City of Marco Island, Florida

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

INTRODUCTION SECTION

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City of Marco Island

March 6, 2006

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

Florida Statutes require that all general-purpose local governments publish within six months of the close of each fiscal year a complete set of financial statements presented in conformity with generally accepted accounting principles (GAAP) and audited in accordance with generally accepted auditing standards by a firm of independent licensed certified public accounts. Pursuant to that requirement, we hereby issue the comprehensive annual financial report of the City of Marco Island, Florida for the fiscal year ended September 30, 2005.

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, 2005 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,

50 Bald Eagle Drive, Marco Island, Florida 34145
(239) 389-5000 FAX (239) 389-4359
www.cityofmarcoisland.com

2005 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.

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 Its Services

Marco Island, Florida is located in the southwestern part of the state, on the Gulf of Mexico side of the 10,000 islands and the Everglades. Originally discovered by the Spanish and named Isla de San Marcos (Saint Mark's Island), modern development of the island began in the late 1960s by the Deltona Corporation. Prior to incorporation in 1997, the island was a part of unincorporated Collier County and was served by a local Fire Protection District. The City serves a permanent population of over 15,000, which doubles in the peak winter season. The City is empowered to levy a property tax on both real and personal property located within its boundaries.

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

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

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

Budget Process

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

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

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

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

Factors Affecting Financial Condition

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

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

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

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

Marco Island Utilities. In November 2003, the City of Marco Island achieved a long-term objective with the acquisition of the local water and wastewater operations from a private provider. Prior to that date, the City's Utilities Fund was used to account for the wastewater distribution system serving approximately 1,200 accounts with central sewer on this island. Wastewater treatment was handled by Florida Water Services under contract. The City issued $101 million in utility revenue bonds to purchase utility operations on Marco Island and at adjacent Marco Shores and currently serves approximately 10,000 utility accounts. The cost of the utility acquisition was approximately $85 million, with additional funds raised to begin the upgrading of a neglected utility infrastructure. Additional funds for capital investment are provided through monthly deposits to a Renewal and Replacement Fund and a Capital Reserve Fund required by bond covenants. This report includes details of the first 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 and an account maintained with the State Board of Administration Local Investment Pool. In 2002, the City Council approved an investment ordinance and has a program of active portfolio management, purchasing U.S. Treasury and Agency obligations to increase yields while maintaining safety and liquidity. Investment earnings in fiscal year 2005 were $928,029, up from $604,309 in 2004. The

Federal Reserve Board continued measured rate increases during this year, accounting for the increase in investment earnings.

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 Agency, reduces the fixed costs of premiums paid while limiting the financial exposure to the City with the purchase of an annual aggregate stop-loss beginning at $500,000 in cumulative annual losses. The City is a Drug-Free Workplace and has safety programs in place to minimize risk exposures.

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, 2004.

