986</u>	<u>712,464</u>	<u>0</u>
<b>Net Change in Fund Balances</b>	1,805,970	0	1,119,480	2,925,450
<b>Fund Balances, Beginning of Year</b>	<u>11,412,884</u>	<u>0</u>	<u>0</u>	<u>11,412,884</u>
<b>Fund Balances, End of Year</b>	<u>\$ 13,218,854</u>	<u>\$ 0</u>	<u>\$ 1,119,480</u>	<u>\$ 14,338,334</u>

See accompanying notes.

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCE TO THE STATEMENT OF ACTIVITIES  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED SEPTEMBER 30, 2003  
CITY OF MARCO ISLAND, FLORIDA**

**Net Change in Fund Balance - Total Governmental Funds** \$ 2,925,450

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

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

Expenditures for Capital Assets	\$ 5,217,112	
Less: Current Year Depreciation	<u>(518,505)</u>	4,698,607

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

Principal Payments	156,319
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Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds:

Change Compensated Absences	(67,653)
-----------------------------	----------

Deferred revenues that are being deferred in governmental funds because they are not "available" are recorded as revenue on the statement of activities

	<u>(93,047)</u>
--	-----------------

<b>Change in Net Assets of Governmental Activities</b>	<b><u><u>\$ 7,619,676</u></u></b>
--	-----------------------------------

See accompanying notes.

**STATEMENT OF NET ASSETS  
 PROPRIETARY FUNDS  
 SEPTEMBER 30, 2003  
 CITY OF MARCO ISLAND, FLORIDA**

	<u>Business-type Activities - Enterprise Funds</u>		
	<u>Sewer</u>	<u>Other Fund</u>	<u>Totals</u>
<b>Assets</b>			
<b>Current Assets</b>			
Cash and Pooled Investments	\$ 656,469	\$ 14,148	\$ 670,617
Receivables:			
Accounts, Net	38,758	587	39,345
Assessments, Net	1,437		1,437
<b>Total Current Assets</b>	<u>696,664</u>	<u>14,735</u>	<u>711,399</u>
<b>Capital Assets</b>			
Buildings and Improvements	2,039,641		2,039,641
Vehicles and Equipment	10,676		10,676
(Accumulated Depreciation)	(432,365)		(432,365)
<b>Total Capital Assets (Net of Accumulated Depreciation)</b>	<u>1,617,952</u>	<u>0</u>	<u>1,617,952</u>
<b>Total Assets</b>	<u>2,314,616</u>	<u>14,735</u>	<u>2,329,351</u>
<b>Liabilities</b>			
Current Liabilities:			
Accounts and Retainages Payable	59,556	53	59,609
Accrued Liabilities	891		891
Deferred Revenue	34,874		34,874
<b>Total Liabilities</b>	<u>95,321</u>	<u>53</u>	<u>95,374</u>
<b>Net Assets</b>			
Invested in Capital Assets, Net of Related Debt	1,617,952		1,617,952
Unrestricted	601,343	14,682	616,025
<b>Total Net Assets</b>	<u>\$ 2,219,295</u>	<u>\$ 14,682</u>	<u>\$ 2,233,977</u>

See accompanying notes.

**STATEMENT OF REVENUES, EXPENSES, AND  
CHANGES IN FUND NET ASSETS  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED SEPTEMBER 30, 2003  
CITY OF MARCO ISLAND, FLORIDA**

	<u>Business-type Activities - Enterprise Funds</u>		
	<u>Sewer</u>	<u>Other Fund</u>	<u>Total</u>
<b>Operating Revenues</b>			
Charges for Services	\$ 830,249	\$ 16,759	\$ 847,008
<b>Operating Expenses</b>			
Personal Services	40,254		40,254
Contractual Service and Utilities	610,494	11,129	621,623
Other Expenses	9,880	5,563	15,443
Depreciation	147,701		147,701
<b>(Total Operating Expenses)</b>	<u>(808,329)</u>	<u>(16,692)</u>	<u>(825,021)</u>
<b>Operating Income</b>	<u>21,920</u>	<u>67</u>	<u>21,987</u>
<b>Nonoperating Income</b>			
Interest Earnings	7,063		7,063
Other Nonoperating Income	325	14,615	14,940
<b>Total Nonoperating Income</b>	<u>7,388</u>	<u>14,615</u>	<u>22,003</u>
<b>Change in Net Assets</b>	29,308	14,682	43,990
<b>Total Net Assets, Beginning of Year</b>	<u>2,189,987</u>	<u>0</u>	<u>2,189,987</u>
<b>Total Net Assets, End of Year</b>	<u>\$ 2,219,295</u>	<u>\$ 14,682</u>	<u>\$ 2,233,977</u>

See accompanying notes.

**STATEMENT OF CASH FLOWS  
 PROPRIETARY FUNDS  
 FOR THE YEAR ENDED SEPTEMBER 30, 2003  
 CITY OF MARCO ISLAND, FLORIDA**

	<u>Business-type Activities - Enterprise Funds</u>		
	<u>Sewer</u>	<u>Other Fund</u>	<u>Total</u>
<b>Cash Flows from Operating Activities</b>			
Cash Received from Customers and Users	\$ 833,842	\$ 30,787	\$ 864,629
Cash Payments to Vendors for Goods and Services	(722,990)	(16,639)	(739,629)
Cash Payments to Employees for Services	(40,285)		(40,285)
<b>Net Cash Provided by Operating Activities</b>	<u>70,567</u>	<u>14,148</u>	<u>84,715</u>
<b>Cash Flows from Capital and Related Financing Activities</b>			
Acquisition of Property, Plant and Equipment (Excluding Contributed Assets)	<u>(47,109)</u>	<u>0</u>	<u>(47,109)</u>
<b>Cash Flows from Investing Activities</b>			
Interest Received on Investments	<u>7,063</u>	<u>0</u>	<u>7,063</u>
<b>Net Increase in Cash and Cash Equivalents</b>	30,521	14,148	44,669
<b>Cash and Cash Equivalents, Beginning of Year</b>	<u>625,948</u>	<u>0</u>	<u>625,948</u>
<b>Cash and Cash Equivalents, End of Year</b>	<u><u>656,469</u></u>	<u><u>14,148</u></u>	<u><u>670,617</u></u>
<b><u>Reconciliation of Operating Income to Net Cash Provided by Operating Activities</u></b>			
Operating Income	21,920	67	21,987
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:			
Depreciation	147,701		147,701
Other Nonoperating Income	325	14,615	14,940
Changes in Assets - Decrease (Increase) and Liabilities - Increase (Decrease):			
Accounts Receivable, Net	2,391	(587)	1,804
Accounts and Retainages Payable	(102,616)	53	(102,563)
Accrued Liabilities	(31)		(31)
Deferred Revenue	877		877
<b>Net Cash Provided by Operating Activities</b>	<u><u>\$ 70,567</u></u>	<u><u>\$ 14,148</u></u>	<u><u>\$ 84,715</u></u>

See accompanying notes.

**STATEMENT OF FIDUCIARY NET ASSETS  
FIDUCIARY FUND  
PENSION TRUST FUND  
SEPTEMBER 30, 2003  
CITY OF MARCO ISLAND, FLORIDA**

	<b>Pension Trust Fund</b>
<b>Assets</b>	
Cash and Pooled Investments	\$ 35,218
Other Investments	833,695
Accrued Interest	2,765
Due from Other Governments	84,452
<b>Total Assets</b>	<u>956,130</u>
<b>Net Assets</b>	
Held in Trust for Pension Benefits and Other Purposes	<u>\$ 956,130</u>

See accompanying notes.



**STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS  
 FIDUCIARY FUND  
 PENSION TRUST FUND  
 FOR THE YEAR ENDED SEPTEMBER 30, 2003  
 CITY OF MARCO ISLAND, FLORIDA**

	<b>Pension Trust Fund</b>
<b>Additions</b>	
Contributions:	
Employer	\$ 21,364
State of Florida	236,018
Total Contributions	257,382
Investment Income (Expense):	
Investment Earnings	103,281
(Investment Expenses)	(6,296)
Net Investment Income	96,985
<b>Total Additions</b>	<b>354,367</b>
<b>Deductions</b>	
Refunds of Contributions	650
Legal	7,200
Actuary	3,330
Audit	1,500
Administrative	1,860
<b>(Total Deductions)</b>	<b>(14,540)</b>
<b>Change in Net Assets</b>	339,827
<b>Net Assets, Beginning of Year</b>	616,303
<b>Net Assets, End of Year</b>	\$ 956,130

See accompanying notes.

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**NOTES TO FINANCIAL STATEMENTS**



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

**Note 1 - Summary of Significant Accounting Policies**

**A. Reporting Entity**

The City of Marco Island, Florida (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 City has no component units. However, this report does include the accounts and transactions of the following entity, which does not satisfy the definition of a component unit because it is not legally separate from the City.

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

**B. Government-wide and Fund Financial Statements**

The City has adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments* and GASB Statement No. 38, *Certain Financial Statement Note Disclosures*. The basic financial statements consist of the government-wide financial statements and fund financial statements. The government-wide financial statements required under this statement (the Statement of Net Assets and the Statement of Activities) report information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from these statements so as not to distort financial results. Fiduciary funds are also excluded from the government-wide financial statements since by definition these assets are being held for the benefit of a third party and cannot be used to address activities or obligations of the government. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *Business-type activities*, which rely to a significant extent on fees and charges for support.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment, and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements (fund financial statements) are provided for the governmental funds, proprietary funds, and fiduciary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

The City's fiduciary fund is presented in the fund financial statements by type (pension trust fund only) but, as noted above, is not included in the government-wide statements. A reconciliation is provided that converts the results of governmental fund accounting to the government-wide presentations.

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

**Note 1 - Summary of Significant Accounting Policies (Continued)**

**C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

The government-wide financial statements, the proprietary fund financial statements and the fiduciary fund financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Operating revenues shown for the proprietary operation result from providing sewer collection services. Operating expenses for this operation include all costs related to providing this service. These costs include personal services, contractual services and utilities, depreciation, and other expenses directly related to costs of services. All other revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

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

Property taxes, licenses and permits, charges for services, and interest associated with the current fiscal period are all considered to be susceptible to accrual as revenue of the current period. Grant revenues are considered earned and are accrued simultaneously with the grant expenditure. In applying the susceptibility-to-accrual concept to intergovernmental revenues, the legal and contractual requirements of the individual programs are used as guidance. There are, however, essentially two types of these revenues. In one, monies must be expended for the specific purpose or project before any amounts will be paid to the City; therefore, revenues are recognized based upon the expenditures recorded. In the other, monies are virtually unrestricted as to purpose of expenditure and substantially irrevocable; i.e. revocable only for failure to comply with prescribed compliance requirements. These resources are reflected as revenues at the time of receipt or earlier if they meet the availability criterion. All other revenue items are considered to be measurable and available only when cash is received by the government.

The financial transactions of the City are recorded in individual funds. Each fund is accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures, or expenses, as appropriate. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

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

**Note 1 - Summary of Significant Accounting Policies *(Continued)***

**C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation**  
*(Continued)*

GASB Statement No. 34 sets forth minimum criteria (percentage of the assets, liabilities, revenues or expenditures/expenses of either fund category or the governmental and enterprise combined), for the determination of major funds.

The City reports the following major governmental funds:

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

The City reports the following major proprietary fund:

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

Governmental and Enterprise funds, which do not meet the criteria for reporting as *major funds*, are grouped together for financial reporting in one column. The City has one non-major governmental fund, the Building Services Fund. The City has one non-major enterprise fund, the Recreation Fund.

In addition, the City reports the following fund types:

- The **Pension Trust Fund** accounts for the activities of the Firefighters' Pension plan, which accumulates resources for defined benefit payments to qualified employees.

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

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements.

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

**Note 1 - Summary of Significant Accounting Policies *(Continued)***

**C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation**  
*(Concluded)*

In the fund financial statements, the City charged the Building Services Fund \$318,873 for indirect services provided by General Fund departments. This amount has been eliminated in the statement of activities so that only direct costs of programs are included in the expenditure column. In addition, city-wide workers compensation costs totaling \$439,488 are included in general government expenditures in the fund financial statements, and have been allocated among programs in the statement of activities.

**D. Assets, Liabilities and Net Assets or Equity**

**1. Cash and Investments**

- **Cash and Cash Equivalents** - for purposes of the statement of cash flows for the proprietary fund types include demand deposits, state pool investments and equity in pooled cash and 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.
- **Equity in Pooled Cash and Investments** - the City maintains an accounting system in which substantially all cash and investments (excluding pension trust fund investments) are pooled for investment and management purposes. Each funds' respective share of the pool is recorded as cash and investments in that fund.

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*.

**2. Receivables**

All receivables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible. The allowance for doubtful accounts at September 30, 2003, is \$17,063.

**3. Interfund Receivables and Payables**

During the course of its operations, the City has transactions between funds to provide services and construct assets. To the extent that certain transactions between funds were not paid for or received as of September 30, 2003, balances of interfund receivables and payables expected to be liquidated within one year have been recorded as due from and due to other funds. Short-term interfund loans to eliminate cash deficits are classified as "interfund receivables/payables." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."



