

City of Marco Island, Florida

COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2007

PREPARED BY:
CITY OF MARCO ISLAND
FINANCE DEPARTMENT

Cover Art

Irene Glynn

Ms. Glynn retired from elementary education in the mid-1990's and started a second career as an artist, studying in professional studios in Connecticut and California. She sees her art as alchemy and exploration, using the deep rich colors of oils and wax based color pencils. Her work has been exhibited in Massachusetts and California, as well as here on Marco Island.

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

INTRODUCTION SECTION

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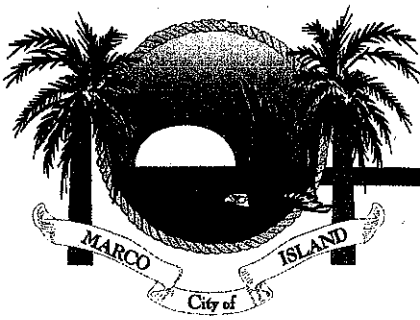
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City of Marco Island

March 14, 2008

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

Florida Statutes require that all general-purpose local governments publish within twelve months of the close of each fiscal year a complete set of financial statements presented in conformity with generally accepted accounting principles (GAAP) and audited in accordance with generally accepted auditing standards by a firm of independent licensed certified public accounts. Pursuant to that requirement, we hereby issue the comprehensive annual financial report of the City of Marco Island, Florida, for the fiscal year ended September 30, 2007.

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, 2007, 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, 2007, 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 approximately 16,000, which more than 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 re-nourishment 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. In the ten years since incorporation, the island economy has enjoyed an exceptionally strong residential real estate market with high growth in new home starts, and home and condominium resales. Total assessed value 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.

2007 assessed valuations, for property taxes in fiscal year 2008, showed a six percent (6%) reduction prior to adjustment for new construction. The reduction in valuations as a direct result of the national real estate slump, are not projected to result in any significant decreases in services provided to the community.

Marco Island Utilities. In November 2003, the City of Marco Island achieved a long-term objective with the acquisition of the local water and wastewater operations from a private provider. Prior to that date, the City's Utilities Fund was used to account for the wastewater distribution system serving approximately 1,200 accounts with central sewer on this island. Wastewater treatment was handled by Florida Water Services under contract. The City issued \$101 million in utility revenue bonds to purchase utility operations on Marco Island and at 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 third 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 yielding one basis point less than the current federal funds rate. The depository account is used to hold funds needed in the short term when investment alternatives in the under-six month range are yielding less than federal funds.

In 2002, the City Council approved an investment ordinance and has a program of active portfolio management, allowing for the purchase of U.S. Treasury and Agency obligations to increase yields while maintaining safety and liquidity. Investments are limited to a maximum maturity of five years. Investment earnings in fiscal year 2007 were \$1,504,180, down from \$1,796,314 in 2006. The Federal Reserve Board has reduced rates to offset the economic slowdown from real estate.

The City's rate of return on investments for Fiscal Year 2006 was 5.62% on average cash and investment balances of \$26.75 million. As benchmark comparisons, the average of weekly 91-day Treasury bill auctions was 4.89% during this same time period and the Lehman Brothers 1-5 Year Government Index was 5.62%. As interest rates fall, the values of securities held in the portfolio rise, increasing 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, 2006.

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 Chairman and City Council for their interest and support in planning and conducting the financial operations of the City. In addition, we wish to express our appreciation to our audit firm, CPA Associates, for their comprehensive and efficient examination of our accounts.

Respectfully Submitted,



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, 2006**

**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.**



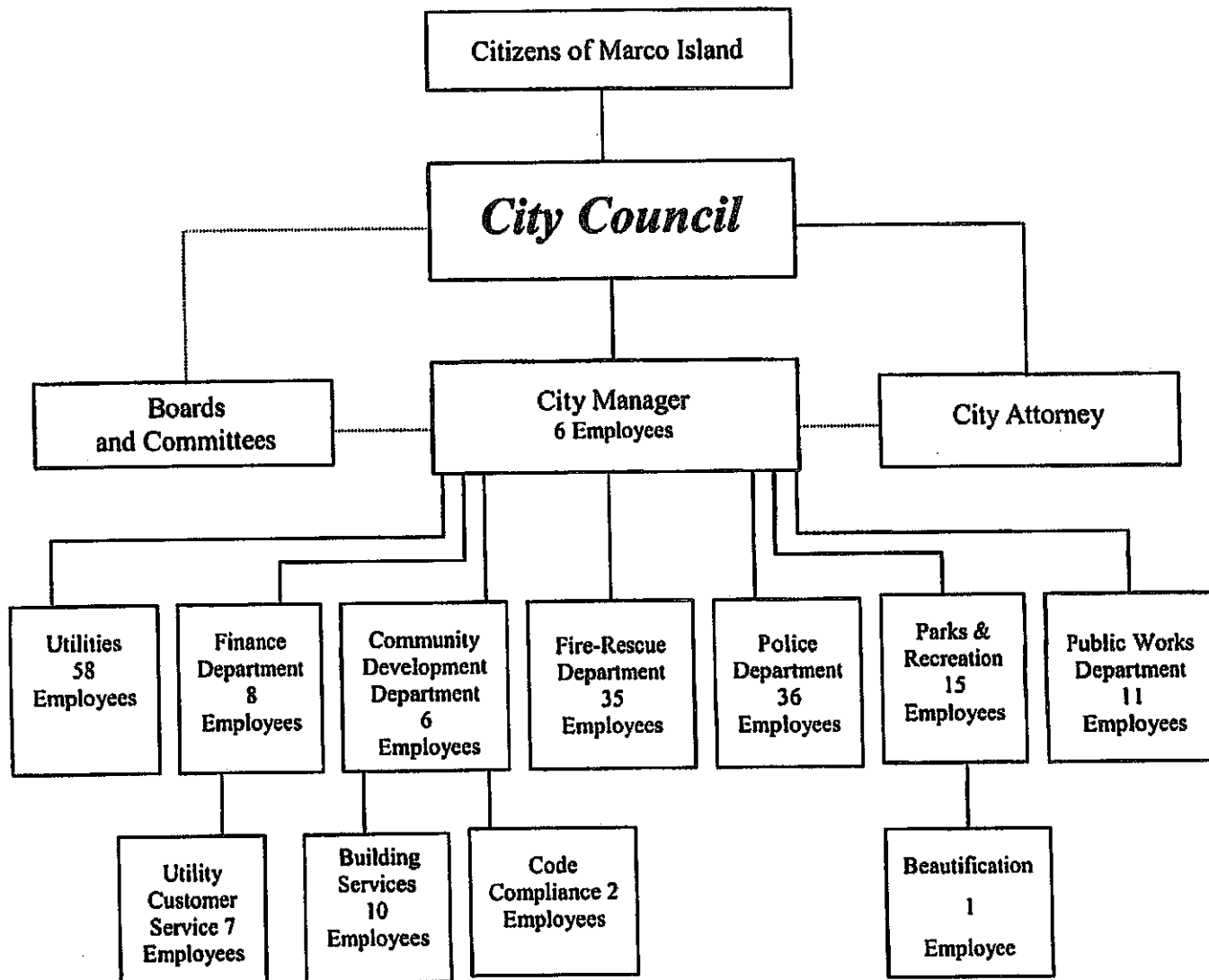
Charles S. Cox

President

Jeffrey R. Emmer

Executive Director

ORGANIZATIONAL CHART



City of Marco Island, Florida

PRINCIPAL OFFICIALS:

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

ALAN L. GABRIEL, 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





Certified Public Accountants
and Consultants

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Marco Island, Florida, (the City) as of and for the year ended September 30, 2007, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Marco Island, Florida, as of September 30, 2007, 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 March 14, 2008, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages 3-15 and 65-66, respectively, are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

The supplementary information required by Governmental Accounting Standards Board Statements Number 25 and 27 on pages 61-64 is not a required part of the basic financial statements. This information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

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

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

CPA Associates

Bradenton, Florida
March 14, 2008

**CITY OF MARCO ISLAND, FLORIDA
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2007
(UNAUDITED)**

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, 2007. 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 \$97,205,958 (net assets). Of this amount, \$7,536,012 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 \$3,752,960 in unrestricted net assets. The deficit position in the Water and Sewer Fund was \$3,723,688, a decrease of \$6,907,558 from the prior year, was partially offset by \$125,962 in unrestricted net assets in nonmajor business-type activities. The reduction in the deficit position has resulted from operating revenues used to fund capital projects. 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 \$19,391,011. Governmental activities accounted for 77.3% of net assets while business-type activities made up the remaining 22.7%.
- As of the close of the current fiscal year, the City's governmental activities reported a combined ending fund balance of \$75,123,990, an increase of \$7,849,734 over the prior year. Of that total amount, \$7,536,012 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 \$20,784,372, including \$2,497,833 in unreserved, undesignated fund balance. The increase of \$470,605 resulted from expenditures lower than appropriations. Governmental funds reported a combined ending fund balance of \$22,545,617, a decrease of \$7,434,341 from the prior year. The decrease is the result of capital expenditures during 2007 on projects funded in prior fiscal years.
- The Water and Sewer Utility Fund began several major capital construction projects during 2007, 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 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. In March 2008, after the end of the fiscal year, the city issued \$7,000,000 in water and sewer revenue bonds, and has applied for

**CITY OF MARCO ISLAND, FLORIDA
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2007
(UNAUDITED)**

an additional \$9 million in State Revolving Fund financing for sewer assessment districts constructed during fiscal years 2007 and 2008.

- The financial condition of the City of Marco Island continued to improve during 2007. 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 recent decline nationwide in real estate has affected the local community. Taxable values for fiscal year 2008 show the first reduction in the short history of the community. Professional department heads manage their operations within budgeted appropriations and reserve levels are sufficient to respond to changing conditions.

Overview of the Financial Statements

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

Government-Wide Financial Statements

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

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

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

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

**CITY OF MARCO ISLAND, FLORIDA
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2007
(UNAUDITED)**

The City's government-wide financial statements can be found on pages 17-18 of this report.

Fund Financial Statements

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

Governmental Funds

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

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

The City presents in separate columns funds that are the most significant to the City (major funds), and all other governmental funds are aggregated and reported in a single column (nonmajor funds). At September 30, 2007, 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 19-22.

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 \$11,600,678. This increase resulted from operating revenues in excess of operating expenses used to finance capital construction during the year.

**CITY OF MARCO ISLAND, FLORIDA
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2007
(UNAUDITED)**

The proprietary fund financial statements can be found on pages 23-25 of this report.

Fiduciary Funds

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

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

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 29-60 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 budget-to-actual schedules for the City's major funds. Required supplementary information can be found on pages 61-66 of this report.

This report contains other information including supporting statements and schedules, a statistical section (unaudited), and other reports section, which includes reports and schedules required under *Government Auditing Standards and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*.

**CITY OF MARCO ISLAND, FLORIDA
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2007
(UNAUDITED)**

Government-Wide Financial Analysis

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

Net Assets at September 30, 2007

| | Governmental Activities | | Business-Type Activities | | Total | |
|--|-------------------------|---------------------|--------------------------|----------------------|---------------------|----------------------|
| | 2007 | 2006 | 2007 | 2006 | 2007 | 2006 |
| Current and Other Assets | \$25,956,733 | \$36,209,954 | \$20,983,412 | \$ 4,313,469 | \$46,940,145 | \$ 40,523,423 |
| Capital Assets | <u>71,780,785</u> | <u>58,100,242</u> | <u>145,395,375</u> | <u>114,343,279</u> | <u>217,176,160</u> | <u>172,443,521</u> |
| Total Assets | 97,737,518 | 94,310,196 | 166,378,787 | 118,656,748 | 264,116,305 | 212,966,944 |
| Current and Other Liabilities | 2,990,521 | 5,754,351 | 9,027,588 | 7,178,367 | 2,018,109 | 16,880,659 |
| Long-Term Debt | <u>19,623,007</u> | <u>21,281,589</u> | <u>135,269,231</u> | <u>100,937,690</u> | <u>154,892,238</u> | <u>118,271,338</u> |
| Total Liabilities | 22,613,528 | 27,035,940 | 144,296,819 | 108,116,057 | 166,910,347 | 135,151,997 |
| Net Assets: | | | | | | |
| Investment in Capital Assets, Net of Related Debt | 53,038,873 | 37,670,845 | 19,956,161 | 13,601,948 | 72,995,034 | 51,272,973 |
| Restricted | 14,549,105 | 26,097,147 | 5,878,767 | 7,510,845 | 20,427,872 | 33,607,992 |
| Unrestricted | <u>7,536,012</u> | <u>3,506,264</u> | <u>(3,752,960)</u> | <u>(10,572,102)</u> | <u>3,783,052</u> | <u>(7,065,838)</u> |
| Total Net Assets | <u>\$75,123,990</u> | <u>\$67,274,256</u> | <u>\$ 22,081,968</u> | <u>\$ 10,540,691</u> | <u>\$97,205,958</u> | <u>\$ 77,814,947</u> |

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 \$97,205,958 at the close of the most recent fiscal year, an increase of \$19,391,011 from \$77,814,947 in the prior year.

The increase in total net assets of Governmental Activities resulted from significant construction of infrastructure during fiscal year 2007. The re-building of Collier Boulevard, the island's major thoroughfare, was nearing completion and work had begun on the replacement of the East Winterberry Bridge. In Business-Type Activities, the increase in total net assets resulted from rate base revenues used for repayment of debt and from spending related to construction in the first year of the multi-year \$123 million program to extend central sewer to approximately 5,600 single-family residential properties on septic tanks.

A substantial portion of the City's net assets (75%) 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.

**CITY OF MARCO ISLAND, FLORIDA
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2007
(UNAUDITED)**

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

**Changes in Net Assets
For the Year Ended September 30, 2007**

| | Governmental Activities | | Business-Type Activities | | Total | |
|----------------------------------|-------------------------|-------------------|--------------------------|-------------------|-------------------|-------------------|
| | 2007 | 2006 | 2007 | 2006 | 2007 | 2006 |
| Revenues: | | | | | | |
| Program Revenues: | | | | | | |
| Charges for Services | \$ 1,499,337 | \$ 1,617,002 | \$ 20,751,473 | \$ 19,155,282 | \$22,250,810 | \$20,772,284 |
| Operating Grants & Contributions | 321,497 | 2,259,878 | 55,127 | 45,003 | 376,624 | 2,304,881 |
| Capital Grants & Contributions | 2,423,999 | 2,481,096 | 6,925,418 | 1,450,000 | 9,349,417 | 3,931,096 |
| Taxes | 18,819,843 | 15,602,566 | - | - | 18,819,843 | 15,602,566 |
| State Shared Revenues | 1,952,268 | 2,393,388 | - | - | 1,952,268 | 2,393,388 |
| Other Revenues | 979,834 | 1,726,831 | 3,534,039 | 997,061 | 4,513,873 | 2,723,892 |
| Total Revenues | 25,996,778 | 26,080,761 | 31,266,057 | 21,647,346 | 57,262,835 | 47,728,107 |
| Expenses: | | | | | | |
| Governmental Activities: | | | | | | |
| General Government | 3,769,788 | 4,799,331 | - | - | 3,769,788 | 4,799,331 |
| Police Services | 3,570,381 | 3,024,973 | - | - | 3,570,381 | 3,024,973 |
| Fire/Rescue | 3,633,748 | 3,156,845 | - | - | 3,633,748 | 3,156,845 |
| Code Compliance | 179,376 | 148,161 | - | - | 179,376 | 148,161 |
| Building Services | 1,350,070 | 1,128,468 | - | - | 1,350,070 | 1,128,468 |
| Transportation | 3,008,553 | 2,726,090 | - | - | 3,008,553 | 2,726,090 |
| Culture & Recreation | 1,922,094 | 1,574,669 | - | - | 1,922,094 | 1,574,669 |
| Interest on Long Term Debt | 713,034 | 628,218 | - | - | 713,034 | 628,218 |
| Business-type Activities: | | | | | | |
| Water / Sewer Fund | - | - | 19,576,391 | 17,736,604 | 19,576,391 | 17,736,604 |
| Recreation | - | - | 148,389 | 118,309 | 148,389 | 118,309 |
| Total Expenses | 18,147,044 | 17,186,755 | 19,724,780 | 17,854,913 | 37,871,824 | 35,041,668 |
| Increase in Net Assets | 7,849,734 | 8,894,006 | 11,541,277 | 3,792,433 | 19,391,011 | 12,686,439 |
| Net Assets – Beginning of Year | 67,274,256 | 58,380,250 | 10,540,691 | 6,748,258 | 77,814,947 | 65,128,508 |
| Net Assets – End of Year | \$75,123,990 | \$67,274,256 | \$ 22,081,968 | \$ 10,540,691 | \$97,205,958 | \$ 77,814,947 |

The increase in Other Revenues, Business-Type Activities, resulted from assessments imposed for the first year of construction in the major program to bring all island properties onto central sewer.

