

*City of Marco Island, Florida
Comprehensive Annual Financial Report
For the Fiscal Year Ended
September 30, 2006*

Hande Coody



City of Marco Island, Florida

COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2006

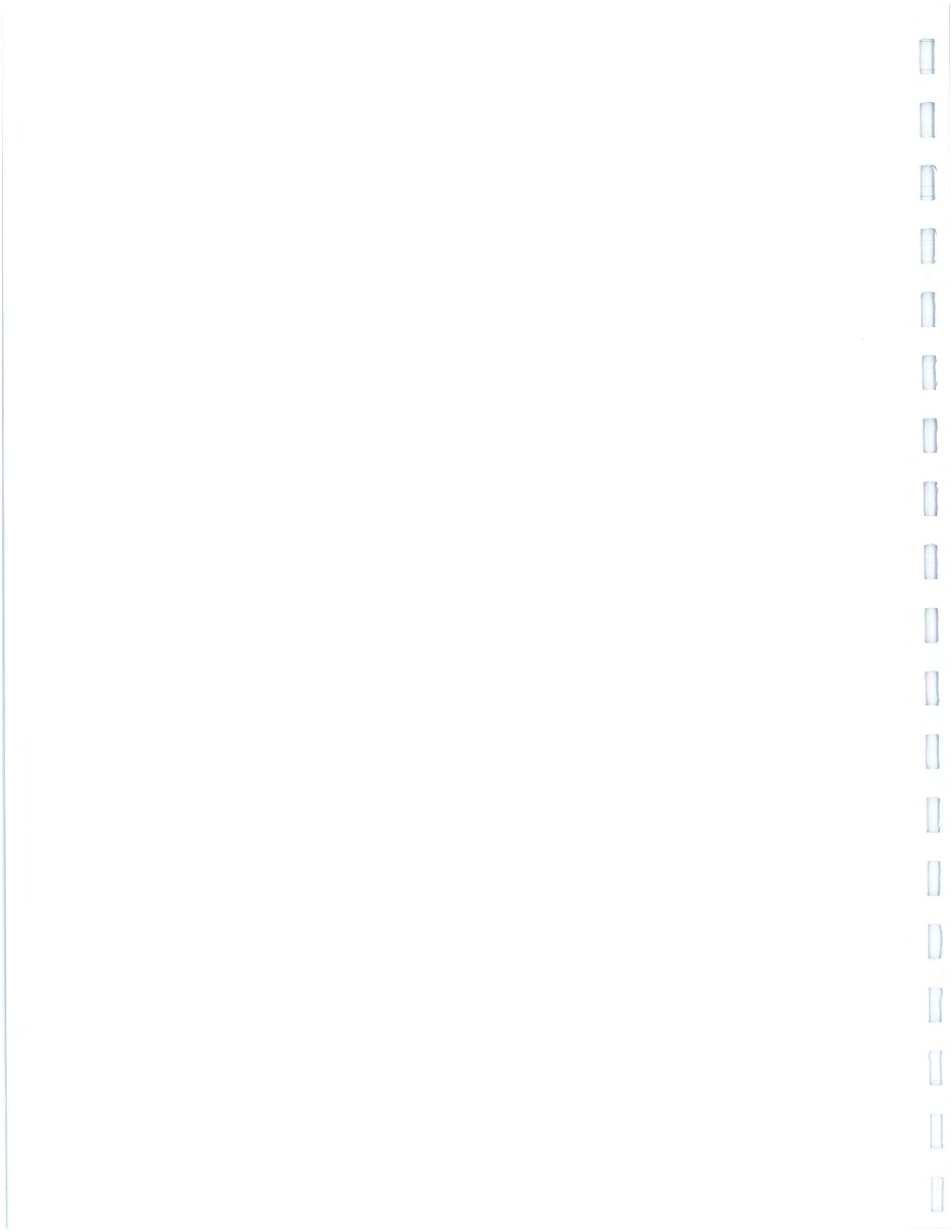
PREPARED BY:
CITY OF MARCO ISLAND
FINANCE DEPARTMENT

Cover Art

Wanda Coady

Ms. Coady is a winter resident of Marco Island and a member of the Art League of Marco Island. Her work is represented in local galleries on the island. She has worked exclusively in watercolor for many years after earning her BBA from the University of Miami and studying with several nationally known artists. She teaches painting classes in her home state of Illinois and provides demonstrations for interested groups.

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



INTRODUCTION SECTION

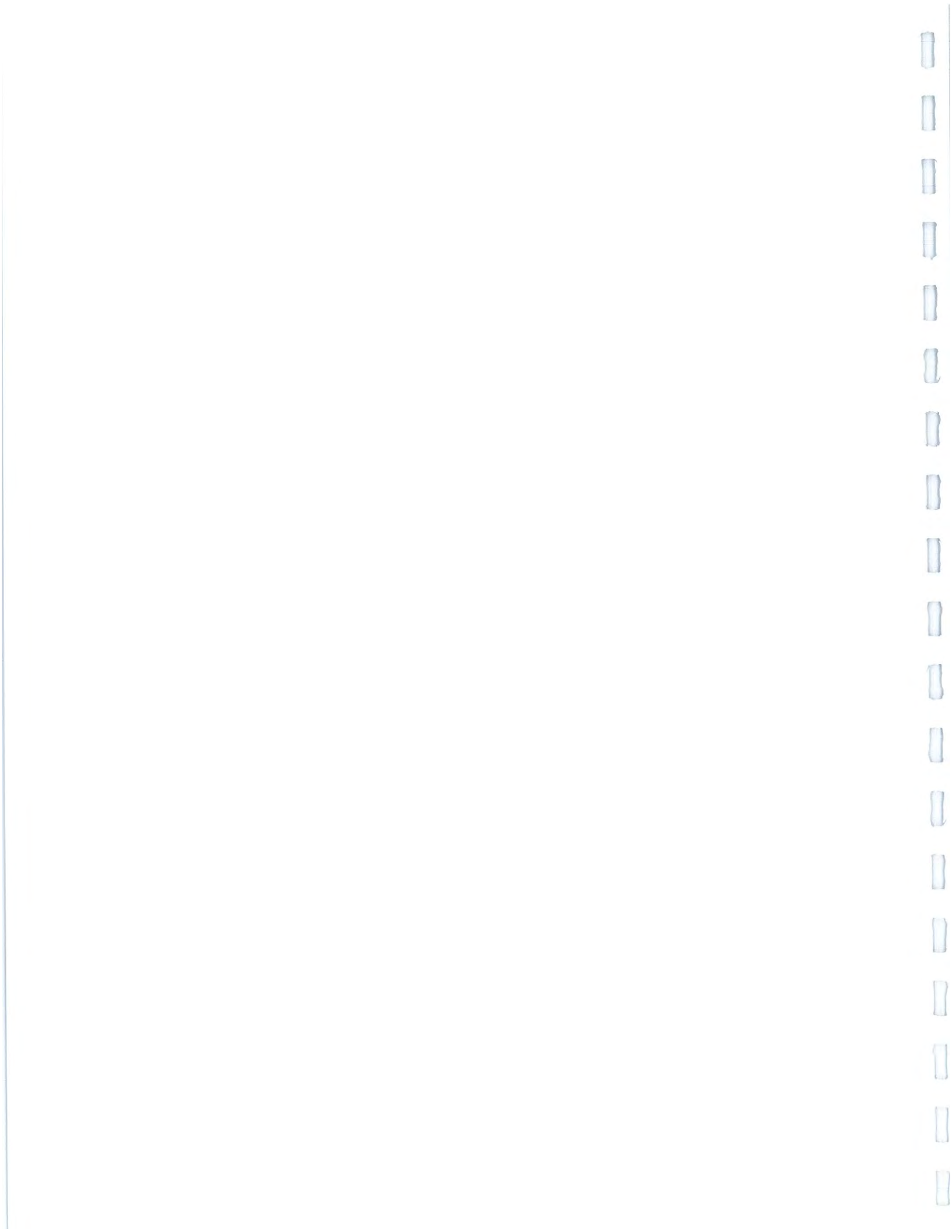


TABLE OF CONTENTS

I. INTRODUCTION SECTION	<u>Page</u>
Title Page	i
Table of Contents	ii-iv
Letter of Transmittal	v-x
Certificate of Achievement for Excellence in Financial Reporting	xi
Organizational Chart	xii
Principal Officials	xiii
II. FINANCIAL SECTION	
Independent Auditor's Report	1-2
Management's Discussion and Analysis	3-15
Basic Financial Statements	
Government-Wide Financial Statements:	
Statement of Net Assets	18
Statement of Activities	19
Fund Financial Statements:	
Balance Sheet – Governmental Funds	20
Reconciliation of the Balance Sheet to the Statement of Net Assets – Governmental Funds	21
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds	22
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance to the Statement of Activities – Governmental Funds	23
Statement of Net Assets – Proprietary Funds	24
Statement of Revenues, Expenses, and Changes in Fund Net Assets – Proprietary Funds	25
Statement of Cash Flows – Proprietary Funds	26
Statement of Fiduciary Net Assets – Fiduciary Fund – Pension Trust Funds	27
Statement of Changes in Fiduciary Net Assets – Fiduciary Fund – Pension Trust Funds	28
Notes to Financial Statements	30-56
Required Supplementary Information	
Pension Trust Funds:	
Schedule of Funding Progress – Police Officers' Pension Plan	58
Schedule of Employer and State Contributions – Police Officers' Pension Plan	59
Schedule of Funding Progress – Firefighters' Pension Plan	60
Schedule of Employer and State Contributions – Firefighters' Pension Plan	61

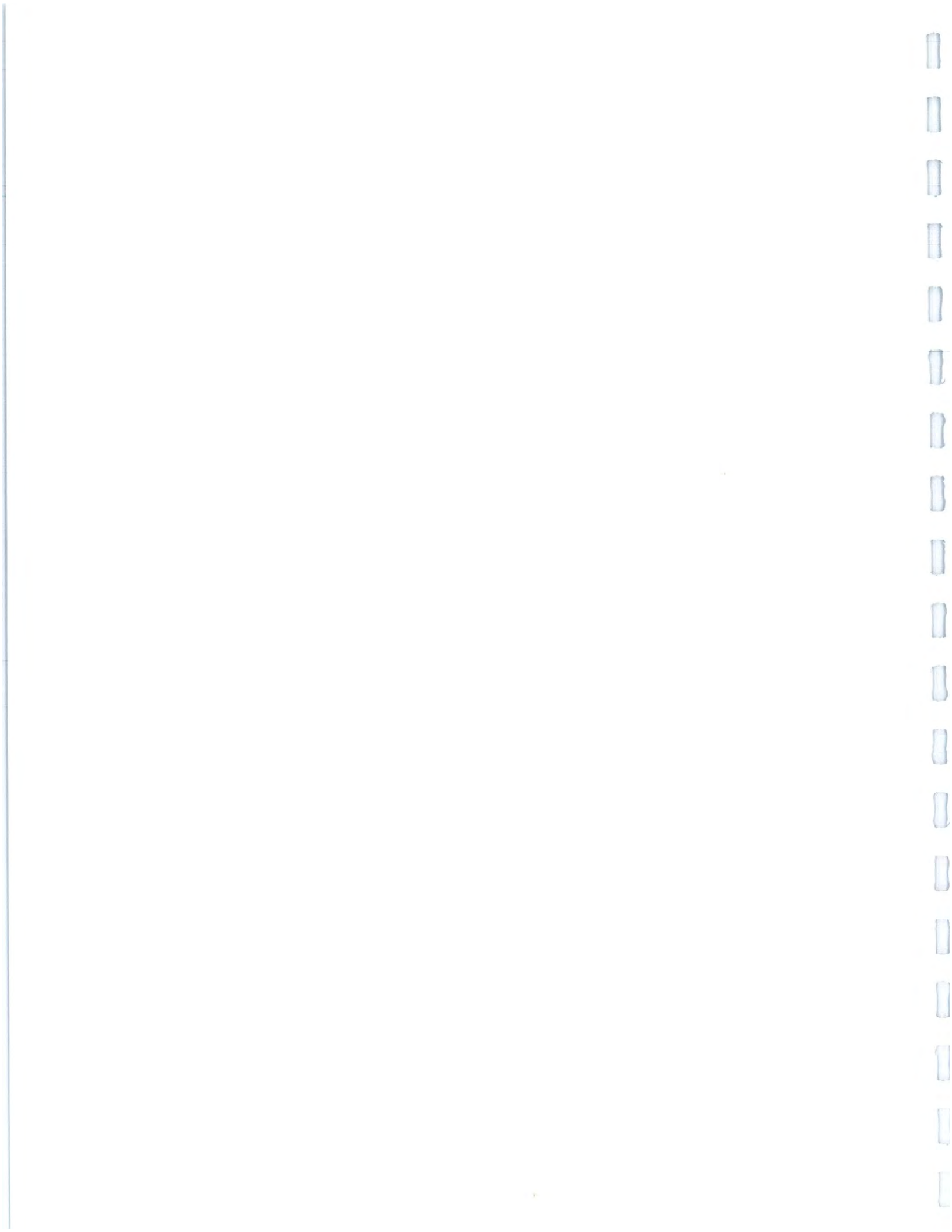


TABLE OF CONTENTS
(Continued)

II. FINANCIAL SECTION (Concluded)	<u>Page</u>
Required Supplementary Information (Concluded)	
General Fund:	
Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual – General Fund	62
Schedule of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual – Electric Fund	63
Supporting Statements and Schedules	
Nonmajor Governmental Funds	
Combining Balance Sheet	67
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances	68
Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual – Capital Projects Fund	69
Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual – Building Services Fund	70
Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual – Debt Service Fund	71
Proprietary Fund	
Schedule of Operating Revenues and Expenses – Water and Sewer Fund	72
Nonmajor Fiduciary Funds	
Combining Statement of Fiduciary Net Assets	73
Combining Statement of Changes in Fiduciary Net Assets	74
Other Schedules	
Capital Assets Used in the Operation of Governmental Funds – Schedule by Function and Activity	76
Capital Assets Used in the Operation of Governmental Funds – Schedule of Changes by Function and Activity	77
 III. STATISTICAL SECTION (UNAUDITED)	
Net Assets by Component	80
Changes in Net Assets	81-82
Fund Balances of Governmental Funds	83
Changes in Fund Balances of Governmental Funds	84
Assessed Value of Taxable Property	85
Property Tax Rates for Direct and Overlapping Governments	86
Principal Property Taxpayers	87
Property Tax Levies and Collectors	88
Ratios of Outstanding Bonds by Type	89
Ratios of General Bonded Debt Outstanding	90
Pledged Revenue Bond Coverage	91
Demographic Statistics	92

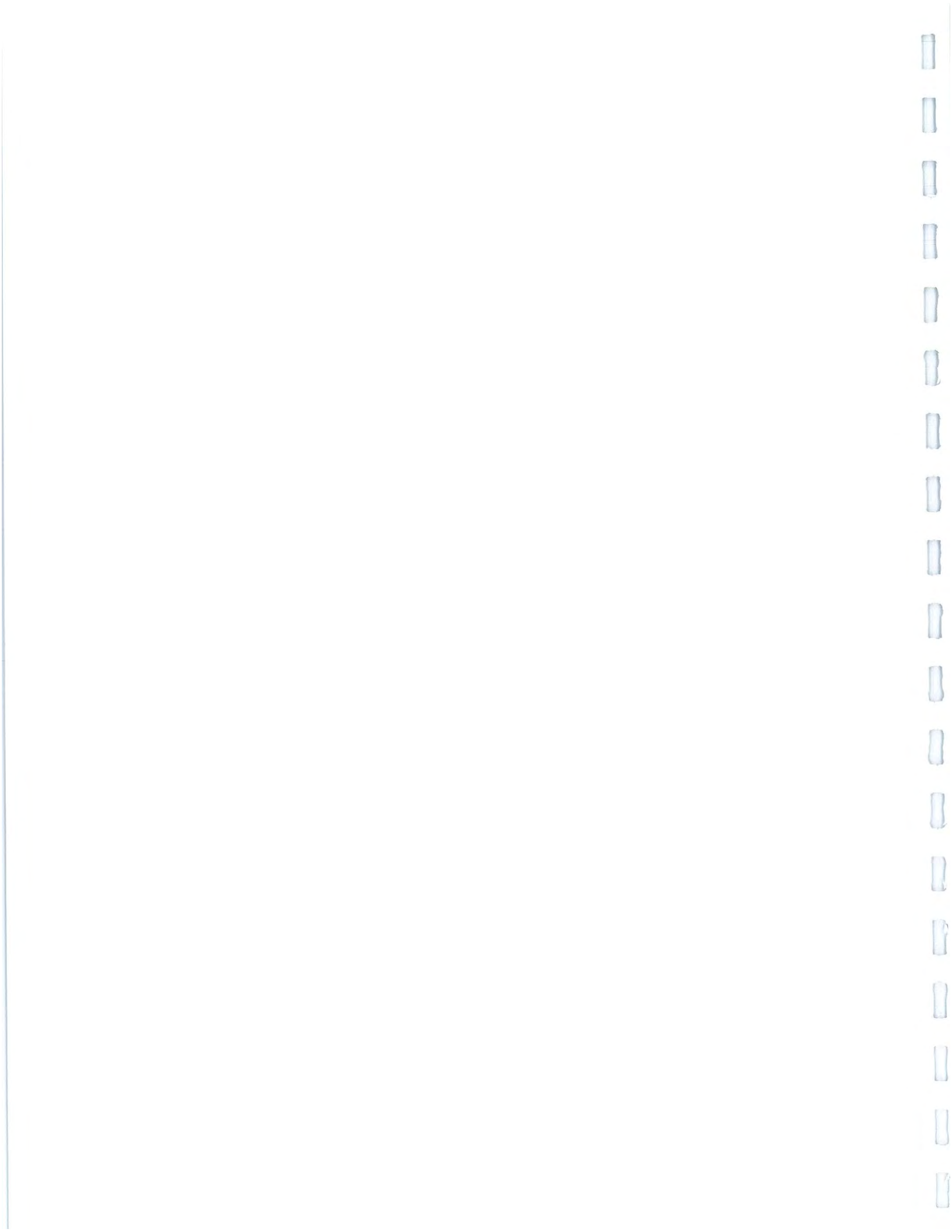


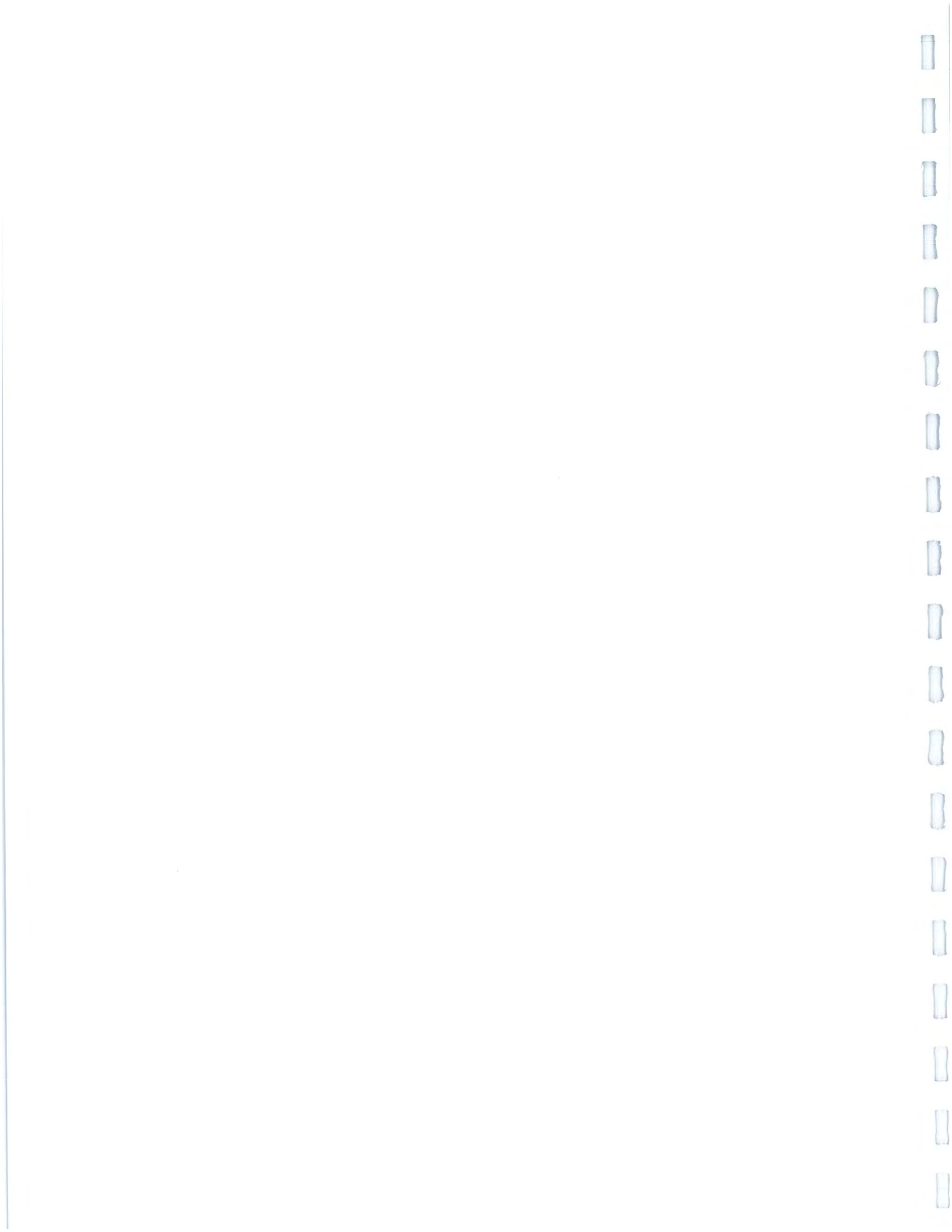
TABLE OF CONTENTS
(Concluded)

Full Time Equivalent Employees	93
Operating Indicators by Department	94
Capital Asset Statistics by Function/Program	95

IV. OTHER REPORTS AND LETTERS

Governmental Auditing Section

Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	98
Independent Auditor's Report on Compliance with Requirements Applicable to Each Major Federal Program and on Internal Control over Compliance in Accordance with OMB Circular A-133	100-101
Schedule of Findings and Questioned Costs	102-103
Schedule of Expenditures of Federal Awards	104
Notes to Schedule of Expenditures of Federal Awards	105
Management Letter	106-108





City of Marco Island

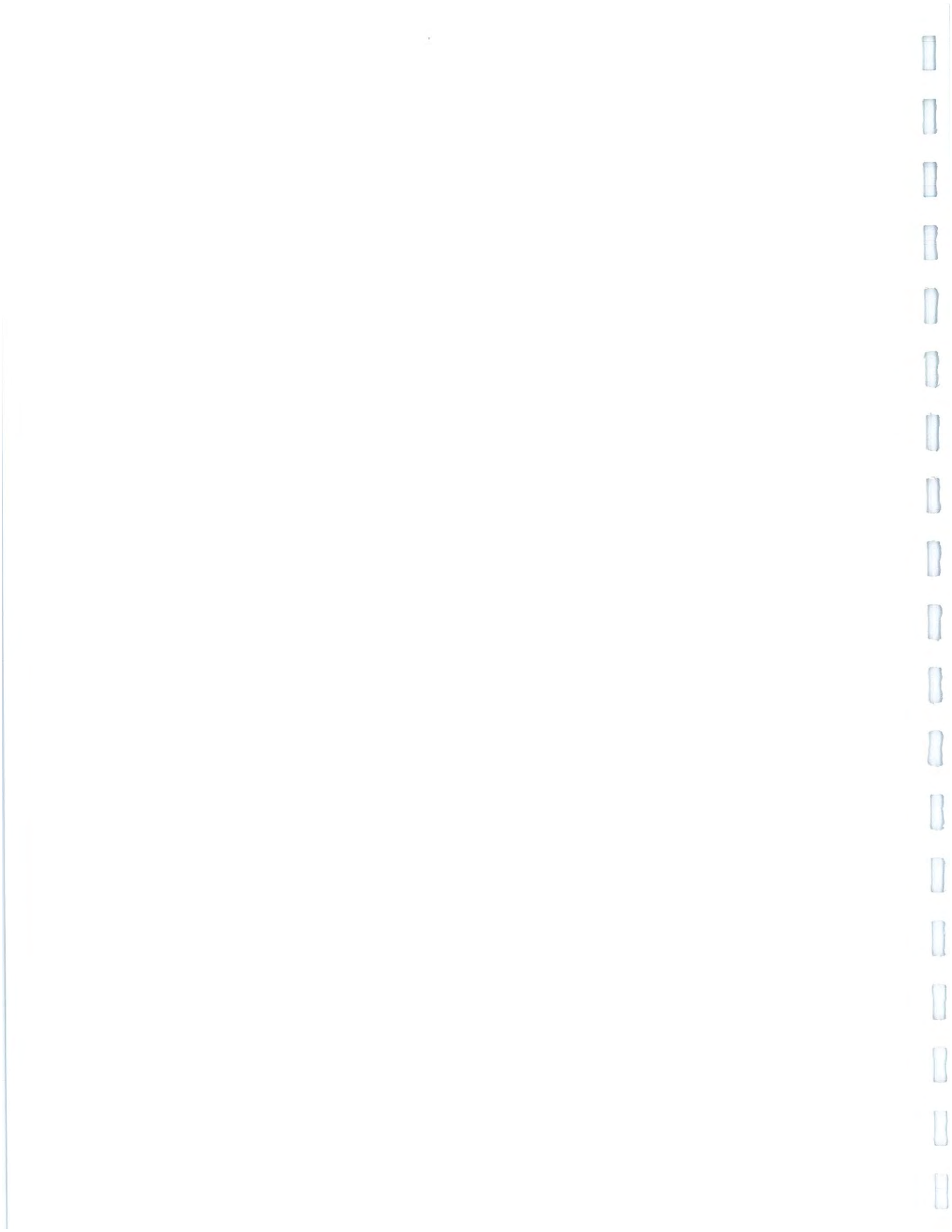
March 30, 2007

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, 2006.

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

The City's financial statements have been audited by CPA Associates, a firm of independent licensed certified public accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements of the City for the fiscal year ended September 30, 2006 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, 2006 are fairly presented in conformity with GAAP. The independent auditor's report is presented as the first component of the financial section of this report.



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

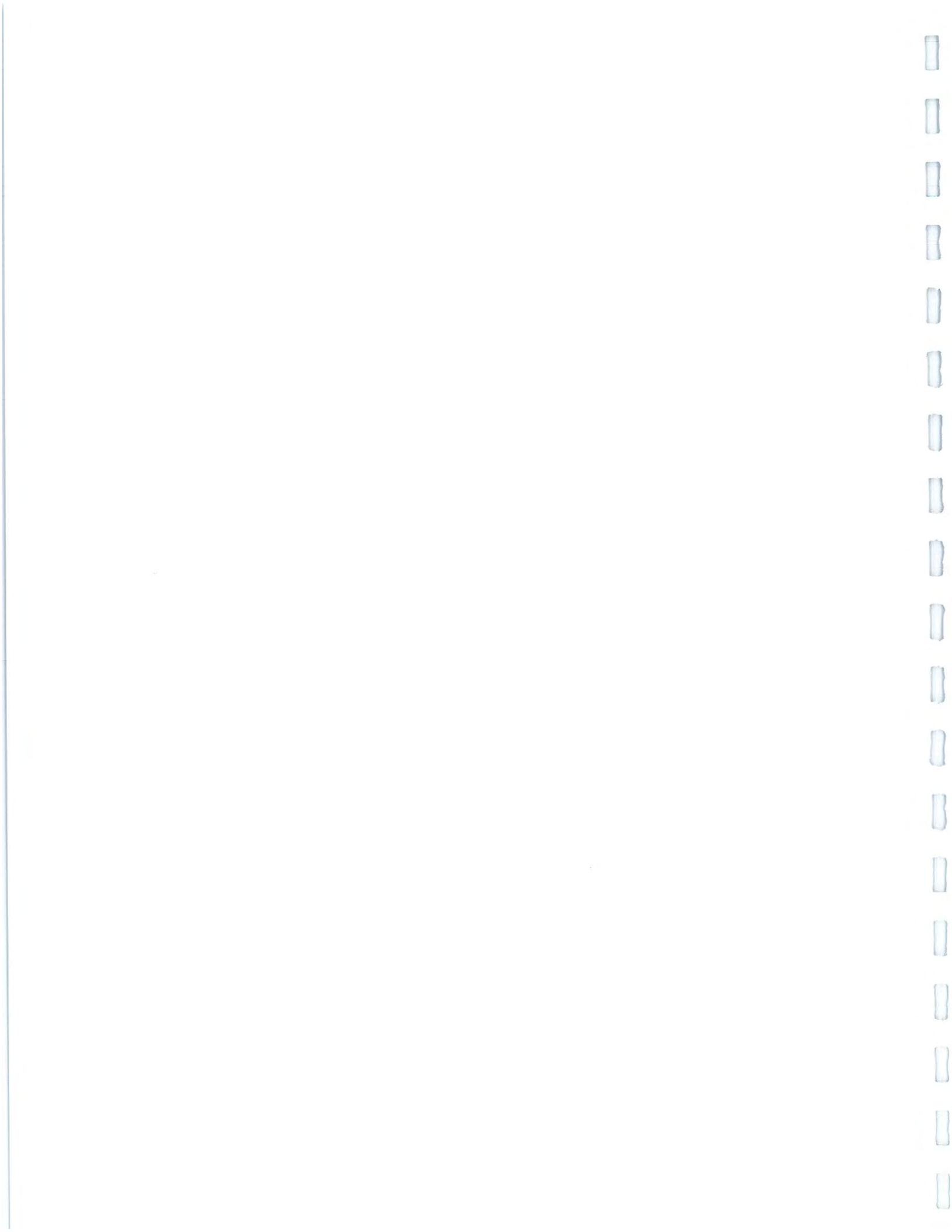
GAAP requires that the management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The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

The City and It's Services

Marco Island, Florida is located in the southwestern part of the state, on the Gulf of Mexico side of the 10,000 islands and the Everglades. Originally discovered by the Spanish and named Isla de San Marcos (Saint Mark's Island), modern development of the island began in the late 1960s by the Deltona Corporation. Prior to incorporation in 1997, the island was a part of unincorporated Collier County and was served by a local Fire Protection District. The City serves a permanent population of over 16,000, which doubles in the peak winter season. The City is empowered to levy a property tax on both real and personal property located within its boundaries.