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

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

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

Respectfully Submitted,

A. William Moss
City Manager

William P. Harrison
Finance Director

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Marco Island, Florida

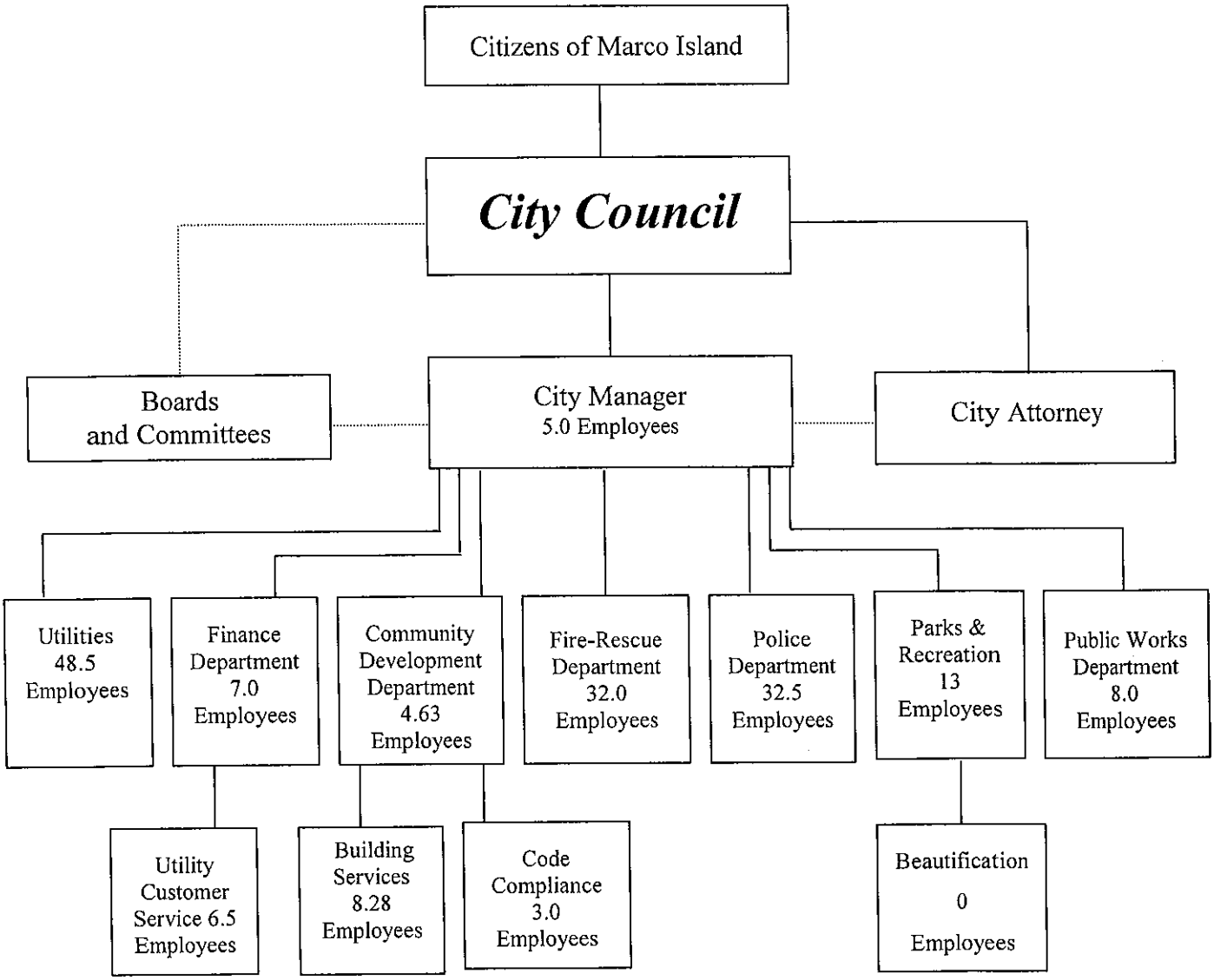
For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
September 30, 2004

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

President

Executive Director

ORGANIZATIONAL CHART



City of Marco Island, Florida

PRINCIPAL OFFICIALS:

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

RICHARD D. YOVANOVICH, CITY ATTORNEY

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

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

FINANCIAL SECTION

CPA ASSOCIATES
Certified Public Accountants
and Consultants

Independent Auditor's Report

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Marco Island, Florida, (the City) as of and for the year ended September 30, 2005, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, based on our audit, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City, as of September 30, 2005, 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.

As described in Note 1, the City has implemented the final phase of Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, as of September 30, 2005.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 23, 2005 on our consideration of the City of Marco Island's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Members: ■ American Institute of CPA ■ Center for Public Company Audit Firms ■ Private Companies Practice Section ■ Florida Institute of CPA

The management's discussion and analysis and budgetary comparison information on pages 3-14 and 48 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 46-47 is not a required part of the basic financial statements. This information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The introductory section, combining and individual nonmajor fund financial statements, budgetary comparison information on pages 51-53, and statistical tables are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section and statistical tables have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

CPA Associates

Bradenton, Florida
November 23, 2005

MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2005
CITY OF MARCO ISLAND, FLORIDA

As management of the City of Marco Island, Florida (the "City"), we offer readers of the City's financial statements this narrative overview and analysis of the activities of the City for the fiscal year ended September 30, 2005. We encourage readers to consider the information presented here in conjunction with the additional information furnished in our letter of transmittal, which can be found on pages v – ix of this report and the City's financial statements beginning on page 15.

Financial Highlights

- The assets of the City exceeded its liabilities at the close of the most recent fiscal year by $65,128,508 (net assets). Of this amount, $10,046,715 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 $13,285,715 in unrestricted net assets. The deficit position in the Business-type activities is due to the Water and Sewer Fund deficit of $13,386,154, an increase of $604,562 from the prior year, offset by an increase in unrestricted net assets in nonmajor business-type activities of $100,439. The increase in the deficit position in the Water and Sewer Fund in the current fiscal year was caused by major capital upgrades to plant facilities. The deficit position will be eliminated over the years as revenues are received in excess of expenditures.