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

**Note 1 - Summary of Significant Accounting Policies (Continued)**

**D. Assets, Liabilities and Net Assets or Equity (Continued)**

**4. Inventories**

Inventories consist of merchandise held for resale by the racquet club. Inventories are valued at cost using the average cost method. In governmental funds, inventory is reported using the consumption method, whereby the expenditure is recorded in the period consumed. At year end, a reservation of fund balance is recorded to reflect that the dollar amount of the inventory is not available for appropriation.

**5. Capital Assets**

Capital assets, which include property, plant and equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the City as assets with an initial estimated useful life in excess of one year and individual cost of more than \$1,000 for tangible property and \$1,000 for building and improvements, infrastructure and utility systems. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Interest on governmental revenue bonds, is not capitalized during the construction period. No net interest cost was capitalized in the enterprise funds in 2003.

In proprietary fund types, capital assets are capitalized at cost in the fund which acquired or constructed it. Governmental capital assets are recorded on the statement of net assets. Donated assets are recorded at fair value. Depreciation of exhaustible fixed assets used by these funds is charged as an expense against operations, and accumulated depreciation is reported on the balance sheets of the funds in which the assets are capitalized. Depreciation has been provided over the estimated useful life of each asset using the straight-line method. The range of estimated useful lives of all capital assets are:

Buildings and Improvements	30 - 40 Years
Infrastructure	10 - 40 Years
Vehicles and Equipment	3 - 5 Years

Capital assets formerly owned by the Marco Island Fire Control District (the Fire Control District), which were acquired by the City upon incorporation and, upon the dissolution of the Fire Control District, are recorded at the Fire Control District's cost or, if donated, at fair value on the date donated. These assets totaled \$3,594,821. In addition, five parks with land and buildings totaling \$4,255,286 were received from Collier County, Florida during 1999. These assets were recorded at their estimated value on the date donated.

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

**Note 1 - Summary of Significant Accounting Policies (Continued)**

**D. Assets, Liabilities and Net Assets or Equity (Continued)**

**5. Capital Assets (Concluded)**

During 2001, a sanitary sewer system was received from Collier County, Florida. The donated sewer system consists of a gravity collection system, lift stations, master pump station and approximately 18 miles of force main. The City agreed to take over the repair and maintenance and billing/collection of the system. The system was valued at \$1,903,532 at the time of donation.

GASB Statement No. 34 requires the City to report and depreciate new infrastructure assets effective with the beginning of the current year. Infrastructure assets include roads, bridges, traffic signals, medians, etc. These infrastructure assets will be the largest asset class of the City. Neither their historical cost nor related depreciation has historically been reported in the financial statements. The retroactive reporting of infrastructure is subject to an extended implementation period and is first effective for the fiscal year ending in 2006. The City has elected to implement the general provisions of GASB Statement No. 34 in the current year and hopes to implement the retroactive infrastructure provisions in the fiscal year ending September 30, 2004.

**6. Long-term Obligations**

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Long-term debt is not recorded in the governmental fund type, fund financial statements.

**7. Compensated Absences**

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

City firefighters under union contract earn from 216 to 288 hours per year in personal leave time. The amount earned depends upon years of service. City firefighters can accrue up to a maximum of 936 hours. Upon termination, the employee is entitled to all personal leave hours, paid out at the hourly rate upon termination.

Accumulated unpaid vacation and sick pay are accrued when earned in the government-wide statement of net assets and in the proprietary funds. Accrued compensated absences are not recorded in the governmental fund financial statements.

**8. Fund Equity**

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available or are legally restricted by outside parties for use for a specific purpose. Designations of fund balances representing tentative management plans are recorded on the governmental funds balance sheet.

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

**Note 1 - Summary of Significant Accounting Policies (Concluded)**

**D. Assets, Liabilities and Net Assets or Equity (Concluded)**

**9. 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.

**10. Property Tax Calendar**

The City levies property taxes each November 1, which become a lien on real and personal property located in the City. The assessment of all properties and the collection of all property taxes are made through the Property Appraiser and Tax Collector of Collier County, Florida. The current year's tax levy is based on taxable assessed property values totaling \$5,609,781,378.

Details of the tax calendar are presented below:

<b>Lien Date</b>	January 1, 2002
<b>Levy Date</b>	October 1, 2002
<b>Installment Payments</b>	
First Installment	No Later Than June 30, 2002
Second Installment	No Later Than September 30, 2002
Third Installment	No Later Than December 31, 2002
Fourth Installment	No Later Than March 31, 2003
<b>Regular Payments</b>	
Discount Periods	November 2002 Through February 2003
No Discount Period	After March 1, 2003
Delinquent Date	April 1, 2003

**Note 2 - Stewardship, Compliance and Accountability**

**A. Budgets**

The City Council annually adopts a budget ordinance for all funds of the City pursuant to general law. All annual operating budgets presented in this report, were adopted on a basis consistent with generally accepted accounting principles (GAAP).

The budget must be a balanced budget, and certain budgeted expenditures subject to the "spending cap" shall be limited to an increase from the prior year's budgeted expenditures of 3% plus the then-current federal cost-of-living adjustment. This limitation was amended and clarified in 2002 by voter referendum, and in 2003 by Council Resolution. Following is a calculation of the "spending cap" limitation for 2003 and the calculation of the City's compliance.

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

**Note 2 - Stewardship, Compliance and Accountability (Concluded)**

**A. Budgets (Concluded)**

Calculation of Spending Cap and Proof of Compliance:

	<b>Spending Cap Limit Fiscal Year 2002 for Fiscal Year 2003</b>	<b>Final Actual Amounts Fiscal Year 2003</b>
<b>Total Appropriations</b>	\$ 13,899,866	\$ 14,447,331
<b>Calculation of Spending Cap</b>		
Charter Increase Allowed	3.0%	
Cost of Living Increase	2.6%	
Spending Cap Increase Limitation	5.6%	
<b>Fiscal Year 2003 Spending Cap</b>	\$ 14,689,100	

**B. Transfer of Appropriations**

At any time during the fiscal year, the City Manager may transfer part or all of any unencumbered appropriation balance among expenditures 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.

The budgeted amounts on the accompanying statement of revenues, expenditures, and changes in fund balances - all governmental fund types are presented as amended.

Listed below is a reconciliation of the original budget to final amended budget for the governmental fund types with legally adopted annual budgets:

	<b>Original Budget</b>	<b>Supplemental Appropriations</b>	<b>Amended Budget</b>
General Fund	\$ 10,531,459	\$ 217,254	\$10,748,713
Capital Projects Fund	6,942,975	489,773	7,432,748

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

**Note 3 - Detailed Notes on all Funds**

**A. Deposits and Investments**

**Deposits**

At the end of each working day, the City invests available cash balances to improve yields, under terms of a Master Repurchase Agreement (the repurchase agreement) with the bank, collateralized by U.S. government agency securities. The repurchase agreement requires the bank to repurchase those securities at the start of the next working day, returning those cash balances, plus interest, to the City. Under this arrangement, the City's "bank balance" never dips below zero. However, because of outstanding checks, the "carrying amount" of the City's deposit (excluding the repurchase agreement) may be negative. At September 30, 2003, the bank balance of the City's deposits was \$143,444 and the carrying amount was a negative position of \$148,039. In addition, the repurchase agreement had a balance of \$1,647,000 at year end, for a combined positive position of \$1,498,961.

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

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 governed by Chapter 280, Florida Statutes, and the City's investment policy Ordinance No. 02-19. These allow the City to invest in certificates of deposit; money market investments; obligations of the U.S. Treasury, its agencies and instrumentalities; repurchase and reverse repurchase agreements collateralized by U.S. securities; and the State Board of Administration.

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:

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

**Note 3 - Detailed Notes on all Funds (Continued)**

**A. Deposits and Investments (Concluded)**

**Investments (Concluded)**

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

The investments in the State Board of Administration - Local Government Surplus Trust Funds Investment Pool cannot be classified within the categories described above because they are not evidenced by securities that exist in physical or book entry form. These amounts totaled \$2,736,411 at September 30, 2003. The state pool is a 2a7-like pool, carried at amortized cost, which approximates market. A 2a7-like pool is not registered with the SEC as an investment company, but nevertheless has a policy that it will, and does, operate in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940, which comprises the rules governing money market funds. Thus, the pool operates essentially as a money market fund. Throughout the year and as of September 30, 2003, the pool contained certain floating and adjustable rate securities which were indexed based on the prime rate and/or one and three-month LIBOR rates.

Following is a listing of other investments held at September 30, 2003:

	Investment Category			Carrying
	1	2	3	Amount (Fair Value)
Overnight Repurchase Agreement	\$ 0	\$ 0	\$ 1,647,000	\$ 1,647,000
United States Treasury Securities	581,868	0	0	581,868
United States Government Agency Securities	12,210,588	0	0	12,210,588
Government Bonds	244,365	0	0	244,365
Common Stock	494,238	0	0	494,238
Total	<u>\$ 13,531,059</u>	<u>\$ 0</u>	<u>\$ 1,647,000</u>	15,178,059
Money Market Funds - Pension				34,729
<b>Total Investments</b>				<b>\$ 15,212,788</b>

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

**Note 3 - Detailed Notes on all Funds (Continued)**

**B. Deferred Revenues**

Governmental funds report deferred revenues in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds and business-type funds also defer revenue recognition in connection with resources that have been received, but not yet earned. As of September 30, 2003, the various components of deferred revenue reported in the governmental funds and business-type funds were as follows:

**Governmental Funds**

<u>Deferred Revenues</u>	
State Revenue Sharing	\$ 52,242
Special Assessments	82,829
Communication Service Tax	149,417
Local Option Gas Tax	110,326
One-half Cent Sales Tax	<u>242,142</u>
<b>Total</b>	<b>\$ <u>636,956</u></b>

**Business-type Funds**

<u>Deferred Revenues</u>	
Utility Revenues Billed in Advance	<u>\$ 34,874</u>

**C. Due from/to Other Funds**

Due from/to other funds represent primarily loans to cover other funds' deficits in pooled cash and investments. At September 30, 2003, the balance in due from/to other funds consists of the following:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Capital Projects	General	\$ 815,839

The due to the capital projects fund is to finance the construction of capital assets.

**D. Transfers in/out**

Interfund transfers during the year ended September 30, 2003, consisted of the following:

<u>Transfer out</u>	<u>Transfer in</u>	<u>Total</u>
General Fund	Capital Project (1)	\$ 1,642,986
General Fund	Building Services (2)	\$ 712,464

**Transfer Purpose**

- (1) Provide funding for capital acquisitions
- (2) Transfer restricted balances at fund start-up

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

**Note 3 - Detailed Notes on all Funds (Continued)**

**E. Capital Assets**

	Beginning Balance	Increases	(Decreases)	Ending Balance
<b>Governmental Activities</b>				
Capital Assets Not Being Depreciated:				
Land	\$ 4,942,526	\$ 893		\$ 4,943,419
Construction in Progress		1,917,794		1,917,794
<b>Total Capital Assets Not Being Depreciated</b>	<b>4,942,526</b>	<b>1,918,687</b>	<b>\$ 0</b>	<b>6,861,213</b>
Capital Assets Being Depreciated:				
Buildings and Improvements	2,049,174	16,032	(997)	2,064,209
Vehicles and Equipment	3,047,239	587,671	(626,179)	3,008,731
Capital Lease	1,609,880			1,609,880
Road Network		788,924		788,924
Stormwater		1,407,715		1,407,715
Pathway		16,907		16,907
Parks		97,929		97,929
Bridge Network		383,247		383,247
<b>Total Capital Assets Being Depreciated</b>	<b>6,706,293</b>	<b>3,298,425</b>	<b>(627,176)</b>	<b>9,377,542</b>
Less Accumulated Depreciation for:				
Buildings and Improvements	(490,100)	(109,174)	997	(598,277)
Vehicles and Equipment	(1,012,335)	(309,503)	626,179	(695,659)
Capital Lease	(579,874)	(41,200)		(621,074)
Road Network		(32,754)		(32,754)
Stormwater		(18,061)		(18,061)
Pathway		(845)		(845)
Parks		(6,529)		(6,529)
Bridge Network		(439)		(439)
<b>Total Accumulated Depreciation</b>	<b>(2,082,309)</b>	<b>(518,505)</b>	<b>627,176</b>	<b>(1,973,638)</b>
<b>Total Capital Assets Being Depreciated, Net</b>	<b>4,623,984</b>	<b>2,779,920</b>	<b>0</b>	<b>7,403,904</b>
<b>Governmental Activities Capital Assets, Net</b>	<b>\$ 9,566,510</b>	<b>\$ 4,698,607</b>	<b>\$ 0</b>	<b>\$ 14,265,117</b>
<b>Business-type Activities</b>				
Capital Assets Being Depreciated:				
Buildings and Improvements	\$ 1,992,532	\$ 47,109		\$ 2,039,641
Vehicles and Equipment	10,676			10,676
<b>Total Capital Assets Being Depreciated</b>	<b>2,003,208</b>	<b>47,109</b>	<b>\$ 0</b>	<b>2,050,317</b>
Less Accumulated Depreciation for:				
Buildings and Improvements	(279,022)	(144,543)		(423,565)
Vehicles and Equipment	(5,642)	(3,158)		(8,800)
<b>Total Accumulated Depreciation</b>	<b>(284,664)</b>	<b>(147,701)</b>	<b>0</b>	<b>(432,365)</b>
<b>Business-type Activities Capital Assets, Net</b>	<b>\$ 1,718,544</b>	<b>\$ (100,592)</b>	<b>\$ 0</b>	<b>\$ 1,617,952</b>