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

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



The Hideaway Beach Tax District has been created as a component unit of the City. In 2003, voters in this upscale, gated neighborhood approved a bond issue and tax levy for renourishment of the beaches adjacent to the neighborhood. \$2.9 million in bonds were issued and the project was completed under the oversight of Collier County. As part of the project, "T-groins" were constructed by the County using tourist development tax funds to stabilize the beach to prevent future erosion.

Budget Process

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

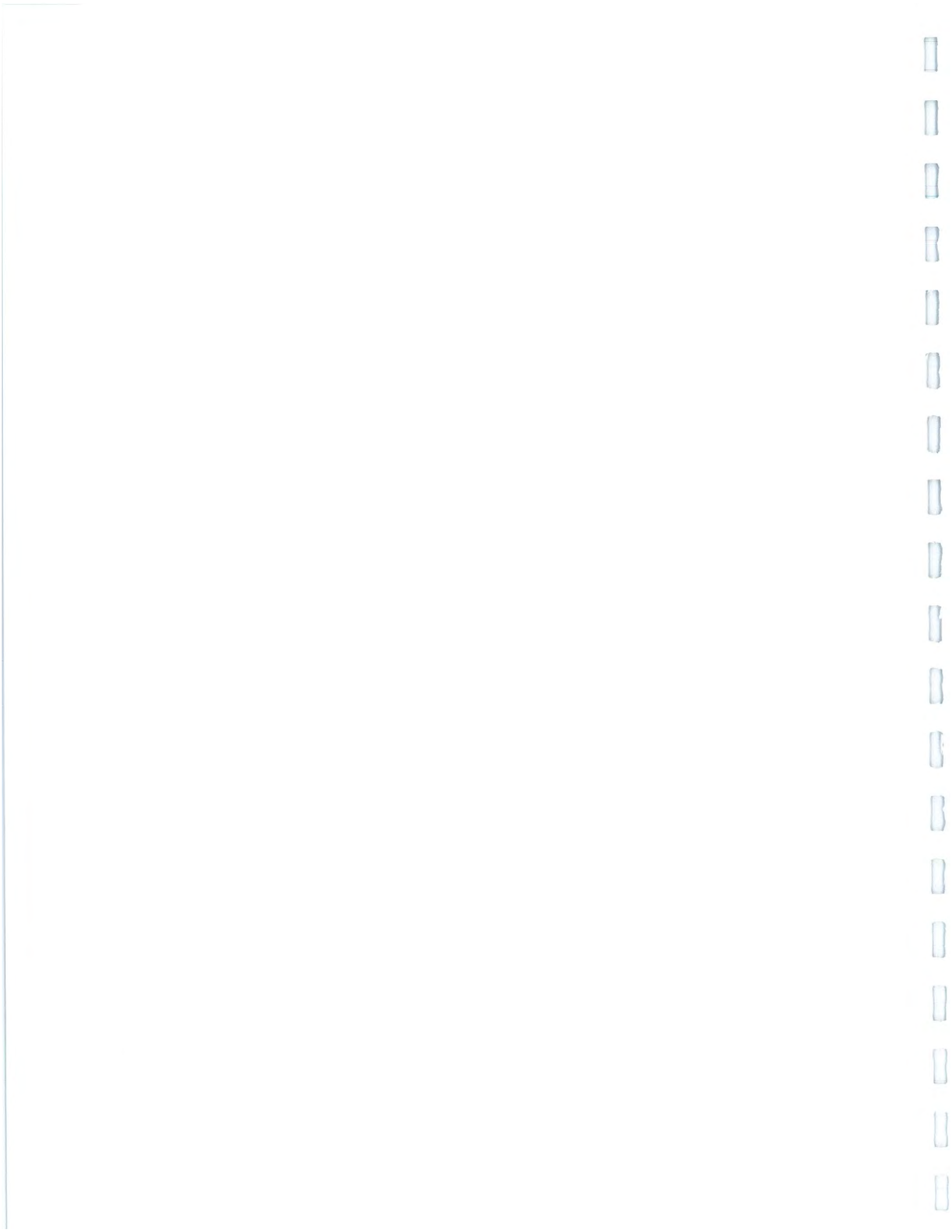
- General Fund
- Capital Projects Fund
- Debt Service Funds
- Building Services Fund
- Water/Sewer Utility Enterprise Fund
- Electric Franchise Fund
- Recreation Enterprise Fund
- Hideaway Beach Tax District
- Self-Insurance Internal Service Fund

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

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

Factors Affecting Financial Condition

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



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

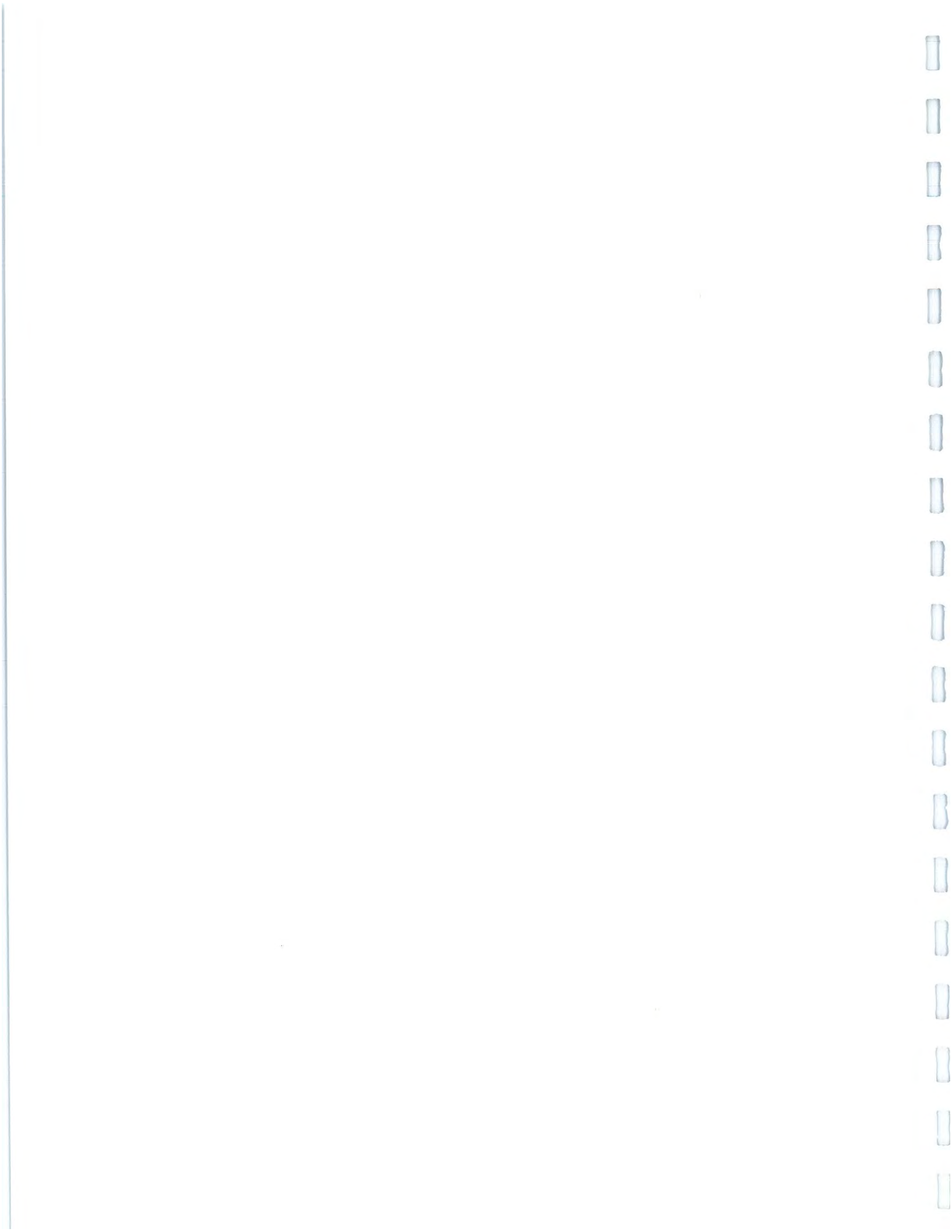
Marco Island continues to enjoy the results of a planned, platted, and deed restricted community. A full 75% of the single-family building lots are located on man-made canals and bays, affording easy boating access to the Gulf of Mexico and the 10,000 islands forming the western boundary of the Everglades.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

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

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

Financial Policies

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



Cash Management Policies and Practices: Cash temporarily idle during the year was invested at favorable rates through a depository banking services agreement. In 2002, the City Council approved an investment ordinance and has a program of active portfolio management, purchasing U.S. Treasury and Agency obligations to increase yields while maintaining safety and liquidity. Investments are limited to a maximum maturity of five years. Investment earnings in fiscal year 2006 were \$1,798,358, up from \$899,013 in 2005. The Federal Reserve Board continued measured rate increases during this year, accounting for the increase in investment earnings.

The City's rate of return on investments for Fiscal Year 2006 was 4.30% on average cash and investment balances of \$41.77 million. As benchmark comparisons, the average of weekly 91-day Treasury Bill auctions was 4.57% during this same time period and the Lehman Brothers 1-5 Year Government Index was 3.69%. As interest rates rise, the values of securities held in the portfolio fall, depressing yields for longer term investments as investments are re-priced to current market values. The City's portfolio is structured to earn a rate of return greater than the cash rate over an entire market interest rate cycle. The rate of return should consistently fall between the two above mentioned benchmarks.

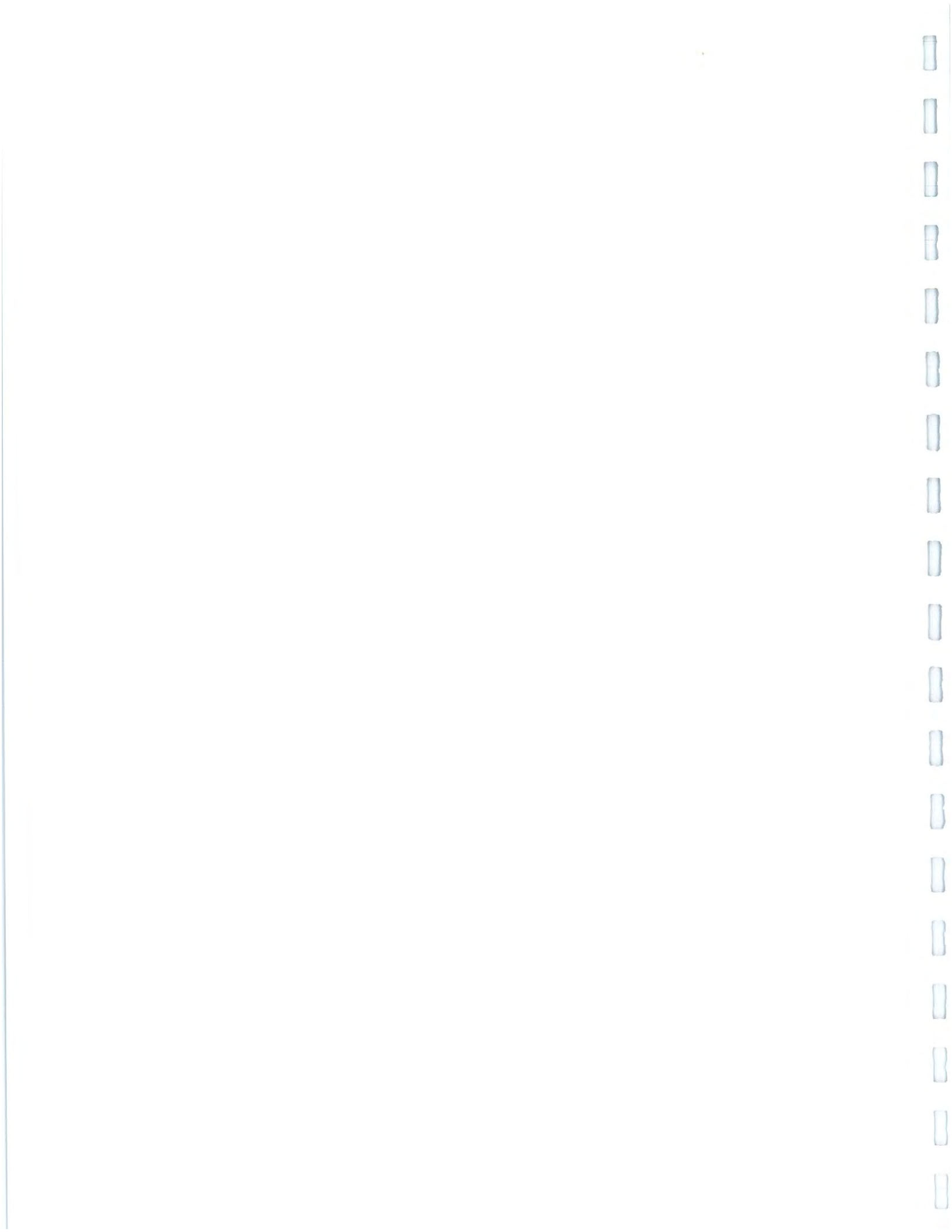
Risk Management: The City of Marco Island, through fiscal year 2004, purchased property, liability, and workers' compensation insurance from the Florida League of Cities Municipal Insurance Trust. Beginning in fiscal year 2005, the City elected to self-insure a greater degree of risk, retaining the first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

Awards and Acknowledgements

Certificate of Achievement: The Government Finance Officers 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, 2005.

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

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



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

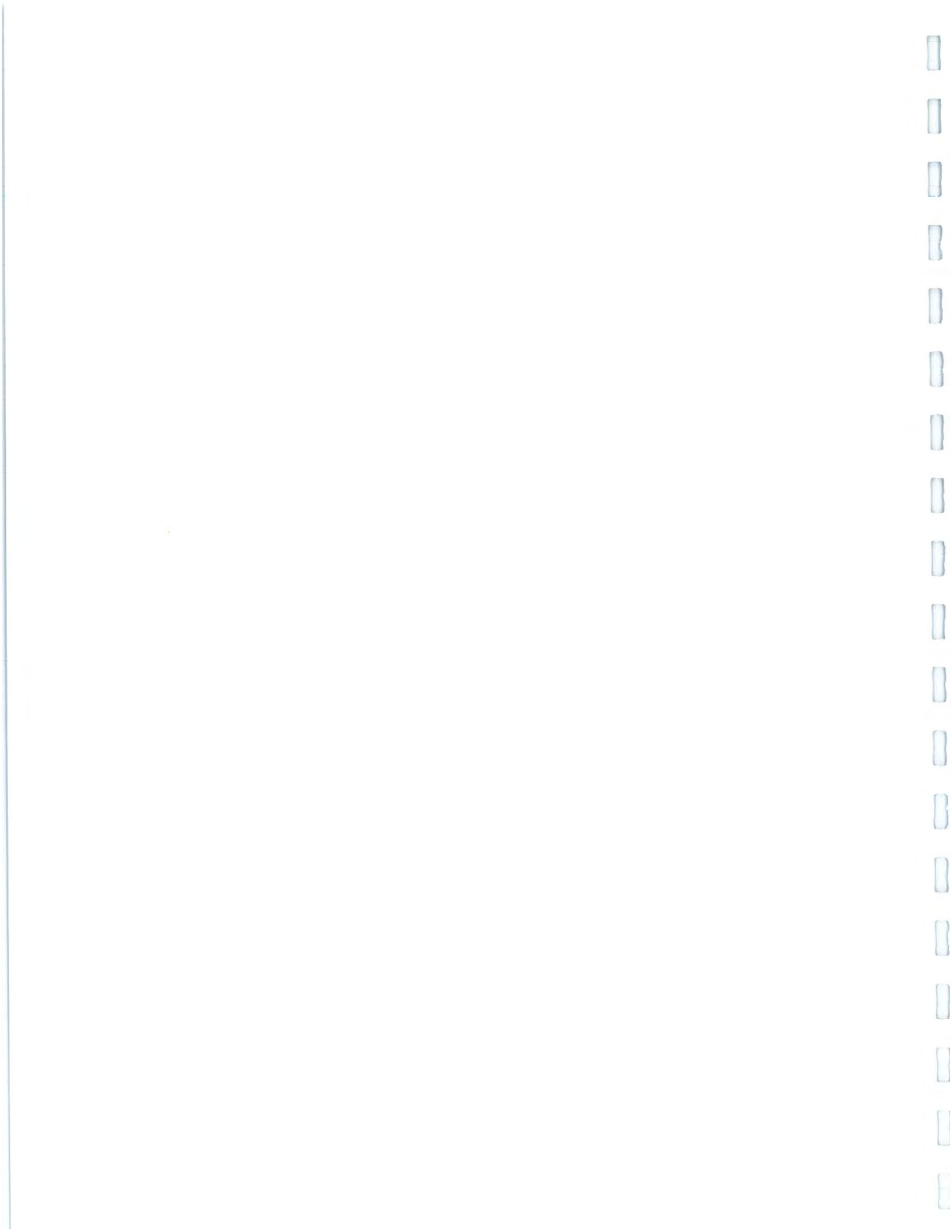
Respectfully Submitted,



A. William Moss
City Manager



William P. Harrison
Finance Director



Certificate of Achievement for Excellence in Financial Reporting

Presented to

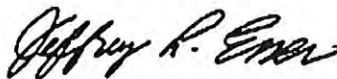
City of Marco Island
Florida

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
September 30, 2005

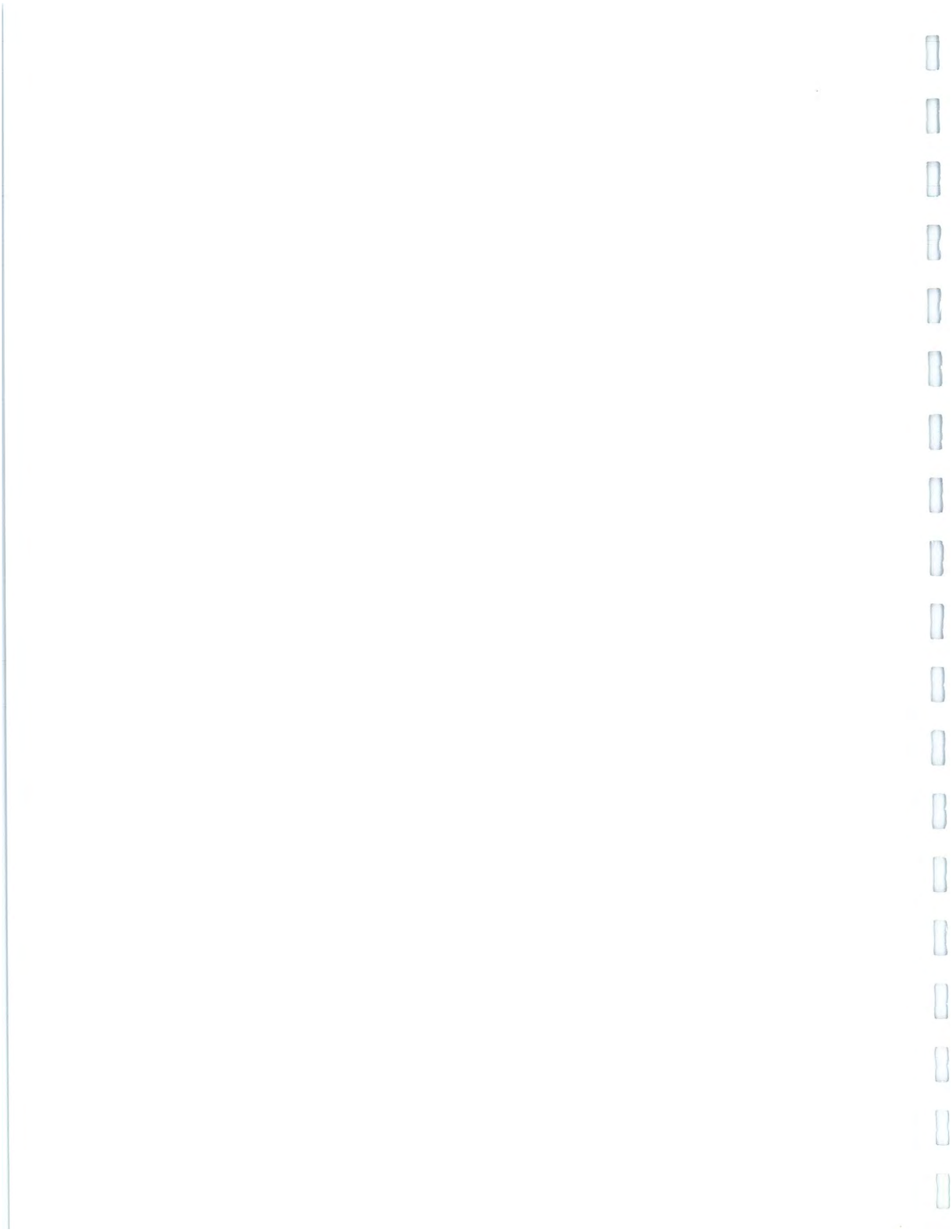
A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards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



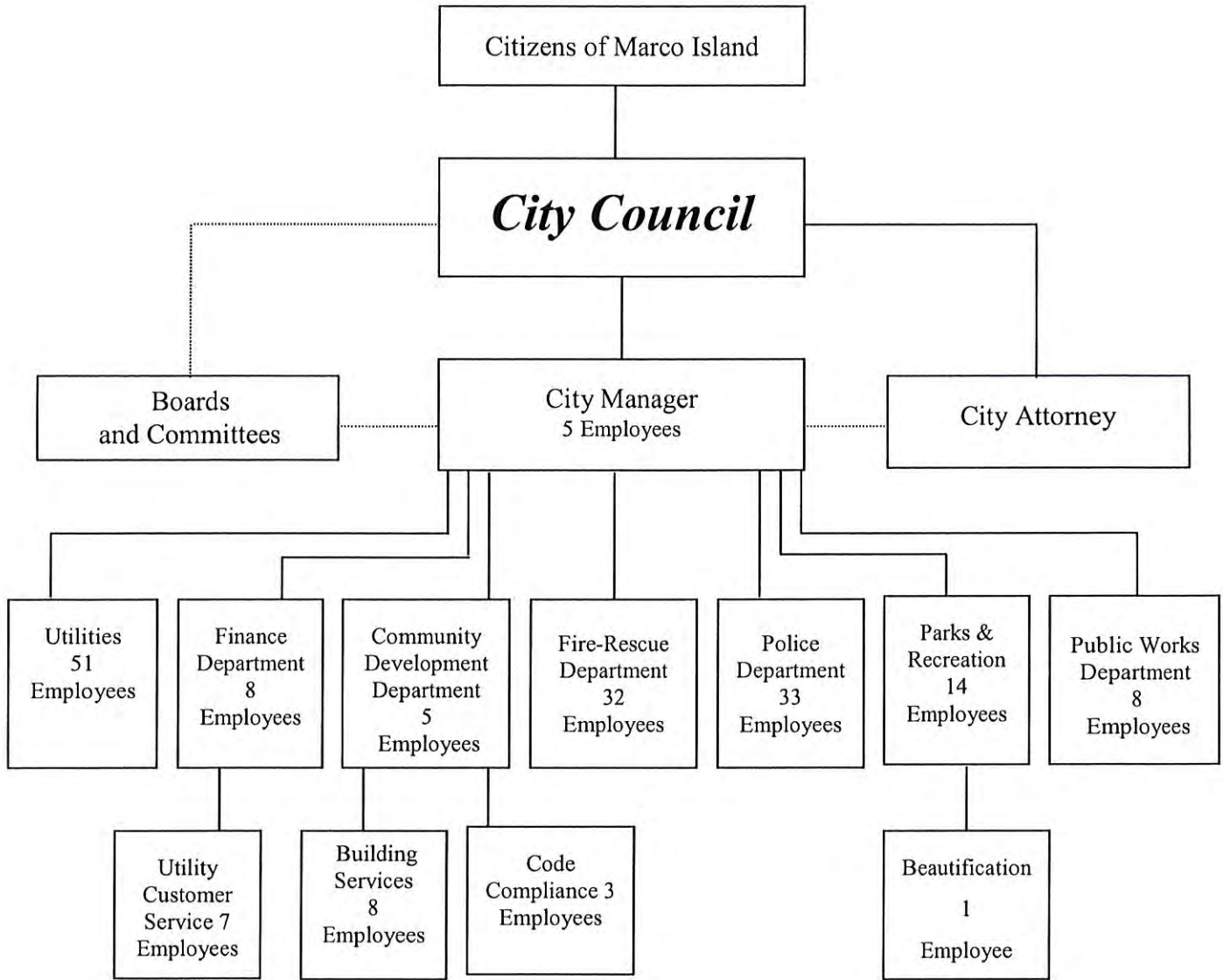
President

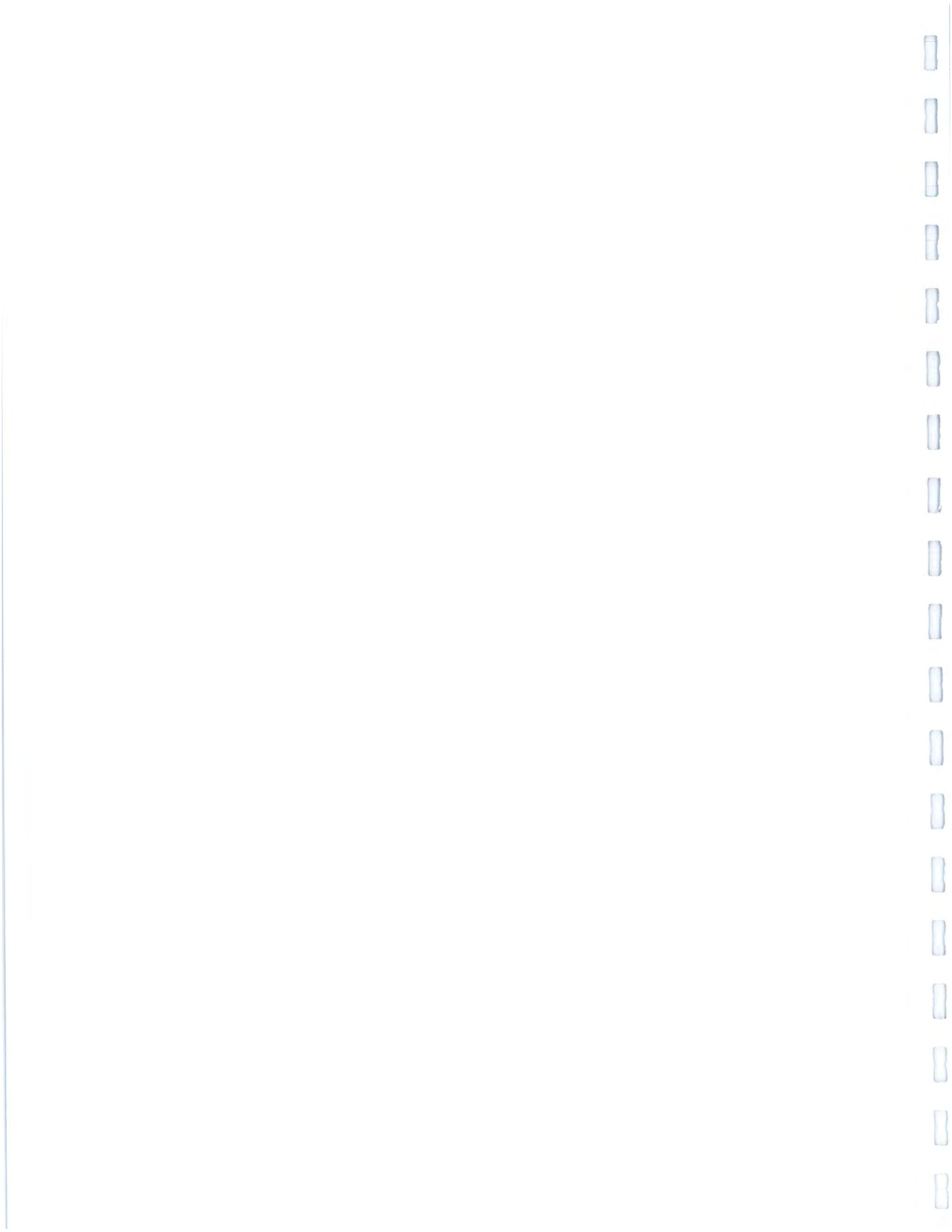


Executive Director



ORGANIZATIONAL CHART





City of Marco Island, Florida

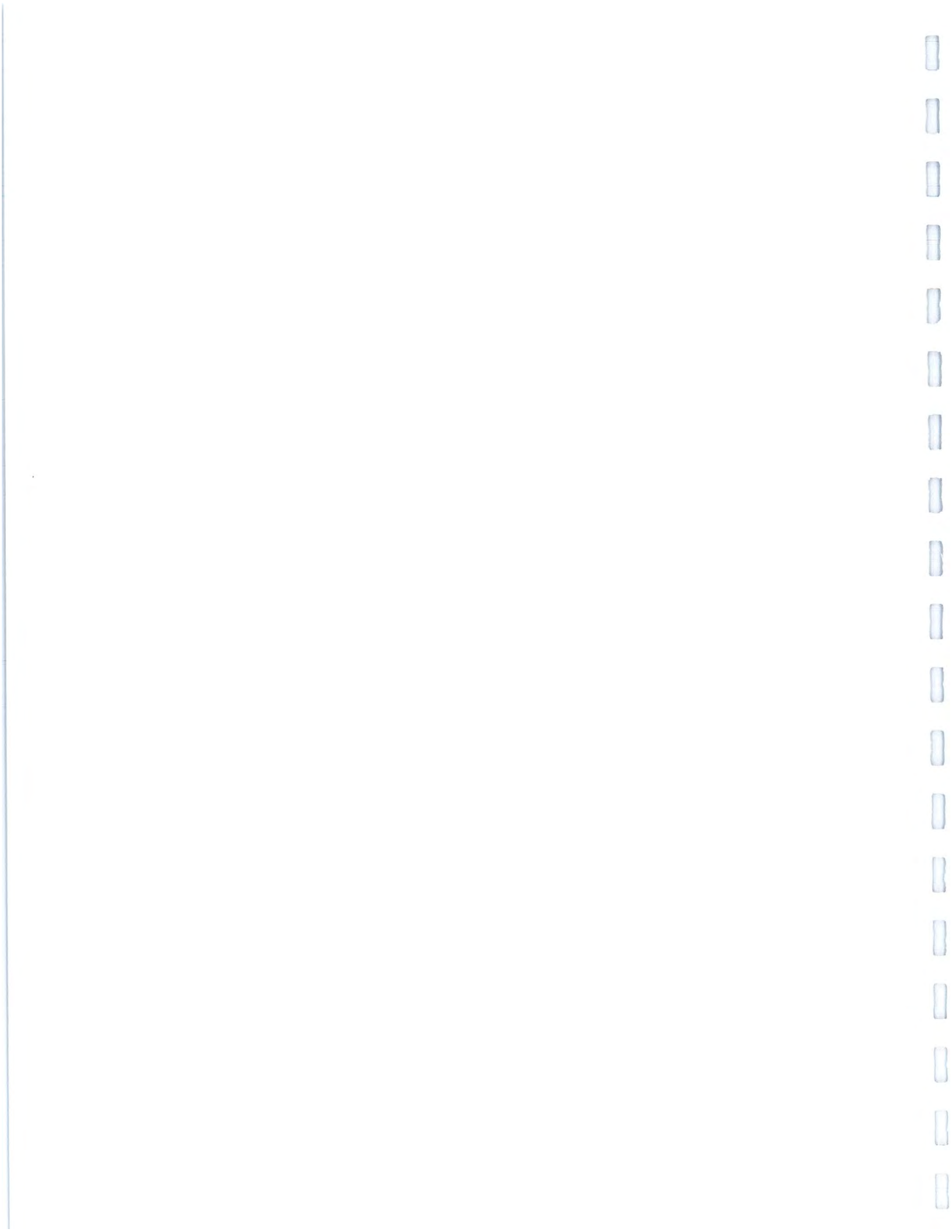
PRINCIPAL OFFICIALS:

TERRI DiSCIULLO, CITY COUNCIL CHAIRWOMAN
E. GLENN TUCKER, CITY COUNCIL VICE-CHAIRMAN
TED FORCHT, COUNCILMAN
CHUCK KIESTER, COUNCILMAN
MICHAEL F. MINOZZI, JR., COUNCILMAN
ROBERT J. POPOFF, COUNCILMAN
WILLIAM D. TROTTER, COUNCILMAN

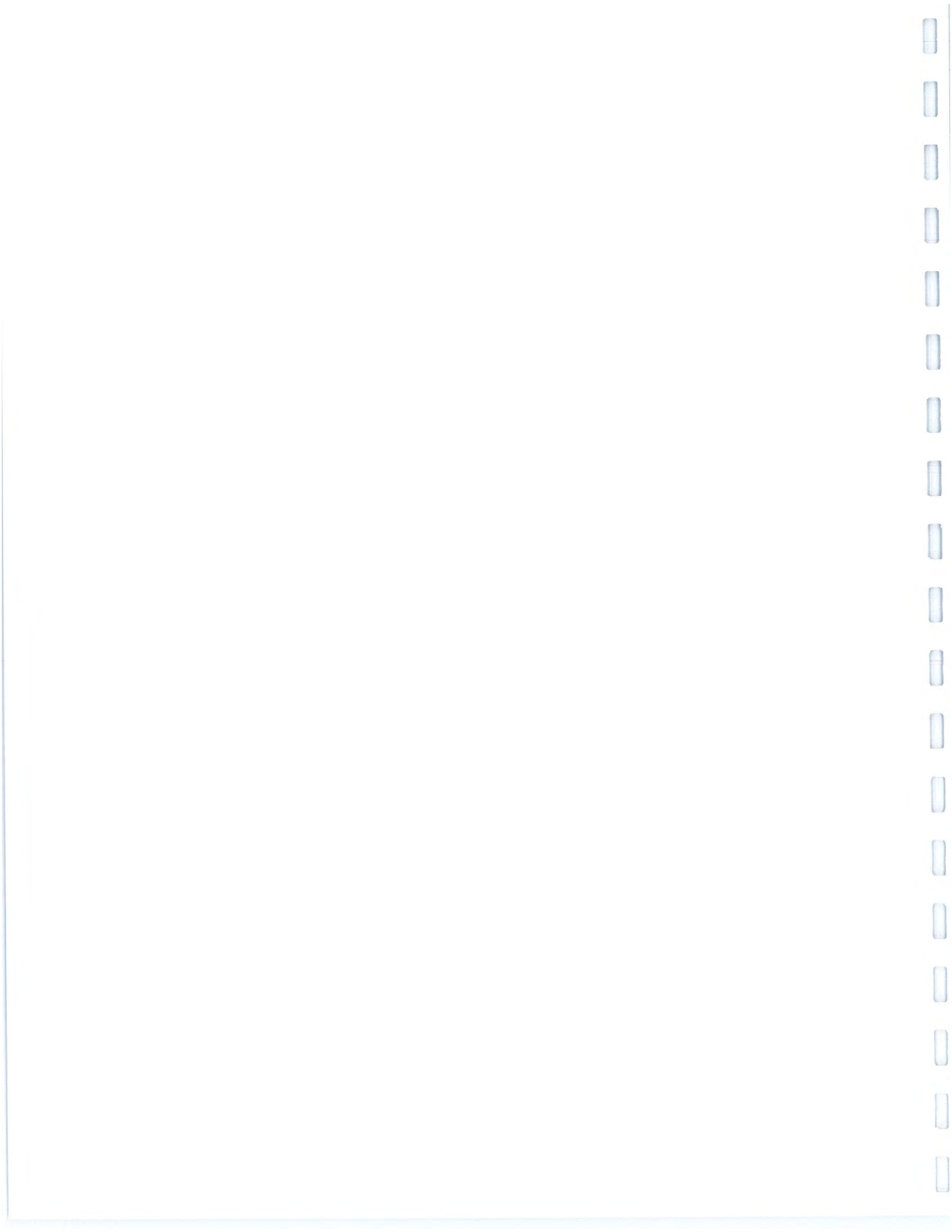
RICHARD D. YOVANOVICH, CITY ATTORNEY

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

LAURA M. LITZAN, CITY CLERK
STEVE OLMSTED, COMMUNITY DEVELOPMENT DIRECTOR
MICHAEL MURPHY, FIRE CHIEF
DANA A. SOUZA, PARKS & RECREATION DIRECTOR
ROGER REINKE, POLICE CHIEF
A. RONY JOEL, PUBLIC WORKS DIRECTOR



FINANCIAL SECTION





INDEPENDENT AUDITOR'S REPORT

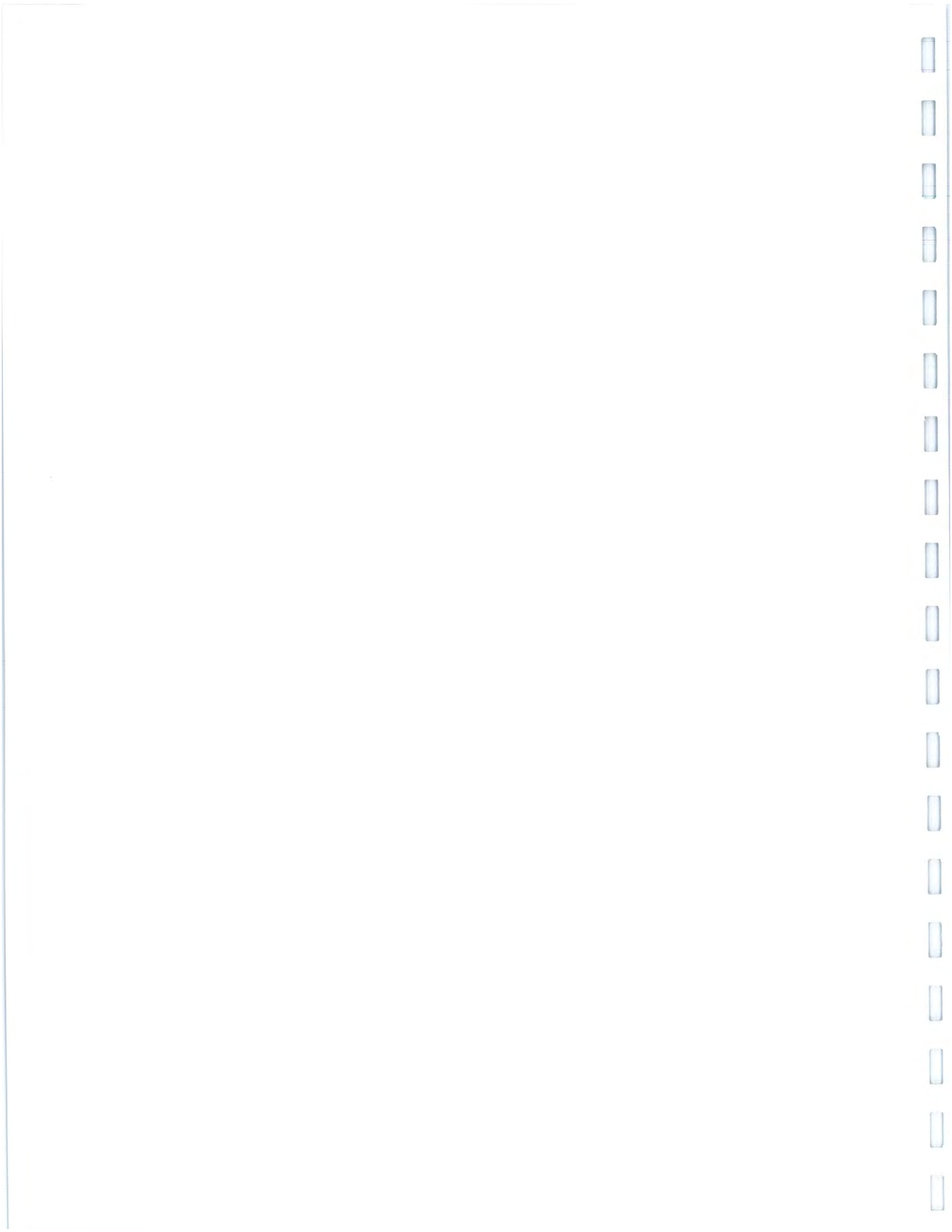
The Honorable Chairwoman and City Council
City of Marco Island
Marco Island, Florida

We have audited the accompanying financial statements of the governmental activities, business-type activities, each major fund, and the aggregate discretely presented component unit and the aggregate remaining fund information of the City of Marco Island, Florida, (the City) as of and for the year ended September 30, 2006, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate discretely presented component unit and aggregate remaining fund information of the City of Marco Island, Florida, as of September 30, 2006, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 22, 2006 on our consideration of the City of Marco Island's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.



The management's discussion and analysis and budgetary comparison information on pages 3-15 and 62-63 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

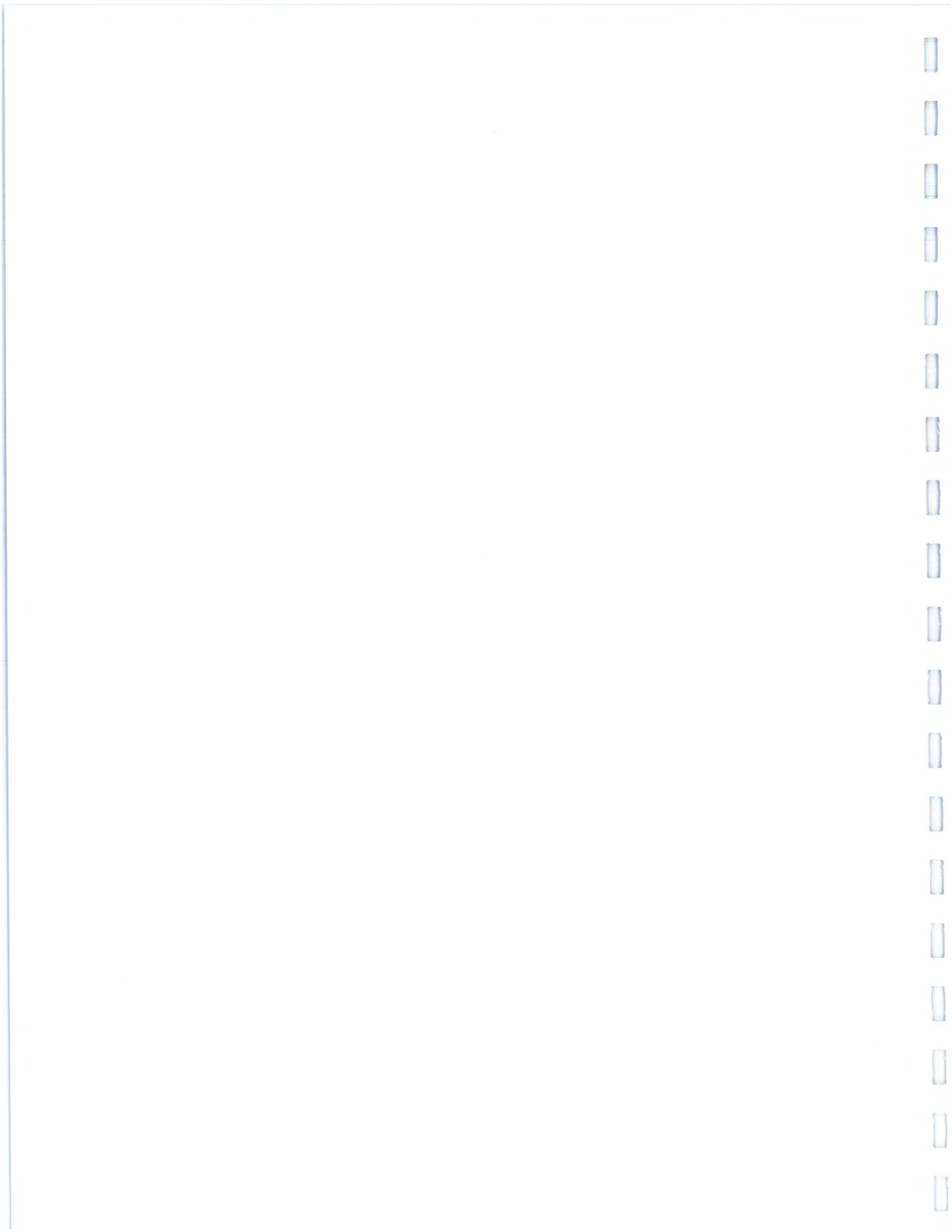
The supplementary information required by Governmental Accounting Standards Board Statements Number 25 and 27 on pages 58-61 is not a required part of the basic financial statements. This information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

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

The accompanying introductory section, combining and individual nonmajor fund financial statements, budgetary comparison information on pages 69-71, other schedules on pages 72, 76 and 77, and statistical tables are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements, budgetary comparison information on pages 69-71, and other schedules on pages 72, 76 and 77 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 introductory section and statistical tables have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

CPA Associates

Bradenton, Florida
November 22, 2006



**MANAGEMENT'S DISCUSSION AND ANALYSIS
CITY OF MARCO ISLAND, FLORIDA
SEPTEMBER 30, 2006**

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, 2006. We encourage readers to consider the information presented here in conjunction with the additional information furnished in our letter of transmittal, which can be found on pages v – x of this report and the City's financial statements beginning on page 17.

Financial Highlights

- The assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$77,814,947 (net assets). Of this amount, \$3,506,264 represents unrestricted net assets in governmental activities that may be used to meet government's ongoing obligations to citizens and creditors. Business-type activities have a deficit balance of \$10,572,102 in unrestricted net assets. The deficit position in the Water and Sewer Fund was \$10,631,246, a decrease of \$2,754,908 from the prior year, and partially offset by \$132,144 in unrestricted net assets in nonmajor business-type activities. The reduction in the deficit position has resulted from operating revenues used to fund capital expenditures. The deficit position will be eliminated over the years as revenues are received in excess of expenses.
- The government's total net assets increased by \$12,686,439. Governmental activities accounted for 86.5% of net assets while business-type activities made up the remaining 13.5%.
- As of the close of the current fiscal year, the City's governmental activities reported a combined ending net assets balance of \$67,274,256, an increase of \$10,425,862 over the prior year. Of that total amount, \$3,506,264 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 General Fund had a total fund balance of \$29,158,096, including \$2,027,228 in unreserved, undesignated fund balance. The increase of \$1,052,448 resulted from expenditures lower than appropriations. Governmental funds reported a combined ending fund balance of \$29,979,958, a decrease of \$1,065,771 from the prior year. The decrease is the result of capital expenditures in the Electric Fund in excess of franchise fees, to be reimbursed by a future bond issue.
- The Water and Sewer Utility Fund began several major capital construction projects during 2006, discussed in detail later in this report. The City Council has determined that it is in the best interests of the city to use available resources of the city during construction, thereby delaying the need for issuance

**MANAGEMENT'S DISCUSSION AND ANALYSIS
CITY OF MARCO ISLAND, FLORIDA
SEPTEMBER 30, 2006**

of debt and incurring interest expenses. As of the end of the fiscal year, the Water and Sewer Utility Fund carried a balance of \$12,450,514 as Due to other funds. That amount will be eliminated as debt is issued.

- The financial condition of the City of Marco Island continued to improve during 2006. Major capital investments have been made to both the utility system and the basic infrastructure of the community. Assessed valuations have continued double-digit annual increases reflecting both a strong economy and the scarcity of waterfront property; however, the current declines nationwide in real estate will affect the local community. Professional department heads manage their operations within budgeted appropriations and reserve levels are sufficient to respond to changing conditions.

Overview of the Financial Statements

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

Government-Wide Financial Statements

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

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

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

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the City include

**MANAGEMENT'S DISCUSSION AND ANALYSIS
CITY OF MARCO ISLAND, FLORIDA
SEPTEMBER 30, 2006**

general government, police services, fire/rescue services, code compliance, building services, transportation, and culture and recreation. The business-type activities of the City include its sewer collection services.

The City's government-wide financial statements can be found on pages 18-19 of this report.

Fund Financial Statements

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

Governmental Funds

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

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

The City presents in separate columns funds that are the most significant to the City (major funds) and all other governmental funds are aggregated and reported in a single column (nonmajor funds). At September 30, 2006, the City has three non-major funds: the Emergency Relief Fund that accounts for expenditures and pending FEMA reimbursement for storm-related damage, the Building Services Fund, and the Debt Service Fund.

The City's governmental fund financial statements are presented on pages 20-23.

**MANAGEMENT'S DISCUSSION AND ANALYSIS
CITY OF MARCO ISLAND, FLORIDA
SEPTEMBER 30, 2006**

Proprietary Funds

The City of Marco Island has two proprietary funds, an enterprise fund for the water and sewer utility operations and the self-supporting (nonmajor) fund for recreation programs run by the City. *Enterprise Funds* are used to report the same functions as *business-type activities* in the governmental-type financial statements. The water and sewer fund showed an increase in net assets for the current fiscal year of \$3,833,728. This increase resulted from operating revenues in excess of operating expenses used to finance capital construction during the year and payment of principal on debt.

The proprietary fund financial statements can be found on pages 24-26 of this report.

Fiduciary Funds

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

The fiduciary fund financial statements are found on pages 27-28 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 30-56 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 and the electric special revenue fund. Required supplementary information can be found on pages 58-63 of this report.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
CITY OF MARCO ISLAND, FLORIDA
SEPTEMBER 30, 2006**

Government-Wide Financial Analysis

The following schedule is a summary of the Statement of Net Assets found on page 18 of this report:

Net Assets at September 30, 2006

	Governmental Activities		Business-Type Activities		Total	
	2005	2006	2005	2006	2005	2006
Current and Other Assets	\$33,622,362	\$36,209,954	\$ 19,131,708	\$ 4,313,469	\$52,754,070	\$ 40,523,423
Capital Assets	43,013,860	58,100,242	95,474,160	114,343,279	138,488,020	172,443,521
Total Assets	76,636,222	94,310,196	114,605,868	118,656,748	191,242,090	212,966,944
Current and Other Liabilities	2,107,427	7,654,884	3,888,495	9,225,775	5,995,922	16,880,659
Long-Term Debt	17,749,782	19,381,056	102,437,259	98,890,282	120,187,041	118,271,338
Total Liabilities	19,857,209	27,035,940	106,325,754	108,116,057	126,182,963	135,151,997
Net Assets:						
Investment in Capital Assets, Net of Related Debt	23,958,093	37,670,845	8,520,919	13,601,948	32,479,012	51,272,793
Restricted	24,183,080	26,097,147	13,044,910	7,510,845	37,227,990	33,607,992
Unrestricted	8,637,840	3,506,264	(13,285,715)	(10,572,102)	(4,647,875)	(7,065,838)
Total Net Assets	\$56,779,013	\$67,274,256	\$ 8,280,114	\$ 10,540,691	\$65,059,127	\$ 77,814,947

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 \$77,814,947 at the close of the most recent fiscal year, an increase from \$65,059,127 in the prior year.

The increase in total net assets of Governmental Activities resulted from significant expenditures on infrastructure during fiscal year 2006, net of the new debt issued in the amount of \$4,000,000. Included in the increase is the reclassification of the Electric Fund as a Governmental Activity. In Business-Type Activities, the increase in total net assets resulted from rate base revenues used for repayment of debt and for capital expenditures.

A substantial portion of the City's net assets (57%) reflect its investment in capital assets (e.g., land, buildings, improvements, infrastructure, and equipment), less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should still be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

**MANAGEMENT'S DISCUSSION AND ANALYSIS
CITY OF MARCO ISLAND, FLORIDA
SEPTEMBER 30, 2006**

The following is a summary of the information presented in the Statement of Activities found on page 19 of the report:

**Changes in Net Assets
For the Year Ended September 30, 2006**

	Governmental Activities		Business-Type Activities		Total	
	2005	2006	2005	2006	2005	2006
Revenues:						
Program Revenues:						
Charges for Services	\$ 1,685,056	\$ 1,617,002	\$ 19,220,239	\$ 19,155,282	\$20,905,295	\$20,772,284
Operating Grants & Contributions	1,115,222	2,259,878	42,389	45,003	1,157,611	2,304,881
Capital Grants & Contributions	4,831,353	2,481,096	504,360	1,450,000	5,335,713	3,931,096
General Revenues:						
Taxes	11,522,091	15,602,566	-	-	11,522,091	15,602,566
State Shared Revenues	2,270,719	2,393,388	-	-	2,270,719	2,393,388
Other Revenues	3,235,478	1,726,831	1,859,675	997,061	5,095,153	2,723,892
Total Revenues	24,659,919	26,080,761	21,626,663	21,647,346	46,286,582	47,728,107
Expenses:						
Governmental Activities:						
General Government	2,128,169	4,799,331	-	-	2,128,169	4,799,331
Police Services	2,911,067	3,024,973	-	-	2,911,067	3,024,973
Fire/Rescue	3,054,111	3,156,845	-	-	3,054,111	3,156,845
Code Compliance	126,364	148,161	-	-	126,364	148,161
Building Services	1,023,502	1,128,468	-	-	1,023,502	1,128,468
Transportation	467,313	2,726,090	-	-	467,313	2,726,090
Culture and Recreation	1,017,422	1,574,669	-	-	1,017,422	1,574,669
Interest on Long Term Debt	348,472	628,218	-	-	348,472	628,218
Business-type Activities:						
Water / Sewer Fund	-	-	16,796,415	17,736,604	16,796,415	17,736,604
Recreation	-	-	107,047	118,309	107,047	118,309
Total Expenses	11,076,420	17,186,755	16,903,462	17,854,913	27,979,882	35,041,668
Excess Before Transfers	13,583,499	8,894,006	4,723,201	3,792,433	18,306,700	12,686,439
Transfers	108,759	-	(108,759)	-	-	-
Increase in Net Assets	13,692,258	8,894,006	4,614,442	3,792,433	18,306,700	12,686,439
Prior Period Adjustment	9,255,750	1,531,856	-	(1,531,856)	9,255,750	-
Net Assets – Beginning of Year	33,831,004	56,848,394	3,665,672	8,280,114	37,496,676	65,128,508
Net Assets – End of Year	\$56,779,012	\$67,274,256	\$ 8,280,114	\$ 10,540,691	\$65,059,126	\$ 77,814,947

MANAGEMENT'S DISCUSSION AND ANALYSIS
CITY OF MARCO ISLAND, FLORIDA
SEPTEMBER 30, 2006

Governmental Funds

The fund statements for the governmental funds are provided on pages 20-23. The focus of the City's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable resources*. Such information is useful in assessing the City's financing requirements. In particular, *unreserved fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

At the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$29,979,958. Of this amount, \$2,027,228 constitutes an *unreserved and undesignated fund balance* in the General Fund, which is available for spending at the City's discretion subject to budgetary constraints and the City's Spending Cap, discussed below in detail. The total unreserved and undesignated fund balance for the Governmental Funds is a negative \$194,333. That total results from a negative unreserved and undesignated fund balance in the Electric Fund of \$1,930,552. Capital expenditures for the under-grounding of power lines and installation of decorative lighting fixtures along Collier Boulevard will be recovered from a future bond issue. The remainder of the fund balance is reserved or designated to indicate that it is not available for new spending because it has already been committed. The following governmental fund balances have been reserved:

* Parks Construction	\$ 299,769
* Road Construction	177,148
* Fire Services	188,444
* Police Services	209,929
* Building Department	2,596,404
* Debt Service	447,019
* Prepaid Expenditures	33,003

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

* Capital Projects	\$22,592,450
* Emergency Reserve	3,630,125

The General Fund is the chief operating fund of the City. At the end of the fiscal year, the unreserved fund balance of the General Fund is \$2,027,228, while the total fund balance is \$29,158,096. As a measure of the General Fund's liquidity, it may be useful to compare unreserved fund balance to total fund expenditures. The unreserved fund balance, including undesignated and emergency reserves, represents 18% of General Fund expenditures.

The unreserved, undesignated fund balance of the City's General Fund declined by \$4,327,321 during the current fiscal year. The key factor for this decrease was the emergency appropriation by the City Council of \$4,400,000 for the replacement of the East Winterberry Bridge.

**MANAGEMENT'S DISCUSSION AND ANALYSIS
CITY OF MARCO ISLAND, FLORIDA
SEPTEMBER 30, 2006**

Beginning in Fiscal Year 2006, the Electric Fund is reported as a Governmental Activity. It was previously reported as a Business-Type Activity.

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 \$78,777.

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

Charter Spending Cap

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

- The Spending Cap shall be determined on a "budget-to-budget" basis, with the approved budget for the prior year used as a base, and increased by the allowable three percent (3%) and the annual COLA to establish the Spending Cap for the new fiscal year.
- Expenditures funded by the proceeds of municipal debt are not counted against the Spending Cap; however, all debt service payments for the life of the debt are counted against the Cap.

**MANAGEMENT'S DISCUSSION AND ANALYSIS
CITY OF MARCO ISLAND, FLORIDA
SEPTEMBER 30, 2006**

- Capital expenditures budgeted and subject to the Spending Cap in a prior fiscal year, but unexpended as of the end of that fiscal year, may be carried forward into a subsequent year and those expenditures not counted against the Spending Cap a second time in the subsequent year.

For the fiscal year ended September 30, 2006, the City was in compliance with the Charter Spending Cap:

Expenditures fiscal year 2006:	
General Fund	\$10,974,219
Transfer to Self-Insurance Fund	337,651
Capital Projects Fund	11,993,965
Debt Service Fund	1,239,850
TOTAL OF ALL FUNDS	\$ 24,545,685
Less: Expenditures funded by grants and gifts:	(3,063,697)
Less: Expenditures funded by impact fees:	(441,508)
Less: Expenditures funded by cash forward from fiscal year 2005 and subject to 2005 Spending Cap:	(23,089,561)
Less: City Council approved Emergency Expenditures	(4,400,000)
Add Back: Funding for uncompleted balance of fiscal year 2006 capital projects, subject to Spending Cap in 2006; balanced carried forward to 2007	22,952,368
Fiscal Year 2006 Expenditures subject to Spending Cap:	\$ 16,503,287
Fiscal Year 2006 Spending Cap:	\$ 16,503,287

**MANAGEMENT'S DISCUSSION AND ANALYSIS
CITY OF MARCO ISLAND, FLORIDA
SEPTEMBER 30, 2006**

Capital Assets and Debt Administration

Capital Assets

The City's investment in capital assets for its governmental and business-type activities as of September 30, 2006 amounts to \$172,443,521 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, vehicles and equipment, construction in progress, other assets, utility systems and infrastructure.