- The government's total net assets increased by $27,631,832. The greatest portion of the increase comes from the implementation of the final phase of Governmental Accounting Standards Board Statement No. 34 (GASB 34), requiring local governmental units to record the value of infrastructure such as roadways and bridges. Governmental activities accounted for 87.3% of net assets while business-type activities made up the remaining 12.7%.

- As of the close of the current fiscal year, the City's governmental activities reported a combined ending fund balance of $56,848,394, an increase of $23,017,390 over the prior year. As noted above, the increase can be attributed to implementation of the final phase of GASB 34. Of this total amount, $10,046,715 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 $30,112,740. Governmental funds reported a combined ending fund balance of $31,045,729, an increase of $11,435,808 over the prior year. Of this total amount, $6,354,549 represented unreserved and undesignated fund balance, which is 32.6% of total governmental expenditures. The unreserved and undesignated fund balance of $6,354,549 is up from $3,221,265 for the fiscal year ended September 30, 2004, reflecting capital expenditures in fiscal year 2004 reimbursed by a Sales Tax Revenue Bond issue in 2005 and a budgeted surplus of revenues over expenditures in the General Fund.

- Voters in the Hideaway Beach neighborhood approved the creation of a special taxing district for beach renourishment in 2003. During this fiscal year, bonds were issued for the capital project, to be repaid by an ad valorem tax levy within the special taxing district. These financial statements include the Hideaway Beach District as a component unit.

- Effective for Fiscal Year 2005, the City elected to self-insure a greater portion of risk for property, liability, and workers' compensation coverages as a method to restrain the escalating costs for traditional insurance coverage. The City retains the first $100,000 per occurrence for property and liability and the first $350,000 per occurrence for workers' compensation. Aggregate stop-loss insurance was purchased to cap the maximum annual liability from claims at $500,000. These financial statements include a Governmental Activities – Internal Service Fund for the operations of that fund. At the end of the first year of operation, the fund had unrestricted net assets of $323,053.

- The financial condition of the City of Marco Island continued to improve during 2005. Assessed valuations have continued double-digit annual increases reflecting both a strong economy and the scarcity of waterfront property. 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 water and sewer collection services.

The City's government-wide financial statements can be found on pages 15-16 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, 2005, 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 17-20.

Proprietary Funds

The City of Marco Island has three proprietary funds, an enterprise fund for the water and sewer utility operations and two nonmajor funds to account for the proceeds and expenditure of the five percent (5%) electric franchise fee implemented in fiscal year 2005 and for the self-supporting recreation programs run by the City. *Enterprise Funds* are used to report the same functions as *business-type activities* in the governmental-type financial statements.

The proprietary fund financial statements can be found on pages 21-23 of this report.

Fiduciary Funds

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

The fiduciary fund financial statements are found on pages 24-25 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 26-45 of this report.

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information* concerning the City's defined benefit pension plan and a budget-to-actual schedule for the City's general fund. Required supplementary information can be found on pages 46-48 of this report.

This report contains other information including supporting schedules, a statistical section (unaudited), and other reports and letters.

Government-Wide Financial Analysis

The following schedule is a summary of the Statement of Net Assets found on page 15 of this report:

Statement of Net Assets at September 30, 2005

	Governmental Activities		Business-type Activities		Total	
	2005	2004	2005	2004	2005	2004
Current and Other Assets	$33,842,362	$21,468,745	$ 19,131,708	$ 20,099,653	$52,974,070	$ 41,568,398
Capital Assets	43,013,860	25,397,343	95,474,160	89,518,352	138,488,020	114,915,695
Total Assets	76,856,222	46,866,088	114,605,868	109,618,005	191,462,090	156,484,093
Current and Other Liabilities	2,258,046	1,777,889	3,888,495	3,521,211	6,146,541	5,299,100
Long-Term Debt	17,749,782	11,257,195	102,437,259	102,431,122	120,187,041	113,688,317
Total Liabilities	20,007,828	13,035,084	106,325,754	105,952,333	126,333,582	118,987,417
Net Assets:						
Investment in Capital Assets, Net of Related Debt	25,914,490	14,140,148	8,520,919	4,187,756	34,435,409	18,327,904
Restricted	20,887,189	6,171,005	13,044,910	12,198,489	33,932,099	18,369,494
Unrestricted	10,046,715	13,519,851	(13,285,715)	(12,720,573)	(3,239,000)	799,278
Total Net Assets	$56,848,394	$33,831,004	$ 8,280,114	$ 3,665,672	$65,128,508	$ 37,496,676

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 $65,128,508 at the close of the most recent fiscal year.