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

<b>Governmental Activities:</b>	
General Government	\$ 77,497
Police Service	103,625
Fire/Rescue	153,833
Code Compliance	3,780
Building Services	8,709
Transportation	152,011
Culture and Recreation	19,050
<b>Total Depreciation Expense - Governmental Activities</b>	<b>518,505</b>
<b>Business-type Activities</b>	
Sewer	147,701
<b>Total Depreciation Expense</b>	<b>\$ 666,206</b>



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

**Note 3 - Detailed Notes on all Funds (Continued)**

**F. Long-term Debt**

	Beginning Balance	Additions	(Reductions)	Ending Balance	Due Within One Year
<b>Governmental Activities</b>					
Revenue Bond	\$ 935,000		\$ (50,000)	\$ 885,000	\$ 50,000
Capital Lease	547,583		(106,319)	441,264	145,952
Compensated Absences	460,277	\$ 67,653		527,930	26,396
<b>Long-term Liabilities</b>	<u>\$ 1,942,860</u>	<u>\$ 67,653</u>	<u>\$ (156,319)</u>	<u>\$ 1,854,194</u>	<u>\$ 222,348</u>

Bonds and notes outstanding at September 30, 2003, consist of the following for governmental activities:

Governmental Activities	Purpose of Issue	Maturity	Amount	Interest Rate
Revenue Bond:				
Series 2000B, Florida Municipal Loan Council	Repair Bay Factory Bridge	\$ 985,000	\$ 885,000	Varies
Capital Lease:				
First Continental Financial Corporation	Fire Station Capital Lease	1,609,880	441,264	7.60%
<b>Total Governmental Activities</b>		<u>\$ 2,594,880</u>	<u>\$ 1,326,264</u>	

Annual debt service requirements as of September 30, 2003, are as follows:

Fiscal Year	Governmental Activities				
	Revenue Bond		Capital Lease		Total
	Principal	Interest	Principal	Interest	
2004	\$ 50,000	\$ 42,928	\$ 114,552	\$ 31,400	\$ 238,880
2005	55,000	40,604	123,423	22,529	241,556
2006	55,000	38,143	132,982	12,970	239,095
2007	60,000	35,540	70,307	2,669	168,516
2008	60,000	32,795			92,795
2009	65,000	29,904			94,904
2010	65,000	26,865			91,865
2011	70,000	23,675			93,675
2012	75,000	20,194			95,194
2013	75,000	16,519			91,519
2014	80,000	12,363			92,363
2015	85,000	7,619			92,619
2016	90,000	2,588			92,588
<b>Total</b>	<u>\$ 885,000</u>	<u>\$ 329,735</u>	<u>\$ 441,264</u>	<u>\$ 69,568</u>	<u>\$ 1,725,567</u>

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

**Note 3 - Detailed Notes on all Funds (Continued)**

**F. Long-term Debt (Continued)**

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 is slightly higher than the outstanding principal balance at any time. 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 totaling \$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, 2003:

<b>Year Ending September 30,</b>	<b>General Long-term Debt Account Group</b>
2004	\$ 145,952
2005	145,952
2006	145,952
2007	72,976
Total Remaining Minimum Lease Payments	510,832
(Imputed Interest)	(69,568)
<b>Present Value of Minimum Lease Payments</b>	<b>\$ 441,264</b>

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

**Note 3 - Detailed Notes on all Funds (Concluded)**

**F. Long-term Debt (Concluded)**

On November 15th, 2000, the City borrowed \$985,000 from the Florida Municipal Loan Council. In conjunction with their issuances of the Florida Municipal Loan Council Revenue Bonds, Series 2000B, Resolution 00-50 approved the loan agreement and the use of the proceeds for the demolition and reconstruction of a bridge on North Barfield Drive. Interest payments are due semiannually beginning May 1, 2001 through November 1, 2015, with interest varying from 4.25% to 5.75% per annum. Principal payments on the loan are due annually beginning November 1, 2001 through November 1, 2015. The loan is collateralized by a covenant to budget and appropriate from legally available non-ad valorem revenues.

**Note 4 - Other Information**

Fund balance in the general fund is designated for the following purposes at September 30, 2003:

Accrued Compensated Absences	\$ 527,930
2003 Capital Roll Forward	1,448,975
Emergency Reserve	2,714,758
<b>Total</b>	<u>\$ 4,691,663</u>

Fund balance designations are created by resolutions authorized by the City Council.

**Note 5 - Retirement Systems**

**Plan Descriptions**

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 (the Plan) that was established by the Fire Control District on December 12, 1995, under Resolution 95-006. Upon dissolution of the Fire Control District, the City assumed all assets and obligations of the 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, 2002 (date of the latest annual actuarial valuation), employee membership data related to the Plan were:

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

**Note 5 - Retirement Systems (Continued)**

**Plan Descriptions (Concluded)**

Retirees and Beneficiaries Currently Receiving Benefits	0
Terminated Employees Entitled to Benefits, but Not Yet Receiving Them	<u>0</u>
Retirees and Beneficiaries Currently Receiving Benefits and Terminated Employees Entitled to Benefits, but Not Yet Receiving Them	<u>0</u>
Active Plan Participants	
Vested	0
Nonvested	<u>10</u>
<b>Total Active Plan Participants</b>	<u>10</u>
<b>Vested Terminated Members</b>	<u>0</u>

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

Retired employees or their beneficiaries are entitled to pension payments for the longer of ten years or the retirees' remaining life equal to 3% of their final five-year average compensation times the number of years of credited service.

The final five-year average compensation (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 six years of credited service, with the benefit reduced by 3% per year for each year early. Delayed retirement is permitted, with the benefit calculated the same as the normal retirement benefit, but based on credited service and AFC as of the actual retirement date.

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

Pension provisions include disability benefits, whereby a disabled employee is entitled to receive the greater of the normal retirement benefits or a percentage of 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. Plan amendments are initiated by the Pension Board, and adopted by City Ordinance, after the required public hearings.

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

**Note 5 - Retirement Systems (Continued)**

**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 totaling 100% of the actuarially determined amount (after state contributions) annually to the Plan. The City's policy currently is to have actuarial studies conducted every three years. Contributions for the fiscal year ended September 30, 2003, were based on actuarial computations performed for 2002, in the last actuarial report dated October 1, 2002.

For the year ended September 30, 2003, the actuarially determined contribution amount was \$91,217 with the anticipated state contribution of \$73,936. Accordingly, the required employer contribution for 2003 was \$17,281. For the year ended September 30, 2003, the City's total covered payroll for participants in the Plan amounted to \$457,464. 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, 2003, was \$5,833,112.

**Annual Pension Cost and Net Pension Obligation**

The City's annual pension cost for the year ended September 30, 2003, was \$21,364 (higher than the required contribution). The City had no net pension obligation. The annual required contribution for the 2003 fiscal year was based on the 2001 year, and was determined as part of the October 1, 2002, actuarial valuation using the entry age actuarial costs method (with allocation of future normal costs based on earnings and determined by individual). The actuarial assumptions in the October 1, 2002, valuation included: (a) 8% investment rate of return (net of administrative expenses; (b) projected salary increases of 6% per year; and (c) 4.0% 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, 2002, was thirty years (closed basis).

**Three-year Trend Information**

<u>Fiscal Year Ended September 30,</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Pension Obligation</u>
2003	\$17,281	100.0%	\$0
2002	\$ 0	100.0%	\$0
2001	\$ 0	100.0%	\$0

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

**Note 5 - Retirement Systems (Concluded)**

**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.

**Note 6 - Defined Benefit Pension Plan**

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

The Marco Island Independent Fire Protection District provided fire and rescue services to the community prior to the incorporation in 1997. Employees hired by the district prior to December 31, 1995, participated in the pension plan provided by the Florida Retirement System (the System). These "old hire" employees were allowed to continue membership in the System both after establishment of the local Firefighters' Pension Plan (see note 5) and after incorporation of the City.

This System was created by the Florida Legislature and is a cost-sharing, multiple-employer defined benefit public retirement plan available to governmental units within the state of Florida. The System issues a publicly available financial report that includes financial statements and required supplementary information for the System. That report may be obtained by writing to the Florida Retirement System, Division of Retirement, 2639-C North Monroe Street, Tallahassee, Florida 32399-1560, or by calling (850) 488-5706.

Under the System, special risk employees who retire at or after age 55, with ten years of creditable service; and all other employees who retire at or after age 62, with ten years of creditable service; are entitled to a retirement benefit, payable monthly for life, equal to the product of: 1) average monthly compensation in the highest five years of creditable service; 2) creditable service during the appropriate period; and 3) the appropriate benefit percentage. Benefits are fully vested on reaching six years of service. Vested employees may retire after six years of creditable service and receive reduced retirement benefits. The System also provides death benefits, disability benefits and cost of living adjustments, as established by Florida Statute.

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

**Note 6 - Defined Benefit Pension Plan (Concluded)**

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

The City's contributions to the System for the years ended September 30, 2003, 2002, and 2001, were \$164,934, \$154,420, and \$199,023, respectively, equal to the required contributions for each year.

**Note 7 - 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, 2003, the City had the following commitments related to significant unfinished capital projects:

<u>Projects</u>	<u>Expended as of 9/30/03</u>	<u>Remaining Commitment</u>
North Collier Boulevard (Tindale-Oliver and Associates, Inc.)	\$ 232,465	\$ 839,142
Sidewalk Project District IV (Quality Enterprises USA, Inc.)	117,571	161,174
South Collier Boulevard/Mass Mututal (Kimley-Horn and Associates, Inc.)	<u>768,985</u>	<u>483,174</u>
<b>Totals</b>	<b><u>\$ 1,119,021</u></b>	<b><u>\$ 1,483,490</u></b>

**Note 8 - Grant Funding**

The City participates in federal, state and county programs that are fully or partially funded by grants received from other governmental units. In management's opinion, there are no material instances of noncompliance relating to these grants.

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

**Note 9 - Risk Management**

The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the City carries commercial insurance. Insurance against losses is provided through the Florida League of Cities, Inc. for the following types of risk:

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

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

**Note 10 - Subsequent Events**

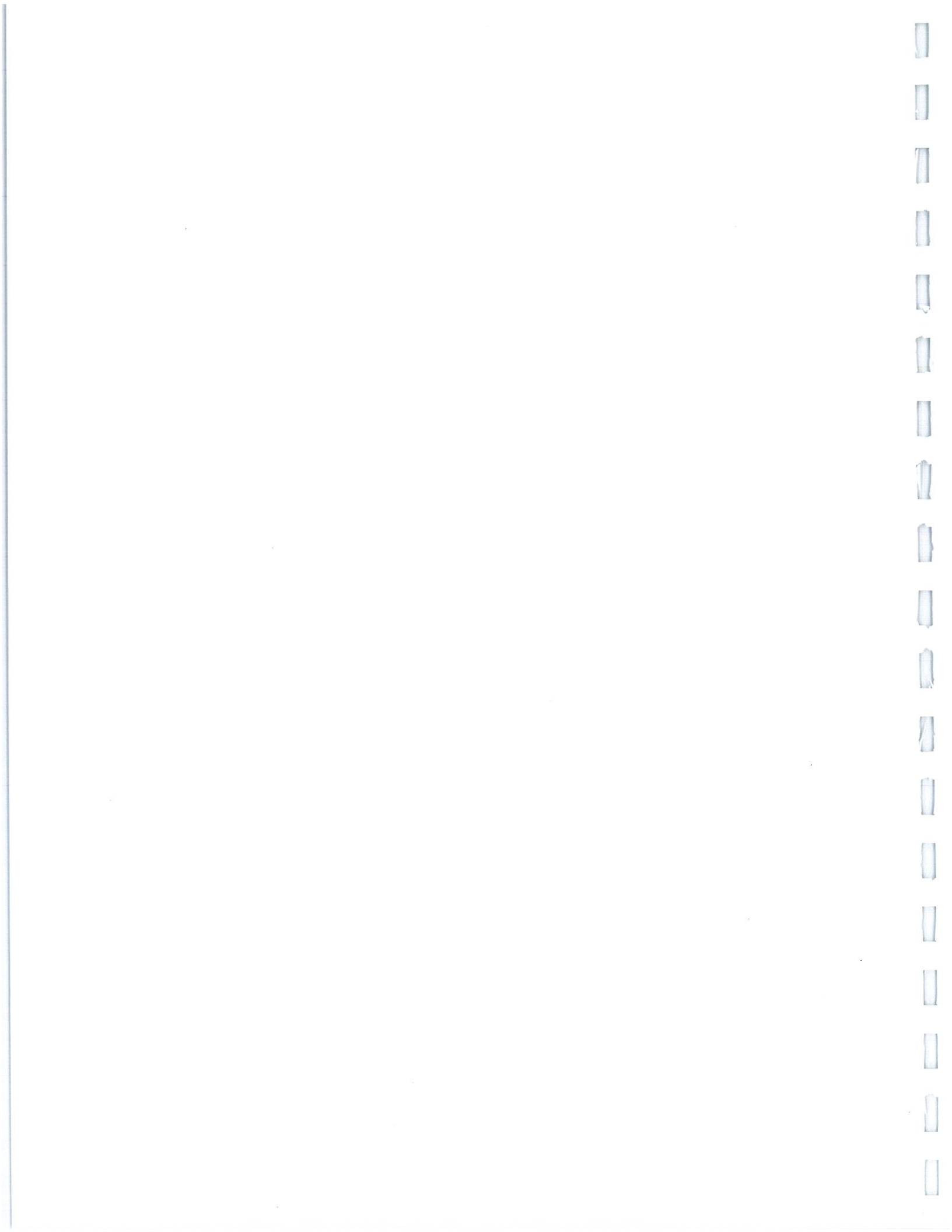
On November 6, 2003, the City issued the City of Marco Island Utility System Revenue Bonds, Series 2003, in the principal amount of \$101,115,000, and dated October 1, 2003. The bonds were issued to provide funds sufficient to: (1) pay the costs of acquiring certain water production, transmission, treatment and disposal facilities located within the jurisdiction of the City, and previously owned by Florida Water Services Corporation, (2) construct certain additions, extensions and improvements to such system, and (3) pay the costs of issuance and insurance.