CITY OF MARCO ISLAND, FLORIDA
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2007
(UNAUDITED)

Governmental Funds

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

At the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$22,545,617. Of this amount, \$2,497,833 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 \$3,491,698. That total results from a negative unreserved and undesignated fund balance in the Electric Fund of \$1,045,253 and in the Emergency Relief Fund of \$338,840. Capital expenditures for the undergrounding of power lines and installation of decorative lighting fixtures along Collier Boulevard will be recovered from fiscal year 2008 revenues in excess of budgeted expenditures. 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 | \$ 338,646 |
| * Road Construction | 392,735 |
| * Fire Services | 66,455 |
| * Police Services | 318,564 |
| * Debt Service | 767,380 |
| * Prepaid Expenditures | 23,550 |

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

| | |
|---------------------|--------------|
| * Capital Projects | \$13,409,155 |
| * Emergency Reserve | 3,737,434 |

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 \$2,497,833, while the total fund balance is \$20,784,372. 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 47% of General Fund expenditures.

CITY OF MARCO ISLAND, FLORIDA
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2007
(UNAUDITED)

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 \$715,967. The increase in appropriations resulted from capital expenditures originally budgeted in 2006, with the expenditure in 2007, pension costs of the new Police Officers' Pension Plan, and a significant wage increase granted to firefighters to remain market competitive.

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.
- 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.

CITY OF MARCO ISLAND, FLORIDA
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2007
(UNAUDITED)

For the fiscal year ended September 30, 2007, the City was in compliance with the Charter Spending Cap:

Expenditures fiscal year 2007:

| | |
|---|----------------------|
| General Fund | \$12,913,472 |
| General Fund Transfer to Self-Insurance | 415,248 |
| Capital Projects Fund | 14,906,202 |
| Debt Service Fund | 2,415,538 |
| TOTAL OF ALL FUNDS | \$ 30,650,460 |
| Less: Expenditures funded by grants and gifts: | (2,156,043) |
| Less: Expenditures funded by impact fees: | (154,211) |
| Less: Expenditures funded by cash forward from fiscal year 2006 and subject to 2006 Spending Cap: | (23,196,897) |
| Less: City Council approved Emergency Expenditures | 0 |
| Add Back: Funding for uncompleted balance of fiscal year 2007 capital projects, subject to Spending Cap in 2007; balanced carried forward to 2008 | 12,552,010 |
| Fiscal Year 2007 Expenditures subject to Spending Cap: | \$ 17,695,319 |
| Fiscal Year 2007 Spending Cap: | \$ 17,695,319 |

CITY OF MARCO ISLAND, FLORIDA
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2007
(UNAUDITED)

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, 2007, amounts to \$217,176,160 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, infrastructure, vehicles and equipment, construction in progress, other assets, and utility systems.

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

- A new Police Station and community facility located on the City Hall campus was completed in August 2007.
- The re-construction of Collier Boulevard was substantially complete by the end of Fiscal Year 2007, with all work completed except for the final asphalt layer and landscaping in December 2007. Work included underground power lines, replacement and over-sizing of water and wastewater lines, replacement and upgrading of storm drainage facilities, and a new roadway system.
- Phase I for the conversion of the Marco Island wastewater treatment plant to a membrane bio-reactor treatment process was underway in Fiscal Year 2007. Over a four year construction schedule, the entire plant will be upgraded as well as the capacity expanded from the current 3.5 million gallons per day (MGD) to 5.0 MGD to accommodate new sewer customers.
- A seventh aquifer storage and recovery (ASR) well was completed in 2007. 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.
- The Septic Tank Replacement Program continued with Phase II in 2007, 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.
- Replacement of the East Winterberry Bridge began in 2007, with completion scheduled for August 2008, at a total budgeted cost of \$5.5 million. The City of Marco Island owns twelve (12) bridges on the island. The East Winterberry Bridge is the third bridge to be replaced since incorporation in 1998.

**CITY OF MARCO ISLAND, FLORIDA
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2007
(UNAUDITED)**

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

| | Capital Assets | | | | | |
|------------------------------|--------------------------------|----------------------|---------------------------------|----------------------|----------------------|-----------------------|
| | (Net of Depreciation) | | | | | |
| | <u>Governmental Activities</u> | | <u>Business-Type Activities</u> | | <u>Total</u> | |
| | <u>2007</u> | <u>2006</u> | <u>2007</u> | <u>2006</u> | <u>2007</u> | <u>2006</u> |
| Land and Land Improvements | \$ 15,040,187 | \$14,825,071 | \$ 16,514,861 | \$ 16,514,861 | \$ 31,555,048 | \$ 31,339,932 |
| Buildings and Improvements | 3,726,945 | 3,702,439 | 6,523,487 | 6,523,487 | 10,250,432 | 10,225,926 |
| Infrastructure | 35,733,937 | 25,277,503 | - | - | 35,733,937 | 25,277,503 |
| Vehicles and Equipment | 5,199,254 | 4,468,131 | 48,861,058 | 47,378,700 | 54,060,312 | 51,846,831 |
| Transmission & Distribution | - | - | 41,055,292 | 35,660,767 | 41,055,292 | 35,660,767 |
| Construction Work in Process | 26,014,460 | 21,281,784 | 49,043,672 | 20,095,014 | 75,058,132 | 41,376,798 |
| Accumulated Depreciation | <u>(13,933,998)</u> | <u>(11,454,686)</u> | <u>(16,602,995)</u> | <u>(11,829,550)</u> | <u>(30,536,993)</u> | <u>(23,284,236)</u> |
| | <u>\$71,780,785</u> | <u>\$ 58,100,242</u> | <u>\$145,395,375</u> | <u>\$114,343,279</u> | <u>\$217,176,160</u> | <u>\$ 172,443,521</u> |

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

Long-Term Debt

At the end of the current year, the City had total debt outstanding of \$143,119,420 (excluding accrued compensated absences, bond premiums, and deferred assessments). Of that amount, \$8,760,000 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 | | | | | |
|---------------------------------|--------------------------------|---------------------|---------------------------------|----------------------|-----------------------|-----------------------|
| | <u>Governmental Activities</u> | | <u>Business-Type Activities</u> | | <u>Total</u> | |
| | <u>2007</u> | <u>2006</u> | <u>2007</u> | <u>2006</u> | <u>2007</u> | <u>2006</u> |
| Revenue Bonds, Series 2000B | \$ 665,000 | \$ 725,000 | \$ - | \$ - | \$ 665,000 | \$ 725,000 |
| Gen Obligation Bonds, Srs 2004 | 8,760,000 | 9,315,000 | - | - | 8,760,000 | 9,315,000 |
| Revenue Bonds, Series 2005 | 6,000,000 | 6,000,000 | - | - | 6,000,000 | 6,000,000 |
| Capital Lease | 316,912 | 389,397 | - | - | 316,912 | 389,397 |
| Revenue Note, Series 2006 | 3,000,000 | 4,000,000 | - | - | 3,000,000 | 4,000,000 |
| Utility Revenue Bonds, Srs 2003 | - | - | 97,255,000 | 99,205,000 | 97,255,000 | 99,205,000 |
| Utility Revenue Bonds, Srs 2007 | - | - | 5,500,000 | - | 5,500,000 | - |
| Utility Revenue Note, Srs 2007 | - | - | 19,996,278 | - | 19,996,278 | - |
| State Revolving Loan | - | - | 1,626,230 | 403,464 | 1,626,230 | 403,464 |
| Total Long-Term Debt | <u>\$ 18,741,912</u> | <u>\$20,429,397</u> | <u>\$124,377,508</u> | <u>\$ 99,608,464</u> | <u>\$ 143,119,420</u> | <u>\$ 120,037,861</u> |

Utility Revenue Bonds, Series 2007 were issued to finance capital improvements to the City's water and wastewater systems. The Utility Revenue Note is a short-term, variable rate line of credit issued to initially finance the Septic Tank Replacement Program. Proceeds from the State Revolving Loan are used to finance sewer assessment neighborhood construction. Additional information on the City's long-term debt can be found in Note C, f. of this report.

**CITY OF MARCO ISLAND, FLORIDA
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2007
(UNAUDITED)**

Economic Factors and Next Year's Budget and Rates

Property Taxes

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, a reduction greater than the statutory increase in the taxable valuation of homestead properties.

For fiscal year 2008, the City's assessed valuation declined to \$11,303,599,084, a loss of approximately 6% of taxable value on existing properties, partially offset by new construction. The City of Marco Island complied with the mandate from Florida Tax Reform to reduce property taxes by 9%, reducing the tax levy to 1.2833 mils. The 2008 budget is balanced at that reduced level.

Electric Franchise Fee

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

Water and Wastewater Utility

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. During fiscal year 2007, rates were increased an additional 2% as the first of four steps for an 8% rate increase. This rate increase will transfer the costs of roadway repairs in neighborhoods after completion of the central sewer project, described below, to the entire rate base rather than an assessment cost.

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 millions of gallons per day (MGD) to 5.0 MGD. The program began in 2006, with construction of the first of 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 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.

CITY OF MARCO ISLAND, FLORIDA
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2007
(UNAUDITED)

For fiscal year 2008, utility rates were increased by 13.3%, which included a 3.3% cost of operation increase, the second 2% step for roadway overlay, and an 8% increase to relieve new customers connected to the sewer system from the costs of the upgrading of the existing wastewater treatment plant.

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. An additional \$1.1 million was appropriated in the 2007 budget. Construction is underway and scheduled for completion in August 2008.

Requests for Information

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

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BASIC FINANCIAL STATEMENTS



CITY OF MARCO ISLAND, FLORIDA
STATEMENT OF NET ASSETS
September 30, 2007

| | Primary Government | | | Component Unit |
|---|----------------------------|-----------------------------|--------------------|----------------------------|
| | Governmental Activities | Business-Type Activities | Total | Hideaway Beach District |
| Assets | | | | |
| Pooled cash and investments | \$ 11,694,023 | 10,034,099 | 21,728,122 | 600,620 |
| Receivables: | | | | |
| Account - Net | 868,892 | 2,055,282 | 2,924,174 | -- |
| Interest | 103,037 | -- | 103,037 | -- |
| Assessments - Current portion | -- | 199,971 | 199,971 | -- |
| Assessments interest | -- | 417,672 | 417,672 | -- |
| Due from other governments | 267,105 | -- | 267,105 | -- |
| Internal balances | 12,605,748 | (12,605,748) | -- | -- |
| Prepaid items | 23,550 | -- | 23,550 | -- |
| Restricted cash and investments | -- | 11,278,656 | 11,278,656 | -- |
| Assessments receivable | -- | 7,183,358 | 7,183,358 | -- |
| Bond issue costs - Net | 147,608 | 2,420,122 | 2,567,730 | 25,401 |
| Net pension asset | 246,770 | -- | 246,770 | -- |
| Capital assets: | | | | |
| Nondepreciable | 41,054,647 | 65,558,533 | 106,613,180 | -- |
| Depreciable | 30,726,138 | 79,836,842 | 110,562,980 | -- |
| Total Assets | <u>\$ 97,737,518</u> | <u>166,378,787</u> | <u>264,116,305</u> | <u>626,021</u> |
| Liabilities | | | | |
| Accounts payable | \$ 2,176,509 | 6,433,940 | 8,610,449 | 31,117 |
| Accrued liabilities | 586,440 | 168,940 | 755,380 | -- |
| Deposits | 31,800 | -- | 31,800 | -- |
| Accrued interest | 195,772 | 2,424,708 | 2,620,480 | 14,595 |
| Noncurrent liabilities: | | | | |
| Due within one year | 2,692,692 | 7,766,408 | 10,459,100 | 470,000 |
| Due in more than one year | 16,930,315 | 127,502,823 | 144,433,138 | 1,550,000 |
| Total Liabilities | <u>22,613,528</u> | <u>144,296,819</u> | <u>166,910,347</u> | <u>2,065,712</u> |
| Net Assets | | | | |
| Invested in capital assets, net of related debt | 53,038,873 | 19,956,161 | 72,995,034 | -- |
| Restricted for: | | | | |
| Capital outlay | 14,164,086 | 4,448,712 | 18,612,798 | -- |
| Renewal and replacement | -- | 1,430,055 | 1,430,055 | -- |
| Police, fire and rescue | 385,019 | -- | 385,019 | -- |
| Unrestricted | 7,536,012 | (3,752,960) | 3,783,052 | (1,439,691) |
| Total Net Assets | <u>75,123,990</u> | <u>22,081,968</u> | <u>97,205,958</u> | <u>(1,439,691)</u> |
| Total Liabilities and Net Assets | <u>\$ 97,737,518</u> | <u>166,378,787</u> | <u>264,116,305</u> | <u>626,021</u> |

See accompanying notes.

CITY OF MARCO ISLAND, FLORIDA
STATEMENT OF ACTIVITIES
For the Year Ended September 30, 2007

| 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 | Total | |
| Governmental Activities | | | | | | | | |
| General government | \$ 3,769,788 | 135,892 | 293,471 | 725,000 | (2,615,425) | -- | (2,615,425) | |
| Police services | 3,570,381 | 82,001 | 20,676 | 12,942 | (3,454,762) | -- | (3,454,762) | |
| Fire and rescue | 3,633,748 | 102,715 | 7,350 | 241,214 | (3,282,469) | -- | (3,282,469) | |
| Code compliance | 179,376 | 121,028 | -- | -- | (58,348) | -- | (58,348) | |
| Building services | 1,350,070 | 972,129 | -- | -- | (377,941) | -- | (377,941) | |
| Transportation | 3,008,553 | -- | -- | 1,423,388 | (1,585,165) | -- | (1,585,165) | |
| Culture and recreation | 1,922,094 | 85,572 | -- | 21,455 | (1,815,067) | -- | (1,815,067) | |
| Interest on long-term debt | 713,034 | -- | -- | -- | (713,034) | -- | (713,034) | |
| Total Governmental Activities | <u>18,147,044</u> | <u>1,499,337</u> | <u>321,497</u> | <u>2,423,999</u> | <u>(13,902,211)</u> | <u>--</u> | <u>(13,902,211)</u> | |
| Business-Type Activities | | | | | | | | |
| Water and sewer | 19,576,391 | 20,635,378 | -- | 6,925,418 | -- | 7,984,405 | 7,984,405 | |
| Recreation | 148,389 | 116,095 | 55,127 | -- | -- | 22,833 | 22,833 | |
| Total Business-Type Activities | <u>19,724,780</u> | <u>20,751,473</u> | <u>55,127</u> | <u>6,925,418</u> | <u>--</u> | <u>8,007,238</u> | <u>8,007,238</u> | |
| Total Primary Government | <u>\$ 37,871,824</u> | <u>22,250,810</u> | <u>376,624</u> | <u>9,349,417</u> | <u>(13,902,211)</u> | <u>8,007,238</u> | <u>(5,894,973)</u> | |
| Component Unit - Hideaway Beach District | <u>\$ 151,330</u> | <u>--</u> | <u>--</u> | <u>--</u> | <u>--</u> | <u>--</u> | <u>(151,330)</u> | |
| General Revenues | | | | | | | | |
| Taxes: | | | | | | | | |
| Property taxes | | | | | 15,315,942 | -- | 15,315,942 | 908,608 |
| Communication service tax | | | | | 914,729 | -- | 914,729 | -- |
| Franchise fees | | | | | 1,913,134 | -- | 1,913,134 | -- |
| Other taxes | | | | | 676,038 | -- | 676,038 | -- |
| State shared revenues-unrestricted | | | | | 1,952,268 | -- | 1,952,268 | -- |
| Interest | | | | | 919,185 | 797,892 | 1,717,077 | 28,966 |
| Gain on sale of capital assets | | | | | 20,000 | -- | 20,000 | -- |
| Miscellaneous | | | | | 40,649 | 2,736,147 | 2,776,796 | -- |
| Total General Revenues | | | | | <u>21,751,945</u> | <u>3,534,039</u> | <u>25,285,984</u> | <u>937,574</u> |
| Change in Net Assets | | | | | 7,849,734 | 11,541,277 | 19,391,011 | 786,244 |
| Net assets - Beginning of year | | | | | 67,274,256 | 10,540,691 | 77,814,947 | (2,225,935) |
| Net assets - End of year | | | | | <u>\$ 75,123,990</u> | <u>22,081,968</u> | <u>97,205,958</u> | <u>(1,439,691)</u> |