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

- A new Police Station and community facility located on the City Hall campus began construction in Spring 2006, with completion scheduled for May 2007.
- The re-construction of South Collier Boulevard was substantially complete by the end of Fiscal Year 2006. Work included underground power lines, replacement and over-sizing of water and wastewater lines, replacement and upgrading of storm drainage facilities, and a new roadway system. Similar reconstruction of North Collier Boulevard from San Marco Road to Rose Court will be performed during calendar years 2006 and 2007. No work will be scheduled January to April 2007, to accommodate heavy traffic volumes of winter visitors.
- Phase I for the conversion of the Marco Island wastewater treatment plant to a membrane bio-reactor treatment process was underway in Fiscal Year 2006. Over a four-year construction schedule, the entire plant will be upgraded as well as the capacity expanded from the current 3.5 million gallon per day (MGD) to 5.0 MGD to accommodate new sewer customers.
- Three additional aquifer storage and recovery (ASR) wells were constructed and substantially complete by the end of the fiscal year. A seventh ASR well is currently under construction. ASR wells allow for the storage of surface water during the traditionally wet summer months and recovery for treatment and distribution to customers during the dry winter months.
- Phase I of the Septic Tank Replacement Program began construction in 2006, financed through sewer assessments. This seven-year program will bring all of Marco Island onto central sewer. 5,653 properties will be affected, almost exclusively single-family residences. The existing central sewer system serves all of the multi-family properties on the island and almost all of the commercial areas of the city.

**MANAGEMENT'S DISCUSSION AND ANALYSIS
CITY OF MARCO ISLAND, FLORIDA
SEPTEMBER 30, 2006**

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

	Capital Assets (Net of Depreciation)					
	Governmental Activities		Business-Type Activities		Total	
	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>
Land and Land Improvements	\$ 14,825,071	\$14,825,071	\$ 15,024,010	\$ 16,514,861	\$ 29,849,081	\$ 31,339,932
Buildings and Improvements	3,702,429	3,702,439	6,001,730	6,523,487	9,704,159	10,225,926
Infrastructure	22,287,672	25,277,503	-	-	22,287,672	25,277,503
Vehicles and Equipment	4,094,293	4,468,131	40,853,250	47,378,700	44,947,543	51,846,831
Transmission & Distribution	-	-	31,126,007	35,660,767	31,126,007	35,660,767
Construction Work in Process	6,957,922	21,281,784	10,273,076	20,095,014	17,230,998	41,376,798
Accumulated Depreciation	(8,853,526)	(11,454,686)	(7,803,913)	(11,829,550)	(16,657,439)	(23,284,236)
	<u>\$ 43,013,861</u>	<u>\$ 58,100,242</u>	<u>\$ 95,474,160</u>	<u>\$ 114,343,279</u>	<u>\$ 138,488,021</u>	<u>\$ 172,443,521</u>

Additional information on the City's capital assets can be found in Note C, on pages 41-42 of this report.

Long-Term Debt

At the end of the current year, the City had total debt outstanding of \$119,634,396 (excluding accrued compensated absences and bond premiums). Of that amount, \$9,315,000 is considered general obligation debt, backed by the full faith and credit of the City. The City's revenue bonds are secured solely by specified revenue sources.

	Long-Term Debt					
	Governmental Activities		Business-Type Activities		Total	
	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>
Revenue Bonds, Series 2000B	\$ 780,000	\$ 725,000	\$ -	\$ -	\$ 780,000	\$ 725,000
Gen Obligation Bonds, Srs 2004	9,860,000	9,315,000	-	-	9,860,000	9,315,000
Revenue Bonds, Series 2005	6,000,000	6,000,000	-	-	6,000,000	6,000,000
Capital Lease	459,370	389,397	-	-	459,370	389,397
Revenue Note, Series 2006	-	4,000,000	-	-	-	4,000,000
Utility Revenue Bonds, Srs 2003	-	-	101,115,000	99,205,000	101,115,000	99,205,000
State Revolving Loan	-	-	-	403,464	-	403,464
Total Long-Term Debt	<u>\$ 17,099,370</u>	<u>\$20,429,397</u>	<u>\$101,115,000</u>	<u>\$ 99,608,464</u>	<u>\$ 118,214,370</u>	<u>\$120,037,861</u>

The \$4 million Revenue Note, Series 2006, was issued to assist in the financing of the reconstruction of North Collier Boulevard. Note will be repaid at the rate of \$1 million annually plus interest, pledging the proceeds of the \$1 million annually received from Collier County for infrastructure improvements. Additional information on the City's long-term debt can be found in Note C, on pages 43-47 of this report.

**MANAGEMENT'S DISCUSSION AND ANALYSIS
CITY OF MARCO ISLAND, FLORIDA
SEPTEMBER 30, 2006**

Economic Factors and Next Year's Budget and Rates

Property Taxes

For fiscal year 2006, the City's assessed valuation increased by 33.3% to \$9,487,437,304. This increase afforded the opportunity for a reduction in the millage rate from 1.586 mils to 1.3875 mils, a reduction greater than the statutory increase in the taxable assessed valuation of homesteaded properties.

For fiscal year 2007, the City's assessed valuation increased an additional 26.8% to \$12,026,168,600. The tax levy was reduced from 1.3875 mils to 1.3181 mils.

Electric Franchise Fee

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

Water and Wastewater Utility

Effective with utility bills rendered on or after October 1, 2005, water and wastewater operating rates were increased by 3.5% to reflect the increasing costs of operation. City Council has also established a water conservation block schedule with the rates for use of water increasing with higher consumption. Unique to the State of Florida, the conservation program is based on lot size to protect owners of larger parcels from dramatic rate increases. In addition, water base charges for condominium properties served with a master meter were amended to charge on a per unit basis, consistent with charges for single-family homes and condominiums with individual meters.

For fiscal year 2007, water and wastewater operating rates were increased by 4.1% to reflect increasing costs for power, chemicals, and sludge hauling and disposal. City Council has expressed a preference for measured annual increases to reflect the costs of operation of the utility, rather than periodic large increases.

The city has 5,653 single-family properties that are either served by septic systems or vacant properties without central sewer available. City Council has approved a Septic Tank Replacement Program that will extend the central sewer system to all properties by 2012. A companion project is the upgrading and expansion of the wastewater treatment from the current 3.5 MGD to 5.0 MGD. The program began in 2006 with construction of the first two neighborhood sewer systems and phase one of the wastewater plant upgrading and expansion. Upgrading of the existing wastewater plant will be financed with utility revenue bonds, paid by

MANAGEMENT'S DISCUSSION AND ANALYSIS
CITY OF MARCO ISLAND, FLORIDA
SEPTEMBER 30, 2006

increases in the rate base. Plant expansion and construction of neighborhood central sewer systems will be financed by assessments on the affected properties, with financial contributions from other city sources. Loans have been applied for from the low-interest State Revolving Loan Fund.

East Winterberry Bridge

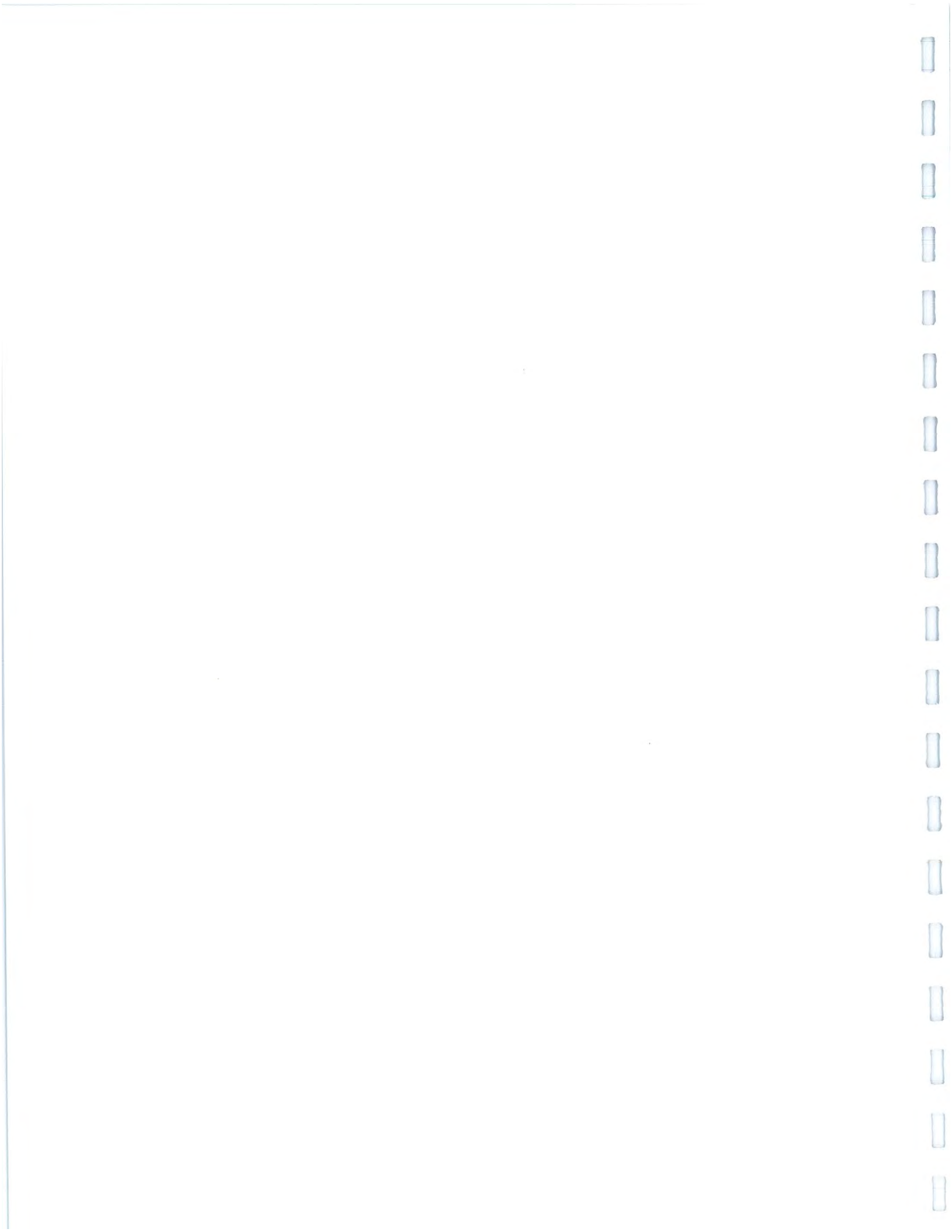
The East Winterberry bridge is one of the original bridges on Marco Island, built in the 1960's as part of the initial development of the community. The bridge is functionally obsolete and has been scheduled for replacement in the City's long-term capital plan. The bridge sustained damage from both Hurricane Charlie in 2004 and Hurricane Wilma in 2005. The City Council appropriated \$4.4 million in the Fiscal Year 2006 budget for the emergency replacement of this bridge. Construction is scheduled for 2007.

Requests for Information

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

This page intentionally left blank.

BASIC FINANCIAL STATEMENTS



CITY OF MARCO ISLAND, FLORIDA
STATEMENT OF NET ASSETS
September 30, 2006

	Primary Government			Component Unit
	Governmental Activities	Business- Type Activities	Total	Hideaway Beach District
Assets:				
Pooled cash and investments	\$ 21,176,913	4,375,278	25,552,191	249,459
Receivables:				
Account - Net	1,312,295	2,745,042	4,057,337	--
Interest	180,363	--	180,363	--
Due from other governments	599,137	--	599,137	--
Internal balances	12,523,514	(12,523,514)	--	--
Prepaid items	33,003	--	33,003	--
Restricted cash and investments	--	7,656,448	7,656,448	--
Bond issue costs - Net	166,424	2,060,215	2,226,639	31,152
Net pension asset	218,305	--	218,305	--
Capital assets:				
Nondepreciable	36,106,855	36,609,875	72,716,730	--
Depreciable	21,993,387	77,733,404	99,726,791	--
Total Assets	\$ 94,310,196	118,656,748	212,966,944	280,611
Liabilities				
Accounts payable	\$ 5,062,956	4,727,517	9,790,473	18,700
Accrued liabilities	473,604	129,561	603,165	--
Deposits	7,000	--	7,000	--
Accrued interest	210,791	2,321,289	2,532,080	17,846
Noncurrent liabilities:				
Due within one year	1,900,533	2,047,408	3,947,941	450,000
Due in more than one year	19,381,056	98,890,282	118,271,338	2,020,000
Total Liabilities	27,035,940	108,116,057	135,151,997	2,506,546
Net Assets				
Invested in capital assets, net of related debt	37,670,845	13,601,948	51,272,793	--
Restricted for:				
Capital outlay	25,698,774	6,050,163	31,748,937	--
Renewal and replacement	--	1,460,682	1,460,682	--
Police, fire and rescue	398,373	--	398,373	--
Unrestricted	3,506,264	(10,572,102)	(7,065,838)	(2,225,935)
Total Net Assets	67,274,256	10,540,691	77,814,947	(2,225,935)
Total Liabilities and Net Assets	\$ 94,310,196	118,656,748	212,966,944	280,611

See accompanying notes.

CITY OF MARCO ISLAND, FLORIDA
STATEMENT OF ACTIVITIES
For the Year Ended September 30, 2006

Function/Program Activities	Program Revenues			Net (Expense) Revenue and Changes in Net Assets			Component Unit
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	
Governmental Activities							
General government	\$ 4,799,331	60,778	1,266,658	570,000	(2,901,895)	--	(2,901,895)
Police services	3,024,973	37,047	247,223	21,686	(2,719,017)	--	(2,719,017)
Fire and rescue	3,156,845	102,415	6,908	181,854	(2,865,668)	--	(2,865,668)
Code compliance	148,161	161,876	--	--	13,715	--	13,715
Building services	1,128,468	1,162,729	--	--	34,261	--	34,261
Transportation	2,726,090	--	738,499	1,662,000	(325,591)	--	(325,591)
Culture and recreation	1,574,669	92,157	590	45,556	(1,436,366)	--	(1,436,366)
Interest on long-term debt	628,218	--	--	--	(628,218)	--	(628,218)
Total Governmental Activities	17,186,755	1,617,002	2,259,878	2,481,096	(10,828,779)	--	(10,828,779)
Business-Type Activities							
Water and sewer	17,736,604	19,050,271	--	1,450,000	--	2,763,667	2,763,667
Recreation	118,309	105,011	45,003	--	--	31,705	31,705
Total Business-Type Activities	17,854,913	19,155,282	45,003	1,450,000	--	2,795,372	2,795,372
Total Primary Government	\$ 35,041,668	20,772,284	2,304,881	3,931,096	(10,828,779)	2,795,372	(8,033,407)
Component Unit - Hideaway Beach District	\$ 343,608	--	--	--	--	--	(343,608)
General Revenues							
Taxes:							
Property taxes					11,852,368	--	11,852,368
Communication service tax					997,457	--	997,457
Franchise fees					1,882,013	--	1,882,013
Other taxes					870,728	--	870,728
State shared revenues-unrestricted					2,393,388	--	2,393,388
Interest					1,279,907	518,451	1,798,358
Miscellaneous					446,924	478,610	925,534
Total General Revenues					19,722,785	997,061	20,719,846
Change in Net Assets					8,894,006	3,792,433	12,686,439
Net assets - Beginning of year, as originally stated					56,848,394	8,280,114	65,128,508
Prior period adjustment					1,531,856	(1,531,856)	--
Net assets - Beginning of year, as restated					58,380,250	6,748,258	65,128,508
Net assets - End of year					67,274,256	10,540,691	77,814,947

See accompanying notes.

CITY OF MARCO ISLAND, FLORIDA
GOVERNMENTAL FUNDS
BALANCE SHEET
September 30, 2006

	General	Electric	Capital Projects	Nonmajor Fund Totals	Total Governmental Funds
Assets					
Pooled cash and investments	\$ 16,639,413	95,600	1,130,398	3,067,734	20,933,145
Receivables:					
Account - net	239,232	514,332	505,525	53,206	1,312,295
Interest	180,363	--	--	--	180,363
Due from other funds	12,644,572	--	--	--	12,644,572
Due from other governments	599,137	--	--	--	599,137
Prepaid items	33,003	--	--	--	33,003
Total Assets	\$ 30,335,720	609,932	1,635,923	3,120,940	35,702,515
Liabilities and Fund Balances					
Liabilities					
Accounts payable	\$ 721,208	2,540,484	1,635,923	154,321	5,051,936
Accrued liabilities	324,786	--	--	20,147	344,933
Due to other funds	--	--	--	194,058	194,058
Unearned revenue	124,630	--	--	--	124,630
Deposits	7,000	--	--	--	7,000
Total Liabilities	1,177,624	2,540,484	1,635,923	368,526	5,722,557
Fund Balances					
Reserved for:					
Parks construction or operation	299,769	--	--	--	299,769
Road construction	177,148	--	--	--	177,148
Fire services	188,444	--	--	--	188,444
Police services	209,929	--	--	--	209,929
Building department	--	--	--	2,596,404	2,596,404
Debt service	--	--	--	447,019	447,019
Prepaid expenditures	33,003	--	--	--	33,003
Unreserved, undesignated	2,027,228	(1,930,552)	--	(291,009)	(194,333)
Unreserved, designated for:					
Capital projects	22,592,450	--	--	--	22,592,450
Emergency reserve	3,630,125	--	--	--	3,630,125
Total Fund Balances	29,158,096	(1,930,552)	--	2,752,414	29,979,958
Total Liabilities and Fund Balances	\$ 30,335,720	609,932	1,635,923	3,120,940	35,702,515

See accompanying notes.

CITY OF MARCO ISLAND, FLORIDA
RECONCILIATION OF THE BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
GOVERNMENTAL FUNDS
September 30, 2006

Fund Balance - Total Governmental Funds \$ 29,979,958

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

Bond issue costs are not available to pay for current period
expenditures and, therefore, are not reported in the governmental
funds 166,424

Net pension assets are not available to pay for current period
expenditures and, therefore, are not reported in the governmental
funds 218,305

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

Capital assets	69,554,928	
Less: accumulated depreciation	<u>(11,454,686)</u>	58,100,242

Other long-term assets are not available to pay for current-period
expenditures and, therefore, are deferred in the funds. 124,630

Internal service funds are used by management to charge costs of
insurance to individual funds. The assets and liabilities of the
internal service funds are included in governmental activities
in the statement of net assets 177,077

Accrued interest is not due and payable in the current period and,
therefore, is not reported in the governmental funds (210,791)

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

Revenue bond - Series 2000B	(725,000)	
Revenue bond - Series 2004	(9,315,000)	
Revenue bond - Series 2005	(6,000,000)	
Revenue bond - Series 2006	(4,000,000)	
Capital lease	(389,397)	
Compensated absences	<u>(852,192)</u>	<u>(21,281,589)</u>

Net Assets of Governmental Activities \$ 67,274,256

CITY OF MARCO ISLAND, FLORIDA
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Year Ended September 30, 2006

	General	Electric	Capital Projects	Nonmajor Fund Totals	Total Governmental Funds
Revenues					
Taxes	\$ 13,588,324	1,882,013	--	870,728	16,341,065
Licenses and permits	37,246	--	--	1,162,729	1,199,975
Intergovernmental	2,748,523	--	2,436,435	1,266,658	6,451,616
Charges for services	302,343	--	--	--	302,343
Fines and forfeitures	37,047	--	--	--	37,047
Interest income	1,172,228	--	--	107,679	1,279,907
Miscellaneous	98,621	--	245,556	--	344,177
Total Revenues	<u>17,984,332</u>	<u>1,882,013</u>	<u>2,681,991</u>	<u>3,407,794</u>	<u>25,956,130</u>
Expenditures					
Current:					
General government	3,114,127	--	--	1,559,497	4,673,624
Police services	3,001,768	--	--	--	3,001,768
Fire and rescue	2,871,196	--	--	--	2,871,196
Code compliance	161,920	--	--	--	161,920
Electric	--	3,719,856	--	--	3,719,856
Building services	--	--	--	1,105,985	1,105,985
Transportation	870,289	--	--	--	870,289
Culture and recreation	1,292,570	--	--	--	1,292,570
Debt service:					
Principal	--	--	--	669,973	669,973
Interest	--	--	--	568,046	568,046
Bond issue costs	--	--	33,810	--	33,810
Capital outlay	--	--	11,960,155	--	11,960,155
Total Expenditures	<u>11,311,870</u>	<u>3,719,856</u>	<u>11,993,965</u>	<u>3,903,501</u>	<u>30,929,192</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>6,672,462</u>	<u>(1,837,843)</u>	<u>(9,311,974)</u>	<u>(495,707)</u>	<u>(4,973,062)</u>
Other Financing Sources (Uses)					
Transfers in	14,367	--	5,326,341	308,040	5,648,748
Transfers out	(5,634,381)	--	(14,367)	--	(5,648,748)
Issuance of bonds payable	--	--	4,000,000	--	4,000,000
Total Other Financing Sources (Uses)	<u>(5,620,014)</u>	<u>--</u>	<u>9,311,974</u>	<u>308,040</u>	<u>4,000,000</u>
Net Change in Fund Balances	1,052,448	(1,837,843)	--	(187,667)	(973,062)
Fund Balances - October 1, 2005	<u>28,105,648</u>	<u>(92,709)</u>	<u>--</u>	<u>2,940,081</u>	<u>30,953,020</u>
Fund Balances - September 30, 2006	<u>\$ 29,158,096</u>	<u>(1,930,552)</u>	<u>--</u>	<u>2,752,414</u>	<u>29,979,958</u>

See accompanying notes.

CITY OF MARCO ISLAND, FLORIDA
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE TO THE STATEMENT OF ACTIVITIES
GOVERNMENTAL FUNDS
For the Year Ended September 30, 2006

Net Change in Fund Balance - Total Governmental Funds \$ (973,062)

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

The statement of activities reports changes in the net pension asset.
Conversely, governmental funds do not report any changes in the
net pension asset (1,695)

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	16,076,906	
Less: disposals	--	
Less: current year depreciation	<u>(2,615,090)</u>	13,461,816

The statement of activities reports gains arising from the trade-in of existing
capital assets to acquire new capital assets. Conversely, governmental
funds do not report any gain or loss on a trade-in of capital assets --

Internal service funds are used by management to charge costs of
insurance to individual funds. The net revenue of certain activities of
internal service funds is reported with governmental activities (145,976)

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

Change in compensated absences	(201,780)
Accrued interest	(60,172)

Revenues in the statement of activities that do not provide current financial resources are not reported in the fund statements	124,631
--	---------

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

Proceeds from bonds payable	(4,000,000)	
Proceeds from capital lease obligation	--	
Bond issue costs	33,810	
Amortization of bond issue costs	(13,539)	
Add: principal payments	<u>669,973</u>	<u>(3,309,756)</u>

Change in Net Assets of Governmental Activities \$ 8,894,006

CITY OF MARCO ISLAND, FLORIDA
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
September 30, 2006

	<u>Business-Type Activities - Enterprise Funds</u>			Governmental Activities- Internal Service Fund
	<u>Water and Sewer</u>	<u>Recreation (Nonmajor)</u>	<u>Total</u>	
Assets				
Current Assets				
Pooled cash and investments	\$ --	103,989	103,989	243,768
Cash with fiscal agent	4,271,289	--	4,271,289	--
Accounts receivable - Net	2,745,042	--	2,745,042	--
Total Current Assets	<u>7,016,331</u>	<u>103,989</u>	<u>7,120,320</u>	<u>243,768</u>
Noncurrent Assets				
Restricted cash and investments	7,656,448	--	7,656,448	--
Bond issue costs - Net	2,060,215	--	2,060,215	--
Total Noncurrent Assets	<u>9,716,663</u>	<u>--</u>	<u>9,716,663</u>	<u>--</u>
Capital Assets				
Land	16,514,861	--	16,514,861	--
Transmission and distribution	35,660,767	--	35,660,767	--
Buildings and improvements	6,523,487	--	6,523,487	--
Vehicles and equipment	47,342,076	36,624	47,378,700	--
Construction in progress	20,095,014	--	20,095,014	--
Accumulated depreciation	(11,823,383)	(6,167)	(11,829,550)	--
Total Capital Assets (Net of Accumulated Depreciation)	<u>114,312,822</u>	<u>30,457</u>	<u>114,343,279</u>	<u>--</u>
Total Assets	<u>\$ 131,045,816</u>	<u>134,446</u>	<u>131,180,262</u>	<u>243,768</u>
Liabilities				
Current Liabilities				
Accounts payable	\$ 4,726,943	574	4,727,517	11,020
Accrued liabilities	127,833	1,728	129,561	128,671
Accrued compensated absences	226,816	--	226,816	--
Accrued interest	2,321,289	--	2,321,289	--
Bonds payable - current portion	1,950,000	--	1,950,000	--
Due to other funds	12,450,514	--	12,450,514	--
Total Current Liabilities	<u>21,803,395</u>	<u>2,302</u>	<u>21,805,697</u>	<u>139,691</u>
Noncurrent Liabilities - Bonds payable	<u>98,760,874</u>	<u>--</u>	<u>98,760,874</u>	<u>--</u>
Total Liabilities	<u>120,564,269</u>	<u>2,302</u>	<u>120,566,571</u>	<u>139,691</u>
Net Assets				
Invested in capital assets, net of related debt	13,601,948	--	13,601,948	--
Restricted for:				
Construction	1,224,278	--	1,224,278	--
Capital reserve	3,769,473	--	3,769,473	--
Impact fees	1,056,412	--	1,056,412	--
Renewal and replacement	1,460,682	--	1,460,682	--
Unrestricted	(10,631,246)	132,144	(10,499,102)	104,077
Total Net Assets	<u>10,481,547</u>	<u>132,144</u>	<u>10,613,691</u>	<u>104,077</u>
Total Liabilities and Net Assets	<u>\$ 131,045,816</u>	<u>134,446</u>	<u>131,180,262</u>	<u>243,768</u>
Net assets - above			\$ 10,613,691	
Adjustment to reflect the internal service fund activities reflected in the enterprise funds			(73,000)	
Net assets of business-type activities - page 18			<u>\$ 10,540,691</u>	

See accompanying notes.

CITY OF MARCO ISLAND, FLORIDA
STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
For the Year Ended September 30, 2006

	<u>Business-Type Activities - Enterprise Funds</u>			Governmental Activities- Internal Service Fund
	<u>Water and Sewer</u>	<u>Recreation (Nonmajor)</u>	<u>Total</u>	
Operating Revenues				
Charges for services	\$ 19,050,271	105,011	19,155,282	630,160
Operating Expenses				
Personal services	3,483,059	19,745	3,502,804	--
Insurance	273,794	--	273,794	849,136
Utilities	2,093,688	--	2,093,688	--
Contractual fees	850,398	88,621	939,019	--
Repairs and maintenance	385,206	--	385,206	--
Supplies	1,069,164	--	1,069,164	--
Rental and lease costs	60,120	--	60,120	--
Other expenses	713,529	7,443	720,972	--
Amortization	35,365	--	35,365	--
Depreciation	4,049,681	2,500	4,052,181	--
Total Operating Expenses	<u>13,014,004</u>	<u>118,309</u>	<u>13,132,313</u>	<u>849,136</u>
Operating Income (Loss)	6,036,267	(13,298)	6,022,969	(218,976)
Non-operating Income (Expense)				
Interest earnings	518,451	--	518,451	--
Interest expense	(4,649,600)	--	(4,649,600)	--
Other non-operating income	478,610	45,003	523,613	--
Total Non-operating Income (Expense)	<u>(3,652,539)</u>	<u>45,003</u>	<u>(3,607,536)</u>	<u>--</u>
Income (loss) before transfers and capital contributions	2,383,728	31,705	2,415,433	(218,976)
Utility improvement projects grant	<u>1,450,000</u>	<u>--</u>	<u>1,450,000</u>	<u>--</u>
Change in Net Assets	3,833,728	31,705	3,865,433	(218,976)
Net Assets - October 1, 2005	<u>6,647,819</u>	<u>100,439</u>		<u>323,053</u>
Total Net Assets - September 30, 2006	<u>\$ 10,481,547</u>	<u>132,144</u>		<u>104,077</u>
Adjustment to reflect the internal service fund activities related to the enterprise funds (73,000)	
Change in net assets of business-type activities - page 19			<u>3,792,433</u>	

See accompanying notes.