The last remaining contiguous large tract of land on Marco Island came on the market during the summer of 2003. The City Council recognized the need for additional park and open space for the community and authorized negotiations with the property owner. The price of \$9.7 million was agreed to for the 6.85 acre tract and the City Council, through Resolution 03-59 adopted on October 20, 2003, scheduled a public referendum by mail ballot on the issuance of not to exceed \$10 million in general obligation bonds to finance the purchase. Official tabulation was held by the Collier County Supervisor of Elections on December 10, 2003, resulting in the approval of the referendum. Completion of the bond issue and closing on the property acquisition are scheduled for March 2004.

On July 30, 2002, the City entered into an interlocal agreement with Collier County to transfer to the City, the ownership, operation and maintenance responsibility of all remaining public roads and rights-of-way within the City, over a period ending two years from that date. In consideration for this responsibility, and the responsibility associated with the transfer of prior roadways, the County agreed to pay the City the sum of \$1,000,000 annually for a period of 15 years, beginning in 2003.



**REQUIRED SUPPLEMENTARY INFORMATION**



**SCHEDULE OF FUNDING PROGRESS  
CITY OF MARCO ISLAND FIREFIGHTERS' PENSION PLAN  
SEPTEMBER 30, 2003  
CITY OF MARCO ISLAND, FLORIDA**

<b>Actuarial Valuation Date</b>	<b>(a) Actuarial Value of Assets</b>	<b>(b) Actuarial Accrued Liability (AAL) Entry Age</b>	<b>(b-a) Unfunded (Overfunded) AAL (UAAL)</b>	<b>(a/b) Funded Ratio</b>	<b>(c) Covered Payroll</b>	<b>(b-a)/(c) UAAL as a Percentage of Covered Payroll</b>
10/1/97	\$ 53,383	\$ 41,289	\$ (12,094)	129.3%	\$ 142,309	-8.5%
10/1/00	364,049	105,398	(258,651)	345.4%	164,716	-157.0%
10/1/02	331,733	248,387	(83,346)	133.6%	365,065	-22.8%

Note: Latest valuation was October 1, 2002

**SCHEDULE OF EMPLOYER AND STATE CONTRIBUTIONS  
CITY OF MARCO ISLAND FIREFIGHTERS' PENSION PLAN  
SEPTEMBER 30, 2003  
CITY OF MARCO ISLAND, FLORIDA**

<b>Fiscal Year Ended</b>	<b>Actuarial Valuation Date</b>	<b>Annual Required Contribution</b>	<b>Actual Contribution (State)</b>	<b>Percentage Contributed</b>
9/30/99	10/1/97	\$ 41,924	\$ 69,045	164.7%
9/30/00	10/1/00	41,924	178,945	426.8%
9/30/02	10/1/02	15,306	73,936	483.1%

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, 2002
Actuarial Cost Method	Entry Age
Amortization Method	Level Dollar, Closed
Remaining Amortization Period	30 Years
Asset Valuation Method	Market Value

**Actuarial Assumptions:**

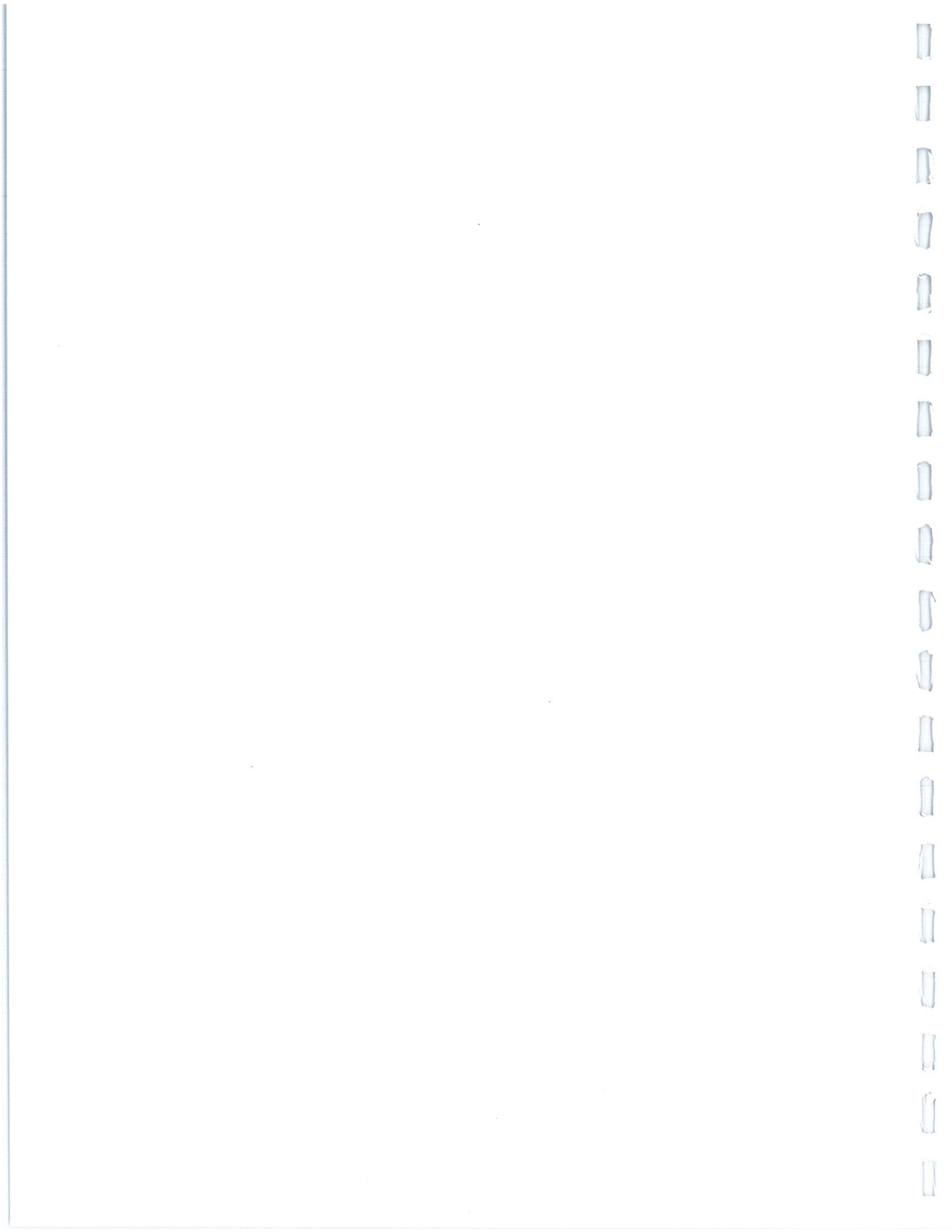
Investment Rate of Return	8.0%
Projected Salary Increases	6.0%
Inflation Rate	4.0%

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN  
FUND BALANCES - BUDGET AND ACTUAL  
GENERAL FUND  
FOR THE YEAR ENDED SEPTEMBER 30, 2003  
CITY OF MARCO ISLAND, FLORIDA**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Taxes	\$ 10,157,000	\$ 10,157,000	\$ 10,776,436	\$ 619,436
Licenses and Permits	28,000	28,000	33,833	5,833
Intergovernmental	2,521,500	2,521,500	2,179,652	(341,848)
Charges for Services	248,000	248,000	321,882	73,882
Fines and Forfeitures	56,200	56,200	130,744	74,544
Interest Income	405,000	405,000	347,907	(57,093)
Miscellaneous	275,000	275,000	297,804	22,804
<b>Total Revenues</b>	<u>13,690,700</u>	<u>13,690,700</u>	<u>14,088,258</u>	<u>397,558</u>
<b>Expenditures</b>				
Current:				
General Government	2,180,228	2,065,613	1,889,079	176,534
Police Services	2,730,872	2,770,208	2,619,126	151,082
Fire/Rescue	2,608,766	2,682,595	2,601,028	81,567
Code Compliance	199,559	199,559	189,074	10,485
Transportation	1,311,626	1,311,626	1,234,933	76,693
Culture and Recreation	1,500,408	1,719,112	1,393,598	325,514
<b>(Total Expenditures)</b>	<u>(10,531,459)</u>	<u>(10,748,713)</u>	<u>(9,926,838)</u>	<u>821,875</u>
<b>Excess of Revenues Over Expenditures</b>	3,159,241	2,941,987	4,161,420	1,219,433
<b>Other Financing (Uses)</b>				
Transfers (out)	<u>(2,378,475)</u>	<u>(2,378,475)</u>	<u>(2,355,450)</u>	<u>23,025</u>
<b>Net Change in Fund Balances</b>	<u>\$ 780,766</u>	<u>\$ 563,512</u>	<u>\$ 1,805,970</u>	<u>\$ 1,242,458</u>

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**SUPPORTING STATEMENTS AND SCHEDULES**





**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN  
 FUND BALANCES - BUDGET AND ACTUAL  
 CAPITAL PROJECTS FUND  
 FOR THE YEAR ENDED SEPTEMBER 30, 2003  
 CITY OF MARCO ISLAND, FLORIDA**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Intergovernmental	\$ 1,662,500	\$ 1,662,500	\$ 2,504,716	\$ 842,216
Miscellaneous	497,000	497,000	465,707	(31,293)
<b>Total Revenues</b>	<u>2,159,500</u>	<u>2,159,500</u>	<u>2,970,423</u>	<u>810,923</u>
<b>Expenditures</b>				
Capital Outlay	<u>(6,942,975)</u>	<u>(7,432,748)</u>	<u>(4,613,409)</u>	<u>2,819,339</u>
<b>(Deficiency) of Revenues (Under) Expenditures</b>	<u>(4,783,475)</u>	<u>(5,273,248)</u>	<u>(1,642,986)</u>	<u>3,630,262</u>
<b>Other Financing Sources</b>				
Debt Proceeds	1,955,000	1,955,000	0	(1,955,000)
Transfers in	2,378,475	2,378,475	1,642,986	(735,489)
<b>Total Other Financing Sources</b>	<u>4,333,475</u>	<u>4,333,475</u>	<u>1,642,986</u>	<u>(2,690,489)</u>
<b>Net Change in Fund Balances</b>	<u>\$ (450,000)</u>	<u>\$ (939,773)</u>	<u>\$ 0</u>	<u>\$ 939,773</u>

**STATEMENT OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL  
BUILDING SERVICES FUND  
FOR THE YEAR ENDED SEPTEMBER 30, 2003  
CITY OF MARCO ISLAND, FLORIDA**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Licenses and Permits	\$ 941,931	\$ 941,931	\$ 1,286,530	\$ 344,599
<b>Expenditures</b>				
Current:				
Building Services:				
Personal Services	396,299	396,299	413,236	(16,937)
Operating Expenses	524,632	524,632	458,628	66,004
Capital Outlay	21,000	21,000	7,650	13,350
<b>(Total Expenditures)</b>	<u>(941,931)</u>	<u>(941,931)</u>	<u>(879,514)</u>	<u>62,417</u>
<b>Excess of Revenues Over Expenditures</b>	<u>0</u>	<u>0</u>	<u>407,016</u>	<u>407,016</u>
<b>Other Financing Sources</b>				
Transfers in	<u>0</u>	<u>0</u>	<u>712,464</u>	<u>712,464</u>
<b>Net Change in Fund Balance</b>	<u>0</u>	<u>0</u>	<u>1,119,480</u>	<u>1,119,480</u>
<b>Fund Balances, Beginning of Year</b>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
<b>Fund Balances, End of Year</b>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 1,119,480</u>	<u>\$ 1,119,480</u>