CITY OF MARCO ISLAND, FLORIDA
GOVERNMENTAL FUNDS
BALANCE SHEET
September 30, 2007

| | General | Electric | Capital Projects | Nonmajor Fund Totals | Total Governmental Funds |
|--|----------------------|---------------------|---------------------|-------------------------|--------------------------------|
| Assets | | | | | |
| Pooled cash and investments | \$ 6,926,078 | -- | 1,442,651 | 3,177,166 | 11,545,895 |
| Receivables: | | | | | |
| Account - net | 292,360 | 545,820 | -- | 30,712 | 868,892 |
| Interest | 103,037 | -- | -- | -- | 103,037 |
| Due from other funds | 14,383,655 | -- | -- | -- | 14,383,655 |
| Due from other governments | 267,105 | -- | -- | -- | 267,105 |
| Prepaid items | 23,550 | -- | -- | -- | 23,550 |
| Total Assets | \$ 21,995,785 | 545,820 | 1,442,651 | 3,207,878 | 27,192,134 |
| Liabilities and Fund Balances | | | | | |
| Liabilities | | | | | |
| Accounts payable | \$ 697,778 | 27,405 | 1,442,651 | 7,378 | 2,175,212 |
| Accrued liabilities | 272,456 | -- | -- | 24,529 | 296,985 |
| Due to other funds | -- | 1,563,668 | -- | 369,473 | 1,933,141 |
| Unearned revenue | 209,379 | -- | -- | -- | 209,379 |
| Deposits | 31,800 | -- | -- | -- | 31,800 |
| Total Liabilities | 1,211,413 | 1,591,073 | 1,442,651 | 401,380 | 4,646,517 |
| Fund Balances | | | | | |
| Reserved for: | | | | | |
| Parks construction or operation | 338,646 | -- | -- | -- | 338,646 |
| Road construction | 392,735 | -- | -- | -- | 392,735 |
| Fire services | 66,455 | -- | -- | -- | 66,455 |
| Police services | 318,564 | -- | -- | -- | 318,564 |
| Debt service | -- | -- | -- | 767,380 | 767,380 |
| Prepaid expenditures | 23,550 | -- | -- | -- | 23,550 |
| Unreserved, undesignated | | | | | |
| General | 2,497,833 | -- | -- | -- | 2,497,833 |
| Electric | -- | (1,045,253) | -- | -- | (1,045,253) |
| Emergency relief | -- | -- | -- | (338,840) | (338,840) |
| Building services | -- | -- | -- | 2,377,958 | 2,377,958 |
| Unreserved, designated for: | | | | | |
| Capital projects | 13,409,155 | -- | -- | -- | 13,409,155 |
| Emergency reserve | 3,737,434 | -- | -- | -- | 3,737,434 |
| Total Fund Balances | 20,784,372 | (1,045,253) | -- | 2,806,498 | 22,545,617 |
| Total Liabilities and Fund Balances | \$ 21,995,785 | 545,820 | 1,442,651 | 3,207,878 | 27,192,134 |

See accompanying notes.

CITY OF MARCO ISLAND, FLORIDA
RECONCILIATION OF THE BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
GOVERNMENTAL FUNDS
September 30, 2007

| | | |
|--|----------------------|---------------------------------|
| Fund Balance - Total Governmental Funds | \$ | 22,545,617 |
| 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. | | 147,608 |
| Net pension assets are not available to pay for current period expenditures and, therefore, are not reported in the governmental funds. | | 246,770 |
| Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds: | | |
| Capital assets | 85,714,783 | |
| Less: accumulated depreciation | <u>(13,933,998)</u> | 71,780,785 |
| Deferred revenue for code enforcement violations are not available at year end and are not reported as revenue in the governmental funds. | | 209,379 |
| 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. | | 12,610 |
| Accrued interest is not due and payable in the current period and, therefore, is not reported in the governmental funds. | | (195,772) |
| 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 | (665,000) | |
| Revenue bond - Series 2004 | (8,760,000) | |
| Revenue bond - Series 2005 | (6,000,000) | |
| Revenue bond - Series 2006 | (3,000,000) | |
| Capital lease | (316,912) | |
| Compensated absences | <u>(881,095)</u> | <u>(19,623,007)</u> |
| Net Assets of Governmental Activities | | <u>\$ 75,123,990</u> |

See accompanying notes.

CITY OF MARCO ISLAND, FLORIDA
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS

For the Year Ended September 30, 2007

| | General | Electric | Capital Projects | Nonmajor Fund Totals | Total Governmental Funds |
|--|----------------------|---------------------|----------------------|-------------------------|--------------------------------|
| Revenues | | | | | |
| Taxes | \$ 16,051,430 | 1,913,134 | -- | 855,279 | 18,819,843 |
| Licenses and permits | 36,579 | -- | -- | 972,129 | 1,008,708 |
| Intergovernmental | 2,082,584 | -- | 895,416 | 1,293,471 | 4,271,471 |
| Charges for services | 435,456 | -- | -- | -- | 435,456 |
| Fines and forfeitures | 82,001 | -- | -- | -- | 82,001 |
| Interest income | 782,987 | -- | -- | 136,198 | 919,185 |
| Miscellaneous | 81,530 | -- | 273,835 | -- | 355,365 |
| Total Revenues | <u>19,552,567</u> | <u>1,913,134</u> | <u>1,169,251</u> | <u>3,257,077</u> | <u>25,892,029</u> |
| Expenditures | | | | | |
| Current: | | | | | |
| General government | 3,261,624 | -- | -- | 341,302 | 3,602,926 |
| Police services | 3,468,913 | -- | -- | -- | 3,468,913 |
| Fire and rescue | 3,553,821 | -- | -- | -- | 3,553,821 |
| Code compliance | 177,469 | -- | -- | -- | 177,469 |
| Electric | -- | 1,027,835 | -- | -- | 1,027,835 |
| Building services | -- | -- | -- | 1,326,773 | 1,326,773 |
| Transportation | 1,153,895 | -- | -- | -- | 1,153,895 |
| Culture and recreation | 1,712,998 | -- | -- | -- | 1,712,998 |
| Debt service: | | | | | |
| Principal | -- | -- | -- | 1,687,485 | 1,687,485 |
| Interest and fiscal charges | -- | -- | -- | 728,053 | 728,053 |
| Capital outlay | -- | -- | 14,906,202 | -- | 14,906,202 |
| Total Expenditures | <u>13,328,720</u> | <u>1,027,835</u> | <u>14,906,202</u> | <u>4,083,613</u> | <u>33,346,370</u> |
| Excess (Deficiency) of Revenues Over (Under) Expenditures | <u>6,223,847</u> | <u>885,299</u> | <u>(13,736,951)</u> | <u>(826,536)</u> | <u>(7,454,341)</u> |
| Other Financing Sources (Uses) | | | | | |
| Transfers in | -- | -- | 13,736,951 | 880,620 | 14,617,571 |
| Transfers out | (14,617,571) | -- | -- | -- | (14,617,571) |
| Proceeds from sale of capital asset | 20,000 | -- | -- | -- | 20,000 |
| Total Other Financing Sources (Uses) | <u>(14,597,571)</u> | <u>--</u> | <u>13,736,951</u> | <u>880,620</u> | <u>20,000</u> |
| Net Change in Fund Balances | <u>(8,373,724)</u> | <u>885,299</u> | <u>--</u> | <u>54,084</u> | <u>(7,434,341)</u> |
| Fund Balances - October 1, 2006 | <u>29,158,096</u> | <u>(1,930,552)</u> | <u>--</u> | <u>2,752,414</u> | <u>29,979,958</u> |
| Fund Balances - September 30, 2007 | <u>\$ 20,784,372</u> | <u>(1,045,253)</u> | <u>--</u> | <u>2,806,498</u> | <u>22,545,617</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, 2007

| | | |
|--|---------------------|--------------------------------|
| Net Change in Fund Balance - Total Governmental Funds | \$ | (7,434,341) |
| 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. | | |
| | | 28,465 |
| 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 | 16,247,190 | |
| Less: current year depreciation | <u>(2,566,647)</u> | 13,680,543 |
| 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. | | |
| | | (164,467) |
| Revenues in the statement of activities that do not provide current financial resources are not reported in the fund statements. | | |
| | | 84,749 |
| 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 | | (28,903) |
| Accrued interest | | 15,019 |
| Debt proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets: | | |
| Amortization of bond issue costs | (18,816) | |
| Add: principal payments | <u>1,687,485</u> | <u>1,668,669</u> |
| Change in Net Assets of Governmental Activities | | <u>\$ 7,849,734</u> |

See accompanying notes.

CITY OF MARCO ISLAND, FLORIDA
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
September 30, 2007

| | Business-Type Activities - Enterprise Funds | | | Governmental Activities- Internal Service Fund |
|--|---|--------------------------|----------------------|--|
| | Water and Sewer | Recreation (Nonmajor) | Total | |
| Assets | | | | |
| Current Assets | | | | |
| Pooled cash and investments | \$ 9,902,273 | 131,826 | 10,034,099 | 148,128 |
| Accounts receivable - net | 2,054,800 | 482 | 2,055,282 | -- |
| Assessments receivable - current portion | 199,971 | -- | 199,971 | -- |
| Assessments interest receivable | 417,672 | -- | 417,672 | -- |
| Total Current Assets | 12,574,716 | 132,308 | 12,707,024 | 148,128 |
| Noncurrent Assets | | | | |
| Restricted cash and investments | 11,278,656 | -- | 11,278,656 | -- |
| Assessments receivable | 7,183,358 | -- | 7,183,358 | -- |
| Bond issue costs - net | 2,420,122 | -- | 2,420,122 | -- |
| Total Noncurrent Assets | 20,882,136 | -- | 20,882,136 | -- |
| Capital Assets | | | | |
| Land | 16,514,861 | -- | 16,514,861 | -- |
| Transmission and distribution | 41,055,292 | -- | 41,055,292 | -- |
| Buildings and improvements | 6,523,487 | -- | 6,523,487 | -- |
| Vehicles and equipment | 48,821,737 | 39,321 | 48,861,058 | -- |
| Construction in progress | 49,043,672 | -- | 49,043,672 | -- |
| Accumulated depreciation | (16,592,689) | (10,306) | (16,602,995) | -- |
| Total Capital Assets (Net of Accumulated Depreciation) | 145,366,360 | 29,015 | 145,395,375 | -- |
| Total Assets | \$ 178,823,212 | 161,323 | 178,984,535 | 148,128 |
| Liabilities | | | | |
| Current Liabilities | | | | |
| Accounts payable | \$ 6,429,499 | 4,441 | 6,433,940 | 1,297 |
| Accrued liabilities | 167,035 | 1,905 | 168,940 | 289,455 |
| Accrued compensated absences - current portion | 191,957 | -- | 191,957 | -- |
| Accrued interest | 2,424,708 | -- | 2,424,708 | -- |
| Deferred assessment revenue - current portion | 5,301,086 | -- | 5,301,086 | -- |
| Deferred assessment interest revenue | 242,661 | -- | 242,661 | -- |
| Bonds payable - current portion | 2,030,704 | -- | 2,030,704 | -- |
| Due to other funds | 12,450,514 | -- | 12,450,514 | -- |
| Total Current Liabilities | 29,238,164 | 6,346 | 29,244,510 | 290,752 |
| Noncurrent Liabilities | | | | |
| Bonds and loans payable | 123,408,510 | -- | 123,408,510 | -- |
| Accrued compensated absences | 69,209 | -- | 69,209 | -- |
| Deferred assessment revenue | 4,025,104 | -- | 4,025,104 | -- |
| Total Noncurrent Liabilities | 127,502,823 | -- | 127,502,823 | -- |
| Total Liabilities | 156,740,987 | 6,346 | 156,747,333 | 290,752 |
| Net Assets | | | | |
| Invested in capital assets, net of related debt | 19,927,146 | 29,015 | 19,956,161 | -- |
| Restricted for: | | | | |
| Construction | 737,766 | -- | 737,766 | -- |
| Capital reserve | 3,710,946 | -- | 3,710,946 | -- |
| Renewal and replacement | 1,430,055 | -- | 1,430,055 | -- |
| Unrestricted | (3,723,688) | 125,962 | (3,597,726) | (142,624) |
| Total Net Assets | 22,082,225 | 154,977 | 22,237,202 | (142,624) |
| Total Liabilities and Net Assets | \$ 178,823,212 | 161,323 | 178,984,535 | 148,128 |
| Net assets - above | | | \$ 22,237,202 | |
| Adjustment to reflect the internal service fund activities reflected in the enterprise funds | | | (155,234) | |
| Net assets of business-type activities - page 18 | | | <u>\$ 22,081,968</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, 2007

| | <u>Business-Type Activities - Enterprise Funds</u> | | | Governmental Activities- Internal Service Fund |
|--|--|--------------------------|---------------------|---|
| | Water and Sewer | Recreation (Nonmajor) | Total | |
| Operating Revenues | | | | |
| Charges for services | \$ 20,635,378 | 116,095 | 20,751,473 | 919,466 |
| Operating Expenses | | | | |
| Personal services | 3,680,971 | 25,833 | 3,706,804 | -- |
| Insurance | 439,224 | -- | 439,224 | 1,168,351 |
| Utilities | 2,258,709 | -- | 2,258,709 | -- |
| Contractual fees | 743,331 | 109,053 | 852,384 | -- |
| Repairs and maintenance | 570,017 | -- | 570,017 | -- |
| Supplies | 1,218,551 | -- | 1,218,551 | -- |
| Rental and lease costs | 76,343 | -- | 76,343 | -- |
| Other expenses | 826,375 | 9,364 | 835,739 | -- |
| Amortization | 56,467 | -- | 56,467 | -- |
| Depreciation | 4,769,306 | 4,139 | 4,773,445 | -- |
| Total Operating Expenses | <u>14,639,294</u> | <u>148,389</u> | <u>14,787,683</u> | <u>1,168,351</u> |
| Operating Income (Loss) | 5,996,084 | (32,294) | 5,963,790 | (248,885) |
| Non-operating Income (Expense) | | | | |
| Interest earnings | 797,892 | -- | 797,892 | 2,184 |
| Interest expense | (4,854,863) | -- | (4,854,863) | -- |
| Miscellaneous expense | (19,768) | -- | (19,768) | -- |
| Other non-operating income | 2,755,915 | 55,127 | 2,811,042 | -- |
| Total Non-operating Income (Expense) | <u>(1,320,824)</u> | <u>55,127</u> | <u>(1,265,697)</u> | <u>2,184</u> |
| Income before transfers and capital contributions | 4,675,260 | 22,833 | 4,698,093 | (246,701) |
| Capital contributions | 6,925,418 | -- | 6,925,418 | -- |
| Change in Net Assets | 11,600,678 | 22,833 | 11,623,511 | (246,701) |
| Net Assets - October 1, 2006 | <u>10,481,547</u> | <u>132,144</u> | | <u>104,077</u> |
| Total Net Assets - September 30, 2007 | <u>\$ 22,082,225</u> | <u>154,977</u> | | <u>(142,624)</u> |
| Adjustment to reflect the internal service fund activities related to the enterprise funds | | | (82,234) | |
| Change in net assets of business-type activities - page 19 | | | <u>11,541,277</u> | |

See accompanying notes.