A substantial portion of the City's net assets (50%) reflect its investment in capital assets (e.g., land, buildings, improvements, infrastructure, and equipment), less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should still be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2005
CITY OF MARCO ISLAND, FLORIDA

The following is a summary of the information presented in the Statement of Activities found on page 16 of the report:

Statement of Activities
For the Year Ended September 30, 2005

	Governmental Activities		Business-Type Activities		Total	
	2005	2004	2005	2004	2005	2004
Revenues:						
Program Revenues:						
Charges for Services	$ 1,685,056	$ 2,428,605	$ 19,220,239	$ 16,608,264	$20,905,295	$ 19,036,869
Operating Grants & Contributions	1,115,222	1,721,352	42,389	37,810	1,157,611	1,759,162
Capital Grants & Contributions	4,831,353	2,485,005	504,360	-	5,335,713	2,485,005
General Revenues:						
Taxes	11,837,721	10,990,090	-	-	11,522,091	10,990,090
State Shared Revenues	2,270,719	1,750,719	-	-	2,270,719	1,750,719
Other Revenues	3,029,033	1,332,110	1,750,916	330,322	4,779,949	1,662,432
Total Revenues	24,768,678	20,707,881	21,517,904	16,976,396	46,286,582	37,684,277
Expenses:						
Governmental Activities:						
General Government	3,187,492	2,883,757	-	-	3,187,492	2,883,757
Police Services	2,690,359	2,606,276	-	-	2,690,359	2,606,276
Fire and Rescue	2,547,211	2,768,306	-	-	2,547,211	2,768,306
Code Compliance	116,787	199,036	-	-	116,787	199,036
Building Services	680,662	1,020,790	-	-	680,662	1,020,790
Transportation	373,196	1,310,664	-	-	373,196	1,310,664
Culture and Recreation	911,520	3,334,436	-	-	911,520	3,334,436
Interest on Long-Term Debt	499,811	139,825	-	-	499,811	139,825
Business-type Activities:						
Water and Sewer Fund	-	-	16,796,415	15,454,681	16,796,415	15,454,681
Recreation	-	-	107,047	90,020	107,047	90,020
Total Expenses	11,007,038	14,263,090	16,903,462	15,544,701	27,910,500	29,807,791
Increase in Net Assets	13,761,640	6,444,791	4,614,442	1,431,695	18,376,082	7,876,486
Prior Period Adjustment	9,255,750	-	-	-	9,255,750	-
Net Assets – Beginning of Year	33,831,004	27,386,213	3,665,672	2,233,977	37,496,676	29,620,190
Net Assets – End of Year	$56,848,394	$33,831,004	$ 8,280,114	$ 3,665,672	$65,128,508	$ 37,496,676

Governmental Funds

The fund statements for the governmental funds are provided on pages 17-20. 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 $31,045,729. Of this amount, $6,354,549 constitutes *unreserved* and *undesignated fund balance*, which is available for spending at the City's discretion subject to budgetary constraints and the City's Spending Cap, discussed below in detail. The remainder of the fund balance is reserved or designated to indicate that it is not available for new spending because it has already been committed. The following governmental fund balances have been reserved:

* Parks Construction or Operation	$ 320,111
* Road Construction	3,589,043
* Fire Services	242,628
* Police Services	186,682
* Building Department	2,431,981
* Debt Service	508,100
* Prepaid Expenditures	17,331

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

* 2004 Capital Roll Forward	$14,099,413
* Emergency Reserve	3,295,891

The General Fund is the chief operating fund of the City. At the end of the fiscal year, the unreserved and undesignated fund balance of the General Fund is $6,354,549, while the total fund balance is $28,105,648. 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 87% of General Fund expenditures.