**CAPITAL ASSETS USED IN THE OPERATION OF  
GOVERNMENTAL FUNDS  
SEPTEMBER 30, 2003  
CITY OF MARCO ISLAND, FLORIDA**

**Governmental Funds Capital Assets**

Land	\$ 4,943,419
Buildings and Improvements	2,064,209
Infrastructure	2,694,722
Vehicles and Equipment	3,008,731
Property Held Under Capital Lease	1,609,880
Construction in Process	1,917,794
<b>Total Governmental Funds Capital Assets</b>	<u><u>16,238,755</u></u>

**Investments in Governmental Funds**

**Capital Assets by Source**

General Fund Revenue	8,710,523
Fire District Taxes	2,626,946
Contributions	4,901,286
<b>Total Investments in Governmental Funds Capital Assets</b>	<u><u>\$ 16,238,755</u></u>

**CAPITAL ASSETS USED IN THE OPERATION OF GOVERNMENTAL FUNDS  
BY FUNCTION AND ACTIVITY  
FOR THE YEAR ENDED SEPTEMBER 30, 2003  
CITY OF MARCO ISLAND, FLORIDA**

	Land	Buildings and Improvements	Infrastructure	Vehicles and Equipment	Property Held Under Capital Lease	Construction in Process	Totals
<b>General Government</b>							
City Council				\$ 23,310			\$ 23,310
Executive				33,062			33,062
Finance				74,063			74,063
Community Development	\$ 45,000			39,005			84,005
Other General Government	890,030	\$ 662,906		185,105			1,738,041
<b>Total General Government</b>	<b>935,030</b>	<b>\$ 662,906</b>	<b>\$ 0</b>	<b>354,545</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>1,952,481</b>
<b>Public Safety</b>							
Code Compliance				22,830			22,830
Police Services		9,750		719,401			729,151
Fire/Rescue	575,227	190,426		1,470,320	1,609,880		3,845,853
Building Services		6,041		63,533			69,574
<b>Total Public Safety</b>	<b>575,227</b>	<b>206,217</b>	<b>0</b>	<b>2,276,084</b>	<b>1,609,880</b>	<b>0</b>	<b>4,667,408</b>
<b>Culture and Recreation</b>							
Parks Maintenance	150,231	17,155		160,074			327,460
Recreation	3,160,050	1,156,205		52,047		1,917,794	6,286,096
Beatification	121,988	21,726		87,336			231,050
Pathways							16,907
Beaches and Waterways							0
Parks	893						98,822
<b>Total Culture and Recreation</b>	<b>3,433,162</b>	<b>1,195,086</b>	<b>114,836</b>	<b>299,457</b>	<b>0</b>	<b>1,917,794</b>	<b>6,960,335</b>
<b>Transportation</b>							
Public Works				78,645			78,645
Road Network			788,924				788,924
Stromwater			1,407,715				1,407,715
Bridge Network			383,247				383,247
<b>Total Transportation</b>	<b>0</b>	<b>0</b>	<b>2,579,886</b>	<b>78,645</b>	<b>0</b>	<b>0</b>	<b>2,658,531</b>
<b>Total Governmental Funds Capital Assets</b>	<b>\$ 4,943,419</b>	<b>\$ 2,064,209</b>	<b>\$ 2,694,722</b>	<b>\$ 3,008,731</b>	<b>\$ 1,609,880</b>	<b>\$ 1,917,794</b>	<b>\$ 16,238,755</b>

**CAPITAL ASSETS USED IN THE OPERATION OF GOVERNMENTAL FUNDS  
BY FUNCTION AND ACTIVITY  
FOR THE YEAR ENDED SEPTEMBER 30, 2003  
CITY OF MARCO ISLAND, FLORIDA**

	<b>Governmental Funds Capital Assets 10/1/02</b>	<b>Acquisitions</b>	<b>Transfers and Deductions</b>	<b>Governmental Funds Capital Assets 9/30/03</b>
<b>General Government</b>				
City Council	\$ 24,554		\$ (1,244)	\$ 23,310
Executive	97,704		(64,642)	33,062
Finance	68,576	\$ 7,100	(1,613)	74,063
Community Development	116,387	2,261	(34,643)	84,005
Other General Government	1,675,349	63,667	(975)	1,738,041
<b>Total General Government</b>	<u>1,982,570</u>	<u>73,028</u>	<u>(103,117)</u>	<u>1,952,481</u>
<b>Public Safety</b>				
Code Compliance	36,114	1,445	(14,729)	22,830
Police Services	458,665	264,551	5,935	729,151
Fire/Rescue	4,242,492	140,563	(537,202)	3,845,853
Building Services	69,166	7,791	(7,383)	69,574
<b>Total Public Safety</b>	<u>4,806,437</u>	<u>414,350</u>	<u>(553,379)</u>	<u>4,667,408</u>
<b>Culture and Recreation</b>				
Parks Maintenance	229,893	55,688	41,879	327,460
Recreation	4,327,212	1,973,933	(15,049)	6,286,096
Beautification	231,050			231,050
Pathways		16,907		16,907
Beaches and Waterways				0
Parks		98,822		98,822
<b>Total Culture and Recreation</b>	<u>4,788,155</u>	<u>2,145,350</u>	<u>26,830</u>	<u>6,960,335</u>
<b>Transportation</b>				
Public Works	71,657	4,498	2,490	78,645
Road Network		788,924		788,924
Stormwater		1,407,715		1,407,715
Bridge Network		383,247		383,247
<b>Total Transportation</b>	<u>71,657</u>	<u>2,584,384</u>	<u>2,490</u>	<u>2,658,531</u>
<b>Total Capital Assets</b>	<u>\$ 11,648,819</u>	<u>\$ 5,217,112</u>	<u>\$ (627,176)</u>	<u>\$ 16,238,755</u>

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**STATISTICAL SECTION (UNAUDITED)**





**Table 1****CITY OF MARCO ISLAND, FLORIDA****Governmental Expenditures by Function (1)****Last Six Fiscal Years (2)**

	<u>2003 (3)</u>	<u>2002</u>	<u>2001</u>	<u>2000</u>	<u>1999</u>	<u>1998</u>
Police Services	\$ 2,619,126	\$ 2,297,618	\$ 1,966,908	\$ 1,937,778	\$ 0	\$ 0
Fire and Rescue Services	2,601,028	2,537,960	2,544,666	2,189,745	0	0
Public Safety (4)	0	0	0	0	3,118,387	2,299,690
Transportation	1,234,933	1,007,203	911,790	795,072	648,162	83,259
Culture and Recreation	1,393,598	1,215,340	1,160,876	928,508	890,758	299,379
Community Development	0	1,285,598	1,073,103	1,053,064	742,772	114,224
Code Compliance	189,074	0	0	0	0	0
Building Services	879,514	0	0	0	0	0
General Government	1,889,079	1,372,799	1,209,349	1,191,416	963,214	876,661
Debt Service	0	244,724	166,996	145,953	145,952	145,953
Capital Outlay	<u>4,613,409</u>	<u>3,388,617</u>	<u>4,614,758</u>	<u>2,432,489</u>	<u>508,368</u>	<u>0</u>
<b>TOTAL</b>	<u>\$ 15,419,761</u>	<u>\$ 13,349,859</u>	<u>\$ 13,648,446</u>	<u>\$ 10,674,025</u>	<u>\$ 7,017,613</u>	<u>\$ 3,819,166</u>

(1) Includes the General, Capital Projects, and Building Services Funds.

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

(3) Expenditure categories beginning in fiscal year 2003 based on those used by GASB No. 34 statement presentation.

(4) Police Services and Fire and Rescue Services were reported combined as Public Safety prior to fiscal year 2000.

**Table 2****CITY OF MARCO ISLAND, FLORIDA****Revenues and Other Financing Sources by Source (1)****Last Six Fiscal Years (2)**

	<u>2003</u>	<u>2002</u>	<u>2001</u>	<u>2000</u>	<u>1999</u>	<u>1998</u>
Ad Valorem Tax (3)	\$ 9,156,048	\$ 7,908,375	\$ 5,647,540	\$ 5,539,370	\$ 6,248,575	\$ 2,421,336
Other Taxes	1,620,388	1,456,842	916,544	832,635	782,929	562,882
Licenses and Permits	1,320,363	1,538,919	1,143,518	1,147,608	1,054,380	22,867
Intergovernmental Revenues	4,684,368	2,653,599	2,532,798	2,244,772	1,727,424	2,292,319
Charges for Services	321,882	439,640	224,104	202,721	159,460	15,653
Fines and Forfeitures	130,744	111,235	83,972	79,198	59,732	2,375
Interest Income	347,907	342,284	589,333	611,434	370,834	155,524
Other Financing Sources	0	365,607	619,393	0	0	0
Miscellaneous	763,511	1,221,158	1,343,349	1,134,144	1,516,452	398,325
<b>TOTAL</b>	<b><u>\$ 18,345,211</u></b>	<b><u>\$ 16,037,659</u></b>	<b><u>\$ 13,100,551</u></b>	<b><u>\$ 11,791,882</u></b>	<b><u>\$ 11,919,786</u></b>	<b><u>\$ 5,871,281</u></b>

(1) Includes the General, Capital Projects, and Building Services Funds.

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

(3) Property Tax revenues for fiscal year 1998 levied by the Marco Island Fire Control District. District dissolved upon incorporation and reorganized as the Fire Department for the City of Marco Island.

**Table 3****CITY OF MARCO ISLAND, FLORIDA****Property Tax Levies and Collections (1)****Last Six Fiscal Years (2)**

<b>Fiscal Year</b>	<b>Taxes Assessed January 1st</b>	<b>Total Tax Levy</b>	<b>Current Tax Collections</b>	<b>Percent of Current Taxes Collected</b>	<b>Delinquent Tax Collections</b>
1998	1997 (3)	\$ 2,547,087	\$ 2,419,717	95.0%	\$ 1,619
1999	1998	6,462,356	6,243,114	96.6%	5,461
2000	1999	5,726,991	5,525,097	96.5%	14,273
2001	2000	5,850,687	5,642,805	96.4%	4,735
2002	2001	8,180,349	7,904,281	96.7%	4,094
2003	2002	9,480,531	9,150,389	96.5%	5,659

Source: Collier County Tax Collector

- (1) Under Florida State Statutes, property owners are entitled to up to a 4% reduction in ad valorem tax payments for early payment. Outstanding delinquent taxes for the City of Marco Island are not significant.
- (2) The City of Marco Island was incorporated in August 1997. A ten-year history of tax levies and collections is not applicable.
- (3) Property taxes collected in fiscal year 1998, assessed on January 1, 1997, were for the Marco Island Fire District, subsequently incorporated into the City of Marco Island.

**Table 8****CITY OF MARCO ISLAND, FLORIDA****Ratio of Annual Debt Service Expenditures for General  
Debt to Total General Expenditures****Last Six Fiscal Years (1)**

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

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

**Table 9**

**CITY OF MARCO ISLAND, FLORIDA**

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

**Last Six Fiscal Years (1)**

<b>Fiscal Year</b>	<b>Debt Principal Outstanding End of Fiscal Year</b>	<b>Total Assessed Valuation</b>	<b>Debt Principal as a Percent of Total Valuation</b>
1998	\$ 901,652	\$ 2,841,082,435	0.03%
1999	822,975	3,060,987,023	0.03%
2000	737,843	3,466,113,897	0.02%
2001	1,265,649	3,874,706,433	0.03%
2002	1,482,583	4,692,708,724	0.03%
2003	1,326,264	5,609,781,378	0.02%

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

**Table 10**

**CITY OF MARCO ISLAND, FLORIDA**

**Demographic Statistics**

**Population:**

<u>Year</u>	<u>City of Marco Island (1)</u>	<u>Collier County</u>	<u>State of Florida</u>
1980	4,679	85,971	9,746,400
1990	9,493	152,099	12,937,926
1995	11,343	186,504	14,149,317
1996	11,713	193,036	14,411,563
1997	11,805	200,024	14,712,922
1998	12,165	213,439	14,934,950
1999	12,408	219,685	15,322,040
2000	14,879	251,377	15,982,978
2001	15,280	264,475	16,331,739
2002	15,680	277,457	16,674,608

**Projections:**

2005	16,700	316,500	17,094,600
2010	18,700	381,500	17,794,800

**Population by Age Group - 2000 Census:**

<u>Age</u>			
0-14	1,327	41,552	
15-24	753	25,090	
25-44	2,153	61,730	
45-65	4,931	61,492	
65+	5,715	61,513	

Source: University of Florida Bureau of Economic and Business Research, 2000.

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

**Table 11**

**CITY OF MARCO ISLAND, FLORIDA**

**Construction Activity**

**Last Six Years (1)**

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

Source: Collier County Property Appraiser

- (1) The City of Marco Island was incorporated in August 1997. The City began issuing building permits October 1, 1998.
- (2) The Building Department maintains records on a calendar year basis.
- (3) Three months data.