CITY OF MARCO ISLAND, FLORIDA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Year Ended September 30, 2007

| | <u>Business-Type Activities - Enterprise Funds</u> | | | Governmental Activities - Internal Service Fund |
|---|--|----------------------------------|---------------------|--|
| | <u>Water and Sewer</u> | <u>Recreation (Nonmajor)</u> | <u>Total</u> | |
| Cash Flows from Operating Activities | | | | |
| Cash received from customers and users | \$ 21,324,183 | 170,740 | 21,494,923 | -- |
| Cash received from interfund services provided | -- | -- | -- | 919,466 |
| Cash payments to vendors for goods and services | (5,697,549) | (114,373) | (5,811,922) | (1,017,290) |
| Cash payments to employees for services | (3,638,637) | (25,833) | (3,664,470) | -- |
| Net Cash Provided (Used) by Operating Activities | <u>11,987,997</u> | <u>30,534</u> | <u>12,018,531</u> | <u>(97,824)</u> |
| Cash Flows from Capital and Related Financing Activities | | | | |
| Proceeds from issuance of debt | 26,653,718 | -- | 26,653,718 | -- |
| Utility improvement projects grant | 2,150,000 | -- | 2,150,000 | -- |
| Utility improvement projects from other sources | 2,755,915 | -- | 2,755,915 | -- |
| Proceeds from special assessment | 6,544,705 | -- | 6,544,705 | -- |
| Acquisition of property, plant, and equipment | (34,524,071) | (2,697) | (34,526,768) | -- |
| Receipts from customers for contracted plumbing | 397,602 | -- | 397,602 | -- |
| Payments to contracted plumbers | (417,370) | -- | (417,370) | -- |
| Principal paid on capital debt | (1,884,674) | -- | (1,884,674) | -- |
| Issue costs paid on notes payable | (457,078) | -- | (457,078) | -- |
| Payment of interest | (4,751,444) | -- | (4,751,444) | -- |
| Net Cash Used in Capital and Related Financing Activities | <u>(3,532,697)</u> | <u>(2,697)</u> | <u>(3,535,394)</u> | <u>--</u> |
| Cash Flows from Investing Activities | | | | |
| Interest received on investments | 797,892 | -- | 797,892 | 2,184 |
| Net Increase (Decrease) in Cash and Cash Equivalents | 9,253,192 | 27,837 | 9,281,029 | (95,640) |
| Cash and Cash Equivalents - October 1, 2006 | <u>11,927,737</u> | <u>103,989</u> | <u>12,031,726</u> | <u>243,768</u> |
| Cash and Cash Equivalents - September 30, 2007 | <u>\$ 21,180,929</u> | <u>131,826</u> | <u>21,312,755</u> | <u>148,128</u> |
| Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities | | | | |
| Operating income (loss) | \$ 5,996,084 | (32,294) | 5,963,790 | (248,885) |
| Adjustments to reconcile operating income (loss) to Net cash provided (used) by operating activities: | | | | |
| Depreciation | 4,769,306 | 4,139 | 4,773,445 | -- |
| Amortization | 56,467 | -- | 56,467 | -- |
| Other non-operating income | -- | 55,127 | 55,127 | -- |
| Decrease (Increase) in assets and increase (decrease) in liabilities | | | | |
| Accounts receivable | 688,805 | (482) | 688,323 | -- |
| Accounts payable and accrued liabilities | 442,985 | 4,044 | 447,029 | 151,061 |
| Accrued compensation | 34,350 | -- | 34,350 | -- |
| Net Cash Provided (Used) by Operating Activities: | <u>\$ 11,987,997</u> | <u>30,534</u> | <u>12,018,531</u> | <u>(97,824)</u> |
| Reconciliation of Cash and Cash Equivalents | | | | |
| Pooled cash and investments | \$ 9,902,273 | 131,826 | 10,034,099 | 148,128 |
| Restricted cash and investments | 11,278,656 | -- | 11,278,656 | -- |
| Cash and Cash Equivalents - September 30, 2007 | <u>\$ 21,180,929</u> | <u>131,826</u> | <u>21,312,755</u> | <u>148,128</u> |
| Noncash Financing Activities: | | | | |
| Assessments receivable | 242,661 | -- | 242,661 | -- |
| Assessments interest receivable | 4,153,003 | -- | 4,153,003 | -- |

See accompanying notes.

CITY OF MARCO ISLAND, FLORIDA
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
September 30, 2007

| | <u>Pension Trust Funds</u> |
|---|----------------------------|
| Assets | |
| Cash and cash equivalents | \$ 521,758 |
| Accounts receivable | 9,489 |
| Due from other funds | 80,000 |
| Investments, at fair value: | |
| Common stock | 2,170,923 |
| Government bonds | 1,357,609 |
| Accrued interest | 10,388 |
| Total Assets | <u>4,150,167</u> |
| Liabilities | |
| Accounts payable | 719 |
| Due to other funds | 80,000 |
| Total Liabilities | <u>80,719</u> |
| Net Assets | |
| Held in trust for pension benefits and other purposes | <u>\$ 4,069,448</u> |

See accompanying notes.

CITY OF MARCO ISLAND, FLORIDA
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
For the Year Ended September 30, 2007

| | <u>Pension Trust Funds</u> |
|--|----------------------------|
| Additions | |
| Contributions: | |
| Employer | \$ 381,270 |
| Employee | 102,914 |
| State of Florida insurance funds, from the City General Fund | 675,372 |
| Other | 153 |
| Total contributions | 1,159,709 |
| Investment income (expense): | |
| Investment earnings | 322,088 |
| Investment expenses | (27,421) |
| Net investment income | 294,667 |
| Total Additions | 1,454,376 |
| Deductions | |
| Legal | 29,188 |
| Actuary | 10,905 |
| Administrative | 6,775 |
| Refunds to contributors | 719 |
| Total Deductions | 47,587 |
| Change in Net Assets | 1,406,789 |
| Net Assets - October 1, 2006 | 2,662,659 |
| Net Assets - September 30, 2007 | \$ 4,069,448 |

See accompanying notes.

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NOTES TO FINANCIAL STATEMENTS



CITY OF MARCO ISLAND, FLORIDA
NOTES TO FINANCIAL STATEMENTS

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Reporting Entity

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

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

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

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

b. Government-wide and Fund Financial Statements

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

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

CITY OF MARCO ISLAND, FLORIDA
NOTES TO FINANCIAL STATEMENTS

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

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

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

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

The City reports the following major governmental funds:

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

CITY OF MARCO ISLAND, FLORIDA
NOTES TO FINANCIAL STATEMENTS

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- The *capital projects fund* accounts for the activities associated with construction and the preservation of the City's governmental capital assets.
- The *electric special revenue* fund accounts for the revenues and expenditures associated with the franchise agreement with the Lee County Electric Cooperative, Inc. to provide electricity, in addition to the related construction of underground power and street lighting throughout the community. This fund has been reported as a major fund as of September 30, 2007 even though it does not meet the criteria for major fund reporting. The City has elected to treat this fund as major to enhance consistency from year to year.

The City reports the following major proprietary fund:

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

Additionally, the City reports the following fund types:

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

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

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the government's water and sewer function and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned. In the fund financial statements, the City charged the Building Services Fund \$405,060 for indirect services provided by General Fund departments which have been eliminated in the government-wide statement of activities in accordance with this policy.

CITY OF MARCO ISLAND, FLORIDA
NOTES TO FINANCIAL STATEMENTS

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

d. Assets, Liabilities and Net Assets or Equity

1. Deposits and Investments:

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

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

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

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

CITY OF MARCO ISLAND, FLORIDA
NOTES TO FINANCIAL STATEMENTS

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2. Receivables and Payables

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

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

3. Prepaid Items

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

4. Restricted Assets

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

5. Capital Assets

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

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

CITY OF MARCO ISLAND, FLORIDA
NOTES TO FINANCIAL STATEMENTS

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Property, plant, and equipment of the primary government, 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 | 5-10 Years |

6. Compensated Absences

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

Full-time City employees earn from 160 to 224 hours annually, based upon years of service, and can accrue up to 720 hours. Police employees earn from 160 to 220 hours annually, based upon years of service, and can accrue up to 720 hours. City Firefighters under union contract earn from 216 to 336 hours annually, based upon years of service, and can accrue up to 936 hours. Upon termination, these employees are entitled to all accumulated earned leave hours paid out at the hourly rate.

7. Long-term Obligations

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

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

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

CITY OF MARCO ISLAND, FLORIDA
NOTES TO FINANCIAL STATEMENTS

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

8. Fund Equity

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

9. Property Tax Calendar

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

Details of the tax calendar are presented below:

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

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.

CITY OF MARCO ISLAND, FLORIDA
NOTES TO FINANCIAL STATEMENTS

NOTE B – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (CONTINUED)

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

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

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

The spending cap for the 2007 fiscal year, as adopted by City Council, was \$17,695,319. The final actual amount for the 2007 fiscal year was \$17,695,319, which was in accordance with the spending cap limit.

b. Deficit Fund Equity

The emergency relief fund has a deficit fund balance of \$338,840 as of September 30, 2007. The fund incurred expenditures related to hurricane relief in excess of revenues received from FEMA and other sources. The emergency relief fund will continue to maintain a deficit fund balance until revenues related to reimbursement of expenditures have been received or until FEMA completes its process for reimbursing expenditures for both Hurricane Charley and Hurricane Wilma.

The electric fund has a deficit fund balance of \$1,045,253 as of September 30, 2007. The fund incurred capital outlay expenditures when the fund was adopted which significantly impacted its fund balance. The deficit fund balance is expected to be relieved in fiscal year 2008 with revenues in excess of expenditures.

The internal service fund has a deficit balance of \$142,624 as of September 30, 2007. The fund had significant claims during the year ended September 30, 2007. The deficit fund balance is expected to be relieved in fiscal year 2008 with revenues in excess of expenditures.

CITY OF MARCO ISLAND, FLORIDA
NOTES TO FINANCIAL STATEMENTS

NOTE C – DETAILED NOTES ON ALL FUNDS

a. Deposits and Investments

As of September 30, 2007, the City had the following deposits and investments:

| Deposit and Investment Type | No Specific Maturity | Matures in Less Than 1 Year | Matures in 1-5 Years | Matures in 5-10 Years | Matures in 10 + Years | Total (at Fair Value) |
|---------------------------------------|-------------------------|-----------------------------------|-------------------------|--------------------------|--------------------------|--------------------------|
| Deposits with bank | \$ -- | 16,933,925 | -- | -- | -- | 16,933,925 |
| Money market | -- | 4,144,173 | -- | -- | -- | 4,144,173 |
| U. S. securities | -- | 2,224,327 | 11,796,171 | 24,465 | 558,181 | 14,603,144 |
| Common stock | 1,976,446 | -- | -- | -- | -- | 1,976,446 |
| Total deposits and investments | \$ 1,976,446 | 23,302,425 | 11,796,171 | 24,465 | 558,181 | 37,657,688 |

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.

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

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

CITY OF MARCO ISLAND, FLORIDA
NOTES TO FINANCIAL STATEMENTS

NOTE C – DETAILED NOTES ON ALL FUNDS (CONTINUED)

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

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

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, non-major funds, internal service fund, and fiduciary funds, including the applicable allowances for uncollectible accounts, are as follows:

| | General | Electric | Non-major Governmental | Water and Sewer | Recreation (Non- major) | Fiduciary | Total |
|--|-------------------|----------------|---------------------------|--------------------|----------------------------|---------------|-------------------|
| Receivables: | | | | | | | |
| Accounts | \$ 329,448 | 545,820 | 30,712 | 2,086,877 | 482 | 89,489 | 3,082,828 |
| Assessments | -- | -- | -- | 7,383,329 | -- | -- | 7,383,329 |
| Interest | <u>103,037</u> | -- | -- | <u>417,672</u> | -- | <u>10,388</u> | <u>531,097</u> |
| Gross receivables | 432,485 | 545,820 | 30,712 | 9,887,878 | 482 | 99,877 | 10,997,254 |
| Less: allowances for uncollectibles | <u>37,088</u> | -- | -- | <u>32,077</u> | -- | -- | <u>69,165</u> |
| Net total receivables | <u>\$ 395,397</u> | <u>545,820</u> | <u>30,712</u> | <u>9,855,801</u> | <u>482</u> | <u>99,877</u> | <u>10,928,089</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, 2007, deferred revenue reported in the governmental funds consists of receivables recognized for code compliance violations which totaled \$209,379 at September 30, 2007.

CITY OF MARCO ISLAND, FLORIDA
NOTES TO FINANCIAL STATEMENTS

NOTE C – DETAILED NOTES ON ALL FUNDS (CONTINUED)

c. Interfund Receivables, Payables and Transfers

The composition of interfund balances as of September 30, 2007, is as follows:

| <u>Receivable Fund</u> | <u>Payable Fund</u> | <u>Amount</u> |
|------------------------|---------------------|----------------------|
| General | Emergency Relief | \$ 369,473 |
| General | Electric | 1,563,668 |
| General | Water and Sewer | 12,450,514 |
| Police Pension | Fire Pension | <u>80,000</u> |
| Total | | <u>\$ 14,463,655</u> |

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 at September 30, 2007, 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, in addition to the business-type activities allocation of the internal service fund's net assets as of September 30, 2007, in the amount of \$155,234.

For the year ended September 30, 2007, the interfund transfers were as follows:

| <u>Transfers Out</u> | <u>Transfers In:</u> | | |
|----------------------|-------------------------|---------------------|-------------------|
| | <u>Capital Projects</u> | <u>Debt Service</u> | <u>Total</u> |
| General | <u>\$ 13,736,951</u> | <u>880,620</u> | <u>14,617,571</u> |
| Total | <u>\$ 13,736,951</u> | <u>880,620</u> | <u>14,617,571</u> |

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.

CITY OF MARCO ISLAND, FLORIDA
NOTES TO FINANCIAL STATEMENTS

NOTE C – DETAILED NOTES ON ALL FUNDS (CONTINUED)

d. Capital Assets

| | Beginning Balance | Increases | (Decreases) | Ending Balance |
|--|----------------------|--------------------|---------------------|---------------------|
| Governmental Activities | | | | |
| Capital assets not being depreciated: | | | | |
| Land | \$ 14,825,071 | 215,116 | - | 15,040,187 |
| Construction in progress | 21,281,784 | 15,646,411 | (10,913,735) | 26,014,460 |
| Total capital assets not being depreciated | 36,106,855 | 15,861,527 | (10,913,735) | 41,054,647 |
| Capital assets being depreciated: | | | | |
| Buildings and improvements | 3,702,439 | 24,506 | - | 3,726,945 |
| Vehicles and equipment | 4,468,131 | 818,459 | (87,336) | 5,199,254 |
| Road network | 7,071,847 | 9,012,746 | - | 16,084,593 |
| Storm water | 8,900,960 | 1,443,687 | - | 10,344,647 |
| Pathway | 2,790,160 | - | - | 2,790,160 |
| Parks | 236,071 | - | - | 236,071 |
| Bridge network | 6,247,543 | - | - | 6,247,543 |
| Beach and waterway | 30,923 | - | - | 30,923 |
| Total capital assets being depreciated | 33,448,074 | 11,299,398 | (87,336) | 44,660,136 |
| Total accumulated depreciation for: | | | | |
| Buildings and improvements | (1,690,496) | (155,648) | - | (1,846,144) |
| Vehicles and equipment | (2,049,521) | (657,614) | 87,336 | (2,619,799) |
| Road network | (2,525,014) | (995,900) | - | (3,520,914) |
| Storm water | (3,113,796) | (372,860) | - | (3,486,656) |
| Pathway | (925,560) | (111,177) | - | (1,036,737) |
| Parks | (48,541) | (14,489) | - | (63,030) |
| Bridge network | (1,101,759) | (257,928) | - | (1,359,687) |
| Beach and waterway | - | (1,031) | - | (1,031) |
| Total accumulated depreciation | (11,454,687) | (2,566,647) | 87,336 | (13,933,998) |
| Total capital activities being depreciated, net | 21,993,387 | 8,732,751 | - | 30,726,138 |
| | | | | |
| Total governmental activities capital assets, net | \$ 58,100,242 | 24,594,278 | (10,913,735) | 71,780,785 |

CITY OF MARCO ISLAND, FLORIDA
NOTES TO FINANCIAL STATEMENTS

NOTE C – DETAILED NOTES ON ALL FUNDS (CONTINUED)

Business-Type Activities

Capital assets not being depreciated:

| | | | | | |
|---|----|------------|------------|-------------|------------|
| Land | \$ | 16,514,861 | - | - | 16,514,861 |
| Construction in progress | | 20,095,014 | 35,791,579 | (6,842,921) | 49,043,672 |
| Total capital assets not being depreciated | | 36,609,875 | 35,791,579 | (6,842,921) | 65,558,533 |

Capital assets being depreciated:

| | | | | | |
|---|--|------------|-----------|---|------------|
| Transmission and distribution | | 35,660,767 | 5,394,525 | - | 41,055,292 |
| Buildings and improvements | | 6,523,487 | - | - | 6,523,487 |
| Vehicles and equipment | | 47,378,700 | 1,482,358 | - | 48,861,058 |
| Total capital assets being depreciated | | 89,562,954 | 6,876,883 | - | 96,439,837 |

Less accumulated depreciation for:

| | | | | | |
|--|--|--------------|-------------|---|--------------|
| Transmission and distribution | | (5,019,578) | (1,817,036) | - | (6,836,614) |
| Buildings and improvements | | (569,622) | (262,974) | - | (832,596) |
| Vehicles and equipment | | (6,240,350) | (2,693,435) | - | (8,933,785) |
| Total accumulated depreciation | | (11,829,550) | (4,773,445) | - | (16,602,995) |
| Total capital assets being depreciated, net | | 77,733,404 | 2,103,438 | - | 79,836,842 |

| | | | | | |
|---|-----------|--------------------|-------------------|--------------------|--------------------|
| Total business-type activities capital assets, net | \$ | 114,343,279 | 37,895,017 | (6,842,921) | 145,395,375 |
|---|-----------|--------------------|-------------------|--------------------|--------------------|