CITY OF MARCO ISLAND, FLORIDA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Year Ended September 30, 2006

	<u>Business-Type Activities - Enterprise Funds</u>			<u>Governmental</u>
	<u>Water and Sewer</u>	<u>Recreation (Nonmajor)</u>	<u>Total</u>	<u>Internal Service Fund</u>
Cash Flows from Operating Activities				
Cash received from customers and users	\$ 18,353,144	150,666	18,503,810	--
Cash received from interfund services provided	--	--	--	630,160
Cash payments to vendors for goods and services	(5,084,171)	(94,825)	(5,178,996)	(744,139)
Cash payments to employees for services	(3,435,388)	(19,745)	(3,455,133)	--
Net Cash Provided (Used) by Operating Activities	<u>9,833,585</u>	<u>36,096</u>	<u>9,869,681</u>	<u>(113,979)</u>
Cash Flows from Capital and Related Financing Activities				
Proceeds from state revolving loan	403,464	--	403,464	--
Utility improvement projects grant	1,450,000	--	1,450,000	--
Acquisition of property, plant, and equipment	(9,516,501)	(17,424)	(9,533,925)	--
Principal paid on capital debt	(1,910,000)	--	(1,910,000)	--
Payment of interest	(4,668,700)	--	(4,668,700)	--
Net Cash Used in Capital and Related Financing Activities	<u>(14,241,737)</u>	<u>(17,424)</u>	<u>(14,259,161)</u>	<u>--</u>
Cash Flows from Investing Activities - Interest received on investments	<u>518,451</u>	<u>--</u>	<u>518,451</u>	<u>--</u>
Net Increase (Decrease) in Cash and Cash Equivalents	<u>(3,889,701)</u>	<u>18,672</u>	<u>(3,871,029)</u>	<u>(113,979)</u>
Cash and Cash Equivalents - October 1, 2005	<u>15,817,438</u>	<u>85,317</u>	<u>15,902,755</u>	<u>357,747</u>
Cash and Cash Equivalents - September 30, 2006	<u>\$ 11,927,737</u>	<u>103,989</u>	<u>12,031,726</u>	<u>243,768</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities				
Operating income (loss)	\$ 6,036,267	(13,298)	6,022,969	(218,976)
Adjustments to reconcile operating income (loss) to Net cash provided (used) by operating activities:				
Depreciation	4,049,681	2,500	4,052,181	--
Amortization	35,365	--	35,365	--
Other non-operating income	478,610	45,003	523,613	--
Decrease (Increase) in assets and increase (decrease) in liabilities				
Accounts receivable	(1,121,742)	652	(1,121,090)	--
Accounts payable and accrued liabilities	361,728	1,239	362,967	104,997
Deposits	(53,995)	--	(53,995)	--
Accrued compensation	47,671	--	47,671	--
Net Cash Provided (Used) by Operating Activities:	<u>\$ 9,833,585</u>	<u>36,096</u>	<u>9,869,681</u>	<u>(113,979)</u>
Reconciliation of Cash and Cash Equivalents				
Pooled cash and investments	\$ --	103,989	103,989	243,768
Cash with fiscal agent	4,271,289	--	4,271,289	--
Restricted cash and investments	7,656,448	--	7,656,448	--
Cash and Cash Equivalents - September 30, 2006	<u>\$ 11,927,737</u>	<u>103,989</u>	<u>12,031,726</u>	<u>243,768</u>

See accompanying notes.

CITY OF MARCO ISLAND, FLORIDA
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
September 30, 2006

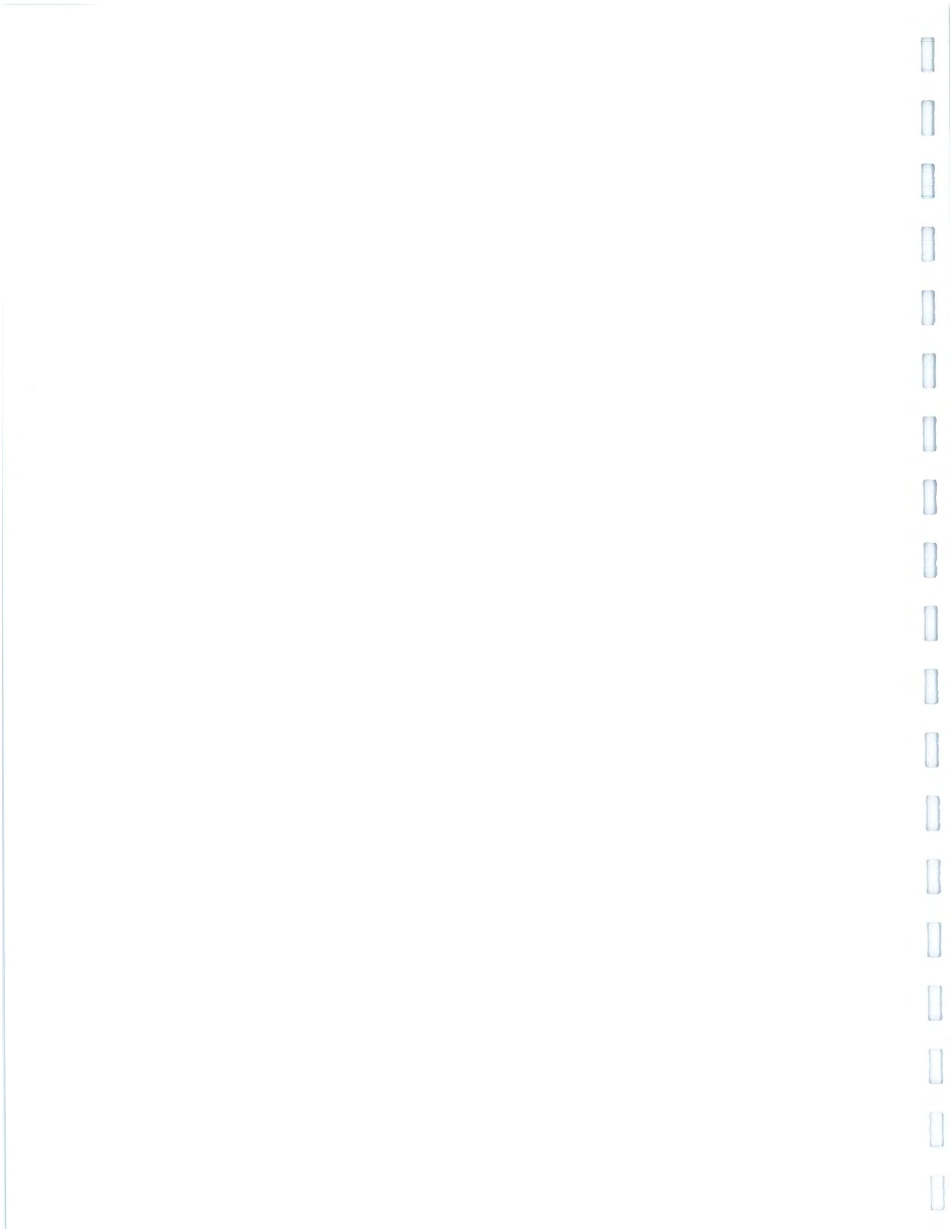
	<u>Pension Trust Funds</u>
Assets	
Cash and cash equivalents	\$ 230,702
Accounts receivable	260,581
Due from other funds	120,000
Investments, at fair value:	
Common stock	1,273,315
Government bonds	887,745
Accrued interest	10,316
Total Assets	<u>2,782,659</u>
Liabilities	
Due to other funds	<u>120,000</u>
Total liabilities	<u>120,000</u>
Net Assets	
Held in trust for pension benefits and other purposes	<u>\$ 2,662,659</u>

See accompanying notes.

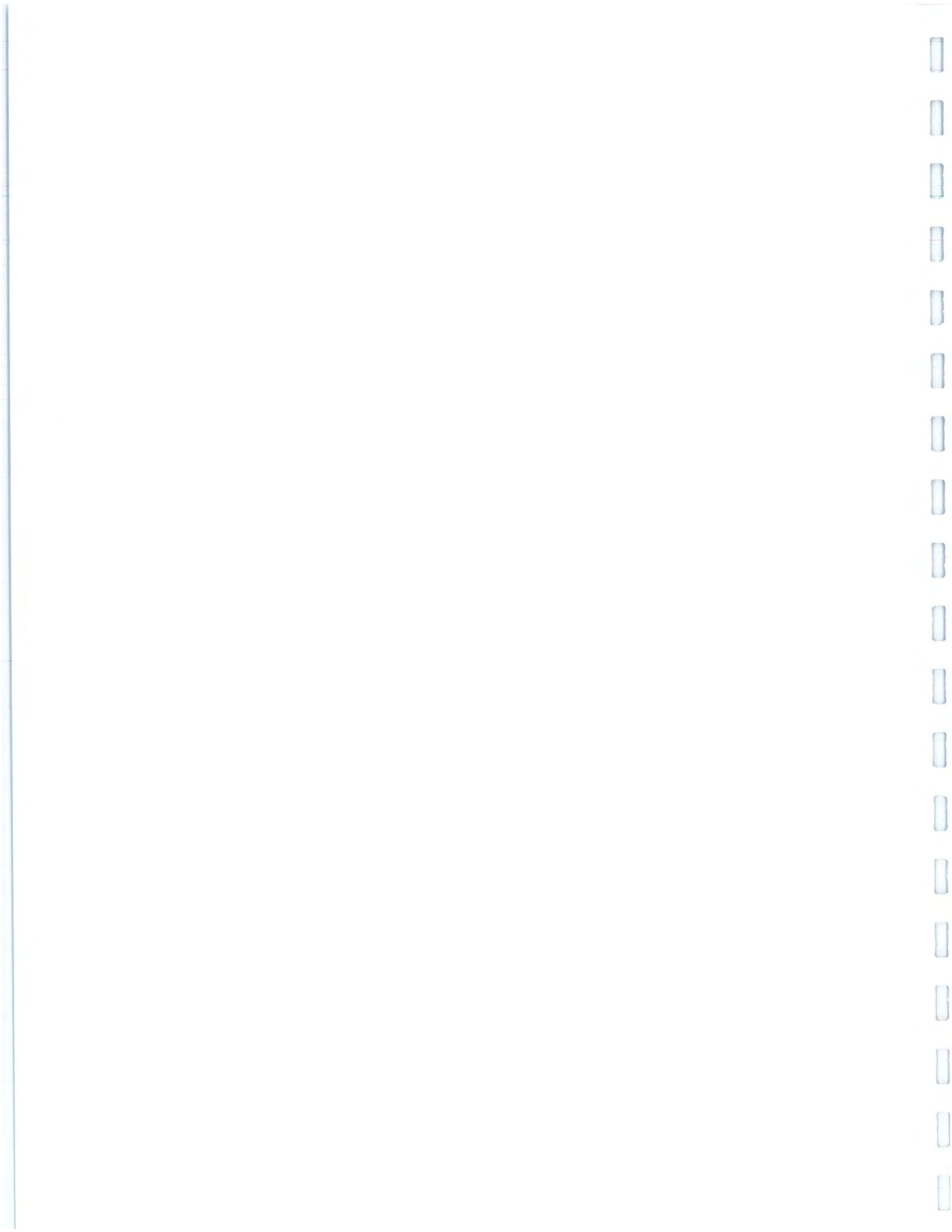
CITY OF MARCO ISLAND, FLORIDA
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
For the Year Ended September 30, 2006

	Pension Trust Funds
Additions	
Contributions:	
Employer	\$ 315,459
Employee	69,444
State of Florida insurance funds, from the City General Fund	409,557
Total contributions	794,460
Investment income (expense):	
Investment earnings	123,826
Investment expenses	(18,259)
Net investment income	105,567
Total Additions	900,027
Deductions	
Legal	8,335
Actuary	515
Administrative	2,772
Refunds to contributors	3,274
Total Deductions	14,896
Change in Net Assets	885,131
Net Assets - October 1, 2005	1,777,528
Net Assets - September 30, 2006	\$ 2,662,659

See accompanying notes.



NOTES TO FINANCIAL STATEMENTS



NOTES TO FINANCIAL STATEMENTS
CITY OF MARCO ISLAND, FLORIDA

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Reporting Entity

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

The accompanying financial statements present the City and its component unit, Hideaway Beach District (Hideaway), an entity for which the City is considered to be financially accountable. Hideaway was approved by voters in Hideaway Beach during 2004, to finance a beach re-nourishment project. Seven year, general obligation bonds of \$2,900,000 were issued to finance the re-nourishment, which will be financed by a special ad valorem tax within the Hideaway Beach neighborhood.

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

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

b. Government-wide and Fund Financial Statements

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

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

NOTES TO FINANCIAL STATEMENTS
CITY OF MARCO ISLAND, FLORIDA

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

At the beginning of the fiscal year, the City reclassified the activities of the Electric Fund from an enterprise fund to a special revenue fund type. Opening net assets of both the governmental activities and the business-type activities have been restated for the government-wide financial statements. This reclassification has also been reflected in the fund financial statements.

c. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

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

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

The City reports the following major governmental funds:

- The *general fund* is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund. Most of the essential governmental services such as police services, fire/rescue,

NOTES TO FINANCIAL STATEMENTS
CITY OF MARCO ISLAND, FLORIDA

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

code compliance, building services, transportation, culture and recreation, and general administration are provided by the General Fund.

- The *electric special revenue fund* accounts for the revenues and expenditures associated with the franchise agreement with the Lee County Electric Cooperative, Inc. to provide electricity, in addition to the related construction of underground power and street lighting throughout the community. This fund has been reclassified from an enterprise fund as of October 1, 2005.
- The *capital projects fund* accounts for the activities associated with construction and the preservation of the City's governmental capital assets.

The City reports the following major proprietary fund:

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

Additionally, the City reports the following fund types:

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

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

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the government's water and sewer function and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned. In the fund financial statements, the City charged the Building Services Fund \$358,956 for indirect services provided by General Fund

NOTES TO FINANCIAL STATEMENTS
CITY OF MARCO ISLAND, FLORIDA

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

departments which have been eliminated in the government-wide statement of activities in accordance with this policy.

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

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

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

d. Assets, Liabilities and Net Assets or Equity

1. Deposits and Investments:

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

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

Investments for the City, as well as for its component unit, are reported at fair value. The State Board of Administration Pooled Trust Fund operates in accordance with appropriate state laws and regulations. The reported value of the pool is the same as the fair value of the pool shares.

NOTES TO FINANCIAL STATEMENTS
CITY OF MARCO ISLAND, FLORIDA

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

2. Receivables and Payables

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

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

3. Prepaid Items

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

4. Restricted Assets

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

5. Capital Assets

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

In the case of the initial capitalization of general infrastructure, the City was able to estimate the historical cost through back trending (i.e., estimating the current replacement cost of the infrastructure to be capitalized and using an appropriate price-level index to deflate the cost to

NOTES TO FINANCIAL STATEMENTS
CITY OF MARCO ISLAND, FLORIDA

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

the acquisition year or estimated acquisition year). As the City constructs or acquires additional capital assets each period, including infrastructure, they are capitalized and reported at historical cost. The reported value excludes normal maintenance and repairs which are essentially amounts spent in relation to the capital assets that do not increase the capacity or efficiency of the item or extend its useful life beyond the original estimate. In the case of donations, the City values these assets at the estimated fair value of the item at the date of its donation.

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

Buildings and Improvements	20-40 Years
Infrastructure	10-40 Years
Vehicles and Equipment	4-10 Years

6. Compensated Absences

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

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

7. Long-term Obligations

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

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

NOTES TO FINANCIAL STATEMENTS
CITY OF MARCO ISLAND, FLORIDA

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

8. Fund Equity

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

9. Property Tax Calendar

The City levies property taxes each November 1, which become a lien on real and personal property located in the City. The assessment of all properties and the collection of all property taxes are made through the Property Appraiser and Tax Collector of Collier County, Florida. The current year's tax levy is based on taxable assessed real and personal property values totaling \$12,076,622,349.

Details of the tax calendar are presented below:

Lien Date	January 1, 2005
Levy Date	October 1, 2005
Installment Payments	
First Installment	No Later Than June 30, 2005
Second Installment	No Later Than September 30, 2005
Third Installment	No Later Than December 31, 2005
Fourth Installment	No Later Than March 31, 2006
Regular Payments	
Discount Periods	November 2005 through February 2007
No Discount Period	After March 1, 2006
Delinquent Date	April 1, 2006

NOTE B – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

a. Budgetary Information

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

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

NOTES TO FINANCIAL STATEMENTS
CITY OF MARCO ISLAND, FLORIDA

NOTE B – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

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

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

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

The spending cap for the 2006 fiscal year, as adopted by City Council, was \$16,503,287. The final actual amount for the 2006 fiscal year was \$16,503,287, which was in accordance with the spending cap limit.

NOTE C – DETAILED NOTES ON ALL FUNDS

a. Deposits and Investments

As of September 30, 2006, the City had the following deposits and investments:

Deposit and Investment Type	No Specific Maturity	Matures in				Total (at Fair Value)
		Less Than 1 Year	Matures in 1-5 Years	Matures in 5-10 Years	Matures in 10 + Years	
Deposits with bank	\$ --	1,736,152	--	--	--	1,736,152
Money market	--	323,084	--	--	--	323,084
U. S. securities	--	8,866,240	18,940,516	103,247	336,017	28,246,020
Common stock	1,273,315	--	--	--	--	1,273,315
Cash held with fiscal agent	4,271,289	--	--	--	--	4,271,289
Total deposits and investments	\$ 5,544,604	10,925,476	18,940,516	103,247	336,017	35,849,860

NOTES TO FINANCIAL STATEMENTS
CITY OF MARCO ISLAND, FLORIDA

NOTE C – DETAILED NOTES ON ALL FUNDS (CONTINUED)

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

Credit Risk: State law limits investments in commercial paper, corporate bonds, and mutual funds to the top two ratings issued by the nationally recognized statistical rating organizations. The City has no investment policy that would further limit its investment choices. As of September 30, 2006, the City's investment in the state investment pool (State Board of Administration) was rated AAA by Standard & Poor's ratings.

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

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

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

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

NOTES TO FINANCIAL STATEMENTS
CITY OF MARCO ISLAND, FLORIDA

NOTE C – DETAILED NOTES ON ALL FUNDS (CONTINUED)

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

b. Receivables

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

	<u>General</u>	<u>Electric</u>	<u>Capital Project</u>	<u>Water and Sewer</u>	<u>Non-major Governmental Funds</u>	<u>Total</u>
Receivables:						
Accounts	\$ 276,320	514,332	505,525	2,777,119	53,206	4,126,502
Interest	180,363	--	--	--	--	180,363
Gross receivables	<u>456,683</u>	<u>514,332</u>	<u>505,525</u>	<u>2,777,119</u>	<u>53,206</u>	<u>4,306,865</u>
Less: allowances for uncollectibles	<u>37,088</u>	<u>--</u>	<u>--</u>	<u>32,077</u>	<u>--</u>	<u>69,165</u>
Net total receivables	<u>\$ 419,595</u>	<u>514,332</u>	<u>505,525</u>	<u>2,745,042</u>	<u>53,206</u>	<u>4,237,700</u>

Governmental funds report *deferred revenue* in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. As of September 30, 2006, deferred revenue reported in the governmental funds consists of receivables recognized for sidewalk assessments.

c. Interfund Receivables, Payables and Transfers

The composition of interfund balances as of September 30, 2006, is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Emergency Relief	\$ 194,058
General	Water and Sewer	12,450,514
Police Pension	Fire Pension	<u>120,000</u>
Total		<u>\$ 12,764,572</u>

NOTES TO FINANCIAL STATEMENTS
CITY OF MARCO ISLAND, FLORIDA

NOTE C – DETAILED NOTES ON ALL FUNDS (CONTINUED)

The outstanding balance between funds result mainly from the time lag between the dates that interfund goods and services are provided or reimbursable expenditures occur, transactions are recorded in the accounting system, and/or payments between funds are made. Interfund balances September 30, 2006 per the government-wide statement of net assets consists of amounts payable to the general fund from the water and sewer fund for \$12,450,514.

For the year ended September 30, 2006, the interfund transfers were as follows:

Transfers Out	Transfers In:			
	General	Capital Project	Non-major	Total
General	\$ --	5,326,341	308,040	5,634,381
Capital Project	14,367	--	--	14,367
Total	\$ 14,367	5,326,341	308,040	5,648,748

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

NOTES TO FINANCIAL STATEMENTS
CITY OF MARCO ISLAND, FLORIDA

NOTE C – DETAILED NOTES ON ALL FUNDS (CONTINUED)

d. Capital Assets

	Beginning Balance (as restated)	Increases	(Decreases)	Ending Balance
Governmental Activities				
Capital assets not being depreciated:				
Land	\$ 14,825,071	-	-	14,825,071
Construction in progress	8,582,487	13,371,060	(671,763)	21,281,784
Total capital assets not being depreciated	23,407,558	13,371,060	(671,763)	36,106,855
Capital assets being depreciated:				
Buildings and improvements	3,702,439	-	-	3,702,439
Vehicles and equipment	4,094,292	387,769	(13,930)	4,468,131
Road network	5,848,212	1,223,635	-	7,071,847
Storm water	7,215,117	1,685,843	-	8,900,960
Pathway	2,790,160	-	-	2,790,160
Parks	236,071	-	-	236,071
Bridge network	6,198,112	49,431	-	6,247,543
Beach and waterway	-	30,923	-	30,923
Total capital assets being depreciated	30,084,403	3,377,601	(13,930)	33,448,074
Total accumulated depreciation for:				
Buildings and improvements	(1,533,976)	(156,520)	-	(1,690,496)
Vehicles and equipment	(1,612,259)	(451,192)	13,930	(2,049,521)
Road network	(1,799,888)	(725,126)	-	(2,525,014)
Storm water	(2,311,979)	(801,817)	-	(3,113,796)
Pathway	(786,970)	(138,590)	-	(925,560)
Parks	(33,562)	(14,979)	-	(48,541)
Bridge network	(774,892)	(326,867)	-	(1,101,759)
Total accumulated depreciation	(8,853,526)	(2,615,091)	13,930	(11,454,687)
Total capital activities being depreciated, net	21,230,877	762,510	-	21,993,387
Total governmental activities capital assets, net	\$ 44,638,435	14,133,570	(671,763)	58,100,242
Business-Type Activities				
Capital assets not being depreciated:				
Land	\$ 15,024,010	1,490,851	-	16,514,861
Construction in progress	8,648,511	18,662,782	(7,216,279)	20,095,014
Total capital assets not being depreciated	23,672,521	20,153,633	(7,216,279)	36,609,875
Capital assets being depreciated:				
Transmission and distribution	31,126,007	4,534,760	-	35,660,767
Buildings and improvements	6,001,731	521,756	-	6,523,487
Vehicles and equipment	40,853,250	6,525,450	-	47,378,700
Total capital assets being depreciated	77,980,988	11,581,966	-	89,562,954
Less accumulated depreciation for:				
Buildings and improvements	(3,783,616)	(1,805,584)	-	(5,589,200)
Vehicles and equipment	(3,993,753)	(2,246,597)	-	(6,240,350)
Total accumulated depreciation	(7,777,369)	(4,052,181)	-	(11,829,550)
Total capital assets being depreciated, net	70,203,619	7,529,785	-	77,733,404
Total business-type activities capital assets, net	\$ 93,876,140	27,683,418	(7,216,279)	114,343,279

NOTES TO FINANCIAL STATEMENTS
CITY OF MARCO ISLAND, FLORIDA

NOTE C – DETAILED NOTES ON ALL FUNDS (CONTINUED)

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

Governmental Activities:	
General government	\$ 102,111
Police services	114,688
Fire and rescue	234,159
Code compliance	2,988
Building services	7,765
Transportation	1,867,870
Culture and recreation	<u>285,510</u>
Total depreciation expense, Governmental activities	<u>2,615,091</u>
Business-type Activities:	
Water and Sewer	4,049,681
Recreation	<u>2,500</u>
Total depreciation expense, Business-type activities	<u>4,052,181</u>
Total Depreciation Expense	<u><u>\$ 6,667,272</u></u>

e. Leases

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

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

Asset:	
Vehicles and equipment	\$ 786,292
Less: Accumulated depreciation	<u>(85,971)</u>
Total	<u><u>\$ 700,321</u></u>

NOTES TO FINANCIAL STATEMENTS
CITY OF MARCO ISLAND, FLORIDA

NOTE C – DETAILED NOTES ON ALL FUNDS (CONTINUED)

The future minimum lease obligations and the net present value of these minimum lease payments, as reported in the governmental activities, as of September 30, 2006, is as follows:

2007	\$	85,700
2008		85,700
2009		85,700
2010		85,700
2011		85,700
Total minimum lease payments		428,500
Less: Amount representing interest		(39,103)
 Present value of minimum lease payments	 \$	 <u>389,397</u>

f. Long-Term Liabilities

Primary Government

Long-term liability activity for the year ended September 30, 2006, was as follows:

	Beginning Balance	Additions	(Reductions)	Ending Balance	Due Within One Year
Governmental Activities					
Revenue bonds	\$ 780,000	-	(55,000)	725,000	60,000
General obligation bonds	9,860,000	-	(545,000)	9,315,000	555,000
Sales tax revenue bonds	6,000,000	-	-	6,000,000	-
Capital improvement bonds	-	4,000,000	-	4,000,000	1,000,000
Capital lease	459,370	-	(69,973)	389,397	72,485
Compensated absences	650,412	364,383	(162,603)	852,192	213,048
Total governmental activity	\$ 17,749,782	4,364,383	(832,576)	21,281,589	1,900,533
Business Activities					
Revenue bonds					
Principal	\$ 101,115,000	-	(1,910,000)	99,205,000	1,950,000
Premium	1,143,114	-	(40,704)	1,102,410	40,704
State revolving loan	-	403,464	-	403,464	-
Compensated absences	179,145	92,457	(44,786)	226,816	56,704
Total business-type activity	\$ 102,437,259	495,921	(1,995,490)	100,937,690	2,047,408
long-term liabilities	\$ 102,437,259	495,921	(1,995,490)	100,937,690	2,047,408

During 2000, the City issued revenue bonds for governmental activities for the repair of the Factory Bay Bridge. The original amount of the revenue bonds was \$985,000. The bonds are issued as 15-year serial bonds with varying amounts of principal maturing each year from \$55,000 to \$90,000. Interest rates on the bonds vary from 4.25 percent to 5.75 percent. As of

NOTES TO FINANCIAL STATEMENTS
CITY OF MARCO ISLAND, FLORIDA

NOTE C – DETAILED NOTES ON ALL FUNDS (CONTINUED)

September 30, 2006, \$725,000 of the principal was outstanding. Annual debt service requirements for the revenue bonds are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>
2007	60,000	35,540
2008	60,000	32,795
2009	65,000	29,904
2010	65,000	26,865
2011	70,000	23,675
2012-2016	405,000	59,282
Total	\$ 725,000	208,061

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

During 2004, the City issued general obligation bonds for governmental activities for the acquisition of land. The original amount of the general obligation bonds was \$9,860,000. The bonds are issued as 15-year serial bonds with varying amounts of principal maturing each year from \$545,000 to \$815,000. Interest rates on the bonds vary from 2 percent to 3.8 percent. During the year, \$545,000 of principal and \$299,834 of interest was paid. As of September 30, 2006, \$9,315,000 of the principal was outstanding. Annual debt service requirements for the general obligation bonds are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>
2007	\$ 555,000	299,834
2008	565,000	277,834
2009	580,000	266,534
2010	590,000	254,934
2011	610,000	237,234
2012-2016	3,325,000	897,794
2017-2020	3,090,000	291,665
Total	\$ 9,315,000	2,525,829

NOTES TO FINANCIAL STATEMENTS
CITY OF MARCO ISLAND, FLORIDA

NOTE C – DETAILED NOTES ON ALL FUNDS (CONTINUED)

During 2005, the City issued sales tax revenue bonds for governmental activities for various capital improvements to be owned by and located within the City, including transportation improvements and a new police station. The original amount of the sales tax revenue bonds was \$6,000,000. The bonds are issued as 15-year serial bonds with varying amounts of principal maturing each year from \$345,000 to \$535,000. Interest rates vary from 3 percent to 3.9 percent. As of September 30, 2006, the entire balance of the principal was outstanding. Annual debt service requirements for the sales tax revenue bonds are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>
2007	\$ -	213,310
2008	345,000	213,310
2009	350,000	202,960
2010	365,000	191,585
2011	375,000	179,723
2012-2016	2,080,000	692,288
2017-2021	2,485,000	291,403
Total	\$ 6,000,000	1,984,579

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

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>
2007	\$ 1,000,000	175,600
2008	1,000,000	131,700
2009	1,000,000	87,800
2010	1,000,000	43,900
Total	\$ 4,000,000	439,000

NOTES TO FINANCIAL STATEMENTS
CITY OF MARCO ISLAND, FLORIDA

NOTE C – DETAILED NOTES ON ALL FUNDS (CONTINUED)

During 2004, the City issued revenue bonds for business-type activities for (1) the acquisition of certain water production, transmission, treatment, and disposal facilities and (2) the improvement of certain assets within these facilities. The original amount of the revenue bonds was \$101,115,000, in addition to a premium paid on the bonds in the amount of \$1,183,818. The bonds are issued as 30-year serial bonds with varying amounts of principal maturing each year from \$1,910,000 to \$6,280,000. Interest rates on the bonds vary from 2 percent to 5.25 percent. As of September 30, 2006, \$99,205,000 of the principal was outstanding. Annual debt service requirements for the revenue bonds are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>
2007	\$ 1,950,000	4,623,078
2008	1,990,000	4,583,678
2009	2,030,000	4,539,418
2010	2,075,000	4,486,529
2011	2,135,000	4,424,369
2012-2016	11,865,000	20,841,619
2017-2021	15,070,000	17,498,663
2022-2026	19,405,000	13,070,069
2027-2031	24,730,000	7,621,344
2032-2034	17,955,000	1,375,875
Total	\$ 99,205,000	83,064,642

During 2006, the City received funding under the State of Florida Department of Environmental Protection Revolving Loan Program to assist in funding the planning, design, and construction of wastewater pollution control facilities. The funding amount available is \$4,034,634. The City has drawn down loan funds totaling \$403,464. The loan balance at year end was \$403,464. Pledged revenues include water and sewer fund operating revenues, installation and connection fees, impact fees, and any local option sales tax revenues. Upon completion of the project a fixed interest rate will be determined and payments of principle and interest will be made over 20 years. Until the project is completed, interest will be calculated at 2.6% (annual rate) and will be added to the principle amount of the project loan.