**Table 12**

**CITY OF MARCO ISLAND, FLORIDA**

**Principal Taxpayers  
As of September 30, 2003**

<u>Taxpayer</u>	<u>Property by Type</u>	<u>January 1, 2003 Assessed Valuation (1)</u>	<u>Percent of Total Assessed Valuation</u>
1) City National Bank of Miami, dba Marriott Marco Island Resort	Hospitality	\$ 78,176,505	1.23%
2) Marco Island Utilities	Water/Sewer Utility	55,977,990	0.88%
3) Marco Beach Hotel, Inc.	Hospitality	34,494,759	0.54%
4) Boykin Marco LLC, dba Marco Island Radisson Hotel	Hospitality	26,244,655	0.41%
5) Marco Town Center, Inc.	Shopping Center	14,324,018	0.22%
6) Bay Colony - Gateway, Inc.	Real Estate Developer	7,114,991	0.11%
7) Island Country Club, Inc.	Golf Course	7,091,185	0.11%
8) Gregg Holdings, Inc.	Real Estate Developer	7,020,525	0.11%
9) Venetian Investments, LLC	Real Estate Developer	6,264,363	0.09%
10) Sprint-Florida Incorporated	Telephone Utility	<u>6,072,649</u>	<u>0.09%</u>
<b>Total</b>		<u><u>\$ 242,781,640</u></u>	<u><u>3.79%</u></u>

(1) Based on 2003 assessed taxable real property valuation of \$6,352,910,401.

Source: Collier County Property Appraiser



**Table 13**

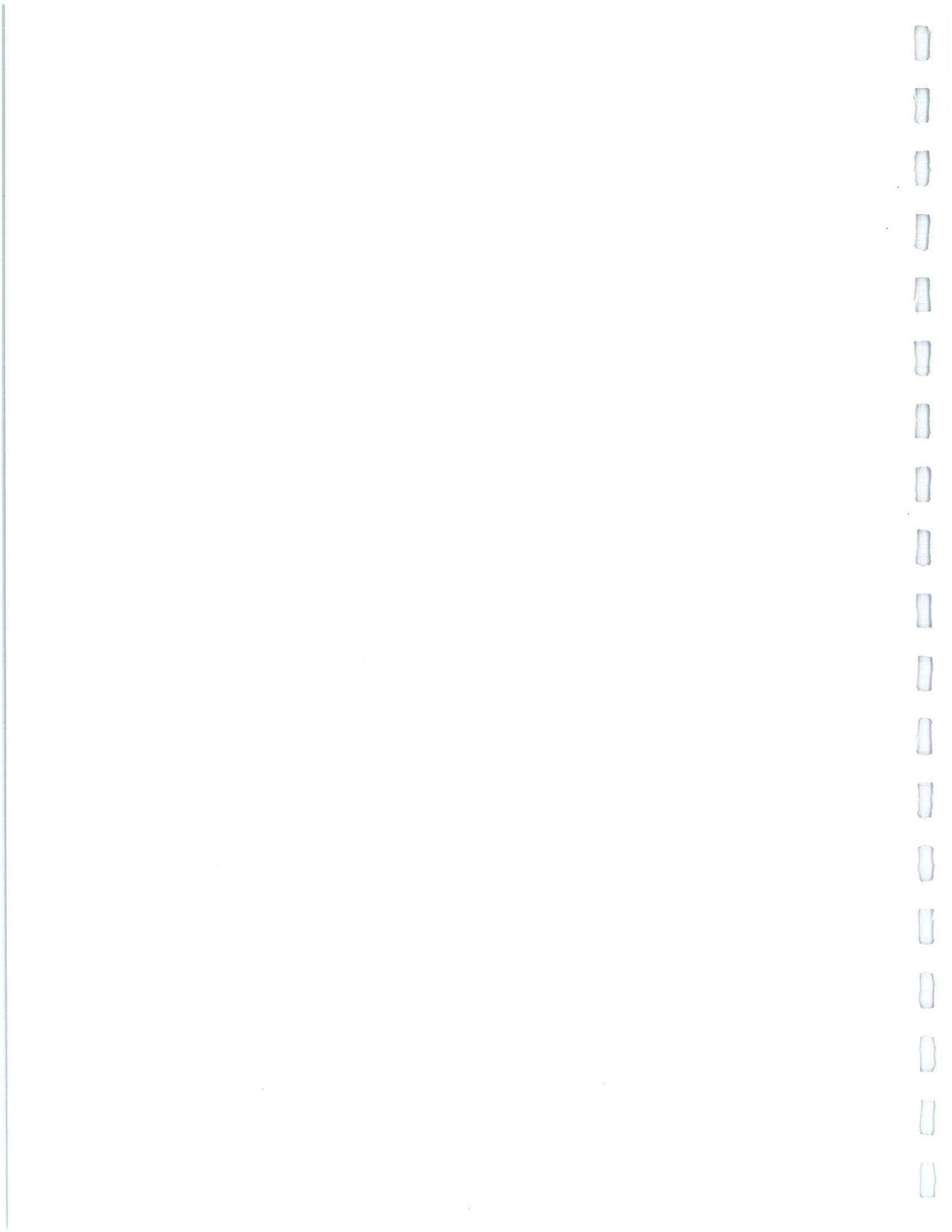
**CITY OF MARCO ISLAND, FLORIDA**

**Miscellaneous Statistics**

Date of Incorporation	August 28, 1997
Date of Adoption of City Charter	August 28, 1997
Form of Government	Council - Manager
Area	7.4 Square Miles
Streets	127 Centerline Miles Paved
Fire Protection:	
Number of Firefighters	29
Police Protection:	
Number of Sworn Officers	30
Total City Employees	106
Election:	
Number of Registered Voters	10,043
Votes Cast in Last Election	5,206
Last Election	City Council Election 3/12/2002
Signalized Intersections	7
Bridges	12
Marco Island Beaches:	
Total Beach Length	5.7 Miles
Total Area	230 Acres
Parks:	
Community Parks	6
Regional Parks	3
Hospitals:	Marco Healthcare Center (Naples Community Hospital)
Schools:	1 Elementary School 1 Charter Middle School

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**SINGLE AUDIT SECTION**



**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND  
STATE FINANCIAL ASSISTANCE  
FOR THE YEAR ENDED SEPTEMBER 30, 2003  
CITY OF MARCO ISLAND, FLORIDA**

Federal or State Grantor/Pass-through Grantor/Program Title Federal Awards	CFDA/CSFA Number	Pass-through Grantor's Number	Federal/ State Award Amount	Required Match	Receipts	(Federal State Expenditures)
<b>U.S. Department of Justice</b>						
Passed Through State of Florida Department of Law Enforcement Office of Criminal Justice:						
Island Drug Reduction/Eradication	16.592	03-CJ-2Q-09-21-02-034	\$ 10,000	\$ 1,270	\$ 10,000	\$ (10,000)
Island Drug Reduction/Eradication	16.592	02-CJ-2M-09-21-02-095	10,000	1,100		(2,521)
COPS Universal Hiring Award	16.710	2000-UMX-0047	375,000	506,515	28,539	(123,690)
COPS MORE 01	16.710	2001-CMWX-0102	185,408	61,805		(169,991)
<b>Bureau of Justice Assistance</b>						
Bulletproof Vest Partnership Grant Program	16.607	N/A	2,570	2,570	2,570	(2,570)
<b>U.S. Department of Transportation, National Highway Traffic Safety Administration</b>						
Passed Through Florida Department of Transportation: Marco Island Enhanced DUI Traffic Safety	20.601	J8-03-06-05	36,397	12,011	27,202	(36,397)
<b>U.S. Department of Housing and Urban Development</b>						
Passed Through Collier County, Florida: Urban County Cooperation Grant *	14.218	B-01-UC-12-0016	750,000	0	550,996	(550,996)
Passed Through State of Florida, Office of Attorney General: Victims of Crime Acts	16.575	V1073	15,694	3,138		(515)
<b>Federal Emergency Management Agency</b>						
Fire Operations and Firefighter Safety	83.554	EMW-2002-FG-16733	30,105	3,345	30,105	(30,105)
<b>Total Federal Awards</b>			<u>\$ 1,415,174</u>	<u>\$ 591,754</u>	<u>\$ 649,412</u>	<u>\$ (926,785)</u>
<b>State Financial Assistance</b>						
<b>Department of Community Affairs</b>						
Emergency Management Preparedness and Assistance Program	52.008	03CG-04-09-21-02-114	\$ 25,364	\$ 4,575	\$ 25,637	\$ (25,637)

\* Denotes Major Program

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

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

**Compliance**

We have audited the compliance of the City of Marco Island, Florida with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133, *Compliance Supplement* that are applicable to its major federal programs for the year ended September 30, 2003. The City of Marco Island, Florida's major federal programs are identified in the summary of audit results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal programs are the responsibility of the City of Marco Island, Florida's management. Our responsibility is to express an opinion on the City of Marco Island, Florida's compliance based on our audit.

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

In our opinion, the City of Marco Island, Florida complied, in all material respects, with the requirements referred to above that are applicable to its major federal programs for the year ended September 30, 2003.

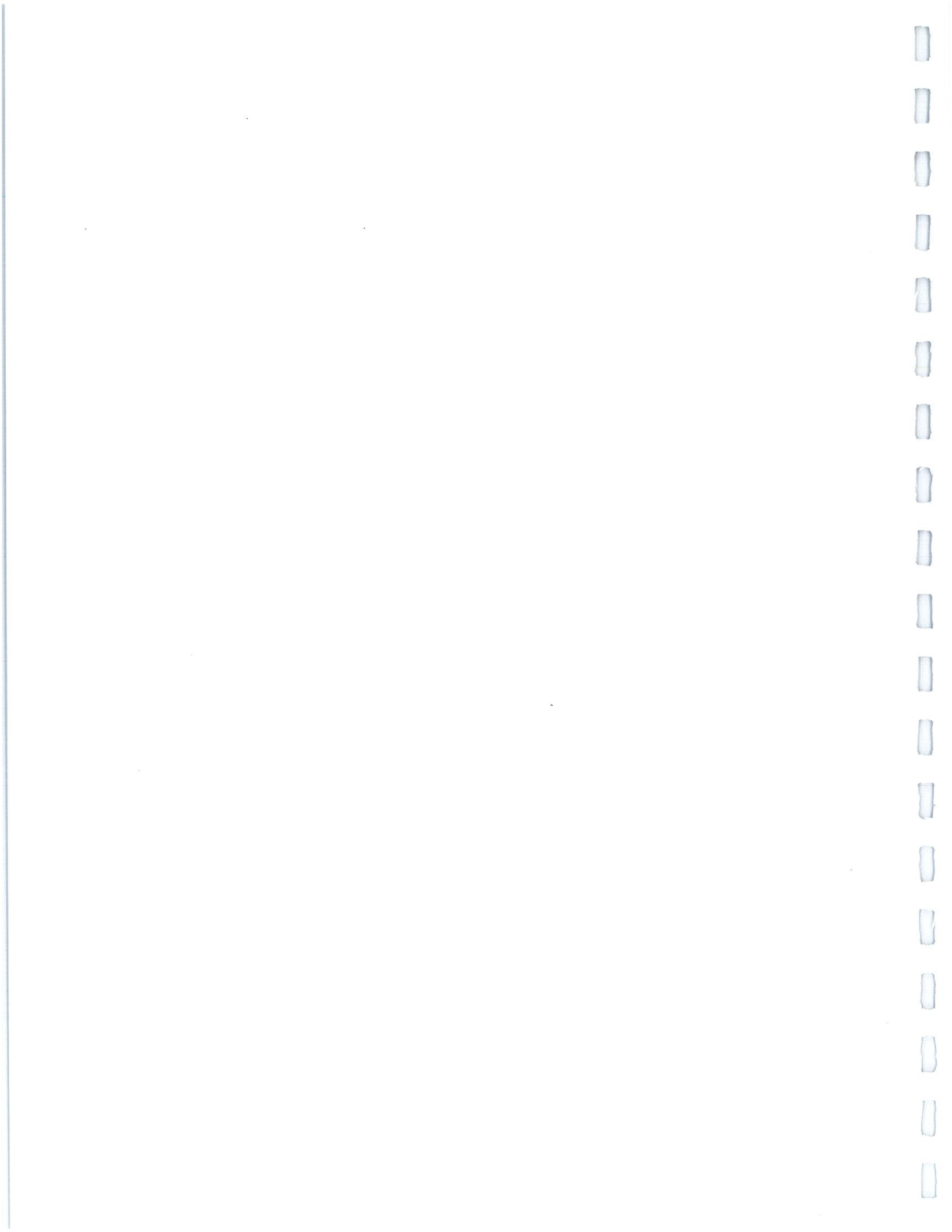
**Internal Control Over Compliance**

The management of the City of Marco Island, Florida is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City of Marco Island, Florida's internal control over compliance with requirements that could have a direct and material

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

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

**Internal Control Over Compliance (Concluded)**

effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

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

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

December 19, 2003  
Sarasota, Florida

*Perkins, May and Company*



**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2003  
CITY OF MARCO ISLAND, FLORIDA**

**Part A - SUMMARY OF AUDIT RESULTS**

1. The independent auditors' report expresses an unqualified opinion on the basic financial statements of the City of Marco Island, Florida.
2. There were no reportable conditions disclosed during the audit of the basic financial statements.
3. No instances of noncompliance material to the basic financial statements of the City of Marco Island, Florida were disclosed during the audit.
4. The audit disclosed no instances of reportable conditions in internal control over the major federal programs or reportable conditions which were material weaknesses in internal control over the major federal programs.
5. The Independent Auditors' Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133 for the major federal award programs of the City of Marco Island, Florida expresses an unqualified opinion.
6. The audit disclosed no findings required to be reported under Section .510(a) of OMB Circular A-133.
7. The programs tested as major programs included:
  - U.S. Department of Housing and Urban Development, Community Development Block Grant, CFDA Number 14.218
8. The dollar threshold used to distinguish between Type A and B programs was \$300,000 (major federal programs were determined by using the percentage of coverage rule).
9. The City of Marco Island, Florida does not qualify as a low-risk auditee per criteria set forth in Section .530 of OMB Circular A-133.