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

Governmental Activities:

| | | |
|------------------------|--|------------|
| General government | | \$ 101,216 |
| Police services | | 147,451 |
| Fire and rescue | | 226,716 |
| Code compliance | | 2,286 |
| Building services | | 22,240 |
| Transportation | | 1,855,133 |
| Culture and recreation | | 211,605 |
| | | 2,566,647 |

Total depreciation expense, Governmental activities

2,566,647

Business-type Activities:

| | | |
|-----------------|--|-----------|
| Water and Sewer | | 4,769,306 |
| Recreation | | 4,139 |
| | | 4,773,445 |

Total depreciation expense, Business-type activities

4,773,445

Total Depreciation Expense

\$ 7,340,092

CITY OF MARCO ISLAND, FLORIDA
NOTES TO FINANCIAL STATEMENTS

NOTE C – DETAILED NOTES ON ALL FUNDS (CONTINUED)

e. Leases

The City has entered into a lease agreement as a lessee for financing the acquisition of a fire truck. The City received \$250,000 towards the fire truck obligation with the trade-in of another fire truck. The lease agreement qualifies as a capital lease for accounting purposes and, therefore, has been recorded at the present value of 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>(165,329)</u> |
| Total | \$ | <u><u>620,963</u></u> |

The future minimum lease obligations and the net present value of these minimum lease payments, as reported in the governmental activities, as of September 30, 2007, is as follows:

| | | |
|---|----|-----------------------|
| 2008 | \$ | 85,700 |
| 2009 | | 85,700 |
| 2010 | | 85,700 |
| 2011 | | <u>85,700</u> |
| Total minimum lease payments | | 342,800 |
| Less: Amount representing interest | | <u>(25,888)</u> |
| Present value of minimum lease payments | \$ | <u><u>316,912</u></u> |

CITY OF MARCO ISLAND, FLORIDA
NOTES TO FINANCIAL STATEMENTS

NOTE C – DETAILED NOTES ON ALL FUNDS (CONTINUED)

f. Long-Term Liabilities

Primary Government

Long-term liability activity for the year ended September 30, 2007, was as follows:

| | Beginning Balance | Additions | (Reductions) | Ending Balance | Due Within One Year |
|---|-----------------------|-------------------|--------------------|--------------------|------------------------|
| Governmental Activities | | | | | |
| Revenue bonds | \$ 725,000 | - | (60,000) | 665,000 | 60,000 |
| General obligation bonds | 9,315,000 | - | (555,000) | 8,760,000 | 565,000 |
| Sales tax revenue bonds | 6,000,000 | - | - | 6,000,000 | 345,000 |
| Capital improvement bonds | 4,000,000 | - | (1,000,000) | 3,000,000 | 1,000,000 |
| Capital lease | 389,397 | - | (72,485) | 316,912 | 75,087 |
| Compensated absences | 852,192 | 651,283 | (622,380) | 881,095 | 647,605 |
| Total governmental activity long-term liabilities | <u>\$ 21,281,589</u> | <u>651,283</u> | <u>(2,309,865)</u> | <u>19,623,007</u> | <u>2,692,692</u> |
| Business Activities | | | | | |
| Revenue bonds, 2004 | | | | | |
| Principal | \$ 99,205,000 | - | (1,950,000) | 97,255,000 | 1,990,000 |
| Premium | 1,102,410 | - | (40,704) | 1,061,706 | 40,704 |
| Revenue bonds, 2007 | - | 5,500,000 | - | 5,500,000 | - |
| Revenue note | - | 19,996,278 | - | 19,996,278 | - |
| State revolving loan | 403,464 | 1,222,766 | - | 1,626,230 | - |
| Deferred assessments | - | 14,101,608 | (4,775,418) | 9,326,190 | 5,301,086 |
| Deferred assessment interest | - | 417,672 | (175,011) | 242,661 | 242,661 |
| Compensated absences | 226,816 | 202,632 | (168,282) | 261,166 | 191,957 |
| Total business-type activity long-term liabilities | <u>\$ 100,937,690</u> | <u>41,440,956</u> | <u>(7,109,415)</u> | <u>135,269,231</u> | <u>7,766,408</u> |

During 2000, the City issued revenue bonds for governmental activities for the repair of the Factory Bay Bridge, secured by non-ad valorem revenue. The original amount of the revenue bonds was \$985,000. The bonds are issued as 15-year serial bonds with varying amounts of principal maturing each year from \$55,000 to \$90,000. Interest rates on the bonds vary from 4.25 percent to 5.75 percent. As of September 30, 2007, \$665,000 of the principal was outstanding. Annual debt service requirements for the revenue bonds are as follows:

CITY OF MARCO ISLAND, FLORIDA
NOTES TO FINANCIAL STATEMENTS

NOTE C – DETAILED NOTES ON ALL FUNDS (CONTINUED)

| <u>Fiscal Year</u> | <u>Principal</u> | <u>Interest</u> |
|--------------------|-------------------|-----------------|
| 2008 | \$ 60,000 | 32,795 |
| 2009 | 65,000 | 29,904 |
| 2010 | 65,000 | 26,865 |
| 2011 | 70,000 | 23,675 |
| 2012 | 75,000 | 20,194 |
| 2013-2016 | <u>330,000</u> | <u>39,088</u> |
| Total | <u>\$ 665,000</u> | <u>172,521</u> |

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

During 2004, the City issued general obligation bonds for governmental activities for the acquisition of land. The original amount of the general obligation bonds was \$9,860,000. The bonds are issued as 15-year serial bonds with varying amounts of principal maturing each year from \$545,000 to \$815,000. Interest rates on the bonds vary from 2 percent to 3.8 percent. As of September 30, 2007, \$8,760,000 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> |
|--------------------|---------------------|------------------|
| 2008 | \$ 565,000 | 277,834 |
| 2009 | 580,000 | 266,534 |
| 2010 | 590,000 | 254,934 |
| 2011 | 610,000 | 237,234 |
| 2012 | 625,000 | 218,934 |
| 2013-2017 | 3,430,000 | 791,975 |
| 2018-2020 | <u>2,360,000</u> | <u>178,550</u> |
| Total | <u>\$ 8,760,000</u> | <u>2,225,995</u> |

CITY OF MARCO ISLAND, FLORIDA
NOTES TO FINANCIAL STATEMENTS

NOTE C – DETAILED NOTES ON ALL FUNDS (CONTINUED)

During 2005, the City issued sales tax revenue bonds for governmental activities for various capital improvements to be owned by and located within the City, including transportation improvements and a new police station. The original amount of the sales tax revenue bonds was \$6,000,000. The bonds are secured by proceeds of half-cent sales tax and moneys on deposit. The bonds are issued as 15-year serial bonds with varying amounts of principal maturing each year from \$345,000 to \$535,000. Interest rates vary from 3 percent to 3.9 percent. As of September 30, 2007, 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> |
|--------------------|---------------------|------------------|
| 2008 | \$ 345,000 | 213,310 |
| 2009 | 350,000 | 202,960 |
| 2010 | 365,000 | 191,585 |
| 2011 | 375,000 | 179,723 |
| 2012 | 390,000 | 166,598 |
| 2013-2017 | 2,150,000 | 619,267 |
| 2018-2021 | <u>2,025,000</u> | <u>197,828</u> |
| Total | <u>\$ 6,000,000</u> | <u>1,771,271</u> |

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 is secured by non-ad valorem revenues. The bonds are issued as 4-year serial bonds with \$1,000,000 of principal maturing each year. The interest rates on the bonds are 4.39 percent. As of September 30, 2007, \$3,000,000 of the principal was outstanding. Annual debt service requirements for the sales tax revenue bonds are as follows:

| <u>Fiscal Year</u> | <u>Principal</u> | <u>Interest</u> |
|--------------------|---------------------|-----------------|
| 2008 | \$ 1,000,000 | 131,700 |
| 2009 | 1,000,000 | 87,800 |
| 2010 | <u>1,000,000</u> | <u>43,900</u> |
| Total | <u>\$ 3,000,000</u> | <u>263,400</u> |

CITY OF MARCO ISLAND, FLORIDA
NOTES TO FINANCIAL STATEMENTS

NOTE C – DETAILED NOTES ON ALL FUNDS (CONTINUED)

During 2004, the City issued revenue bonds for business-type activities for (1) the acquisition of certain water production, transmission, treatment, and disposal facilities and (2) the improvement of certain assets within these facilities. The original amount of the revenue bonds was \$101,115,000, in addition to a premium paid on the bonds in the amount of \$1,183,818. The bonds are secured by pledged revenues which consist of net revenues of the water and sewer fund and any water and sewer capital facility fees. The bonds are issued as 30-year serial bonds with varying amounts of principal maturing each year from \$1,910,000 to \$6,280,000. Interest rates on the bonds vary from 2 percent to 5.25 percent. As of September 30, 2007, \$97,255,000 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> |
|--------------------|----------------------|-------------------|
| 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 | 2,200,000 | 4,353,343 |
| 2013-2017 | 12,380,000 | 20,296,158 |
| 2018-2022 | 15,860,000 | 16,686,750 |
| 2023-2027 | 20,385,000 | 12,070,938 |
| 2028-2032 | 25,940,000 | 6,379,881 |
| 2033-2034 | <u>12,260,000</u> | <u>620,500</u> |
| Total | <u>\$ 97,255,000</u> | <u>78,441,564</u> |

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 \$1,626,230, including accrued interest of \$65,326. Pledged revenues include water and sewer fund operating revenues, installation and connection fees, impact fees, and any local option sales tax revenues. Upon completion of the project a fixed interest rate will be determined and payments of principal and interest will be made over 20 years. Until the project is completed, interest will be calculated at 2.6% (annual rate) and will be added to the principal amount of the project loan.

During the fiscal year ending September 30, 2007, 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.

CITY OF MARCO ISLAND, FLORIDA
NOTES TO FINANCIAL STATEMENTS

NOTE C – DETAILED NOTES ON ALL FUNDS (CONTINUED)

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

| <u>Fiscal Year</u> | <u>Principal</u> | <u>Interest</u> |
|--------------------|---------------------|------------------|
| 2008 | \$ - | 171,417 |
| 2009 | 256,844 | 209,128 |
| 2010 | 267,014 | 198,818 |
| 2011 | 277,000 | 188,693 |
| 2012 | 287,360 | 178,189 |
| 2013-2017 | 1,605,429 | 719,972 |
| 2018-2022 | 1,929,623 | 391,276 |
| 2023-2024 | 876,730 | 50,173 |
| Total | <u>\$ 5,500,000</u> | <u>2,107,666</u> |

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

| <u>Fiscal Year</u> | <u>Principal</u> | <u>Interest</u> |
|--------------------|----------------------|------------------|
| 2008 | \$ - | 827,331 |
| 2009 | - | 825,070 |
| 2010 | 19,996,278 | 547,033 |
| Total | <u>\$ 19,996,278</u> | <u>2,199,434</u> |

CITY OF MARCO ISLAND, FLORIDA
NOTES TO FINANCIAL STATEMENTS

NOTE C – DETAILED NOTES ON ALL FUNDS (CONTINUED)

Discretely Presented Component Unit

Long-term liability activity for Hideaway for the year ended September 30, 2007, 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 | \$ 2,470,000 | - | (450,000) | 2,020,000 | 470,000 |

During 2005, Hideaway issued general obligation bonds for the re-nourishment of Hideaway Beach. The original amount of the general obligation bonds was \$2,900,000 and is secured by ad valorem tax revenue. 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, 2007, \$2,020,000 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> |
|--------------------|---------------------|-----------------|
| 2008 | \$ 470,000 | 51,587 |
| 2009 | 490,000 | 37,715 |
| 2010 | 520,000 | 23,120 |
| 2011 | 540,000 | 7,803 |
| Total | <u>\$ 2,020,000</u> | <u>120,225</u> |

g. Wastewater Pollution Control Facility Assessment

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

During 2007, construction was completed for two districts, Tigertail and South Barfield. Additionally, three districts (incorporating five neighborhoods: North Barfield, Port Marco, North Marco, Old Marco, and West Winterberry) were in progress at September 30, 2007. As of September 30, 2007, construction had not begun on the remaining 12 districts.

CITY OF MARCO ISLAND, FLORIDA
NOTES TO FINANCIAL STATEMENTS

NOTE C – DETAILED NOTES ON ALL FUNDS (CONTINUED)

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

Property owners have three distinct payment options:

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

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

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

Assessments receivable and assessments interest receivable have been recognized in proprietary funds' statement of net assets in relation to property owners paying on the payment terms outlined above. The current portion of the assessment receivable relates to the portion of payment option 2 above which will be received in the 2008 fiscal year.

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

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

CITY OF MARCO ISLAND, FLORIDA
NOTES TO FINANCIAL STATEMENTS

NOTE D – OTHER INFORMATION

a. Risk Management

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

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

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

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

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

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

| | |
|---|-------------------|
| Estimated unpaid claims, October 1, 2005 | \$ 32,106 |
| Incurred claims (including IBNRs) | 191,840 |
| Claim payments | <u>(95,275)</u> |
| Estimated unpaid claims, September 30, 2006 | 128,671 |
| Incurred claims (including IBNR's) | 698,617 |
| Claim payments | <u>(537,833)</u> |
| Estimated unpaid claims, September 30, 2007 | <u>\$ 289,455</u> |

CITY OF MARCO ISLAND, FLORIDA
NOTES TO FINANCIAL STATEMENTS

NOTE D – OTHER INFORMATION (CONTINUED)

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.

c. Commitments

The City has numerous active construction projects. As of September 30, 2007, the City's commitments with contractors are as follows:

| Projects | Expended as of 9/30/2007 | Remaining Commitment |
|--|--------------------------------|-------------------------|
| Wastewater treatment plant upgrade/expand (D. N. Higgins, Inc.) | \$ 9,065,027 | 722,256 |
| North Collier reconstruction (Quality Enterprises) | 12,771,307 | 4,359,244 |
| Finished water storage design (CH2M Hill) | 740,889 | 2,761 |
| ASR Well No. 7 (Quality Enterprises) | 420,260 | 103,125 |
| North Marco sewer assessment district (D. N. Higgins, Inc.) | 3,019,511 | 1,403,118 |
| West Winterberry sewer assessment district (Quality Enterprises) | 4,060,734 | 3,886,935 |
| New police building (Owen-Ames-Kimball Company) | 3,676,253 | 485,713 |
| North Barfield sewer assessment district (D. N. Higgins, Inc.) | 3,583,195 | 3,207,561 |
| East Winterberry bridge replacement (Thomas Marine Construction) | - | 4,778,473 |
| Master lift stations - 2007 assessments (Master Excavators, Inc.) | 949,468 | 63,333 |
| Master lift stations - 2008 assessments (Master Excavators, Inc.) | 200,160 | 1,231,623 |
| Subaqueous raw water main (Akerman Construction Co, Inc.) | - | 14,206,048 |
| Water main: US 41 / SR 951 (Akerman Construction Co, Inc.) | - | 788,326 |
| Bridge repairs (Miscellaneous) | - | 523,257 |
| Totals | \$ 38,486,804 | 35,761,773 |

CITY OF MARCO ISLAND, FLORIDA
NOTES TO FINANCIAL STATEMENTS

NOTE D – OTHER INFORMATION (CONTINUED)

d. Employee Retirement Systems and Pension Plans

The City of Marco Island Firefighters' Pension Plan

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

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, 2007, (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 | 0 |
| | <hr/> |
| Retires and beneficiaries currently receiving benefits and terminated employees entitled to benefits, but not yet receiving them | 0 |
| | <hr/> <hr/> |
| Active plan participants: | |
| Vested | 4 |
| Non-vested | 13 |
| Total active plan participants | 17 |
| | <hr/> <hr/> |
| Vested terminated members | 0 |
| | <hr/> <hr/> |

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.

CITY OF MARCO ISLAND, FLORIDA
NOTES TO FINANCIAL STATEMENTS

NOTE D – OTHER INFORMATION (CONTINUED)

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

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, 2007, were based on actuarial computations performed for 2004, in the actuarial report dated October 1, 2004.

For the year ended September 30, 2007, the annually required contribution amount was \$195,928 with the anticipated state contribution of \$73,936. Accordingly, the required employer contribution for 2007 was \$151,300.