During the fiscal year ending September 30, 2006, no loan payments were made. Annual estimated installments for the fiscal years ending September 30 are based only on the amount drawn down on the loan and the payment amounts are as stated in the loan agreement.

NOTES TO FINANCIAL STATEMENTS
CITY OF MARCO ISLAND, FLORIDA

NOTE C – DETAILED NOTES ON ALL FUNDS (CONTINUED)

Discretely Presented Component Unit

Long-term liability activity for Hideaway for the year ended September 30, 2006, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>(Reductions)</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
General obligation bonds	\$ 2,900,000	-	(430,000)	2,470,000	450,000

During 2005, Hideaway issued general obligation bonds for the re-nourishment of Hideaway Beach. The original amount of the general obligation bonds was \$2,900,000. The bonds are issued as 7-year serial bonds with varying amounts of principal maturing each year from \$240,000 to \$520,000. The interest rate on the bonds is 2.89 percent. As of September 30, 2006, \$2,470,000 of the principal was outstanding. Annual debt service requirements for the general obligation bonds are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>
2007	\$ 450,000	64,881
2008	470,000	51,587
2009	490,000	37,715
2010	520,000	23,120
2011	540,000	7,803
Total	\$ 2,470,000	185,106

NOTE D – OTHER INFORMATION

a. Risk Management

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

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

NOTES TO FINANCIAL STATEMENTS
CITY OF MARCO ISLAND, FLORIDA

NOTE D – OTHER INFORMATION

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

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

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

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

Unpaid claims, October 1, 2004	\$	-
Incurred claims (including IBNRs)		50,842
Claim payments		<u>(18,736)</u>
Unpaid claims, September 30, 2005		32,106
Incurred claims (including IBNR's)		191,840
Claim payments		<u>(95,275)</u>
Unpaid claims, September 30, 2006	\$	<u>128,671</u>

b. Contingent Liabilities

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

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

NOTES TO FINANCIAL STATEMENTS
CITY OF MARCO ISLAND, FLORIDA

NOTE D – OTHER INFORMATION (CONTINUED)

c. Commitments

The City has active construction projects. As of September 30, 2006, the City's commitments with contractors are as follows:

<u>Projects</u>	<u>Expended as of 9/30/2006</u>	<u>Remaining Commitment</u>
Wastewater treatment plant upgrade/expand (D. N. Higgins, Inc.)	\$ 8,646,452	3,958,472
North Collier reconstruction (Quality Enterprises)	4,305,403	5,789,706
South Collier reconstruction (Quality Enterprises)	6,547,393	136,423
Finished water storage design (CH2M Hill)	918	743,650
North Collier water expansion (Quality Enterprises)	1,017,358	244,153
North Collier sewer expansion (Quality Enterprises)	2,887,154	1,530,408
North Collier Lighting Program (Lee County Electric Co-op)	3,265,603	901,114
Sewer master plan design (Boyle Engineering)	784,855	736,787
ASR Well No. 7 (Southern Well Drilling)	657,551	551,924
Tigertail sewer assessment district (D. N. Higgins, Inc.)	1,768,630	991,451
South Barfield sewer assessment district (Quality Enterprises)	787,491	420,261
New police building (Owen-Ames-Kimball Company)	2,136,794	2,682,951
Totals	<u>\$ 32,805,602</u>	<u>18,687,300</u>

d. Employee Retirement Systems and Pension Plans

The City of Marco Island Firefighters' Pension Plan

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

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

NOTES TO FINANCIAL STATEMENTS
CITY OF MARCO ISLAND, FLORIDA

NOTE D – OTHER INFORMATION (CONTINUED)

As of October 1, 2006, (date of the latest annual actuarial valuation), employee membership data related to the Plan were:

Retires and beneficiaries currently receiving benefits	0
Terminate employees entitled to benefits, but not yet receiving them	<u>0</u>
Retires and beneficiaries currently receiving benefits and terminated employees entitled to benefits, but not yet receiving them	<u><u>0</u></u>
Active plan participants:	
Vested	4
Non-vested	<u>11</u>
Total active plan participants	<u><u>15</u></u>
Vested terminated members	<u><u>0</u></u>

Retired employees or their beneficiaries are entitled to pension payments for the longer of ten years or the retirees' remaining life equal to 3% of their final five-year average compensation times the number of years of credited service. The final five-year average compensation is the average annual compensation of the five highest years within the last ten years of service. Compensation includes overtime, but excludes lump-sum payments of unused leave. Maximum annual pension payments to retirees 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 non-vested employees receive refunds of their accumulated member contribution only. Terminated vested employees receive their vested accrued benefit payable at early (after reduction) or normal retirement.

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

NOTES TO FINANCIAL STATEMENTS
CITY OF MARCO ISLAND, FLORIDA

NOTE D – OTHER INFORMATION (CONTINUED)

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

Funding Policy: Participants in the Plan are required to pay 1% of their compensation to the Plan. 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, 2006, were based on actuarial computations performed for 2004, in the actuarial report dated October 1, 2004.

For the year ended September 30, 2006, the actuarially determined contribution amount was \$195,928 with the anticipated state contribution of \$73,936. Accordingly, the required employer contribution for 2006 was \$121,992.

Annual Pension Cost and Net Pension Obligations: For 2006, the City's annual pension cost of \$127,356 for the Plan was equal to the City's required and actual contributions. The required contribution was determined as part of the October 1, 2004 actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included: (a) 8% investment rate of return (net of administrative expenses); (b) projected salary increases of 6% per year; and (c) 4% rate of inflation. Additionally, the assumptions included postretirement benefit increases of 3% per year. Market value was used to determine the actuarial value of assets. The unfunded actuarial accrued liability is being amortized as a level dollar amount over thirty years. The remaining amortization period at October 1, 2004, was thirty years (closed basis).

Three-Year Trend Information:

Fiscal Year Ended September 30,	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
2004	\$ 92,070	99.1%	(220,000)
2005	125,715	99.3%	(219,151)
2006	127,356	99.3%	(218,305)

NOTES TO FINANCIAL STATEMENTS
CITY OF MARCO ISLAND, FLORIDA

NOTE D – OTHER INFORMATION (CONTINUED)

Changes in the Fire Pension Plan for 2006:

	September 30, 2006
Annual required contribution	\$ 126,510
Interest on net pension obligation	(17,532)
Adjustment to annual required contribution	(18,378)
Annual pension cost	127,356
Contributions made	126,510
Increase in net pension obligation	846
Net pension obligation at beginning of the year	(219,151)
Net pension obligation at end of year	(218,305)

The City of Marco Island Police Officers' Pension Plan

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

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

As of October 1, 2006, (date of the initial annual actuarial valuation), employee membership data related to the Plan were:

Retires and beneficiaries currently receiving benefits	0
Terminate employees entitled to benefits, but not yet receiving them	0
Retires and beneficiaries currently receiving benefits and terminated employees entitled to benefits, but not yet receiving them	0
Active plan participants:	
Vested	0
Non-vested	30
Total active plan participants	30
Vested terminated members	1

NOTES TO FINANCIAL STATEMENTS
CITY OF MARCO ISLAND, FLORIDA

NOTE D – OTHER INFORMATION (CONTINUED)

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

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

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

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

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

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

The City makes periodic contributions totaling 100% of the actuarially determined amount (after state contributions) annually to the Plan. The City's policy currently is to have actuarial studies conducted every three years. Contributions for the fiscal year ended September 30, 2006, were based on actuarial computations performed in the December 6, 2005, Actuarial Impact Statement, determined as of October 1, 2005.

NOTES TO FINANCIAL STATEMENTS
CITY OF MARCO ISLAND, FLORIDA

NOTE D – OTHER INFORMATION (CONTINUED)

For the year ended September 30, 2006, the actuarially determined contribution amount was \$312,780 with the anticipated state contribution of \$54,781. Accordingly, the required employer contribution for 2006 was \$257,999.

Annual Pension Cost and Net Pension Obligations: For 2006, the City's annual pension cost of \$257,999 for the Plan was equal to the City's required and actual contributions. The required contribution was determined as part of the October 1, 2005, actuarial impact statement using the entry age normal actuarial cost method. The actuarial assumptions included: (a) 8% investment rate of return (net of administrative expenses); (b) projected salary increases of 6% per year; and (c) 3% rate of inflation. Additionally, the assumptions included postretirement benefit increases of 3% per year. Market value was used to determine the actuarial value of assets. The unfunded actuarial accrued liability is being amortized as a level dollar amount over forty years. The remaining amortization period at October 1, 2005, was forty years (closed basis).

<u>Fiscal Year Ended</u> <u>September 30,</u>	<u>Annual</u> <u>Pension Cost</u> <u>(APC)</u>	<u>Percentage of APC</u> <u>Contributed</u>	<u>Net Pension</u> <u>Obligation</u>
2006	\$ 257,999	100.0%	-

Combining statements of the pension trust funds are as follows:

	<u>Fire</u> <u>Pension</u>	<u>Police</u> <u>Pension</u>	<u>Total</u> <u>Fiduciary</u> <u>Funds</u>
Assets			
Cash and cash equivalents	\$ 96,281	\$ 134,421	\$ 230,702
Accounts receivable	133,051	127,530	260,581
Due from other funds	-	120,000	120,000
Investments, at fair value:			
Common stock	1,273,315	-	1,273,315
Government bonds	887,745	-	887,745
Accrued interest	10,316	-	10,316
Total Assets	<u>2,400,708</u>	<u>381,951</u>	<u>2,782,659</u>
Liabilities			
Due to other funds	<u>120,000</u>	<u>-</u>	<u>120,000</u>
Total liabilities	<u>120,000</u>	<u>-</u>	<u>120,000</u>
Net Assets			
Held in trust for pension benefits and other purposes	<u>\$ 2,280,708</u>	<u>\$ 381,951</u>	<u>\$ 2,662,659</u>

NOTES TO FINANCIAL STATEMENTS
CITY OF MARCO ISLAND, FLORIDA

NOTE D – OTHER INFORMATION (CONTINUED)

Statement of changes in net assets year ending September 30, 2006:

	<u>Fire Pension</u>	<u>Police Pension</u>	<u>Total Fiduciary Funds</u>
Additions			
Contributions:			
Employer	\$ 52,574	\$ 262,885	\$ 315,459
Employee	7,355	62,089	69,444
State of Florida insurance funds, from the City General Fund	<u>354,776</u>	<u>54,781</u>	<u>409,557</u>
Total contributions	<u>414,705</u>	<u>379,755</u>	<u>794,460</u>
Investment income (expense):			
Investment earnings	120,761	3,065	123,826
Investment expenses	<u>(18,259)</u>	<u>-</u>	<u>(18,259)</u>
Net investment income	<u>102,502</u>	<u>3,065</u>	<u>105,567</u>
Total Additions	517,207	382,820	900,027
Deductions			
Legal	8,335	-	8,335
Actuary	515	-	515
Administrative	1,903	869	2,772
Refunds to contributors	<u>3,274</u>	<u>-</u>	<u>3,274</u>
Total Deductions	<u>14,027</u>	<u>869</u>	<u>14,896</u>
Change in Net Assets	503,180	381,951	885,131
Net Assets - October 1, 2005	<u>1,777,528</u>	<u>-</u>	<u>1,777,528</u>
Net Assets - September 30, 2006	<u>\$ 2,280,708</u>	<u>\$ 381,951</u>	<u>\$ 2,662,659</u>

The Florida Retirement System Plan, Firefighters

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 the incorporation of the City and the establishment of the City of Marco Island Firefighters' Pension Plan (as noted above).

Plan Description: The System was created by the Florida Legislature as a cost-sharing, multiple-employer defined benefit public retirement plan available to governmental units within the state of Florida. The System provides retirement benefits, death benefits, disability benefits, and cost-of-living adjustments to system members and their beneficiaries, as established by Florida Statute. The System issues a publicly available financial report that includes financial statements and required supplementary information for the System. That report may be obtained by writing to the Florida Retirement System, Division of Retirement, 2639-C North Monroe Street, Tallahassee, Florida 32399-1560, or by calling (850) 488-5706.

NOTES TO FINANCIAL STATEMENTS
CITY OF MARCO ISLAND, FLORIDA

NOTE D – OTHER INFORMATION (CONTINUED)

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.

Funding Policy: The contribution requirements of the system members and the City are established and may be amended by the State. Plan members are not required to make contributions to the System. The City is required to contribute at an actuarially determined rate; the current rate is 18.53 percent of covered payroll. The City's contribution to the System for the years ended September 30, 2006, 2005, and 2004 were \$204,737, \$153,826, and \$167,348 respectively, and were equal to the required contributions for each year.

e. Other Post-employment Benefits

All City employees, with the exception of firefighters with required membership in either the Plan or the System (as noted in "E" above), 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.

This page intentionally left blank.

**REQUIRED SUPPLEMENTARY
INFORMATION**

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

Actuarial Valuation Date	(a) Actuarial Value of Assets	(b) Actuarial Accrued Liability (AAL) Entry Age	(b-a) Unfunded (Overfunded) AAL (UAAL)	(A/B) Funded Ratio	(c) Covered Payroll	(b-a)/(c) UAAL as a Percentage of Covered Payroll
10/1/2006	\$ 375,400	2,799,941	2,424,541	13.4%	\$ 1,702,158	142.4%
10/1/2005	--	1,722,719	1,722,719	0.0%	1,459,781	118.0%

Note: Latest valuation was October 1, 2006

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

<u>Fiscal Year Ended</u>	<u>Actuarial Valuation Date</u>	<u>Annual Required Contribution</u>	<u>Actual Contribution</u>	<u>Percentage Contributed</u>
9/30/2006	10/1/2005	\$ 312,780	312,780	100.0%

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

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

Note: Latest valuation was October 1, 2006

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

<u>Fiscal year ended</u>	<u>Actuarial valuation date</u>	<u>Annual required contribution</u>	<u>Actual contribution</u>	<u>Percentage contributed</u>
9/30/1999	10/1/1997	\$ 41,924	69,045	164.7%
9/30/2000	10/1/2000	41,924	178,945	426.8%
9/30/2002	10/1/2002	15,306	73,936	483.1%
9/30/2004	10/1/2004	91,217	91,217	100.0%
9/30/2005	10/1/2004	124,866	124,866	100.0%
9/30/2006	10/1/2004	126,510	126,510	100.0%

CITY OF MARCO ISLAND, FLORIDA
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES - BUDGET AND ACTUAL
GENERAL FUND
For the Year Ended September 30, 2006
(With Comparative Actual Totals for 2005)

	Budgeted amounts		Actual Amounts	Variance with Final Budget	September 30, 2005 Actual Amounts
	Original	Final			
Revenues					
Taxes	\$ 13,394,300	13,394,300	13,588,324	194,024	12,270,349
Licenses and permits	28,000	28,000	37,246	9,246	37,683
Intergovernmental	2,268,900	2,265,340	2,748,523	483,183	2,642,180
Charges for services	287,000	292,650	302,343	9,693	355,670
Fines and forfeitures	72,000	72,000	37,047	(34,953)	252,832
Interest income	500,000	500,000	1,172,228	672,228	571,611
Miscellaneous	155,000	155,000	98,621	(56,379)	175,956
Total Revenues	<u>16,705,200</u>	<u>16,707,290</u>	<u>17,984,332</u>	<u>1,277,042</u>	<u>16,306,281</u>
Expenditures					
Current:					
General government:					
Legislative	57,673	61,384	50,612	10,772	53,260
Executive	415,834	488,742	468,788	19,954	402,425
Finance	1,050,908	1,111,697	1,060,205	51,492	978,346
Legal	151,740	266,833	328,310	(61,477)	127,000
Debt service	--	--	--	--	--
Community development	421,161	450,236	442,804	7,432	368,968
Other - unclassified	1,679,824	917,548	763,408	154,140	721,488
Total general government	<u>3,777,140</u>	<u>3,296,440</u>	<u>3,114,127</u>	<u>182,313</u>	<u>2,651,487</u>
Public safety:					
Police services	2,837,688	3,136,450	3,001,768	134,682	2,593,972
Fire and rescue	2,753,980	2,887,801	2,871,196	16,605	3,371,921
Code compliance	190,381	195,409	161,920	33,489	112,562
Total public safety	<u>5,782,049</u>	<u>6,219,661</u>	<u>6,034,884</u>	<u>184,777</u>	<u>6,078,455</u>
Highways and streets	964,324	991,228	870,289	120,939	1,106,152
Culture and recreation:					
Parks maintenance	420,032	480,140	374,914	105,226	296,165
Recreation programs	559,167	586,248	467,362	118,886	475,391
Racquet center	130,515	138,034	105,331	32,703	112,653
Beautification	490,861	491,115	344,963	146,152	360,448
Total culture and recreation	<u>1,600,574</u>	<u>1,695,537</u>	<u>1,292,570</u>	<u>402,967</u>	<u>1,244,657</u>
Total Expenditures	<u>12,124,088</u>	<u>12,202,865</u>	<u>11,311,870</u>	<u>890,995</u>	<u>11,080,751</u>
Excess of Revenues Over Expenditures	4,581,112	4,504,425	6,672,462	2,168,037	5,225,530
Other Financing Sources (Uses)					
Transfers in	--	--	14,367	14,367	5,726,890
Transfers out	(5,634,381)	(5,634,381)	(5,634,381)	--	(1,041,026)
Proceeds from capital lease	--	--	--	--	786,292
Total Other Financing Sources (Uses)	<u>(5,634,381)</u>	<u>(5,634,381)</u>	<u>(5,620,014)</u>	<u>14,367</u>	<u>5,472,156</u>
Net Change in Fund Balances	(1,053,269)	(1,129,956)	1,052,448	2,182,404	10,697,686
Fund Balances - Beginning Balance	28,105,648	28,105,648	28,105,648	--	17,407,962
Fund Balances - Ending Balance	<u>\$ 27,052,379</u>	<u>26,975,692</u>	<u>29,158,096</u>	<u>2,182,404</u>	<u>28,105,648</u>

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

CITY OF MARCO ISLAND, FLORIDA
 SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN
 FUND BALANCES - BUDGET AND ACTUAL
 ELECTRIC FUND
 For the Year Ended September 30, 2006

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 1,400,000	1,400,000	1,882,013	482,013
Total Revenues	<u>1,400,000</u>	<u>1,400,000</u>	<u>1,882,013</u>	<u>482,013</u>
Expenditures				
Electric	4,318,000	3,719,856	3,719,856	--
Total Expenditures	<u>4,318,000</u>	<u>3,719,856</u>	<u>3,719,856</u>	<u>--</u>
Excess of Revenues Over Expenditures	(2,918,000)	(2,319,856)	(1,837,843)	482,013
Fund Balances - Beginning Balance, as restated	<u>(92,709)</u>	<u>(92,709)</u>	<u>(92,709)</u>	<u>--</u>
Fund Balances - Ending Balance	<u>\$ (3,010,709)</u>	<u>(2,412,565)</u>	<u>(1,930,552)</u>	<u>482,013</u>

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

This page intentionally left blank.

**SUPPORTING STATEMENTS AND
SCHEDULES**

Nonmajor Governmental Funds

Special Revenue Funds

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

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

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

Debt Service Fund

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

CITY OF MARCO ISLAND, FLORIDA
NONMAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
September 30, 2006

	<u>Emergency Relief</u>	<u>Building Services</u>	<u>Debt Service</u>	<u>Nonmajor Fund Totals</u>
Assets				
Pooled cash and investments	\$ --	2,620,715	447,019	3,067,734
Accounts receivable - Net	53,206	--	--	53,206
Total Assets	<u>53,206</u>	<u>2,620,715</u>	<u>447,019</u>	<u>3,120,940</u>
Liabilities and Fund Balances				
Liabilities				
Accounts payable	150,157	4,164	--	154,321
Accrued liabilities	--	20,147	--	20,147
Due to other funds	194,058	--	--	194,058
Total Liabilities	<u>344,215</u>	<u>24,311</u>	<u>--</u>	<u>368,526</u>
Fund Balances				
Reserved for building department	--	2,596,404	--	2,596,404
Reserved for debt service	--	--	447,019	447,019
Unreserved, undesignated	(291,009)	--	--	(291,009)
Total Fund Balances	<u>(291,009)</u>	<u>2,596,404</u>	<u>447,019</u>	<u>2,752,414</u>
Total Liabilities and Fund Balances	<u>\$ 53,206</u>	<u>2,620,715</u>	<u>447,019</u>	<u>3,120,940</u>

CITY OF MARCO ISLAND, FLORIDA
NONMAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES
For the Year Ended September 30, 2006

	<u>Emergency Relief</u>	<u>Building Services</u>	<u>Debt Service</u>	<u>Nonmajor Fund Totals</u>
Revenues				
Taxes	\$ --	--	870,728	870,728
Licenses and permits	--	1,162,729	--	1,162,729
Intergovernmental	1,266,658	--	--	1,266,658
Interest	--	107,679	--	107,679
Total Revenues	<u>1,266,658</u>	<u>1,270,408</u>	<u>870,728</u>	<u>3,407,794</u>
Expenditures				
Current:				
General government	1,557,667	--	1,830	1,559,497
Building services	--	1,105,985	--	1,105,985
Debt service:				
Principal	--	--	669,973	669,973
Interest	--	--	568,046	568,046
Total Expenditures	<u>1,557,667</u>	<u>1,105,985</u>	<u>1,239,849</u>	<u>3,903,501</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	(291,009)	164,423	(369,121)	(495,707)
Other Financing Sources (Uses) - Transfers in	<u>--</u>	<u>--</u>	<u>308,040</u>	<u>308,040</u>
Net Change in Fund Balances	(291,009)	164,423	(61,081)	(187,667)
Fund Balances - October 1, 2005	<u>--</u>	<u>2,431,981</u>	<u>508,100</u>	<u>2,940,081</u>
Fund Balances - September 30, 2006	<u><u>\$ (291,009)</u></u>	<u><u>2,596,404</u></u>	<u><u>447,019</u></u>	<u><u>2,752,414</u></u>

CITY OF MARCO ISLAND, FLORIDA
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES - BUDGET AND ACTUAL
CAPITAL PROJECTS FUND
For the Year Ended September 30, 2006

	<u>Budgeted amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Intergovernmental	\$ 1,518,000	1,718,000	2,436,435	718,435
Miscellaneous	555,000	470,000	245,556	(224,444)
Total Revenues	<u>2,073,000</u>	<u>2,188,000</u>	<u>2,681,991</u>	<u>493,991</u>
Expenditures				
Bond issue costs	--	--	33,810	(33,810)
Capital outlay	9,544,000	13,000,000	11,960,155	1,039,845
Total Expenditures	<u>9,544,000</u>	<u>13,000,000</u>	<u>11,993,965</u>	<u>1,006,035</u>
Excess of Revenues Over Expenditures	<u>(7,471,000)</u>	<u>(10,812,000)</u>	<u>(9,311,974)</u>	<u>1,500,026</u>
Other Financing Sources (Uses)				
Transfers in	7,312,000	7,312,000	5,326,341	(1,985,659)
Transfers out	(3,841,000)	(500,000)	(14,367)	485,633
Issuance of bonds payable	4,000,000	4,000,000	4,000,000	--
Total Other Financing Sources (Uses)	<u>7,471,000</u>	<u>10,812,000</u>	<u>9,311,974</u>	<u>(1,500,026)</u>
Net Change in Fund Balance	--	--	--	--
Fund Balance - October 1, 2005	--	--	--	--
Fund Balance - September 30, 2006	<u>\$ --</u>	<u>--</u>	<u>--</u>	<u>--</u>

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

CITY OF MARCO ISLAND, FLORIDA
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES - BUDGET AND ACTUAL
BUILDING SERVICES FUND
For the Year Ended September 30, 2006

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Licenses and permits	\$ 1,071,638	1,130,000	1,162,729	32,729
Interest	--	--	107,679	107,679
Total Revenues	<u>1,071,638</u>	<u>1,130,000</u>	<u>1,270,408</u>	<u>140,408</u>
Expenditures				
Current:				
Building services:				
Personal services	501,074	546,200	632,595	(86,395)
Operating expenses	567,564	576,534	472,142	104,392
Capital outlay	3,000	--	1,248	(1,248)
Total Expenditures	<u>1,071,638</u>	<u>1,122,734</u>	<u>1,105,985</u>	<u>16,749</u>
Excess of Revenues Over Expenditures	--	7,266	164,423	157,157
Fund Balance - October 1, 2005	<u>2,431,981</u>	<u>2,431,981</u>	<u>2,431,981</u>	<u>--</u>
Fund Balance - September 30, 2006	<u>\$ 2,431,981</u>	<u>2,439,247</u>	<u>2,596,404</u>	<u>157,157</u>

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

CITY OF MARCO ISLAND, FLORIDA
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES - BUDGET AND ACTUAL
DEBT SERVICE FUND
For the Year Ended September 30, 2006

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues - Taxes	\$ 844,834	850,000	870,728	20,728
Expenditures				
Current:				
General government	1,586	1,431	1,830	(399)
Debt service:				
Principal	669,974	669,974	669,973	1
Interest	653,704	638,024	568,046	69,978
Total Expenditures	<u>1,325,264</u>	<u>1,309,429</u>	<u>1,239,849</u>	<u>69,580</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	(480,430)	(459,429)	(369,121)	90,308
Other Financing Sources (Uses) - Transfers in	<u>480,430</u>	<u>464,750</u>	<u>308,040</u>	<u>(156,710)</u>
Net Change in Fund Balance	--	5,321	(61,081)	(66,402)
Fund Balance - October 1, 2005	<u>508,100</u>	<u>508,100</u>	<u>508,100</u>	<u>--</u>
Fund Balance - September 30, 2006	<u>\$ 508,100</u>	<u>513,421</u>	<u>447,019</u>	<u>(66,402)</u>

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

CITY OF MARCO ISLAND, FLORIDA
WATER AND SEWER FUND
SCHEDULE OF OPERATING REVENUES AND EXPENSES
For the Years Ended September 30

	<u>2005</u>	<u>2006</u>	<u>Increase (Decrease)</u>
Operating Revenues			
Charges for services	\$ 17,584,305	19,050,271	1,465,966
Operating Expenses			
Personal services	2,991,826	3,483,059	491,233
Insurance	208,341	273,794	65,453
Utilities	1,927,694	2,093,688	165,994
Contractual fees	1,072,029	850,398	(221,631)
Repairs and maintenance	339,177	385,206	46,029
Supplies	966,903	1,069,164	102,261
Rental and lease costs	64,463	60,120	(4,343)
Other expenses	609,140	713,529	104,389
Amortization	35,365	35,365	--
Depreciation	3,893,713	4,049,681	155,968
Total Operating Expenses	<u>12,108,651</u>	<u>13,014,004</u>	<u>905,353</u>
Operating Income	<u>\$ 5,475,654</u>	<u>6,036,267</u>	<u>560,613</u>

CITY OF MARCO ISLAND, FLORIDA
 COMBINING STATEMENT OF FIDUCIARY NET ASSETS
 FIDUCIARY FUNDS
 September 30, 2006

	<u>Fire Pension</u>	<u>Police Pension</u>	<u>Total Fiduciary Funds</u>
Assets			
Cash and cash equivalents	\$ 96,281	\$ 134,421	\$ 230,702
Accounts receivable	133,051	127,530	260,581
Due from other funds	-	120,000	120,000
Investments, at fair value:			
Common stock	1,273,315	-	1,273,315
Government bonds	887,745	-	887,745
Accrued interest	10,316	-	10,316
Total Assets	<u>2,400,708</u>	<u>381,951</u>	<u>2,782,659</u>
Liabilities			
Due to other funds	120,000	-	120,000
Total liabilities	<u>120,000</u>	<u>-</u>	<u>120,000</u>
Net Assets			
Held in trust for pension benefits and other purposes	<u>\$ 2,280,708</u>	<u>\$ 381,951</u>	<u>\$ 2,662,659</u>

CITY OF MARCO ISLAND, FLORIDA
 COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
 FIDUCIARY FUNDS
 For the Year Ended September 30, 2006

	<u>Fire Pension</u>	<u>Police Pension</u>	<u>Total Fiduciary Funds</u>
Additions			
Contributions:			
Employer	\$ 52,574	\$ 262,885	\$ 315,459
Employee	7,355	62,089	69,444
State of Florida insurance funds, from the City General Fund	354,776	54,781	409,557
Total contributions	<u>414,705</u>	<u>379,755</u>	<u>794,460</u>
Investment income (expense):			
Investment earnings	120,761	3,065	123,826
Investment expenses	(18,259)	-	(18,259)
Net investment income	<u>102,502</u>	<u>3,065</u>	<u>105,567</u>
Total Additions	517,207	382,820	900,027
Deductions			
Legal	8,335	-	8,335
Actuary	515	-	515
Administrative	1,903	869	2,772
Refunds to contributors	3,274	-	3,274
Total Deductions	<u>14,027</u>	<u>869</u>	<u>14,896</u>
Change in Net Assets	503,180	381,951	885,131
Net Assets - October 1, 2005	<u>1,777,528</u>	<u>-</u>	<u>1,777,528</u>
Net Assets - September 30, 2006	<u>\$ 2,280,708</u>	<u>\$ 381,951</u>	<u>\$ 2,662,659</u>

OTHER SCHEDULES

CITY OF MARCO ISLAND, FLORIDA
 CAPITAL ASSETS USED IN THE OPERATION OF GOVERNMENTAL FUNDS
 SCHEDULE BY FUNCTION AND ACTIVITY
 September 30, 2006