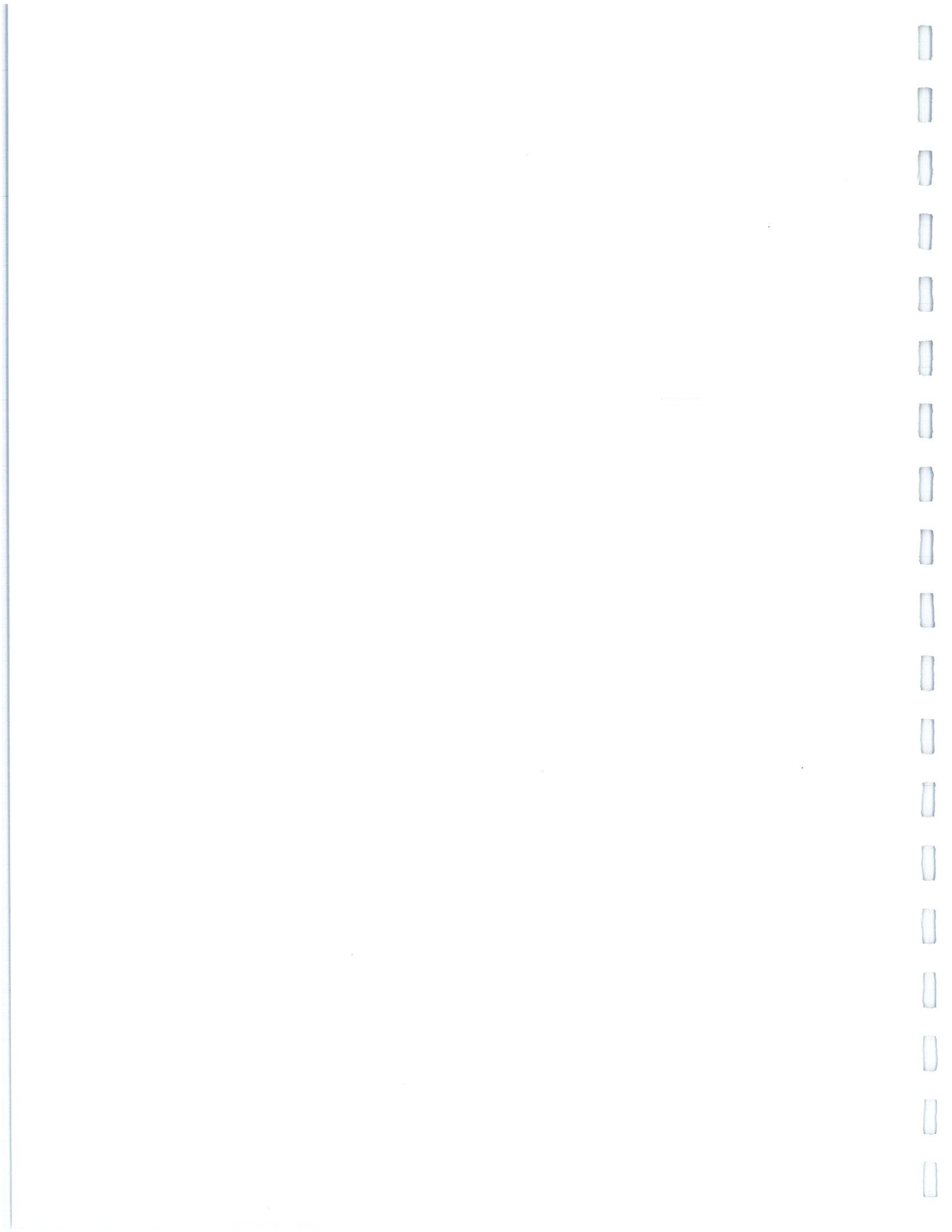
**Part B - FINDINGS - FINANCIAL STATEMENTS AUDIT**

**Reportable Conditions**

None

**Part C - FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAMS**

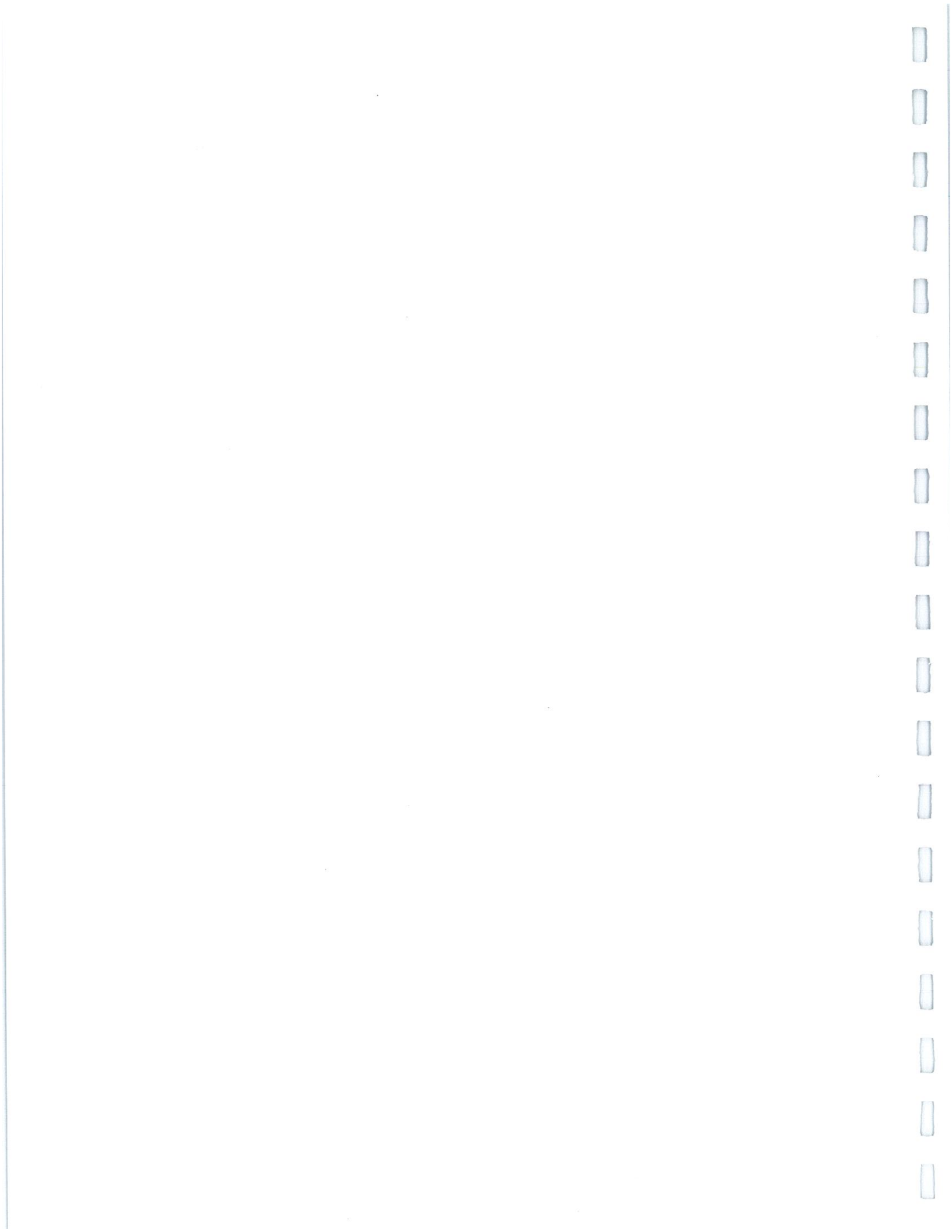
The audit disclosed no findings which are required to be reported under Section .510(a) of OMB Circular A-133.



**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS IN  
ACCORDANCE WITH OMB CIRCULAR A-133  
CITY OF MARCO ISLAND, FLORIDA**

**1. Status of Prior Audit Findings**

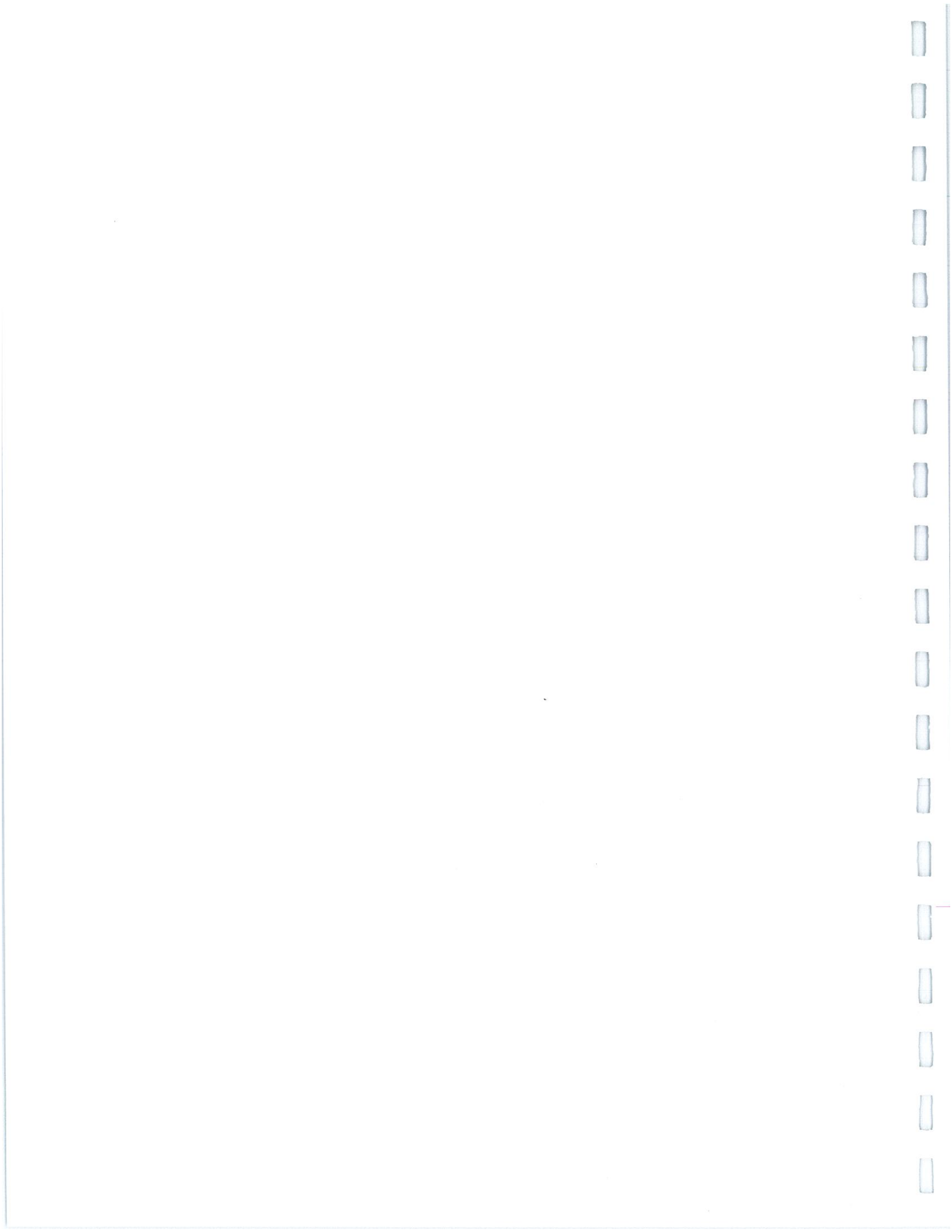
There were no prior year audit findings related to federal award programs.