CITY OF MARCO ISLAND, FLORIDA
NOTES TO FINANCIAL STATEMENTS

NOTE D – OTHER INFORMATION (CONTINUED)

Annual Pension Cost and Net Pension Obligations: For 2007, the City's annual pension cost of \$196,771 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 7.5% to 13%, based on service; and (c) 4% rate of inflation. Additionally, the assumptions included postretirement benefit increases of 3% per year. Market value was used to determine the actuarial value of assets. The unfunded actuarial accrued liability is being amortized as a level dollar amount over thirty years. The remaining amortization period at October 1, 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 |
|------------------------------------|------------------------------|----------------------------------|---------------------------|
| 2005 | \$ 125,715 | 99.3% | (219,151) |
| 2006 | 127,356 | 99.3% | (218,305) |
| 2007 | 196,771 | 114.5% | (246,770) |

Changes in the Fire Pension Plan for 2007:

| | <u>September 30, 2007</u> |
|---|---------------------------|
| Annual required contribution | \$ 195,928 |
| Interest on net pension obligation | (17,464) |
| Adjustment to annual required contribution | (18,307) |
| Annual pension cost | 196,771 |
| Contributions made | 225,236 |
| Increase in net pension obligation | (28,465) |
| Net pension obligation at beginning of the year | (218,305) |
| Net pension obligation at end of year | (246,770) |

CITY OF MARCO ISLAND, FLORIDA
NOTES TO FINANCIAL STATEMENTS

NOTE D – OTHER INFORMATION (CONTINUED)

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, 2007, (date of the 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>0</u> |
| Active plan participants: | |
| Vested | 0 |
| Non-vested | <u>31</u> |
| Total active plan participants | <u>31</u> |
| Vested terminated members | <u>2</u> |

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

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

CITY OF MARCO ISLAND, FLORIDA
NOTES TO FINANCIAL STATEMENTS

NOTE D – OTHER INFORMATION (CONTINUED)

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

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

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 two years. Contributions for the fiscal year ended September 30, 2007, were based on actuarial computations performed in the December 6, 2005, Actuarial Impact Statement, determined as of October 1, 2005.

For the year ended September 30, 2007, the annually required contribution amount was \$322,163 with the anticipated state contribution of \$92,193. Accordingly, the required employer contribution for 2007 was \$229,970.

CITY OF MARCO ISLAND, FLORIDA
NOTES TO FINANCIAL STATEMENTS

NOTE D – OTHER INFORMATION (CONTINUED)

Annual Pension Cost and Net Pension Obligations: For 2007, the City's annual pension cost of \$229,970 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, 2007, was thirty-eight years (closed basis).

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

The combining statement of fiduciary net assets for the pension trust funds as of September 30, 2007 is as follows:

| | Fire Pension | Police Pension | Total Fiduciary Funds |
|--|---------------------|-------------------|-----------------------------|
| Assets | | | |
| Cash and cash equivalents | \$ 395,663 | 126,095 | 521,758 |
| Accounts receivable | -- | 9,489 | 9,489 |
| Due from other funds | -- | 80,000 | 80,000 |
| Investments, at fair value: | | | |
| Common stock | 1,785,743 | 385,180 | 2,170,923 |
| Government bonds | 1,166,906 | 190,703 | 1,357,609 |
| Accrued interest | 9,170 | 1,218 | 10,388 |
| Total Assets | <u>3,357,482</u> | <u>792,685</u> | <u>4,150,167</u> |
| Liabilities | | | |
| Accounts payable | 719 | -- | 719 |
| Due to other funds | 80,000 | -- | 80,000 |
| Total Liabilities | <u>80,719</u> | <u>--</u> | <u>80,719</u> |
| Net Assets | | | |
| Held in trust for pension benefits and other purposes | <u>\$ 3,276,763</u> | <u>792,685</u> | <u>4,069,448</u> |

CITY OF MARCO ISLAND, FLORIDA
NOTES TO FINANCIAL STATEMENTS

NOTE D – OTHER INFORMATION (CONTINUED)

The combining statement of changes in fiduciary net assets for the pension trust funds the year ended September 30, 2007 is as follows:

| | Fire Pension | Police Pension | Total Fiduciary Funds |
|---|---------------------|-------------------|-----------------------------|
| Additions | | | |
| Contributions: | | | |
| Employer | \$ 151,300 | 229,970 | 381,270 |
| Employee | 8,956 | 93,958 | 102,914 |
| State of Florida insurance funds, from the City | | | |
| General Fund | 583,179 | 92,193 | 675,372 |
| Other | 153 | -- | 153 |
| Total contributions | <u>743,588</u> | <u>416,121</u> | <u>1,159,709</u> |
| Investment income (expense): | | | |
| Investment earnings | 300,099 | 21,989 | 322,088 |
| Investment expenses | (24,557) | (2,864) | (27,421) |
| Net investment income | <u>275,542</u> | <u>19,125</u> | <u>294,667</u> |
| Total Additions | 1,019,130 | 435,246 | 1,454,376 |
| Deductions | | | |
| Legal | 11,563 | 17,625 | 29,188 |
| Actuary | 6,115 | 4,790 | 10,905 |
| Administrative | 4,678 | 2,097 | 6,775 |
| Refunds to contributors | 719 | - | 719 |
| Total Deductions | <u>23,075</u> | <u>24,512</u> | <u>47,587</u> |
| Change in Net Assets | 996,055 | 410,734 | 1,406,789 |
| Net Assets - October 1, 2006 | <u>2,280,708</u> | <u>381,951</u> | <u>2,662,659</u> |
| Net Assets - September 30, 2007 | <u>\$ 3,276,763</u> | <u>792,685</u> | <u>4,069,448</u> |

CITY OF MARCO ISLAND, FLORIDA
NOTES TO FINANCIAL STATEMENTS

NOTE D – OTHER INFORMATION (CONTINUED)

The Florida Retirement System Plan, Firefighters

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

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

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

Funding Policy: The contribution requirements of the system members and the City, are established and may be amended by the State. Plan members are not required to make contributions to the System. The City is required to contribute at an actuarially determined rate; the current rate is 20.92 percent of covered payroll as of September 30, 2007. The City's contribution to the System for the years ended September 30, 2007, 2006 and 2005, were \$342,522, \$217,718, and \$153,826, respectively, and were equal to the required contributions for each year.

e. Other Post-employment Benefits

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

CITY OF MARCO ISLAND, FLORIDA
NOTES TO FINANCIAL STATEMENTS

NOTE D – OTHER INFORMATION (CONTINUED)

f. Subsequent Events

During 2006, the City began a long-term project to plan, design, and construct wastewater pollution control facilities. The total cost of this project is expected to incur costs of approximately \$86 million for neighborhood construction and \$37 million for capacity charges, including expansion of the plant. Subsequent to September 30, 2007, in relation to this project, City Council approved a motion to request from the State of Florida Department of Environmental Protection Revolving Loan Program, \$20 million to pay down principal on the revenue note, reimburse the City for past construction, and fund incomplete projects. As of the audit report date, \$9 million has been applied for. City Council also motioned to seek competitively bid bank notes totaling \$10 million to pay down principal on the revenue note and fund incomplete projects. As of the audit report date, the City has issued \$7 million in water and sewer revenue bonds. Additionally during 2008, the City intends to perform permanent financing related to the districts expected to be completed during 2008, and pay off any remaining balance on the revenue note.

**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 |
|-----------------------------|--|--|---|-----------------------|------------------------|---|
| 10/1/2005 | \$ -- | 1,722,719 | 1,722,719 | 0.0% | 1,459,781 | 118.0% |
| 10/1/2006 | 375,400 | 2,799,941 | 2,424,541 | 13.4% | 1,702,158 | 142.4% |
| 10/1/2007 | 792,685 | 3,686,865 | 2,894,180 | 21.5% | 1,844,318 | 156.90% |

Note: Latest valuation was October 1, 2007

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

| <u>Fiscal Year Ended</u> | <u>Annual Required Contribution</u> | <u>City Contribution</u> | <u>State Contribution</u> | <u>Percentage Contributed</u> |
|------------------------------|---|------------------------------|-------------------------------|-----------------------------------|
| 9/30/2006 | \$ 312,780 | 257,999 | 54,781 | 100.0% |
| 9/30/2007 | 322,163 | 229,970 | 92,193 | 100.0% |

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

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

Note: Latest valuation was October 1, 2007

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

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

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, 2007

| | Budgeted Amounts | | Actual Amounts | Variance with Final Budget |
|---|----------------------|---------------------|----------------------|-------------------------------|
| | Original | Final | | |
| Revenues | | | | |
| Taxes | \$ 16,007,800 | 16,007,800 | 16,051,430 | 43,630 |
| Licenses and permits | 33,000 | 33,000 | 36,579 | 3,579 |
| Intergovernmental | 2,411,900 | 2,441,131 | 2,082,584 | (358,547) |
| Charges for services | 287,000 | 287,000 | 435,456 | 148,456 |
| Fines and forfeitures | 83,000 | 83,000 | 82,001 | (999) |
| Interest income | 655,000 | 655,000 | 782,987 | 127,987 |
| Miscellaneous | -- | -- | 81,530 | 81,530 |
| Total Revenues | <u>19,477,700</u> | <u>19,506,931</u> | <u>19,552,567</u> | <u>45,636</u> |
| Expenditures | | | | |
| Current: | | | | |
| General government: | | | | |
| Legislative | 62,463 | 62,630 | 50,858 | 11,772 |
| Executive | 567,461 | 568,977 | 547,276 | 21,701 |
| Finance | 1,244,378 | 1,261,955 | 1,181,599 | 80,356 |
| Legal | 156,351 | 285,034 | 305,731 | (20,697) |
| Debt service | -- | -- | -- | -- |
| Community development | 531,221 | 532,641 | 473,747 | 58,894 |
| Other - unclassified | 755,823 | 368,775 | 702,413 | (333,638) |
| Total general government | <u>3,317,697</u> | <u>3,080,012</u> | <u>3,261,624</u> | <u>(181,612)</u> |
| Public safety: | | | | |
| Police services | 3,400,532 | 3,756,962 | 3,468,913 | 288,049 |
| Fire and rescue | 3,465,902 | 3,902,604 | 3,553,821 | 348,783 |
| Code compliance | 172,978 | 173,441 | 177,469 | (4,028) |
| Total public safety | <u>7,039,412</u> | <u>7,833,007</u> | <u>7,200,203</u> | <u>632,804</u> |
| Highways and streets | 1,189,351 | 1,259,037 | 1,153,895 | 105,142 |
| Culture and recreation: | | | | |
| Parks maintenance | 440,478 | 441,655 | 484,445 | (42,790) |
| Recreation programs | 639,112 | 640,820 | 551,975 | 88,845 |
| Racquet center | 170,343 | 170,798 | 163,030 | 7,768 |
| Beautification | 569,496 | 656,527 | 513,548 | 142,979 |
| Total culture and recreation | <u>1,819,429</u> | <u>1,909,800</u> | <u>1,712,998</u> | <u>196,802</u> |
| Total Expenditures | <u>13,365,889</u> | <u>14,081,856</u> | <u>13,328,720</u> | <u>753,136</u> |
| Excess of Revenues Over Expenditures | 6,111,811 | 5,425,075 | 6,223,847 | 798,772 |
| Other Financing Sources (Uses) | | | | |
| Transfers in | -- | -- | -- | -- |
| Transfers out | (4,162,056) | (4,162,056) | (14,617,571) | (10,455,515) |
| Proceeds from sale of capital assets | -- | -- | 20,000 | 20,000 |
| Total Other Financing Sources (Uses) | <u>(4,162,056)</u> | <u>(4,162,056)</u> | <u>(14,597,571)</u> | <u>(10,435,515)</u> |
| Net Change in Fund Balances | 1,949,755 | 1,263,019 | (8,373,724) | (9,636,743) |
| Fund Balances - Beginning Balance | <u>29,158,096</u> | <u>29,158,096</u> | <u>29,158,096</u> | <u>--</u> |
| Fund Balances - Ending Balance | <u>\$ 31,107,851</u> | <u>30,421,115</u> | <u>20,784,372</u> | <u>(9,636,743)</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, 2007

| | Budgeted Amounts | | Actual Amounts | Variance With Final Budget |
|--|---------------------|---------------------|---------------------|-------------------------------|
| | Original | Final | | |
| Revenues | | | | |
| Taxes | \$ 1,700,000 | 1,700,000 | 1,913,134 | 213,134 |
| Total Revenues | <u>1,700,000</u> | <u>1,700,000</u> | <u>1,913,134</u> | <u>213,134</u> |
| Expenditures | | | | |
| Electric | 6,375,000 | 7,609,397 | 1,027,835 | (6,581,562) |
| Total Expenditures | <u>6,375,000</u> | <u>7,609,397</u> | <u>1,027,835</u> | <u>(6,581,562)</u> |
| Excess (Deficiency) of Revenues Over (Under) Expenditures | (4,675,000) | (5,909,397) | 885,299 | 6,794,696 |
| Other Financing Sources (Uses) | | | | |
| Issuance of bonds | 7,000,000 | 8,234,397 | -- | (8,234,397) |
| Total Other Financing Sources (Uses) | <u>7,000,000</u> | <u>8,234,397</u> | <u>--</u> | <u>(8,234,397)</u> |
| Net Change in Fund Balance | 2,325,000 | 2,325,000 | 885,299 | (1,439,701) |
| Fund Balances - Beginning Balance | <u>(1,930,552)</u> | <u>(1,930,552)</u> | <u>(1,930,552)</u> | <u>--</u> |
| Fund Balances - Ending Balance | <u>\$ 394,448</u> | <u>394,448</u> | <u>(1,045,253)</u> | <u>(1,439,701)</u> |

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

**SUPPORTING STATEMENTS AND
SCHEDULES**

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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 of the governmental funds.

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CITY OF MARCO ISLAND, FLORIDA
NONMAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
September 30, 2007

| | Emergency Relief | Building Services | Debt Service | Nonmajor Fund Totals |
|--|---------------------|----------------------|----------------|-------------------------|
| Assets | | | | |
| Pooled cash and investments | \$ -- | 2,409,786 | 767,380 | 3,177,166 |
| Accounts receivable - Net | 30,633 | 79 | -- | 30,712 |
| Total Assets | <u>30,633</u> | <u>2,409,865</u> | <u>767,380</u> | <u>3,207,878</u> |
| Liabilities and Fund Balances | | | | |
| Liabilities | | | | |
| Accounts payable | -- | 7,378 | -- | 7,378 |
| Accrued liabilities | -- | 24,529 | -- | 24,529 |
| Due to other funds | 369,473 | -- | -- | 369,473 |
| Total Liabilities | <u>369,473</u> | <u>31,907</u> | <u>--</u> | <u>401,380</u> |
| Fund Balances | | | | |
| Reserved for debt service | -- | -- | 767,380 | 767,380 |
| Unreserved, undesignated | (338,840) | 2,377,958 | -- | 2,039,118 |
| Total Fund Balances | <u>(338,840)</u> | <u>2,377,958</u> | <u>767,380</u> | <u>2,806,498</u> |
| Total Liabilities and Fund Balances | <u>\$ 30,633</u> | <u>2,409,865</u> | <u>767,380</u> | <u>3,207,878</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, 2007

| | Emergency Relief | Building Services | Debt Service | Nonmajor Fund Totals |
|--|-----------------------------|-------------------------|-----------------------|-------------------------|
| Revenues | | | | |
| Taxes | \$ -- | -- | 855,279 | 855,279 |
| Licenses and permits | -- | 972,129 | -- | 972,129 |
| Intergovernmental | 293,471 | -- | 1,000,000 | 1,293,471 |
| Interest | -- | 136,198 | -- | 136,198 |
| Total Revenues | <u>293,471</u> | <u>1,108,327</u> | <u>1,855,279</u> | <u>3,257,077</u> |
| Expenditures | | | | |
| Current: | | | | |
| General government | 341,302 | -- | -- | 341,302 |
| Building services | -- | 1,326,773 | -- | 1,326,773 |
| Debt service: | | | | |
| Principal | -- | -- | 1,687,485 | 1,687,485 |
| Interest and fiscal charges | -- | -- | 728,053 | 728,053 |
| Total Expenditures | <u>341,302</u> | <u>1,326,773</u> | <u>2,415,538</u> | <u>4,083,613</u> |
| Excess (Deficiency) of Revenues Over (Under) Expenditures | (47,831) | (218,446) | (560,259) | (826,536) |
| Other Financing Sources (Uses) - Transfers in | <u>--</u> | <u>--</u> | <u>880,620</u> | <u>880,620</u> |
| Net Change in Fund Balances | (47,831) | (218,446) | 320,361 | 54,084 |
| Fund Balances - October 1, 2006 | <u>(291,009)</u> | <u>2,596,404</u> | <u>447,019</u> | <u>2,752,414</u> |
| Fund Balances - September 30, 2007 | <u><u>\$ (338,840)</u></u> | <u><u>2,377,958</u></u> | <u><u>767,380</u></u> | <u><u>2,806,498</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, 2007