The unreserved, undesignated fund balance of the City's General Fund increased by $3,133,284 during the current fiscal year. The key factor for this increase was expenditure of funds in fiscal year 2004 for the North Barfield Bridge at Tarpon Bay project and design services for the reconstruction of North Collier Boulevard, reimbursed by proceeds of the $6 million Sales Tax Revenue Bond issue in 2005. In addition, General Fund revenues for 2005 were budgeted at a level higher than expenditures to intentionally bring up reserve levels.

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 $261,488.

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

Charter Spending Cap

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

- The Spending Cap shall be determined on a "budget-to-budget" basis, with the approved budget for the prior year used as a base, and increased by the allowable three percent (3%) and the COLA to establish the Spending Cap for the new fiscal year.

- Expenditures funded by the proceeds of municipal debt are not counted against the Spending Cap; however, all debt service payments for the life of the debt are counted against the Cap.

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

For the fiscal year ended September 30, 2005 the City was in compliance with the Charter Spending Cap:

Expenditures fiscal year 2005:		
General Fund	$11,080,751	
Capital Projects Fund	6,690,666	
Building Services Fund	1,011,005	
Debt Service Fund	482,037	
TOTAL OF ALL FUNDS		$ 19,264,459
Less: Expenditures funded by grants and gifts:		(6,006,946)
Less: Expenditures funded by impact fees:		(1,195,266)
Less: Expenditures funded by bond proceeds:		
2006 Short-Term Financing	(4,000,000)	
2005 Sales Tax Revenue Bonds	(2,985,000)	(6,985,000)
Less: Expenditures funded by cash forward from fiscal year 2004 and subject to 2004 Spending Cap:		(12,380,247)
Less: City Council approved Emergency Expenditures		(761,763)
Add Back: Funding for uncompleted balance of fiscal year 2005 capital projects, subject to Spending Cap in 2005; balanced carried forward to 2006		23,219,561
Fiscal Year 2005 Expenditures subject to Spending Cap:		**$ 15,154,798**
Fiscal Year 2005 Spending Cap:		**$ 15,601,372**

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, 2005 amounts to $138,488,020 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, vehicles and equipment, construction in progress, other assets, and utility systems and governmental infrastructure.

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

- Completion of design work and bond financing for a new Police Station and community facility to be located on the City Hall campus. Construction will commence in the spring of 2006.

- Substantial work has been completed on the reconstruction of South Collier Boulevard. Work includes underground power lines, replacement and over-sizing of water and wastewater lines, replacement and upgrading of storm drainage facilities, and a new roadway system. Owners of the Marco Island Marriott property have contributed $2,500,000 to the project. Project is scheduled for completion by April 2006.

- Design work is in progress for the reconstruction of North Collier Boulevard. Construction is scheduled for the summers of 2006 and 2007 to avoid peak season traffic issues.

- Design work has been completed and purchase orders issued for the conversion of the Marco Island wastewater treatment plant to a membrane bio-reactor treatment process. Construction is scheduled for summer 2006.

- Three additional aquifer storage and recovery (ASR) wells were constructed and substantially complete by the end of the fiscal year. 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.

- "Kids Cove," a community-built interactive play area, was constructed in Mackle Park. A spray park will follow in 2006.

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

Capital Assets
(Net of Depreciation)

	Governmental Activities		Business-Type Activities		Total	
	2005	2004	2005	2004	2005	2004
Land and Land Improvements	$ 14,825,071	$14,825,071	$ 15,024,010	$ 15,024,010	$ 29,849,081	$ 29,849,081
Buildings and Improvements	3,702,429	3,676,689	6,001,731	5,858,969	9,704,160	9,535,658
Infrastructure	22,287,672	3,256,798	-	-	22,287,672	3,256,798
Vehicles and Equipment	4,094,292	3,456,571	40,853,250	40,184,131	44,947,542	43,640,702
Transmission and Distribution	-	-	31,126,007	29,905,955	31,126,007	29,905,955
Construction Work in Process	6,957,922	3,404,996	10,273,076	2,453,568	17,230,998	5,858,564
Accumulated Depreciation	(8,853,526)	(3,222,782)	(7,803,914)	(3,908,281)	(16,657,440)	(7,131,063)
	$ 43,013,860	$25,397,343	$ 95,474,160	$ 89,518,352	$138,488,020	$114,915,695

Additional information on the City's capital assets can be found in Note 3, on pages 36-37 of this report.