**CORRECTIVE ACTION PLAN IN  
ACCORDANCE WITH OMB CIRCULAR A-133  
CITY OF MARCO ISLAND, FLORIDA**

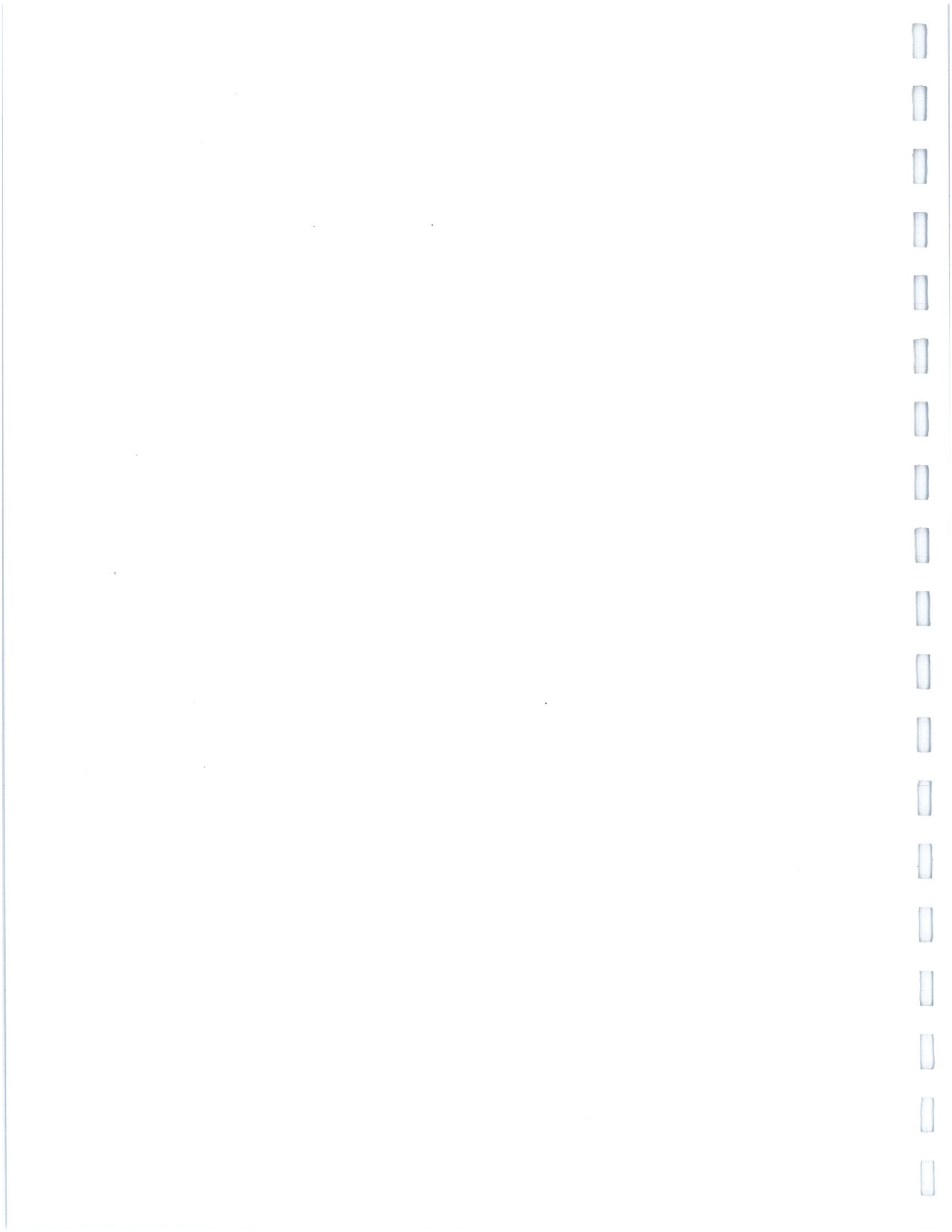
**1. Corrective Action Planned for Current Year Audit Findings**

There are no current year audit findings related to federal award programs.





**GOVERNMENTAL AUDITING SECTION**



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

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

We have audited the basic financial statements of the City of Marco Island, Florida as of and for the year ended September 30, 2003, and have issued our report thereon dated December 19, 2003, 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 basic 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**

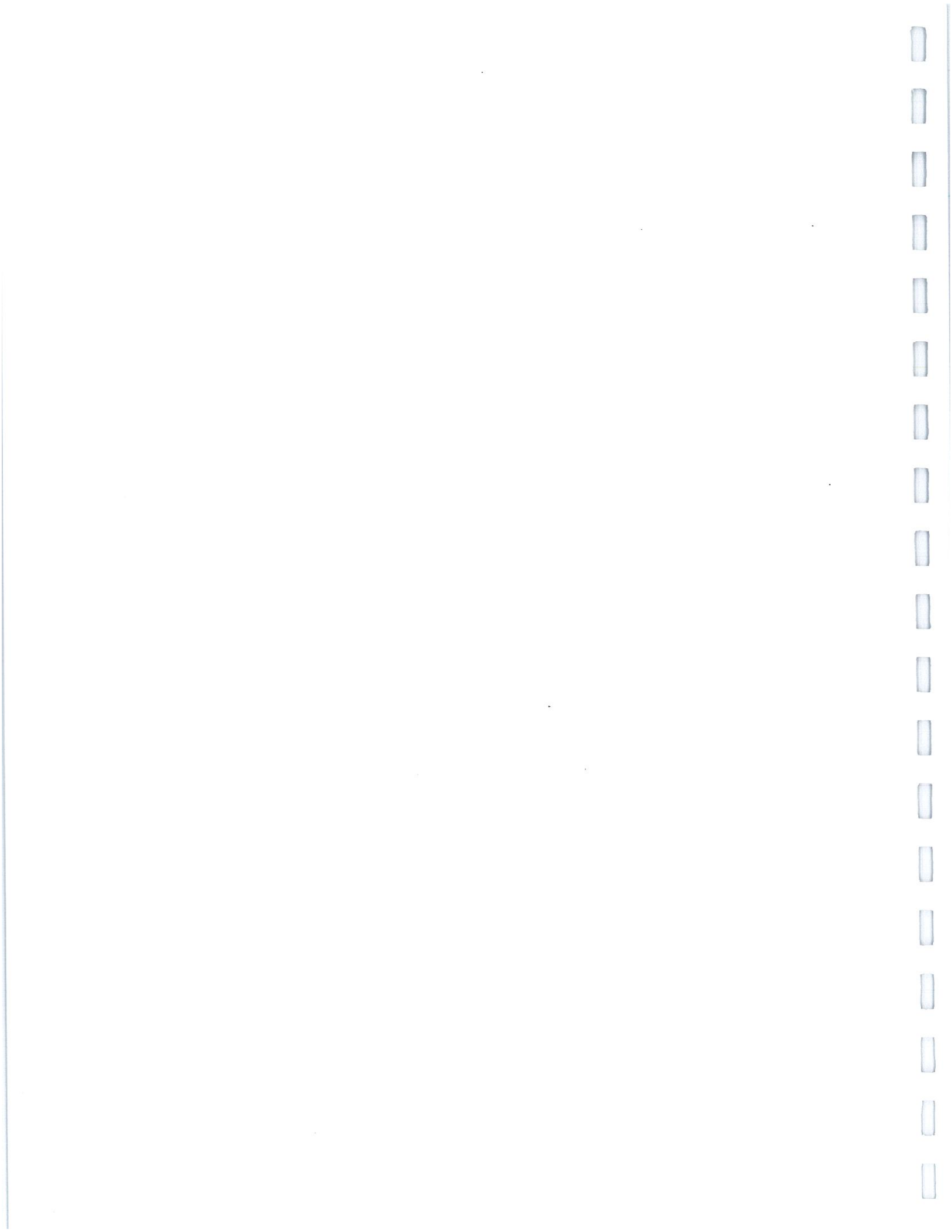
In planning and performing our audit, we considered the City of Marco Island, Florida's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide assurance on the internal control over financial reporting.

Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a 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 basic financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be a material weakness.

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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 BASIC  
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS  
(Concluded)**

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

December 19, 2003  
Sarasota, Florida

*Purvis, Gray and Company*



MANAGEMENT LETTER

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

We have audited the basic financial statements of the City of Marco Island, Florida, as of and for the fiscal year ended September 30, 2003, and have issued our report thereon dated December 19, 2003, which was unqualified.

We have issued our independent auditors' report on compliance and internal control dated December 19, 2003. 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)(g)1.(a)] require that we comment as to whether or not inaccuracies, shortages, defalcations, fraud, and violations of laws, rules and regulations reported in the preceding annual financial audit report have been corrected. There were no such matters disclosed in the preceding audit report.

The *Rules of the Auditor General* [Section 10.554(1)(g)1.(b)] require that we comment as to whether or not recommendations made in the preceding annual financial audit report have been followed. There were no such recommendations made in the preceding audit report.

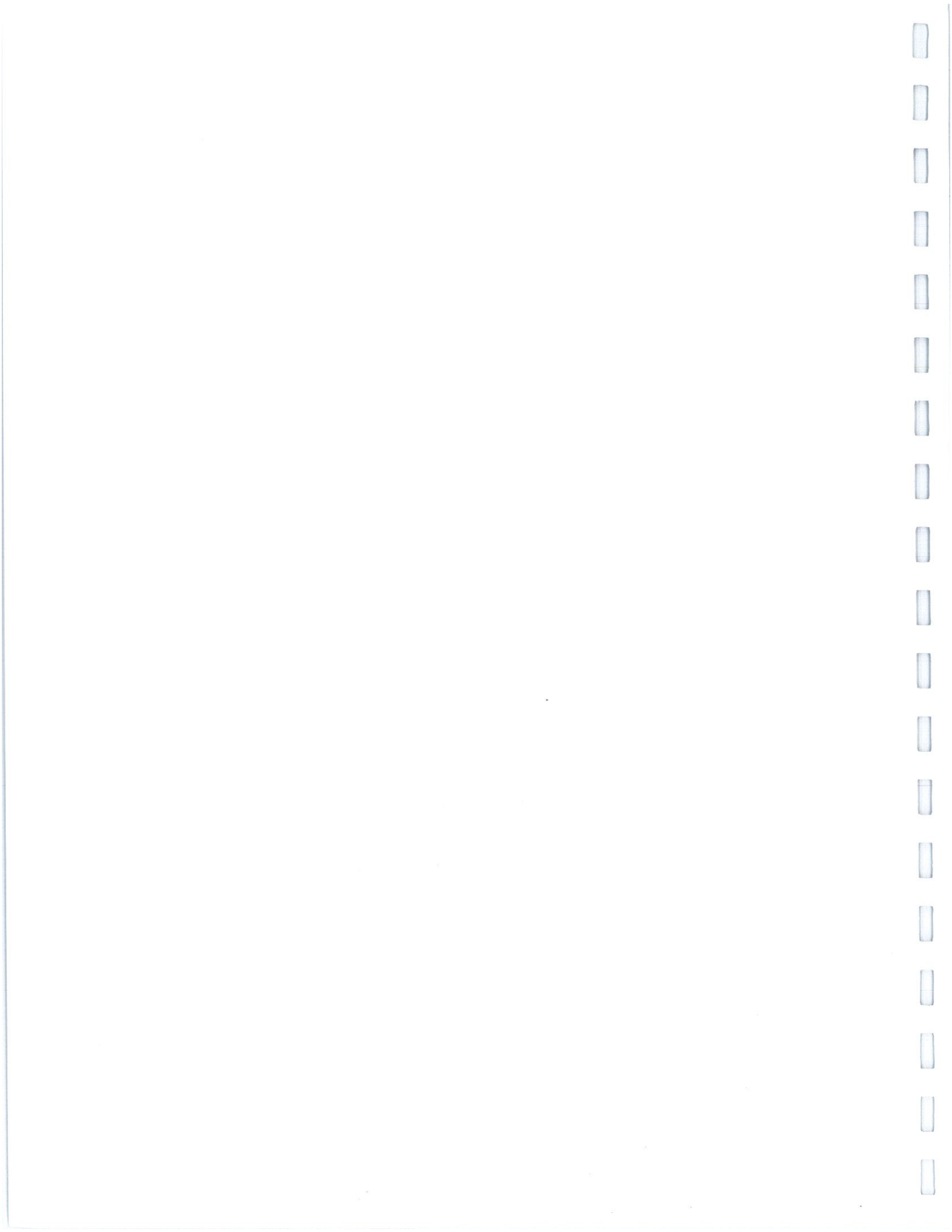
The *Rules of the Auditor General* [Section 10.554(1)(g)2.], require that we determine whether the City complied with Section 218.415, Florida Statutes, regarding investment of public funds. Our audit disclosed no matters requiring comment as outlined in Section 218.415, Florida Statutes.

The *Rules of the Auditor General* [Sections 10.554(1)(g)3., 4.(a), (b), and (c)] require disclosure in the management letter of the following matters if not already addressed in the auditors' report on compliance and internal control: 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 that 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, shortages, and defalcations and instances of fraud discovered by, or that come to the attention of, the auditor. Our audit disclosed no matters that were required to be disclosed by *Rules of the Auditor General* [Sections 10.554(1)(g)3. and 4.].

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

**MANAGEMENT LETTER**  
*(Concluded)*

The *Rules of the Auditor General* [Section 10.554(1)(g)5.] also require that the name or official title and legal authority for the primary government and each component unit of the reporting entity be disclosed in the management letter. The City of Marco Island, Florida was established in a special election by mail ballot per Florida House of Representatives HB 1729 on August 28, 1997. In addition, an annual financial report for the City of Marco Island, Florida also includes the accounts and 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 95-006 of the Marco Island Fire Control District, the predecessor entity to the City.

As required by the *Rules of the Auditor General* [Section 10.554(1)(g)6.(a)], we determined that the financial report for the City of Marco Island, Florida for the fiscal year ended September 30, 2003, 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, 2003.

As required by the *Rules of the Auditor General* [Section 10.554(1)(g)6.(b)], 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)(g)6.(c)], we applied financial condition assessment procedures pursuant to Rule 10.556(8). There were no findings of deteriorating financial condition which were required to be reported.

This management letter is intended solely for the information and use of the Chairman and City Council members, management, and the State of Florida, and is not intended to be and should not be used by anyone other than these specified parties.

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

December 19, 2003  
Sarasota, Florida