| | Budgeted amounts | | Actual Amounts | Variance with Final Budget |
|--|---------------------|---------------------|----------------------|-------------------------------|
| | Original | Final | | |
| Revenues | | | | |
| Intergovernmental | \$ 180,000 | 1,454,113 | 895,416 | (558,697) |
| Miscellaneous | 350,000 | 350,000 | 273,835 | (76,165) |
| Total Revenues | <u>530,000</u> | <u>1,804,113</u> | <u>1,169,251</u> | <u>(634,862)</u> |
| Expenditures | | | | |
| Capital outlay | 3,396,200 | 26,060,393 | 14,906,202 | 11,154,191 |
| Total Expenditures | <u>3,396,200</u> | <u>26,060,393</u> | <u>14,906,202</u> | <u>11,154,191</u> |
| Excess (Deficiency) of Revenues Over (Under) Expenditures | <u>(2,866,200)</u> | <u>(24,256,280)</u> | <u>(13,736,951)</u> | <u>10,519,329</u> |
| Other Financing Sources (Uses) | | | | |
| Transfers in | 2,866,200 | 24,256,280 | 13,736,951 | (10,519,329) |
| Total Other Financing Sources (Uses) | <u>2,866,200</u> | <u>24,256,280</u> | <u>13,736,951</u> | <u>(10,519,329)</u> |
| Net Change in Fund Balance | -- | -- | -- | -- |
| Fund Balance - October 1, 2006 | <u>--</u> | <u>--</u> | <u>--</u> | <u>--</u> |
| Fund Balance - September 30, 2007 | <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, 2007

| | Budgeted Amounts | | Actual Amounts | Variance with Final Budget |
|--|---------------------|------------------|-------------------|-------------------------------|
| | Original | Final | | |
| Revenues | | | | |
| Licenses and permits | \$ 1,465,830 | 1,465,830 | 972,129 | (493,701) |
| Interest | -- | -- | 136,198 | 136,198 |
| Total Revenues | <u>1,465,830</u> | <u>1,465,830</u> | <u>1,108,327</u> | <u>(357,503)</u> |
| Expenditures | | | | |
| Current: | | | | |
| Building services: | | | | |
| Personal services | 737,008 | 737,008 | 679,038 | 57,970 |
| Operating expenses | 654,068 | 650,937 | 569,850 | 81,087 |
| Capital outlay | 74,754 | 77,885 | 77,885 | -- |
| Total Expenditures | <u>1,465,830</u> | <u>1,465,830</u> | <u>1,326,773</u> | <u>139,057</u> |
| Excess (Deficiency) of Revenues Over (Under) Expenditures | -- | -- | (218,446) | (218,446) |
| Fund Balance - October 1, 2006 | <u>2,596,404</u> | <u>2,596,404</u> | <u>2,596,404</u> | -- |
| Fund Balance - September 30, 2007 | <u>\$ 2,596,404</u> | <u>2,596,404</u> | <u>2,377,958</u> | <u>(218,446)</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, 2007

| | Budgeted Amounts | | Actual Amounts | Variance with Final Budget |
|--|-------------------|------------------|-------------------|-------------------------------|
| | Original | Final | | |
| Revenues | | | | |
| Taxes | \$ 843,934 | 843,934 | 855,279 | 11,345 |
| Intergovernmental | 1,000,000 | 1,000,000 | 1,000,000 | -- |
| Total Revenues | <u>1,843,934</u> | <u>1,843,934</u> | <u>1,855,279</u> | <u>11,345</u> |
| Expenditures | | | | |
| Debt service: | | | | |
| Principal | 2,003,735 | 2,003,735 | 1,687,485 | 316,250 |
| Interest and fiscal charges | 720,810 | 720,810 | 728,053 | (7,243) |
| Total Expenditures | <u>2,724,545</u> | <u>2,724,545</u> | <u>2,415,538</u> | <u>309,007</u> |
| Excess (Deficiency) of Revenues Over (Under) Expenditures | (880,611) | (880,611) | (560,259) | (320,352) |
| Other Financing Sources (Uses) - | | | | |
| Transfers in | 880,611 | 880,611 | 880,620 | 9 |
| Net Change in Fund Balance | -- | -- | 320,361 | 320,361 |
| Fund Balance - October 1, 2006 | <u>447,019</u> | <u>447,019</u> | <u>447,019</u> | <u>--</u> |
| Fund Balance - September 30, 2007 | <u>\$ 447,019</u> | <u>447,019</u> | <u>767,380</u> | <u>320,361</u> |

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

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Fiduciary Funds

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

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CITY OF MARCO ISLAND, FLORIDA
 COMBINING STATEMENT OF FIDUCIARY NET ASSETS
 FIDUCIARY FUNDS
 September 30, 2007

| | Fire Pension | Police Pension | Total Fiduciary Funds |
|--|---------------------|-------------------|-----------------------------|
| Assets | | | |
| Cash and cash equivalents | \$ 395,663 | 126,095 | 521,758 |
| Accounts receivable | -- | 9,489 | 9,489 |
| Due from other funds | -- | 80,000 | 80,000 |
| Investments, at fair value: | | | |
| Common stock | 1,785,743 | 385,180 | 2,170,923 |
| Government bonds | 1,166,906 | 190,703 | 1,357,609 |
| Accrued interest | 9,170 | 1,218 | 10,388 |
| Total Assets | <u>3,357,482</u> | <u>792,685</u> | <u>4,150,167</u> |
| Liabilities | | | |
| Accounts payable | 719 | -- | 719 |
| Due to other funds | 80,000 | -- | 80,000 |
| Total Liabilities | <u>80,719</u> | <u>--</u> | <u>80,719</u> |
| Net Assets | | | |
| Held in trust for pension benefits and other purposes | <u>\$ 3,276,763</u> | <u>792,685</u> | <u>4,069,448</u> |

CITY OF MARCO ISLAND, FLORIDA
 COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
 FIDUCIARY FUNDS
 For the Year Ended September 30, 2007

| | Fire Pension | Police Pension | Total Fiduciary Funds |
|---|---------------------|-------------------|-----------------------------|
| Additions | | | |
| Contributions: | | | |
| Employer | \$ 151,300 | 229,970 | 381,270 |
| Employee | 8,956 | 93,958 | 102,914 |
| State of Florida insurance funds, from the City | | | |
| General Fund | 583,179 | 92,193 | 675,372 |
| Other | 153 | -- | 153 |
| Total contributions | <u>743,588</u> | <u>416,121</u> | <u>1,159,709</u> |
| Investment income (expense): | | | |
| Investment earnings | 300,099 | 21,989 | 322,088 |
| Investment expenses | (24,557) | (2,864) | (27,421) |
| Net investment income | <u>275,542</u> | <u>19,125</u> | <u>294,667</u> |
| Total Additions | 1,019,130 | 435,246 | 1,454,376 |
| Deductions | | | |
| Legal | 11,563 | 17,625 | 29,188 |
| Actuary | 6,115 | 4,790 | 10,905 |
| Administrative | 4,678 | 2,097 | 6,775 |
| Refunds to contributors | 719 | - | 719 |
| Total Deductions | <u>23,075</u> | <u>24,512</u> | <u>47,587</u> |
| Change in Net Assets | 996,055 | 410,734 | 1,406,789 |
| Net Assets - October 1, 2006 | <u>2,280,708</u> | <u>381,951</u> | <u>2,662,659</u> |
| Net Assets - September 30, 2007 | <u>\$ 3,276,763</u> | <u>792,685</u> | <u>4,069,448</u> |

CITY OF MARCO ISLAND, FLORIDA
CAPITAL ASSETS USED IN THE OPERATION OF GOVERNMENTAL ACTIVITIES
SCHEDULE BY FUNCTION AND ACTIVITY
 September 30, 2007

| | 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 | -- | -- | 2,165,705 | -- | 4,206,551 | 6,372,256 |
| Public Safety | | | | | | |
| Code compliance | -- | -- | -- | 45,799 | -- | 45,799 |
| Police services | -- | 15,587 | -- | 1,116,083 | 5,258,055 | 6,389,725 |
| Fire and rescue | 575,227 | 1,827,249 | -- | 2,034,647 | -- | 4,437,123 |
| Building services | -- | 13,857 | -- | 70,752 | -- | 84,609 |
| Total Public Safety | 575,227 | 1,856,693 | -- | 3,267,281 | 5,258,055 | 10,957,256 |
| Culture and Recreation | | | | | | |
| Park maintenance | 221,137 | 17,155 | -- | 444,980 | -- | 683,272 |
| Recreation | 3,373,675 | 1,156,205 | -- | 296,448 | -- | 4,826,328 |
| Beautification | 121,988 | 21,726 | -- | -- | -- | 143,714 |
| Pathways | -- | -- | 2,953,977 | 400,242 | 32,500 | 3,386,719 |
| Beaches and waterways | -- | -- | 30,923 | -- | 271,970 | 302,893 |
| Parks | 9,813,130 | -- | 72,255 | -- | 1,625,460 | 11,510,845 |
| Total Culture and Recreation | 13,529,930 | 1,195,086 | 3,057,155 | 1,141,670 | 1,929,930 | 20,853,771 |
| Transportation | | | | | | |
| Public works | -- | -- | -- | 183,793 | -- | 183,793 |
| Road network | -- | -- | 13,918,890 | -- | 13,608,367 | 27,527,257 |
| Storm water | -- | -- | 10,344,645 | -- | 46,094 | 10,390,739 |
| Bridge network | -- | -- | 6,247,542 | -- | 965,463 | 7,213,005 |
| Total Primary Government | -- | -- | 30,511,077 | 183,793 | 14,619,924 | 45,314,794 |
| Total Governmental Funds Capital Assets | \$ 15,040,187 | 3,726,945 | 35,733,937 | 5,199,254 | 26,014,460 | 85,714,783 |

CITY OF MARCO ISLAND, FLORIDA
 CAPITAL ASSETS USED IN THE OPERATION OF GOVERNMENTAL ACTIVITIES
 SCHEDULE OF CHANGES BY FUNCTION AND ACTIVITY
 For the Year Ended September 30, 2007

| | Capital Assets 10/1/06 | Acquisitions | Transfers and Deductions | Capital Assets 9/30/07 |
|-------------------------------------|---------------------------|-------------------|-----------------------------|---------------------------|
| Governmental Activities | | | | |
| City Council | \$ 53,118 | -- | -- | 53,118 |
| Executive | 30,586 | -- | -- | 30,586 |
| Finance | 110,155 | -- | -- | 110,155 |
| Community development | 118,541 | -- | -- | 118,541 |
| Other general government | 1,904,306 | -- | -- | 1,904,306 |
| Total General Government | <u>2,216,706</u> | <u>--</u> | <u>--</u> | <u>2,216,706</u> |
| Electric | | | | |
| Electric | 5,344,421 | 1,027,835 | -- | 6,372,256 |
| Public Safety | | | | |
| Code compliance | 42,882 | 2,917 | -- | 45,799 |
| Police services | 3,188,993 | 3,200,732 | -- | 6,389,725 |
| Fire and rescue | 4,364,880 | 72,243 | -- | 4,437,123 |
| Building services | 83,109 | 1,500 | -- | 84,609 |
| Total Public Safety | <u>7,679,864</u> | <u>3,277,392</u> | <u>--</u> | <u>10,957,256</u> |
| Culture and Recreation | | | | |
| Park maintenance | 581,368 | 101,904 | -- | 683,272 |
| Recreation | 4,426,521 | 399,807 | -- | 4,826,328 |
| Beautification | 231,050 | -- | (87,336) | 143,714 |
| Pathways | 3,119,242 | 267,477 | -- | 3,386,719 |
| Beaches and waterways | 222,676 | 80,217 | -- | 302,893 |
| Parks | 10,779,451 | 731,394 | -- | 11,510,845 |
| Total Culture and Recreation | <u>19,360,308</u> | <u>1,580,799</u> | <u>(87,336)</u> | <u>20,853,771</u> |
| Transportation | | | | |
| Public works | 183,793 | -- | -- | 183,793 |
| Road network | 18,887,745 | 8,639,512 | -- | 27,527,257 |
| Storm water | 8,900,960 | 1,489,779 | -- | 10,390,739 |
| Bridge network | 6,981,131 | 231,874 | -- | 7,213,005 |
| Total Primary Government | <u>34,953,629</u> | <u>10,361,165</u> | <u>--</u> | <u>45,314,794</u> |
| Total Capital Assets | <u>\$ 69,554,928</u> | <u>16,247,191</u> | <u>(87,336)</u> | <u>85,714,783</u> |

STATISTICAL SECTION

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

Financial Trends

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

Revenue Capacity

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

Debt Capacity

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

Demographic and Economic Information

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

Operating Information

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

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

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

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

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

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

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

(Continued)

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

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

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

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

| | <u>2007</u> | <u>2006</u> | <u>2005</u> | <u>2004</u> |
|------------------------------------|----------------------|-------------------|-------------------|-------------------|
| General Fund | | | | |
| Reserved | \$ 1,139,950 | 908,293 | 4,355,795 | 3,979,961 |
| Unreserved | 19,644,422 | 28,249,803 | 23,749,853 | 13,428,001 |
| Total General Fund | <u>\$ 20,784,372</u> | <u>29,158,096</u> | <u>28,105,648</u> | <u>17,407,962</u> |
| All Other Governmental Funds | | | | |
| Reserved | \$ 767,380 | 447,019 | 508,100 | -- |
| Unreserved | 993,865 | 374,843 | 2,431,981 | 2,201,959 |
| Total all other governmental funds | <u>\$ 1,761,245</u> | <u>821,862</u> | <u>2,940,081</u> | <u>2,201,959</u> |

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

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

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

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

| | | | | |
|---|----------------------|-------------------|------------------|-------------------|
| Capital outlay (per above) | \$ 14,906,202 | 15,680,011 | 6,690,666 | 13,780,786 |
| Capital outlay included in current expenditures | 1,340,988 | 396,895 | 2,546,777 | 539,886 |
| Total capital outlay | \$ 16,247,190 | 16,076,906 | 9,237,443 | 14,320,672 |

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

| Fiscal Year | Assessed January 1st | Taxable Values | Percent Increase (Decrease) Over Prior Year | Taxable Value of New Construction |
|---------------------|-------------------------|------------------|---|---|
| 1998 | 1997 ⁽¹⁾ | \$ 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 ⁽²⁾ |
| 2007 | 2006 | 12,026,168,600 | 26.8% | 311,400,976 |
| 2008 ⁽³⁾ | 2007 | 11,570,581,313 | (3.8)% | 267,022,229 |

Source: Collier County Property Appraiser

⁽¹⁾ Taxable values of the incorporated city limits for January 1, 1997, were estimated by the Collier County Property Appraiser.

⁽²⁾ Includes annexation of Key Marco, approximately 4% of the annual growth.

⁽³⁾ Information only. 2007 assessed values are used for fiscal year 2008 tax revenues.