Long-Term Debt

At the end of the current year, the City had total debt outstanding of $118,214,370 (excluding accrued compensated absences and bond premiums). Of that amount, $9,860,000 is considered general obligation debt, backed by the full faith and credit of the City. The City's revenue bonds are secured solely by specified revenue sources.

Long-Term Debt

	Governmental Activities		Business-Type Activities		Total	
	2005	2004	2005	2004	2005	2004
Revenue Bonds, Series 2000B	$ 780,000	$ 835,000	$ -	$ -	$ 780,000	$ 835,000
Gen Obligation Bonds, Srs 2004	9,860,000	9,860,000	-	-	9,860,000	9,860,000
Revenue Bonds, Series 2005	6,000,000	-	-	-	6,000,000	-
Capital Lease	459,370	-	-	-	459,370	-
Utility Revenue Bonds, Srs 2003	-	-	101,115,000	101,115,000	101,115,000	101,115,000
Total Long-Term Debt	$ 17,099,370	$10,695,000	$101,115,000	$ 101,115,000	$ 118,214,370	$ 111,810,000

The capital lease outstanding at the end of fiscal year 2005 financed the acquisition of a new aerial truck for the Fire Department. $6,000,000 in Sales Tax Revenue Bonds were issued in 2005 to finance the replacement of the Barfield Drive bridge at Tarpon Waterway, construction of the new Police and community facility, and provide partial financing for roadway projects. The outstanding balance on Revenue Bonds, Series 2000B was reduced by $55,000 in 2005, representing payment made on the principal balance outstanding. Neither the General Obligation Bonds, Series 2004 nor the Utility Revenue Bonds, Series 2003 had scheduled principal repayment in 2005. Additional information on the City's long-term debt can be found in Note 3, on pages 38-40 of this report.

Economic Factors and Next Year's Budget and Rates

Property Taxes

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

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 and street lighting throughout the community. Power lines have been placed underground as part of the reconstruction of South Collier Boulevard in fiscal year 2005. Power lines will be undergrounded on North Collier Boulevard as part of that project and, in addition, undergrounding of single-phase power lines in all residential areas will commence in 2006.

Water and Wastewater Utility

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

East Winterberry Bridge

The East Winterberry bridge is one of the original bridges on Marco Island, built in the 1960s 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 Charley in 2004 and Hurricane Wilma in 2005. The City Council has appropriated $4.4 million in the fiscal year 2006 budget for the emergency replacement of this bridge. Funds will come from unreserved and undesignated fund balances in the General Fund.

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.

City of Marco Island, Florida

COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2005

PREPARED BY:
CITY OF MARCO ISLAND
FINANCE DEPARTMENT

Cover Art

"On Marco, Our Neighbors Can Be A Little Owly"
Bruce Somerville

Mr. Somerville, a Marco resident, is a native Iowan. He enjoyed a professional acting career in New York prior to his current career in art. His work, both on canvas and carved wood, has been shown in juried art exhibitions in both New York and Florida.

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

BASIC FINANCIAL STATEMENTS

CITY OF MARCO ISLAND, FLORIDA
STATEMENT OF NET ASSETS
September 30, 2005

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	Hideaway Beach District
Assets:				
Pooled cash and investments	$ 30,643,257	4,335,706	34,978,963	120,737
Nonpooled cash and investments	767,865	--	767,865	--
Receivables:				
Account - Net	197,981	2,119,074	2,317,055	--
Assessments - Net	31,502	--	31,502	--
Interest	167,982	--	167,982	--
Due from other governments	623,886	--	623,886	--
Internal balances	1,026,405	(1,026,405)	--	--
Prepaid items	17,331	--	17,331	--
Restricted cash and investments	--	11,567,049	11,567,049	--
Bond issue costs - Net	146,153	2,136,284	2,282,437	36,903
Net pension asset	220,000	--	220,000	--
Capital assets:				
Nondepreciable	21,782,993	25,297,086	47,080,079	--
Depreciable	21,230,867	70,177,074	91,407,941	--
Total Assets	$ 76,856,222	114,605,868	191,462,090	157,640
Liabilities				
Accounts payable	$ 1,747,952	1,389,148	3,137,100	--
Accrued liabilities	322,973	104,963	427,936	--
Deposits	5,000	53,995	58,995	--
Deferred revenue	31,502	--	31,502	--
Accrued interest	150,619	2,340,389	2,491,008	13,968
Noncurrent liabilities:				--
Due within one year	832,576	1,995,490	2,828,066	430,000
Due in more than one year	16,917,206	100,441,769	117,358,975	2,470,000
Total Liabilities	20,007,828	106,325,754	126,333,582	2,913,968
Net Assets				
Invested in capital assets, net of related debt	25,914,490	8,520,919	34,435,409	--
Restricted for:				
Capital outlay	20,457,879	11,612,356	32,070,235	--
Debt service	--	1,432,554	1,432,554	--
Police, fire and rescue	429,310	--	429,310	--
Unrestricted	10,046,715	(13,285,715)	(3,239,000)	(2,756,328)
Total Net Assets	56,848,394	8,280,114	65,128,508	(2,756,328)
Total Liabilities and Net Assets	$ 76,856,222	114,605,868	191,462,090	157,640