	Land	Buildings and Improvements	Infrastructure	Vehicles and Equipment	Construction in Process	Total
Governmental Activities						
City council	\$ --	--	--	53,118	--	53,118
Executive	--	--	--	30,586	--	30,586
Finance	--	--	--	110,155	--	110,155
Community development	45,000	--	--	73,541	--	118,541
Other general government	890,030	675,166	--	339,110	--	1,904,306
Total General Government	935,030	675,166	--	606,510	--	2,216,706
Electric						
Electric	--	--	--	--	5,344,421	5,344,421
Public Safety						
Code compliance	--	--	--	42,882	--	42,882
Police services	--	15,587	--	1,036,615	2,136,791	3,188,993
Fire and rescue	575,227	1,802,743	--	1,986,910	--	4,364,880
Building services	--	13,857	--	69,252	--	83,109
Total Public Safety	575,227	1,832,187	--	3,135,659	2,136,791	7,679,864
Culture and Recreation						
Park maintenance	212,596	17,155	--	351,617	--	581,368
Recreation	3,167,100	1,156,205	--	103,216	--	4,426,521
Beautification	121,988	21,726	--	87,336	--	231,050
Pathways	--	--	2,790,160	--	329,082	3,119,242
Beaches and waterways	--	--	30,923	--	191,753	222,676
Parks	9,813,130	--	236,071	--	730,250	10,779,451
Total Culture and Recreation	13,314,814	1,195,086	3,057,154	542,169	1,251,085	19,360,308
Transportation						
Public works	--	--	--	183,793	--	183,793
Road network	--	--	7,071,847	--	11,815,898	18,887,745
Storm water	--	--	8,900,960	--	--	8,900,960
Bridge network	--	--	6,247,542	--	733,589	6,981,131
Total Primary Government	--	--	22,220,349	183,793	12,549,487	34,953,629
Total Governmental Funds	\$ 14,825,071	3,702,439	25,277,503	4,468,131	21,281,784	69,554,928
Capital Assets						

CITY OF MARCO ISLAND, FLORIDA
 CAPITAL ASSETS USED IN THE OPERATION OF GOVERNMENTAL FUNDS
 SCHEDULE OF CHANGES BY FUNCTION AND ACTIVITY
 For the Year Ended September 30, 2006

	Governmental Funds Capital Assets 10/1/2005 (as restated)	Acquisitions	Transfers and Deductions	Governmental Funds Capital Assets 9/30/06
Governmental Activities				
City Council	\$ 23,310	29,808	--	53,118
Executive	29,771	2,295	(1,480)	30,586
Finance	90,913	19,242	--	110,155
Community development	114,793	3,748	--	118,541
Other general government	1,865,838	38,468	--	1,904,306
Total General Government	<u>2,124,625</u>	<u>93,561</u>	<u>(1,480)</u>	<u>2,216,706</u>
Electric				
Electric	1,624,565	3,719,856	--	5,344,421
Public Safety				
Code compliance	23,914	21,085	(2,117)	42,882
Police services	1,039,206	2,156,787	(7,000)	3,188,993
Fire and rescue	4,326,726	38,154	--	4,364,880
Building services	81,861	1,248	--	83,109
Total Public Safety	<u>5,471,707</u>	<u>2,217,274</u>	<u>(9,117)</u>	<u>7,679,864</u>
Culture and Recreation				
Park maintenance	555,387	25,981	--	581,368
Recreation	4,421,288	8,566	(3,333)	4,426,521
Beautification	231,050	--	--	231,050
Pathways	2,846,559	272,683	--	3,119,242
Beaches and waterways	191,753	30,923	--	222,676
Parks	10,668,981	110,470	--	10,779,451
Total Culture and Recreation	<u>18,915,018</u>	<u>448,623</u>	<u>(3,333)</u>	<u>19,360,308</u>
Transportation				
Public works	161,527	22,266	--	183,793
Road network	10,902,356	7,985,389	--	18,887,745
Storm water	7,612,679	1,288,281	--	8,900,960
Bridge network	6,679,475	301,656	--	6,981,131
Total Primary Government	<u>25,356,037</u>	<u>9,597,592</u>	<u>--</u>	<u>34,953,629</u>
Total Capital Assets	<u>\$ 53,491,952</u>	<u>16,076,906</u>	<u>(13,930)</u>	<u>69,554,928</u>

This page intentionally left blank

STATISTICAL SECTION

This part of the City of Marco Island, Florida's comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures and required supplementary information says about the City's overall financial health. The following types of information are presented:

Financial Trends

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

Revenue Capacity

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

Debt Capacity

These schedules present information to help the reader assess the affordability of the City's current levels of outstanding debt, and the City's ability to issue additional debt in the future.

Demographic and Economic Information

These schedules offer demographic and economic indicators to help the reader understand the environment within which the City's financial activities take place.

Operating Information

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

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

This page intentionally left blank.

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

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Governmental Activities			
Invested in capital assets, net of related debt	\$ 37,670,845	25,914,490	14,140,148
Restricted	26,097,147	20,887,189	6,171,005
Unrestricted	<u>3,506,264</u>	<u>10,046,715</u>	<u>13,519,851</u>
Total governmental activities net assets	67,274,256	56,848,394	33,831,004
Business-type Activities			
Invested in capital assets, net of related debt	13,601,948	8,520,919	4,187,756
Restricted	7,510,845	13,044,910	12,198,489
Unrestricted	<u>(10,572,102)</u>	<u>(13,285,715)</u>	<u>(12,720,573)</u>
Total Business-type activities net assets	10,540,691	8,280,114	3,665,672
Primary Government			
Invested in capital assets, net of related debt	51,272,793	34,435,409	18,327,904
Restricted	33,607,992	33,932,099	18,369,494
Unrestricted	<u>(7,065,838)</u>	<u>(3,239,000)</u>	<u>799,278</u>
Total primary government net assets	<u>\$ 77,814,947</u>	<u>65,128,508</u>	<u>37,496,676</u>

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

	2006	2005	2004
Expenses			
Governmental Activities			
General government	\$ 4,799,331	3,187,492	2,883,757
Police services	3,024,973	2,690,359	2,606,276
Fire and rescue	3,156,845	2,547,211	2,768,306
Code compliance	148,161	116,787	199,036
Building services	1,128,468	680,662	1,020,790
Transportation	2,726,090	373,196	1,310,664
Culture and recreation	1,574,669	911,520	3,334,436
Interest on long-term debt	628,218	499,811	139,825
Total governmental activities expenses	<u>17,186,755</u>	<u>11,007,038</u>	<u>14,263,090</u>
Business-type Activities			
Water and sewer	17,736,604	16,796,415	15,454,681
Recreation	118,309	107,047	90,020
Total business-type activities expenses	<u>17,854,913</u>	<u>16,903,462</u>	<u>15,544,701</u>
Total primary government expenses	<u>35,041,668</u>	<u>27,910,500</u>	<u>29,807,791</u>
Program Revenues			
Governmental Activities			
Charges for services - building services	1,162,729	1,191,347	2,095,309
Charges for services - other activities	454,273	493,709	333,296
Operating grants and contributions	2,259,878	1,115,222	1,721,352
Capital grants and contributions	2,481,096	4,831,353	2,485,005
Total governmental activities program revenues	<u>6,357,976</u>	<u>7,631,631</u>	<u>6,634,962</u>
Business-type Activities			
Charges for services - water and sewer	19,050,271	17,584,305	16,509,717
Charges for services - other activities	105,011	1,635,934	98,547
Operating grants and contributions	45,003	42,389	37,810
Capital grants and contributions	1,450,000	504,360	-
Total business-type activities program revenues	<u>20,650,285</u>	<u>19,766,988</u>	<u>16,646,074</u>
Net (Expenses) Revenues			
Governmental activities	(10,828,779)	(3,375,407)	(7,628,128)
Business-type activities	2,795,372	2,863,526	1,101,373
Total primary government net expense	<u>(8,033,407)</u>	<u>(511,881)</u>	<u>(6,526,755)</u>

(Continued)

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

	2006	2005	2004
General Revenues and Other Changes in Net Assets			
Governmental Activities			
Taxes:			
Property taxes	11,852,368	10,554,795	9,933,131
Communication service tax	997,457	967,296	1,056,959
Other taxes	870,728	315,630	-
Franchise fees	1,882,013		
State shared revenues	2,393,388	2,270,293	1,750,719
Interest	1,279,907	621,291	347,976
Gain on sale of capital assets	-	250,000	-
Miscellaneous	446,924	2,048,983	984,134
Transfers	-	108,759	-
Total governmental activities	<u>19,722,785</u>	<u>17,137,047</u>	<u>14,072,919</u>
Business-type Activities			
Interest	518,451	306,738	256,333
Miscellaneous	478,610	1,552,937	73,989
Transfers	-	(108,759)	-
Total Business-type activities	<u>997,061</u>	<u>1,750,916</u>	<u>330,322</u>
Total primary government	<u>20,719,846</u>	<u>18,887,963</u>	<u>14,403,241</u>
Change in Net Assets			
Governmental Activities	8,894,006	13,761,640	6,444,791
Business-type Activities	3,792,433	4,614,442	1,431,695
Total Primary Government	<u>\$ 12,686,439</u>	<u>18,376,082</u>	<u>7,876,486</u>

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

	2006	2005	2004
General Fund			
Reserved	\$ 908,293	4,355,795	3,979,961
Unreserved	28,249,803	23,749,853	13,428,001
Total General Fund	\$ 29,158,096	28,105,648	17,407,962
All Other Governmental Funds			
Reserved	\$ 3,043,423	2,940,081	2,201,959
Unreserved	(2,221,561)	-	-
Total all other governmental funds	\$ 821,862	2,940,081	2,201,959

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

	2006	2005	2004
Revenues			
Taxes	\$ 16,341,065	12,585,979	11,870,991
Licenses and permits	1,199,975	1,229,030	2,130,035
Intergovernmental	6,451,616	8,842,937	5,278,142
Charges for services	302,343	355,670	522,944
Fines and forfeitures	37,047	252,832	91,794
Interest income	1,279,907	621,291	347,976
Miscellaneous	344,177	528,190	1,102,955
Total Revenues	<u>25,956,130</u>	<u>24,415,929</u>	<u>21,344,837</u>
Expenditures			
Current:			
General government	3,905,826	2,868,842	2,246,456
Police services	3,282,913	2,593,972	2,594,499
Fire and rescue	3,140,112	3,371,921	2,663,257
Code compliance	177,085	112,562	195,834
Building services	1,105,985	1,011,005	1,012,830
Transportation	951,800	1,106,152	1,179,243
Culture and recreation	1,413,631	1,244,657	1,545,047
Debt service:			
Principal	669,973	131,922	491,264
Interest	568,046	349,192	139,825
Bond issue costs	33,810	71,228	84,209
Capital outlay	15,680,011	6,690,666	13,780,786
Total Expenditures	<u>30,929,192</u>	<u>19,552,119</u>	<u>25,933,250</u>
Excess of revenues over (under) expenditures	(4,973,062)	4,863,810	(4,588,413)
Other Financing Sources (Uses)			
Transfers in	5,648,748	6,572,583	1,932,385
Transfers out	(5,648,748)	(6,786,877)	(1,932,385)
Capital leases	-	786,292	-
Bonds issued	4,000,000	6,000,000	9,860,000
Total other financing sources (uses)	<u>4,000,000</u>	<u>6,571,998</u>	<u>9,860,000</u>
Net change in fund balance	<u>\$ (973,062)</u>	<u>11,435,808</u>	<u>5,271,587</u>
Debt service as a percentage of non-capital expenditures	8.34%	4.29%	5.89%

CITY OF MARCO ISLAND, FLORIDA
 ASSESSED VALUE OF TAXABLE PROPERTY

<u>Fiscal Year</u>	<u>Assessed January 1st</u>	<u>Taxable Values</u>	<u>Percent Increase Over Prior Year</u>	<u>Taxable Value of New Construction</u>
1998	1997 (2)	\$ 2,841,082,435	n/a	70,936,479
1999	1998	3,060,987,023	7.7%	118,283,165
2000	1999	3,466,113,897	13.2%	61,749,131
2001	2000	3,874,706,433	11.8%	151,720,050
2002	2001	4,691,374,309	21.1%	84,105,188
2003	2002	5,609,081,378	19.5%	195,235,590
2004	2003	6,352,910,401	13.2%	114,746,362
2005	2004	7,117,033,513	11.9%	139,193,267
2006	2005	9,487,437,304	33.3%	451,529,721 (3)
2007 (4)	2006	12,026,168,600	26.8%	311,400,976

Source: Collier County Property Appraiser

- (1) The City of Marco Island was incorporated in August 1997.
- (2) Taxable values of the incorporated city limits for January 1, 1997 were estimated by the Collier County Property Appraiser.
- (3) Includes annexation of Key Marco, approximately 4% of the annual growth.
- (4) Information only. 2006 assessed values are used for fiscal year 2007 tax revenues.

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

Fiscal Year Ended	City Operating	City Debt Service	Marco Fire District	Collier County Unincorp. MSTD's (2)	Collier County Parks & Rec MSTU	Collier County	Collier School Board	Mosquito Control	South FL Water Managm't	Water Pollution Control	Big Cypress Basin	Conservation Collier	TOTAL LEVY
1998 (3)	0	0	0.8800	0.9341	0.0535	3.6813	8.4240	0.1821	0.2840	0.0452	0.2780	0	14.7622
1999 (4)	2.1112	0	0	0	0.0495	3.5510	8.5100	0.1953	0.2840	0.0413	0.2780	0	15.0203
2000	1.6500	0	0	0	0.0436	3.5058	7.7600	0.1923	0.2840	0.0355	0.2780	0	13.7492
2001	1.5087	0	0	0	0.0377	3.5028	7.7220	0.1748	0.2840	0.0445	0.2780	0	13.5525
2002	1.7437	0	0	0	0.0318	3.8772	7.2310	0.1465	0.2840	0.0420	0.2425	0	13.5987
2003	1.6900	0	0	0	0.0268	3.8772	6.9110	0.1167	0.2840	0.0347	0.2425	0	13.1829
2004	1.6200	0	0	0	0	3.8772	6.5240	0.1051	0.2840	0.0347	0.2425	0.2500	12.9375
2005	1.5400	0.0460	0	0	0	3.8772	6.2200	0.0962	0.2840	0.0347	0.2425	0.2500	12.5906
2006	1.2925	0.0950	0	0	0	3.8772	5.9730	0.0830	0.2840	0.0347	0.2425	0.2500	12.1319
2007 (5)	1.2445	0.0736	0	0	0	3.7290	5.5250	0.0680	0.2840	0.0320	0.2425	0.2500	11.4486

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

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

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

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

(5) Information only.

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

Taxpayer	Property by Type	January 1, 2006, Assessed Valuation	Rank	% of Total Assessed Valuation	January 1, 1999, Assessed Valuation	Rank	% of Total Assessed Valuation
City National Bank of Miami							
Marriott Marco Island Resort	Hospitality	\$ 81,918,238	1	0.68%	73,980,277	1	2.42%
Marco Beach Hotel, Inc.	Hospitality	45,028,450	2	0.37%	29,201,816	2	0.95%
Marriott Ownership Properties	Hospitality	33,671,193	3	0.28%	25,555,770	3	0.73%
Marco Town Center, Inc.	Real Estate Developer	16,122,449	4	0.13%	5,588,853	6	0.16%
A & N of Marco, Inc.	Real Estate Developer	13,600,258	5	0.11%	4,568,568	10	0.13%
Bates, Wesley C.	Residence	10,149,457	6	0.08%			
Gregg Holdings, Inc.	Real Estate Developer	10,105,455	7	0.08%			
Venetian Investments, Inc.	Real Estate Developer	8,118,503	8	0.06%			
Balsamo, Salvatore	Residence	7,790,759	9	0.06%			
Island Country Club	Golf Course	7,787,725	10	0.06%	5,888,814	5	0.16%
Point Marco Development Corp. dba Cape Marco	Real Estate Developer				7,111,602	4	0.16%
Winn-Dixie Stores	Grocery Store				4,523,236	7	0.15%
Tract B, Inc. dba Mission Plaza	Real Estate Developer				5,252,702	8	0.15%
Shops of Marco	Real Estate Developer				4,785,343	9	0.13%
Total		\$ 234,292,487		1.73%	166,456,981		5.14%

Source: Collier County Property Appraiser

CITY OF MARCO ISLAND, FLORIDA
PROPERTY TAX LEVIES AND COLLECTIONS (1)
LAST NINE FISCAL YEARS (2)

Fiscal Year	Taxes Assessed January 1st	Total Tax Levy	Current Tax Collections	Percent of Current Taxes Collected	Delinquent Tax Collections
1998	1997 (3)	\$ 2,547,087	2,419,717	95.0%	1,619
1999	1998	6,462,356	6,243,114	96.6%	5,461
2000	1999	5,726,991	5,525,097	96.5%	14,273
2001	2000	5,850,687	5,642,805	96.4%	4,735
2002	2001	8,180,349	7,904,281	96.7%	4,094
2003	2002	9,480,531	9,150,389	96.5%	5,659
2004	2003	10,291,715	9,919,609	96.4%	13,523
2005	2004	11,287,615	10,866,603	96.3%	3,823
2006	2005	13,163,819	12,713,792	96.6%	9,304

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.

CITY OF MARCO ISLAND, FLORIDA
RATIOS OF OUTSTANDING BONDS BY TYPE
LAST NINE FISCAL YEARS (1)

Fiscal Year	Governmental Activities			Business-Type Activities			Total Primary Government	Per Capita
	General Obligation Bonds	Capital Improvement Revenue Bonds	Capital Leases	Water/Sewer Revenue Bonds (2)	STRP (3) Assessment Bonds			
1998	\$ -	-	974,957	-	-	-	974,957	72
1999	-	-	898,901	-	-	-	898,901	63
2000	-	-	822,844	-	-	-	822,844	55
2001	-	-	737,843	-	-	-	737,843	49
2002	-	935,000	664,826	-	-	-	1,599,826	105
2003	-	885,000	535,743	-	-	-	1,420,743	93
2004	9,860,000	835,000	396,664	101,115,000	-	-	112,206,664	7,204
2005	9,860,000	6,780,000	459,370	101,115,000	-	-	118,214,370	7,421
2006	9,315,000	10,725,000	389,397	99,205,000	-	-	119,634,397	7,374

Source: City of Marco Island Finance Department.

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

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

(3) Septic Tank Replacement Program

CITY OF MARCO ISLAND, FLORIDA
RATIOS OF GENERAL BONDED DEBT OUTSTANDING
LAST NINE FISCAL YEARS (1)

Fiscal Year	General Obligation Bonds	Capital Improvement Revenue Bonds	Total	Percentage of Taxable Assessed Value	Per Capita
1998	\$ -	-	-	-	-
1999	-	-	-	-	-
2000	-	-	-	-	-
2001	-	-	-	-	-
2002	-	935,000	935,000	0.02%	61
2003	-	885,000	885,000	0.02%	58
2004	9,860,000	835,000	10,695,000	0.17%	687
2005	9,860,000	6,780,000	16,640,000	0.23%	1,045
2006	9,315,000	10,725,000	20,040,000	0.21%	1,235

Source: City of Marco Island Finance Department.

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

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

Fiscal Year	Water/Sewer Operating Revenues	Water/Sewer Impact Fees	Less: Operating Expenses	Net Revenues		Debt Service	Coverage	
				With Impact Fees	Without Impact Fees		With Impact Fees (2)	Without Impact Fees (3)
2004 (4)	\$ 15,396,743	1,443,296	7,753,809	9,086,230	7,643,234	4,226,703	2.15	1.81
2005	18,069,517	1,374,463	8,314,877	11,129,103	9,754,640	6,597,764	1.69	1.48
2006	19,640,936	406,396	8,928,958	11,118,374	10,711,978	6,578,700	1.69	1.63

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

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

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

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

Source: City of Marco Island Finance Department

**CITY OF MARCO ISLAND, FLORIDA
DEMOGRAPHIC STATISTICS**

Population:

<u>Year</u>	<u>City of Marco Island (1)</u>	<u>Collier County</u>	<u>State of Florida</u>
1980	4,679	85,971	9,746,400
1990	9,493	152,099	12,937,926
1995	11,343	186,504	14,149,317
2000	14,879	251,377	15,982,978
2001	15,080	264,475	16,331,739
2002	15,206	277,457	16,674,608
2003	15,346	286,634	17,019,068
2004	15,576	306,186	17,516,732
2005	15,930	319,905	17,872,295

Projections:

2006	16,224	334,238	18,228,848
2010	17,055	405,000	19,655,063

Population by Age Group - 2000 Census:

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

Source: U.S. Census Bureau.

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

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

Department	2006	2005	2004 (1)	2003	2002
Executive Administration	5	5	5	5	5
Finance	15	14	14	4	4
Community Development	8	8	8	8	8
Fire / Rescue	32	32	31	31	31
Police	33	33	31	30	29
Public Works	9	8	8	8	8
Parks and Recreation	14	12	12	8	3
General Fund	116	112	109	94	88
Water / Sewer Enterprise Fund	51	49	49	1	1
Building Services Fund	8	8	7	7	7
Recreation Enterprise Fund	1	1	-	-	-
TOTAL	176	170	165	102	96

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

Source: City of Marco Island annual budgets

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

Department	Fiscal Year				
	2006	2005	2004	2003	2002
Police Department					
Calls for Service	29,291	33,480	41,527	32,290	27,920
Fire Department					
Calls for Service	2,467	2,481	2,358	2,095	2,329
Building Department					
New Single-Family Homes	72	136	233	211	202
New Multi-Family Units	0	33	123	172	254
Total Permits Issued	657	4,917	4,836	4,981	4,304
Water Production (1)					
Number of Customers	8,929	8,784	8,329	NA	NA
Average Daily Production (Millions of gallons)	8.90	9.35	7.72	NA	NA
Maximum Daily Production (Millions of gallons)	11.28	10.93	10.96	NA	NA
WasteWater Treatment (1)					
Number of Customers	4,120	4,061	4,020	NA	NA
Average Daily Treatment (Millions of gallons)	1.80	1.89	1.83	NA	NA
Maximum Daily Treatment (Millions of gallons)	2.88	3.96	3.81	NA	NA

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

Source: City of Marco Island

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

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

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

Source: City of Marco Island

OTHER REPORTS AND LETTERS

This page intentionally left blank.



Certified Public Accountants
and Consultants

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

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

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, the aggregate discretely presented component unit, and the aggregate remaining fund information of the City of Marco Island, Florida as of and for the year ended September 30, 2006, which collectively comprise the City of Marco Island, Florida's basic financial statements and have issued our report thereon dated November 22, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Marco Island, Florida's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion 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 that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

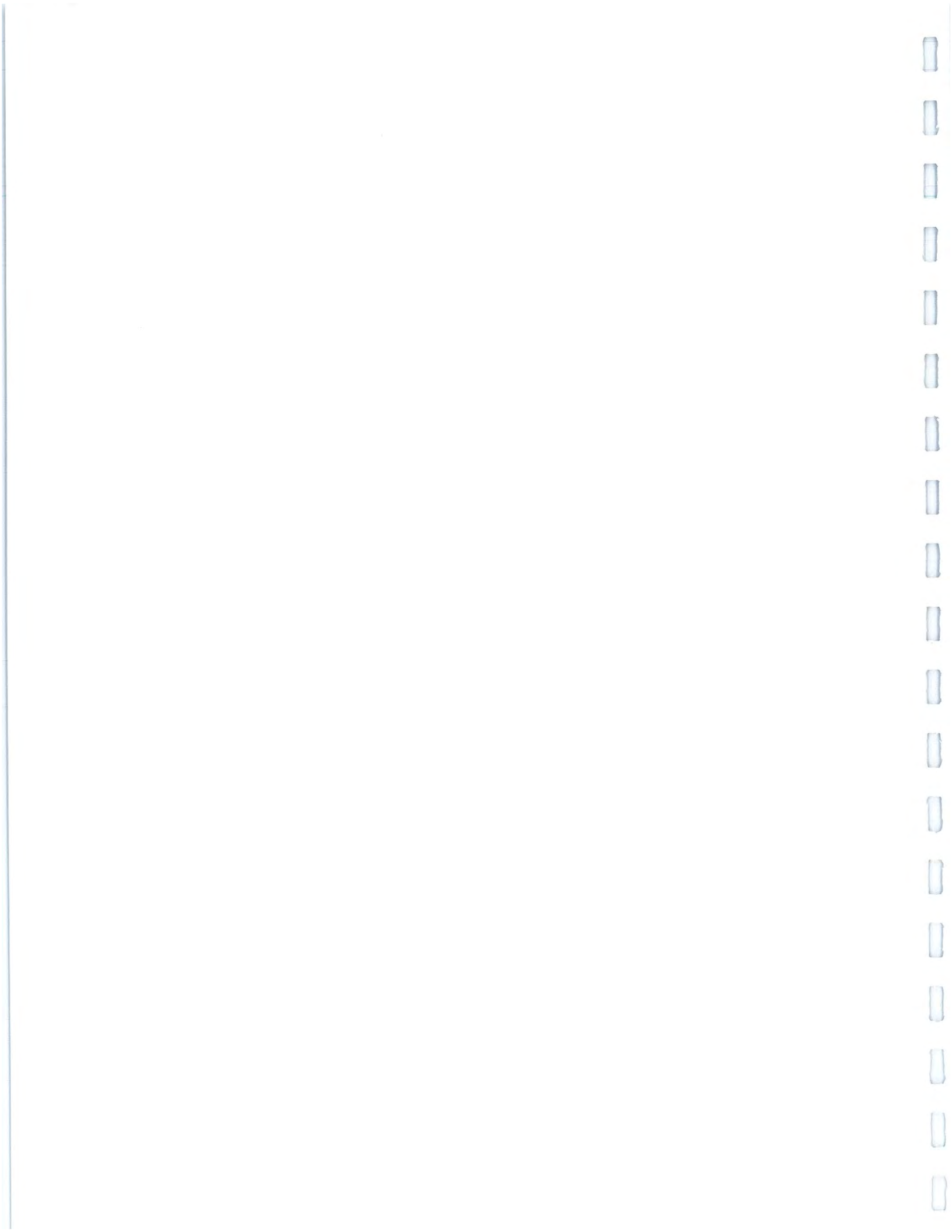
Compliance and Other Matters

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

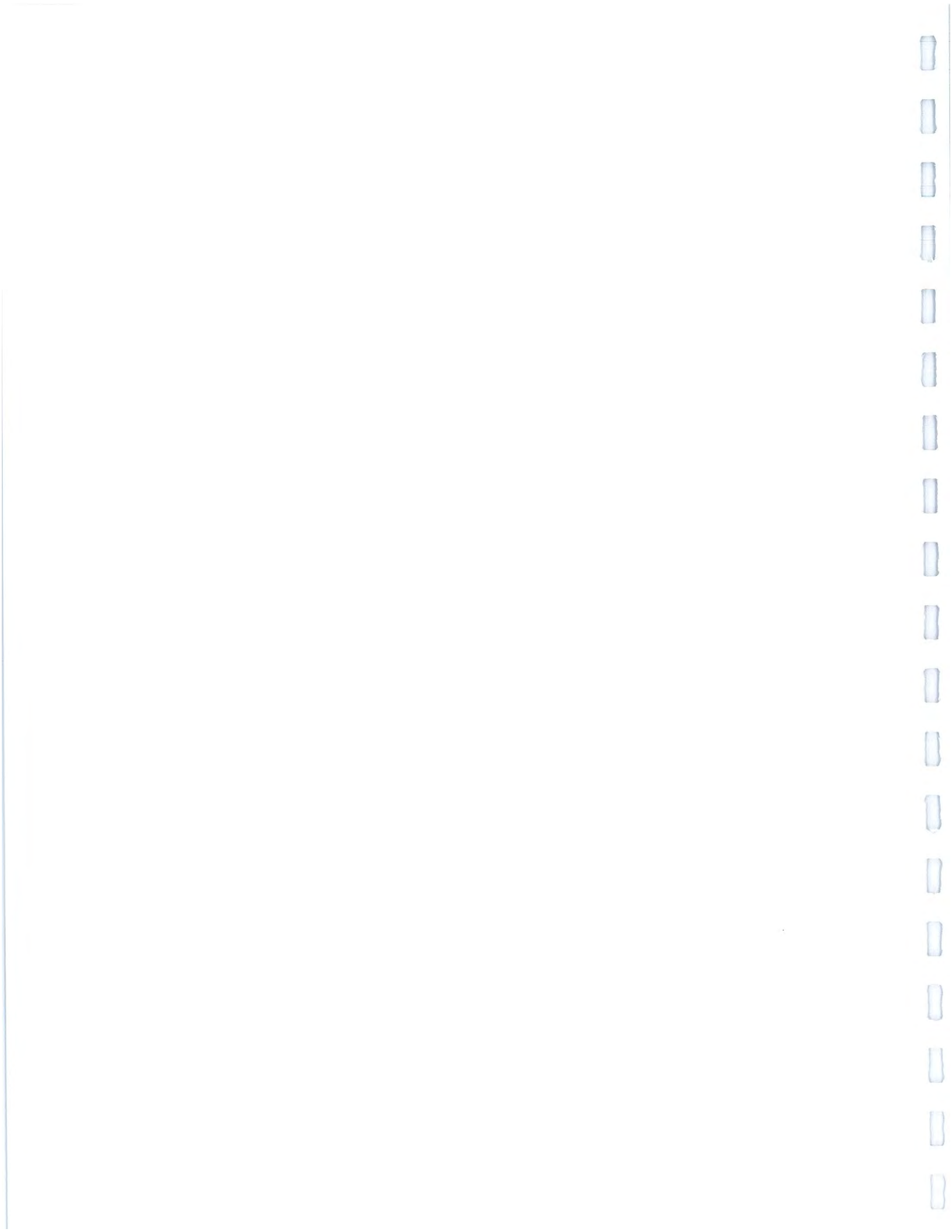
This report is intended solely for the information and use of the Chairwoman and Members of the Council, management, federal awarding agencies and pass-through entities, and the Auditor General of the State of Florida and is not intended to be and should not be used by anyone other than these specified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

CPA Associates

Bradenton, Florida
November 22, 2006



This page intentionally left blank.