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

| Fiscal Year Ended | Direct | | | Overlapping | | | | | | | | | | TOTAL LEVY |
|---------------------|----------------|-------------------|---------------------|--|-----------------------------------|--------------------------|----------------------|------------------|---------------------------|-------------------------|-------------------|----------------------|---------|------------|
| | City Operating | City Debt Service | Marco Fire District | Collier County Unincorp. MSTD's ⁽¹⁾ | Collier County Parks and Rec MSTU | Collier County Operating | Collier School Board | Mosquito Control | South FL Water Management | Water Pollution Control | Big Cypress Basin | Collier County Other | | |
| 1998 ⁽²⁾ | -- | -- | 0.8800 | 0.9341 | 0.0535 | 3.6813 | 8.4240 | 0.1821 | 0.2840 | 0.0452 | 0.2780 | -- | 14.7622 | |
| 1999 ⁽³⁾ | 2.1112 | -- | -- | -- | 0.0495 | 3.5510 | 8.5100 | 0.1953 | 0.2840 | 0.0413 | 0.2780 | -- | 15.0203 | |
| 2000 | 1.6500 | -- | -- | -- | 0.0436 | 3.5058 | 7.7600 | 0.1923 | 0.2840 | 0.0355 | 0.2780 | -- | 13.7492 | |
| 2001 | 1.5087 | -- | -- | -- | 0.0377 | 3.5028 | 7.7220 | 0.1748 | 0.2840 | 0.0445 | 0.2780 | -- | 13.5525 | |
| 2002 | 1.7437 | -- | -- | -- | 0.0318 | 3.8772 | 7.2310 | 0.1465 | 0.2840 | 0.0420 | 0.2425 | -- | 13.5987 | |
| 2003 | 1.6900 | -- | -- | -- | 0.0268 | 3.8772 | 6.9110 | 0.1167 | 0.2840 | 0.0347 | 0.2425 | -- | 13.1829 | |
| 2004 | 1.6200 | -- | -- | -- | -- | 3.8772 | 6.5240 | 0.1051 | 0.2840 | 0.0347 | 0.2425 | 0.2500 | 12.9375 | |
| 2005 | 1.5400 | 0.0460 | -- | -- | -- | 3.8772 | 6.2200 | 0.0962 | 0.2840 | 0.0347 | 0.2425 | 0.2500 | 12.5906 | |
| 2006 | 1.2925 | 0.0950 | -- | -- | -- | 3.8772 | 5.9730 | 0.0830 | 0.2840 | 0.0347 | 0.2425 | 0.2500 | 12.1319 | |
| 2007 | 1.2445 | 0.0736 | -- | -- | -- | 3.7290 | 5.5250 | 0.0680 | 0.2840 | 0.0320 | 0.2425 | 0.2500 | 11.4486 | |
| 2008 ⁽⁴⁾ | 1.2048 | 0.0785 | -- | -- | -- | 3.1469 | 5.3510 | 0.0635 | 0.2549 | 0.0280 | 0.2265 | 0.3742 | 10.7283 | |

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

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

⁽³⁾ The City operating tax levy of 2.112 mills for Fiscal Year 1999 was set at a level to allow the City to be eligible for Florida Municipal Revenue Sharing.

⁽⁴⁾ Information only.

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

| Taxpayer | Property by Type | January 1, 2007, Assessed | | % of Total Assessed | | January 1, 1999, Assessed | | % of Total Assessed | |
|---|-----------------------|------------------------------|------|------------------------|------|------------------------------|--------------|------------------------|------|
| | | Valuation | Rank | Valuation | Rank | Valuation | Rank | Valuation | Rank |
| City National Bank of Miami Marriott Marco Island Resort | Hospitality | \$ 89,411,237 | 1 | 73,980,277 | 1 | 0.74% | 2.42% | | |
| Marco Beach Hotel, Inc. | Hospitality | 51,227,975 | 2 | 29,201,816 | 2 | 0.43% | 0.95% | | |
| Marriott Ownership Properties | Hospitality | 46,768,277 | 3 | 25,555,770 | 3 | 0.39% | 0.73% | | |
| Marco Town Center, Inc. | Real Estate Developer | 17,540,209 | 4 | 5,588,853 | 6 | 0.115% | 0.16% | | |
| A & N of Marco, Inc. | Real Estate Developer | 13,887,306 | 5 | 4,568,568 | 10 | 0.12% | 0.13% | | |
| Bates, Wesley C. | Residence | 10,076,537 | 6 | -- | -- | 0.08% | -- | | |
| Gregg Holdings, Inc. | Real Estate Developer | 9,756,721 | 7 | -- | -- | 0.08% | -- | | |
| Island Country Club | Golf Course | 9,145,819 | 8 | 5,888,814 | 5 | 0.08% | 0.16% | | |
| Venetian Investments, Inc. | Real Estate Developer | 8,310,637 | 9 | -- | -- | 0.07% | -- | | |
| Balsamo, Salvatore | Residence | 8,170,075 | 10 | -- | -- | 0.07% | -- | | |
| 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 | | \$ 264,294,793 | | 166,456,981 | | 2.21% | 5.14% | | |

Source: Collier County Property Appraiser

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

| Fiscal Year | Taxes Assessed January 1st | Total Tax Levy | Current Tax Collections | Percent of Current Taxes Collected | Delinquent Tax Collections |
|-------------|----------------------------|----------------|-------------------------|------------------------------------|----------------------------|
| 1998 | 1997 ⁽²⁾ | \$ 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 |
| 2007 | 2006 | 16,857,132 | 16,212,857 | 96.2% | 11,693 |

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⁾ 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 DEBT BY TYPE
LAST TEN FISCAL YEARS

| Fiscal Year | Governmental Activities | | | Business-Type Activities | | | Total Primary Government | Per Capita |
|-------------|--------------------------|-----------------------------------|----------------|--|--------------------------------------|----|--------------------------|------------|
| | General Obligation Bonds | Capital Improvement Revenue Bonds | Capital Leases | Water/Sewer Revenue Bonds ⁽¹⁾ | STRP ⁽²⁾ Assessment Bonds | | | |
| 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 |
| 2007 | 8,760,000 | 9,665,000 | 316,912 | 102,755,000 | 21,622,508 | -- | 143,119,420 | 9,044 |

Source: City of Marco Island Finance Department.

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

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

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

| Fiscal Year | General Obligation Bonds | Capital Improvement Revenue Bonds | Total | Percentage of Taxable Assessed Value | Per Capita |
|----------------|--------------------------------|---|------------|--|---------------|
| 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 |
| 2007 | 8,760,000 | 9,665,000 | 18,425,000 | 0.15% | 1,164 |

Source: City of Marco Island Finance Department.

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

| Fiscal Year | Water/Sewer Operating Revenues | Water/Sewer Impact Fees | Less: Operating Expenses | Net Revenues | | Debt Service ⁽²⁾ | Coverage Impact Fees ⁽³⁾ | |
|---------------------|--------------------------------|-------------------------|--------------------------|------------------|---------------------|-----------------------------|-------------------------------------|------------------------------------|
| | | | | With Impact Fees | Without Impact Fees | | With Impact Fees | Without Impact Fees ⁽⁴⁾ |
| 2004 ⁽⁵⁾ | \$ 15,396,743 | 1,443,296 | 7,753,809 | 9,086,230 | 7,642,934 | 4,226,703 | 2.15 | 1.81 |
| 2005 | 18,069,517 | 1,374,463 | 8,314,877 | 11,129,103 | 9,754,640 | 6,597,764 | 1.69 | 1.48 |
| 2006 | 19,640,936 | 406,396 | 8,928,958 | 11,118,374 | 10,711,978 | 6,578,700 | 1.69 | 1.63 |
| 2007 | 20,635,378 | 254,524 | 9,813,521 | 11,076,381 | 10,821,857 | 6,574,938 | 1.68 | 1.65 |

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

⁽²⁾ Excludes sewer assessment debt.

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

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

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

Source: City of Marco Island Finance Department

CITY OF MARCO ISLAND, FLORIDA
DEMOGRAPHIC STATISTICS

Population:

| Year | City of Marco Island ⁽¹⁾ | Collier County | State of Florida |
|---------------------|-------------------------------------|----------------|------------------|
| 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 | 15,659 | 319,905 | 17,872,295 |
| 2006 | 15,742 | 326,881 | 18,276,331 |
| 2007 | 15,825 | 333,858 | 18,680,367 |
| Projections: | | | |
| 2010 | 17,055 | 405,000 | 19,655,063 |

Source: Bureau of Economic Research, University of Florida

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 SIX FISCAL YEARS

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

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

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

Source: City of Marco Island annual budgets.

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

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

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

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

Source: City of Marco Island

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

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

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

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

Source: City of Marco Island

OTHER REPORTS AND LETTERS

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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 Chairman and City Council
City of Marco Island, Florida

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Marco Island, Florida, (the City) as of and for the year ended September 30, 2007, which collectively comprise the City's basic financial statements and have issued our report thereon dated March 14, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider deficiency 07-01 described under the heading Current Year Findings and Recommendations in the Management Letter to be a significant deficiency in internal control over financial reporting.

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

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

Compliance and Other Matters

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

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

CPA Associates

Bradenton, Florida
March 14, 2008



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 Chairman 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 (the City), with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended September 30, 2007. The City's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City of Marco Island, Florida's compliance based on our audit.

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

In our opinion, the City complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended September 30, 2007.

Internal Control Over Compliance

The management of the City is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purposes of

expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

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

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

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

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

CPA Associates

Bradenton, Florida
March 14, 2008

CITY OF MARCO ISLAND, FLORIDA
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 For the Year Ended September 30, 2007

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? x yes no

Significant deficiency(ies) identified that are not considered to be material weaknesses? yes x no

Noncompliance material to the 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? yes x no

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

Internal Control over compliance:

Material weakness(es) identified? yes x no

Significant deficiency(ies) 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 |
|----------------|---|
| 66.458 | U.S. Environmental Protection Agency - Capitalization Grant for Clean Water SRF |

CITY OF MARCO ISLAND, FLORIDA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)
For the Year Ended September 30, 2007

Part II – Schedule of Basic Financial Statement Findings

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

A material weakness was noted and has been reported as Finding 07-01 described under the heading Current Year Findings and Recommendations in the Management Letter.

Part III – Schedule of Federal Award Findings and Questioned Costs

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

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

Part IV – Summary Schedule of Prior Audit Findings

There were no prior audit findings for federal programs.

CITY OF MARCO ISLAND, FLORIDA
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 FOR THE YEAR ENDED SEPTEMBER 30, 2007

| <u>Federal Awards</u> | <u>CFDA Number</u> | <u>Pass-through Grantor's Number</u> | <u>Expenditures</u> |
|---|------------------------|--|----------------------------|
| <u>Indirect</u> | | | |
| Department of Homeland Security | | | |
| Passed through Florida Department of Community Affairs | | | |
| Disaster Grants - Public Assistance | 97.036 | 06-WL-&K-09-21-02-676 | \$ <u>243,892</u> |
| Total Department of Homeland Security | | | 243,892 |
| U.S. Department of Transportation | | | |
| Passed through Florida Department of Transportation | | | |
| Highway Planning and Construction | 20.205 | 417941-1-58-01/A0 054 | 32,429 |
| Highway Planning and Construction | 20.205 | 419238-1-58-01/A0 T62 | 44,094 |
| Highway Planning and Construction | 20.205 | 412626-1-58-01/AN Z91 | <u>150,937</u> |
| Total U.S. Department of Transportation | | | 227,460 |
| Total indirect | | | 471,352 |
| <u>Direct</u> | | | |
| U.S. Department of Justice | | | |
| Federal Equitable Sharing Agreement | 16.UNKNOWN | FL0110300 | 141,937 |
| Bulletproof Vest Partnership Program | 16.607 | 2001-LB-BX-0234 | <u>4,950</u> |
| Total U.S. Department of Justice | | | 146,887 |
| U.S. Environmental Protection Agency | | | |
| Capitalization Grants for Clean Water - State Revolving Funds | 66.458 | WW71503P | <u>1,222,766</u> |
| Total U.S. Environmental Protection Agency | | | 1,222,766 |
| Total direct | | | <u>1,369,653</u> |
| Total Federal Awards | | | <u>\$ 1,841,005</u> |

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

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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, 2007. Loans made during the year, including accrued interest of \$65,326, are included in the federal expenditures presented in the schedule.

| | |
|----------------------------------|--------------|
| State Revolving Loan—Clean Water | \$ 1,626,230 |
|----------------------------------|--------------|

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MANAGEMENT LETTER

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

We have audited the basic financial statements of the City of Marco Island, Florida, as of and for the fiscal year ended September 30, 2007, and have issued our report thereon dated March 14, 2008, which was unqualified.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to the financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. We have issued our Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*, Independent Auditor's Report on Compliance with Requirements Applicable to Each Major Federal Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133, and Schedule of Findings and Questioned Costs. Disclosures in those reports and schedule, which are dated March 14, 2008, 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, unless otherwise required to be reported in the report on compliance and internal controls or schedule of findings and questioned costs, this letter is required to include the following information.

- Section 10.554(1)(i)1., Rules of the Auditor General, requires that we determine whether or not corrective actions have been taken to address significant findings and recommendations made in the preceding annual financial audit report. There were no significant findings or recommendations reported in the preceding annual financial audit report.
- Section 10.554(1)(i)2., Rules of the Auditor General, requires our audit to include a review of the provisions of Section 218.415, Florida Statutes, regarding the investment of public funds. In connection with our audit, we determined that the City of Marco Island, Florida complied with Section 218.415, Florida Statutes.

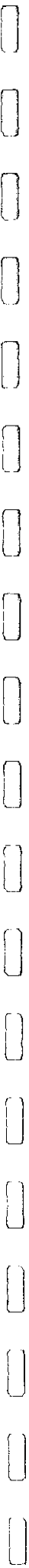
- Section 10.554(1)(i)3., Rules of the Auditor General, requires that we address in the management letter any recommendations to improve financial management, accounting procedures, and internal controls. Matters required to be disclosed are reported under the heading *Current Year Findings and Recommendations*.
- Section 10.554(1)(i)4., Rules of the Auditor General, requires that we address violations of provisions of contracts and grant agreements or abuse that have an effect on the financial statements that is less than material but more than inconsequential. In connection with our audit, we did not have any such findings.
- Section 10.554(1)(i)5., Rules of the Auditor General, requires, based on professional judgment, the reporting of the following matters that are inconsequential to the financial statements considering both quantitative and qualitative factors: (1) violations of laws, rules, regulations, and contractual provisions or abuse that have occurred, or were likely to have occurred, and would have an immaterial effect on the financial statements; (2) improper expenditures or illegal acts that would have an immaterial effect on the financial statements; (3) control deficiencies that are not significant deficiencies, including, but not limited to improper or inadequate accounting procedures, failures to properly record financial transactions, and other inaccuracies, shortages, defalcations, and instances of fraud discovered by, or that come to the attention of, the auditor. In connection with our audit, we did not have any such findings.
- Section 10.554(1)(i)6., requires that the name or official title and legal authority for the primary government and each component unit of the reporting entity be disclosed in the management letter, unless disclosed in the notes to the financial statements. This information has been disclosed in the notes to the financial statements.
- Section 10.554(1)(i)7.a., Rules of the Auditor General, requires a statement be included as to whether or not the local government entity has met one or more of the conditions described in Section 218.503(1), Florida Statutes, and identification of the specific condition(s) met. In connection with our audit, we determined that the City of Marco Island, Florida, did not meet any of the conditions described in Section 218.503(1), Florida Statutes.
- Section 10.554(1)(i)7.b., Rules of the Auditor General, requires that we determine whether the annual financial report for the City of Marco Island, Florida for the fiscal year ended September 30, 2007, filed with the Florida Department of Financial Services pursuant to Section 218.32(1)(a), Florida Statutes, is in agreement with the annual financial audit report for the fiscal year ended September 30, 2007. In connection with our audit, we determined that these two reports were in agreement.
- Sections 10.554(1)(i)7.c. and 10.556(7), Rules of the Auditor General, require that we apply financial condition assessment procedures. In connection with our audit, we applied the financial condition assessment procedures. It is management's responsibility

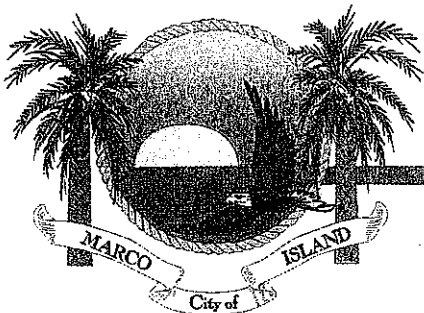
to monitor the entity's financial condition, and our financial condition assessment was based in part on representations made by management and the review of financial information provided by same.

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

CPA Associates

Bradenton, Florida
March 14, 2008





City of Marco Island

March 14, 2008

Mr. David W. Martin
Office of the Auditor General
Claude Denson Pepper Building
111 West Madison Street
Tallahassee, Florida 32399-1450

Dear Mr. Martin:

Below is the City of Marco Island, Florida's response to the Management Letter for the 2006-2007 fiscal year audit. Implementation of these recommendations serves to increase accountability and promote effective and efficient operations throughout the City.

Finding 07-01

The City concurs with the above finding and recommendation. Working with the external auditors and the City's Finance Director, a detailed set of year end procedures has been developed for the new Controller. These include procedures for the proper control of the cutoff of expenditures for year end as well as a detailed review of year end balances.

Pursuant to the provisions of Section 163.31801, Florida Statutes, the City of Marco Island, Florida, has complied with the requirements of the Florida Impact Fee Act.

Please feel free to contact me at 239-389-5000, if you have any questions.

Sincerely,

William P. Harrison
Finance Director

PRIOR YEAR FINDINGS AND RECOMMENDATIONS

There were no prior year audit findings.

CURRENT YEAR FINDINGS AND RECOMMENDATIONS

07-01 Journal Entries Identified By the Auditor

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

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

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