See accompanying notes.

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CITY OF MARCO ISLAND, FLORIDA
STATEMENT OF ACTIVITIES
For the Year Ended September 30, 2005

Function/Program Activities	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Assets – Primary Government: Governmental Activities	Primary Government: Business-Type Activities	Primary Government: Total	Component Unit: Hideaway Beach District
Governmental Activities								
General government	$ 3,187,492	61,240	45,246	300,000	(2,781,006)	--	(2,781,006)	
Police services	2,690,359	252,832	262,962	40,467	(2,134,098)	--	(2,134,098)	
Fire and rescue	2,547,211	58,364	47,934	268,561	(2,172,352)	--	(2,172,352)	
Code compliance	116,787	35,808	--	--	(80,979)	--	(80,979)	
Building services	680,662	1,191,347	--	--	510,685	--	510,685	
Transportation	373,196	--	756,724	4,098,766	4,482,294	--	4,482,294	
Culture and recreation	911,520	85,465	2,356	123,559	(700,140)	--	(700,140)	
Interest on long-term debt	499,811	--	--	--	(499,811)	--	(499,811)	
Total Governmental Activities	11,007,038	1,685,056	1,115,222	4,831,353	(3,375,407)	--	(3,375,407)	
Business-Type Activities								
Water and sewer	16,796,415	17,584,305	--	504,360	--	1,292,250	1,292,250	
Electric	--	1,531,856	--	--	--	1,531,856	1,531,856	
Recreation	107,047	104,078	42,389	--	--	39,420	39,420	
Total Business-Type Activities	16,903,462	19,220,239	42,389	504,360	--	2,863,526	2,863,526	
Total Primary Government	$ 27,910,500	20,905,295	1,157,611	5,335,713	(3,375,407)	2,863,526	(511,881)	
Component Unit - Hideaway Beach District	$ 2,756,328	--	--	--				(2,756,328)
General Revenues								
Taxes:								
Property taxes					10,554,795	--	10,554,795	--
Communication service tax					967,296	--	967,296	--
Other taxes					315,630	--	315,630	--
State shared revenues					2,270,293	--	2,270,293	--
Interest					621,291	306,738	928,029	--
Gain on sale of capital assets					250,000	--	250,000	--
Miscellaneous					2,048,983	1,552,937	3,601,920	--
Transfers					108,759	(108,759)	--	--
Total General Revenues and Transfers					17,137,047	1,750,916	18,887,963	--
Change in Net Assets					13,761,640	4,614,442	18,376,082	(2,756,328)
Net assets - Beginning of year, as originally stated					33,831,004	3,665,672	37,496,676	--
Prior period adjustment					9,255,750	--	9,255,750	--
Net assets - Beginning of year, as restated					43,086,754	3,665,672	46,752,426	--
Net assets - End of year					$ 56,848,394	8,280,114	65,128,508	(2,756,328)

See accompanying notes.