Certified Public Accountants
and Consultants

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

The Honorable Chairwoman and Members
of the Council of the
City of Marco Island, Florida

Compliance

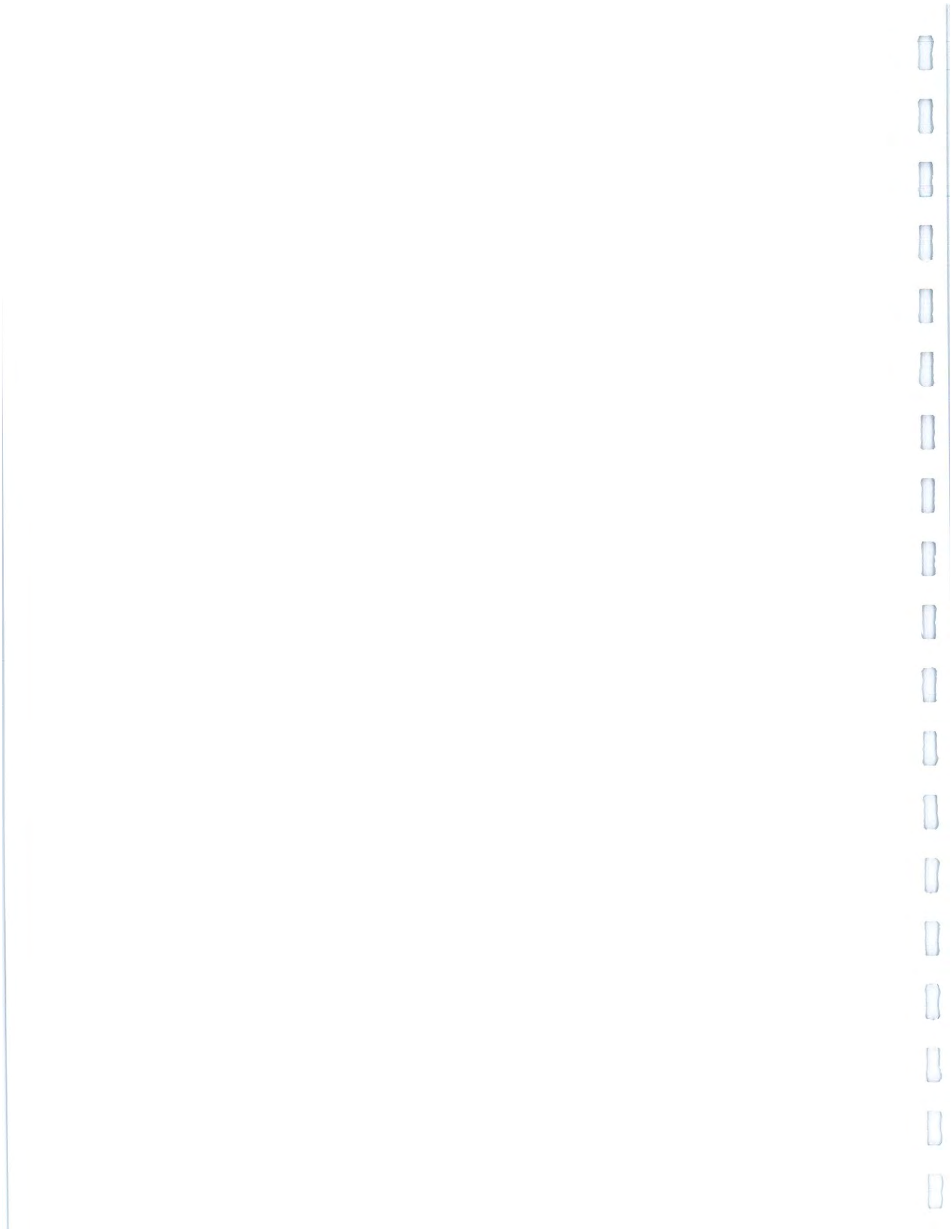
We have audited the compliance of the City of Marco Island, Florida, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended September 30, 2006. The City of Marco Island, Florida's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the City of Marco Island, Florida's management. Our responsibility is to express an opinion on the City of Marco Island, Florida's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, 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 on the City of Marco Island, Florida's compliance with those requirements.

In our opinion, the City of Marco Island complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended September 30, 2006.

Internal Control Over Compliance

The management of the City of Marco Island is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City of Marco Island, Florida's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purposes 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 reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

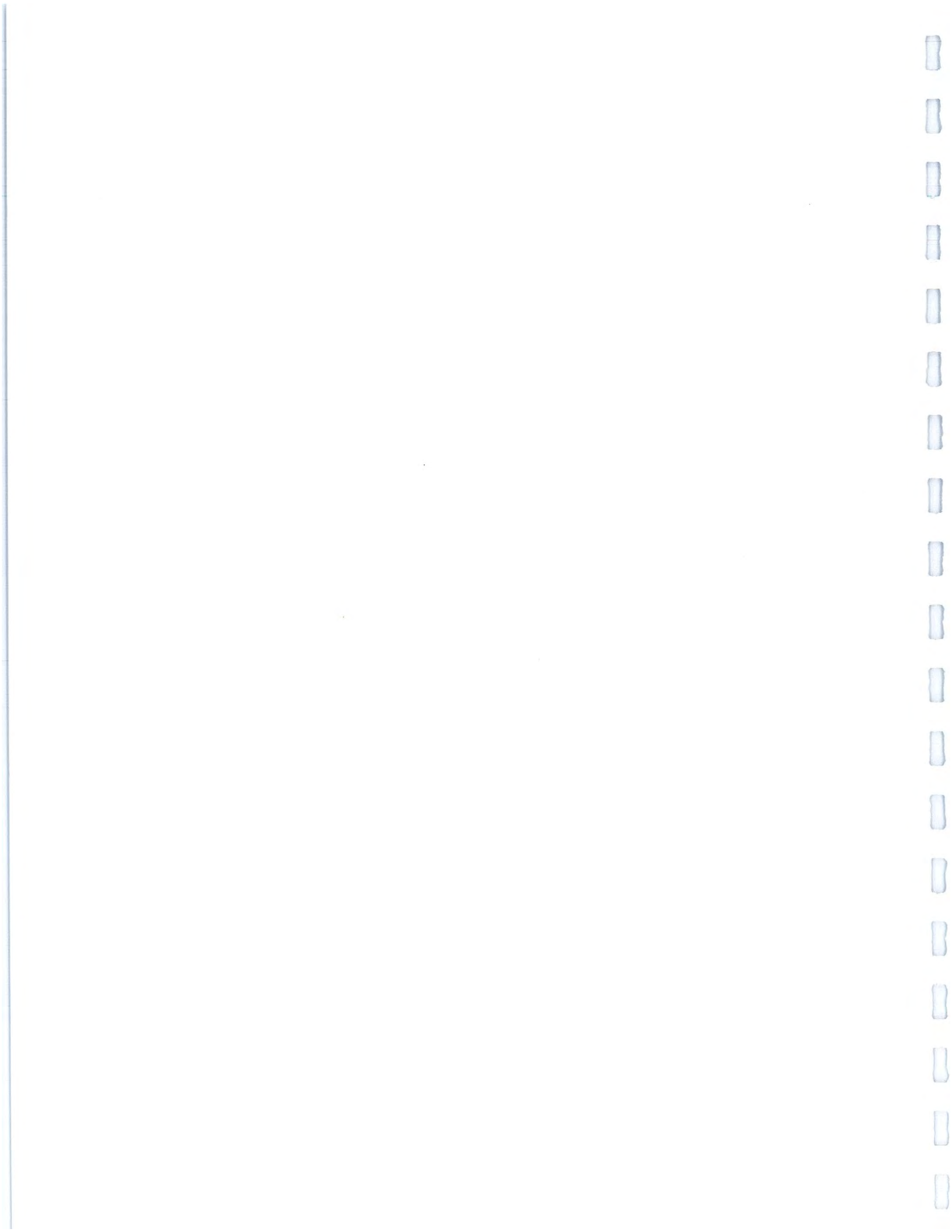
Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, the aggregate discretely presented component units, and the aggregate remaining fund information of the City of Marco Island, Florida, as of and for the year ended September 30, 2006, and have issued our report thereon dated November 22, 2006. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the City of Marco Island, Florida's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

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

CPA Associates

Bradenton, Florida
November 22, 2006



CITY OF MARCO ISLAND, FLORIDA
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 For the Year Ended September 30, 2006

Part I – Summary of Auditor's Results

Basic Financial Statement Section

Type of auditor's report issued: Unqualified Opinion

Internal control over financial reporting:

Material weakness (es) identified? yes x no

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

Noncompliance material to basic financial statements noted? yes x no

Federal Awards Section

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

Auditee qualified as low-risk auditee? x yes no

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

Internal Control over compliance:

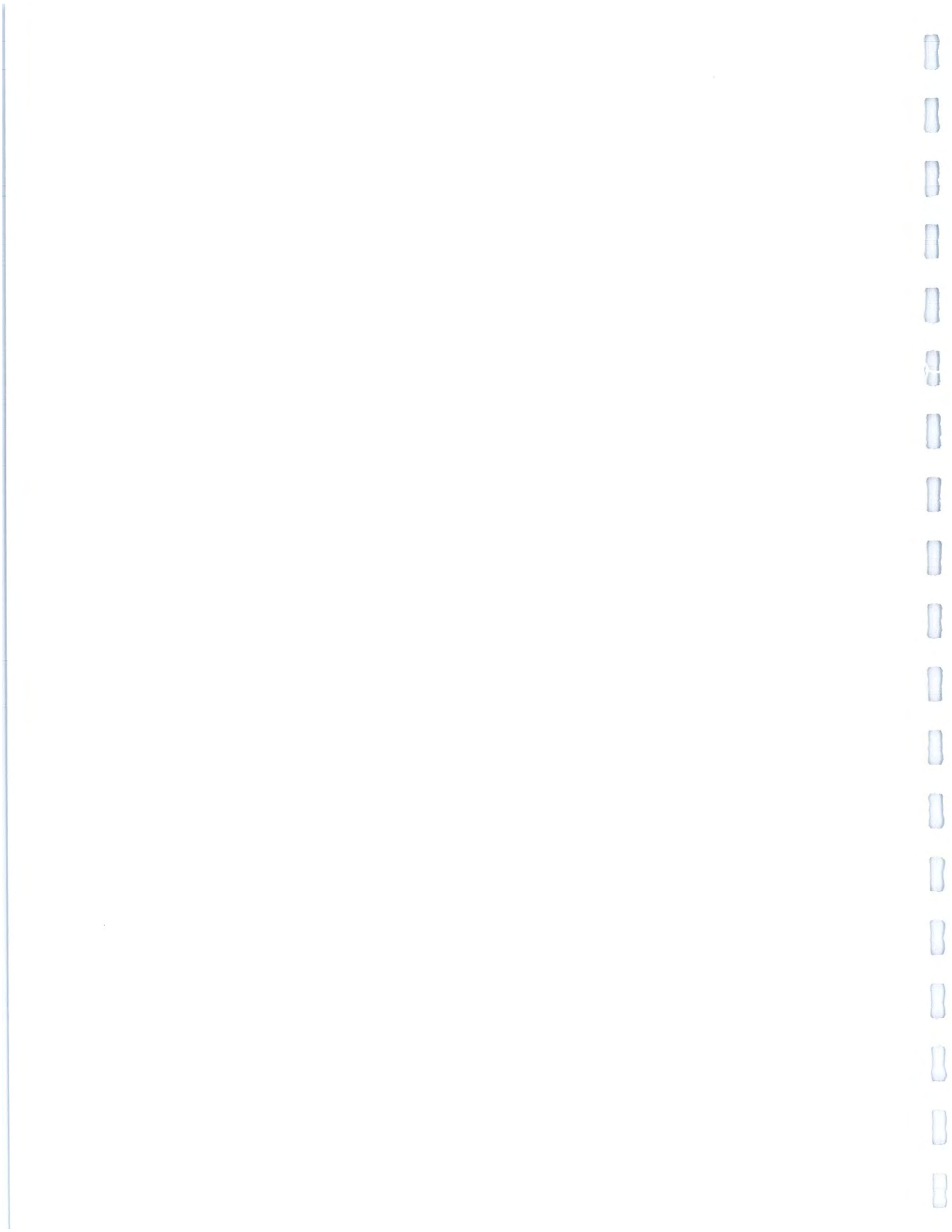
Material weakness(es) identified? yes x no

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

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

Identification of major programs

CFDA Number(s)	Name of Federal Program or Cluster
97.036	Department of Homeland Security – Public Assistance Program



CITY OF MARCO ISLAND, FLORIDA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)
For the Year Ended September 30, 2006

Part II – Schedule of Basic Financial Statement Findings

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

No reportable conditions, material weaknesses, fraud, illegal acts, violations of provisions of contracts and grant agreements, and abuse related to the basic financial statements that are required to be reported in accordance with *Government Auditing Standards* were identified.

Part III – Schedule of Federal Award Findings and Questioned Costs

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

No reportable conditions, material weaknesses, and material instances of noncompliance, including questioned costs as well as any abuse findings involving federal awards that are material to a major program were identified.

Part IV – Summary Schedule of Prior Audit Findings

There were no prior audit findings for federal programs.



CITY OF MARCO ISLAND, FLORIDA
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 FOR THE YEAR ENDED SEPTEMBER 30, 2006

	<u>CFDA Number</u>	<u>Pass-through Grantor's Number</u>	<u>Expenditures</u>
<u>Federal Awards</u>			
<u>Indirect</u>			
Department of Homeland Security			
Passed through Florida Department of Community Affairs			
Public Assistance Program	97.036	06-WL-&K-09-21-02-676	\$ <u>635,882</u>
Total Department of Homeland Security			635,882
<u>Direct</u>			
U.S. Department of Agriculture			
Watershed Protection and Flood Prevention	10.904	69-4209-6-1628	<u>163,544</u>
Total U.S. Department of Agriculture			163,544
U.S. Department of Justice			
COPS Universal Hiring Award 2004	16.710	2003UMWX0145	32,642
Bulletproof Vest Partnership Program	16.607	2001-LB-BX-0234	<u>3,560</u>
Total U.S. Department of Justice			36,202
U.S. Environmental Protection Agency			
Capitalization Grant for State Revolving Funds	66.458	WW71503P	<u>403,464</u>
Total U.S. Environmental Protection Agency			403,464
Total direct			<u>603,210</u>
Total Federal Awards			<u>\$ 1,239,092</u>

See independent auditor's report and notes to this schedule.



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

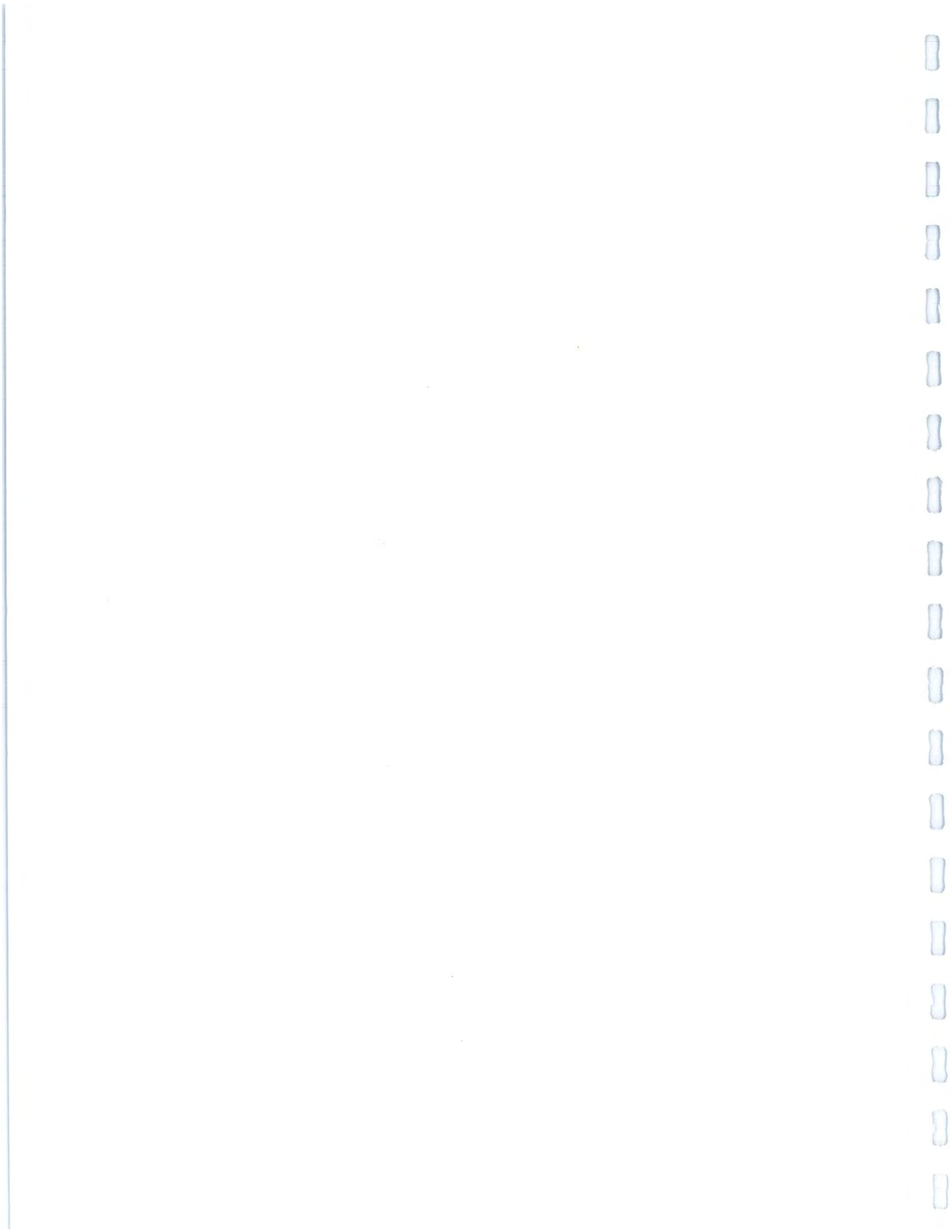
Basis of Presentation

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

Loans Outstanding

The City of Marco Island, Florida, had the following loan balance outstanding at September 30, 2006. Loans made during the year are included in the federal expenditures presented in the schedule.

State Revolving Loan—Clean Water	\$	403,464
----------------------------------	----	---------



MANAGEMENT LETTER

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

We have audited the basic financial statements of the City of Marco Island, Florida, as of and for the fiscal year ended September 30, 2006, and have issued our report thereon dated November 22, 2006, which was unqualified.

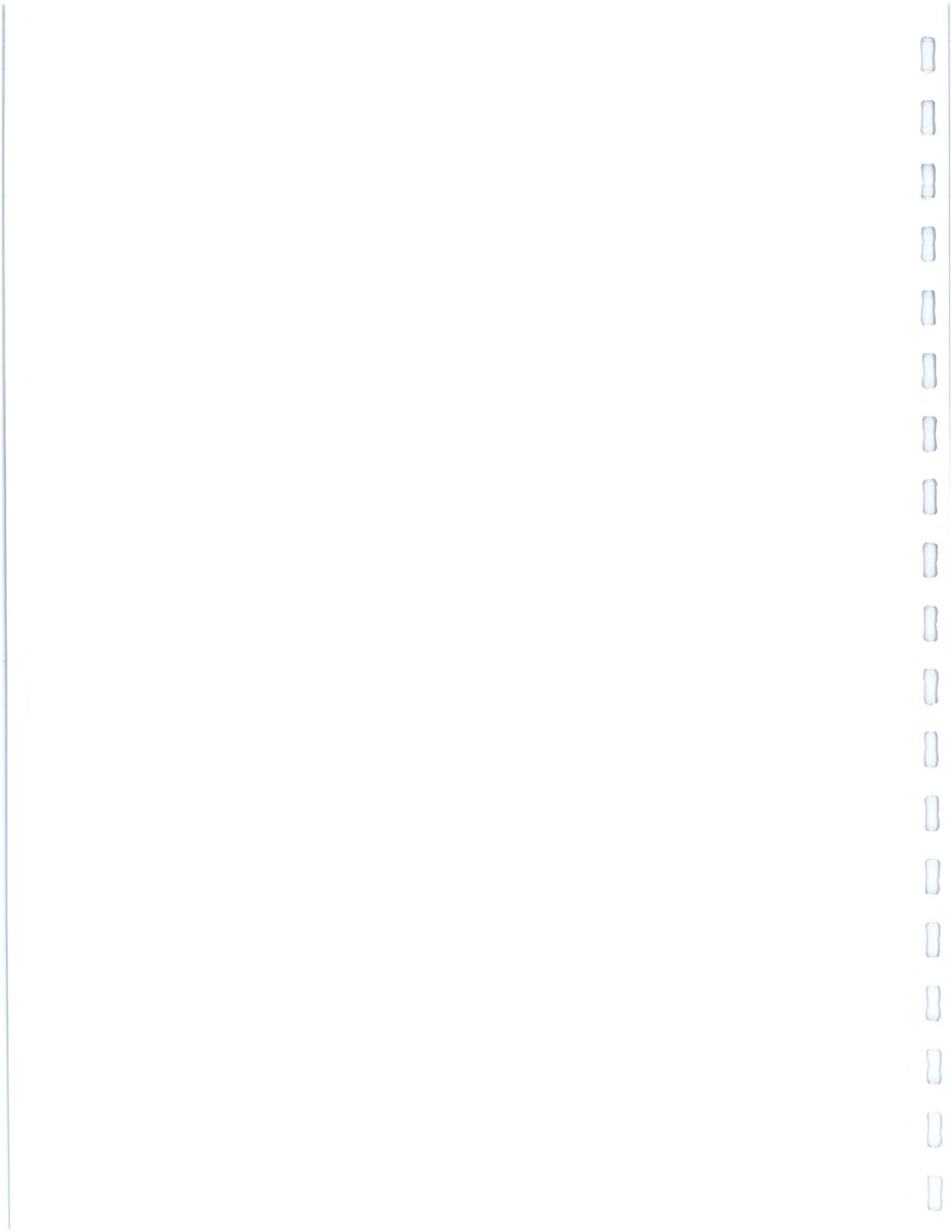
We conducted our audit in accordance with auditing standards generally accepted in the United States of America; *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. We have issued our Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*, Independent Auditor's Report on Compliance with Requirements Applicable to Each Major Federal Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133, and a Schedule of Findings and Questioned Costs. Disclosures in those reports and schedule, which are dated November 22, 2006, should be considered in conjunction with this management letter.

Additionally, our audit was conducted in accordance with the provisions of Chapter 10.550, Rules of the Auditor General which govern the conduct of local governmental entity audits performed in the State of Florida and require that certain items be addressed in this letter.

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

As required by the Rules of the Auditor General (Section 10.554(1)(h)2.) the scope of our audit included a review of the provisions of Section 218.415, Florida Statutes, regarding the investment of public funds. In connection with our audit, we determined that the City of Marco Island, Florida complied with Section 218.415, Florida Statutes.

The Rules of the Auditor General (Section 10.554(1)(h)3.) require that we address in the management letter any findings and recommendations to improve financial management, accounting procedures, and internal controls. There are no such comments for this fiscal year.



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

The Rules of the Auditor General (Section 10.554(1)(h)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, unless disclosed in the notes to financial statements. The City of Marco Island, Florida was established in a special election by mail ballot per Florida House of Representatives HB 1729 on August 28, 1997. In addition, an annual financial report for the City of Marco Island, Florida also includes the accounts and transaction of the following entity, which does not satisfy the definition of component units because it is not legally separate from the City:

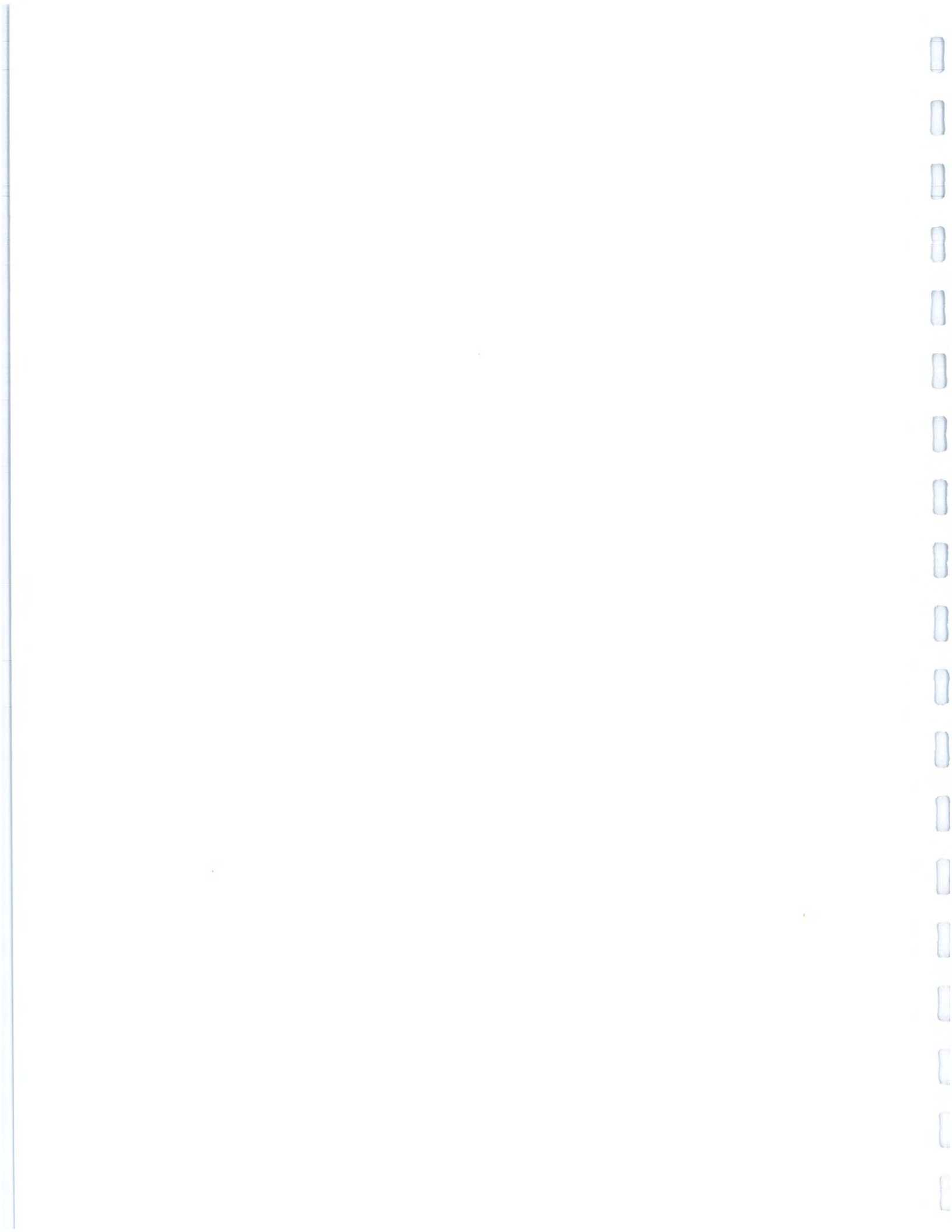
Entity	Presentation
City of Marco Island Firefighters' Pension Plan	Blended
City of Marco Island Police Officers' Pension Plan	Blended

The Firefighters' Pension Plan was established by Resolution 95-006 of the Marco Island Fire Control District, the predecessor entity to the City. The Police Officers' Pension Plan was established by Ordinance 05-14 of the City Code of Ordinances.

During the year ended September 30, 2005, the City adopted Resolution 04-05 creating Hideaway Beach District, which is presented as a discrete component unit.

As required by the Rules of the Auditor General (Section 10.554(1)(h)6.a.), a statement must be included as to whether or not the local government entity has met one or more of the conditions described in Section 218.503(1), Florida Statutes. At September 30, 2006, three funds reported a deficit unrestricted or unreserved fund balance/net assets, the Electric Franchise Fee Fund, the Water/Sewer Fund, and the Emergency Relief Fund. Management anticipates all these fund deficits will be recovered through future revenues and transfers from other funds.

As required by the Rules of the Auditor General (Section 10.554(1)(h)6.b.), we determined that the annual financial report for the City of Marco Island, Florida for the fiscal year ended September 30, 2006, filed with the Department of Financial Services pursuant to Section 218.32(1)(a), Florida Statutes, is in agreement with the annual financial audit report for the fiscal year ended September 30, 2006.



As required by the Rules of the Auditor General (Sections 10.554(h)(6)c. and 10.556(7)), we applied financial condition assessment procedures. It is management's responsibility to monitor the entity's financial condition, and our financial condition assessment was based in part on representations made by management and the review of financial information provided by the same.

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

CPA Associates

November 22, 2006
Bradenton, Florida