CITY OF MARCO ISLAND, FLORIDA
GOVERNMENTAL FUNDS
BALANCE SHEET
September 30, 2005

	General	Capital Projects	Nonmajor Fund Totals	Total Governmental Funds
Assets				
Pooled cash and investments	$ 27,316,834	--	2,968,676	30,285,510
Nonpooled cash and investments	767,865	--	--	767,865
Receivables:				
Account - Net	157,885	--	40,096	197,981
Interest	167,982	--	--	167,982
Due from other funds	1,060,957	1,012,962	--	2,073,919
Due from other governments	623,886	--	--	623,886
Prepaid items	17,331	--	--	17,331
Total Assets	$ 30,112,740	1,012,962	3,008,772	34,134,474
Liabilities and Fund Balances				
Liabilities				
Accounts payable	$ 714,832	1,012,962	17,570	1,745,364
Accrued liabilities	274,298	--	16,569	290,867
Due to other funds	1,012,962	--	34,552	1,047,514
Deposits	5,000	--	--	5,000
Total Liabilities	2,007,092	1,012,962	68,691	3,088,745
Fund Balances				
Reserved for:				
Parks construction or operation	320,111	--	--	320,111
Road construction	3,589,043	--	--	3,589,043
Fire services	242,628	--	--	242,628
Police services	186,682	--	--	186,682
Building department	--	--	2,431,981	2,431,981
Debt service	--	--	508,100	508,100
Prepaid expenditures	17,331	--	--	17,331
Unreserved, undesignated	6,354,549	--	--	6,354,549
Unreserved, designated for:				
Capital projects	14,099,413	--	--	14,099,413
Emergency reserve	3,295,891	--	--	3,295,891
Total Fund Balances	28,105,648	--	2,940,081	31,045,729
Total Liabilities and Fund Balances	$ 30,112,740	1,012,962	3,008,772	34,134,474

See accompanying notes.

CITY OF MARCO ISLAND, FLORIDA
RECONCILIATION OF THE BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
GOVERNMENTAL FUNDS
September 30, 2005

Fund Balance - Total Governmental Funds		$ 31,045,729
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		146,153
Net pension assets are not available to pay for current period expenditures and, therefore, are not reported in the governmental funds		220,000
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds:		
Capital assets	51,867,386	
Less: accumulated depreciation	(8,853,526)	43,013,860
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		323,053
Accrued interest is not due and payable in the current period and, therefore, are not reported in the governmental funds		(150,619)
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	(780,000)	
Revenue bond - Series 2004	(9,860,000)	
Revenue bond - Series 2005	(6,000,000)	
Capital lease	(459,370)	
Compensated absences	(650,412)	(17,749,782)
Net Assets of Governmental Activities		$ 56,848,394

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, 2005

	General	Capital Projects	Nonmajor Fund Totals	Total Governmental Funds
Revenues				
Taxes	$ 12,270,349	--	315,630	12,585,979
Licenses and permits	37,683	--	1,191,347	1,229,030
Intergovernmental	2,642,180	6,155,511	45,246	8,842,937
Charges for services	355,670	--	--	355,670
Fines and forfeitures	252,832	--	--	252,832
Interest income	571,611	--	49,680	621,291
Miscellaneous	175,956	352,234	--	528,190
Total Revenues	16,306,281	6,507,745	1,601,903	24,415,929
Expenditures				
Current:				
General government	2,651,487	--	217,355	2,868,842
Police services	2,593,972	--	--	2,593,972
Fire and rescue	3,371,921	--	--	3,371,921
Code compliance	112,562	--	--	112,562
Building services	--	--	1,011,005	1,011,005
Transportation	1,106,152	--	--	1,106,152
Culture and recreation	1,244,657	--	--	1,244,657
Debt service:				
Principal	--	--	131,922	131,922
Interest	--	--	349,192	349,192
Capital outlay	--	6,690,666	--	6,690,666
Total Expenditures	11,080,751	6,690,666	1,709,474	19,480,891
Excess (Deficiency) of Revenues Over (Under) Expenditures	5,225,530	(182,921)	(107,571)	4,935,038
Other Financing Sources (Uses)				
Transfers in	5,726,890	--	845,693	6,572,583
Transfers out	(1,041,026)	(5,745,851)	--	(6,786,877)
Bond issue costs	--	(71,228)	--	(71,228)
Proceeds from capital lease	786,292	--	--	786,292
Proceeds from bonds payable	--	6,000,000	--	6,000,000
Total Other Financing Sources (Uses)	5,472,156	182,921	845,693	6,500,770
Net Change in Fund Balances	10,697,686	--	738,122	11,435,808
Fund Balances - October 1, 2004	17,407,962	--	2,201,959	19,609,921
Fund Balances - September 30, 2005	$ 28,105,648	--	2,940,081	31,045,729

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, 2005

Net Change in Fund Balance - Total Governmental Funds		$ 11,435,808
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		220,000
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	9,237,443	
Less: disposals	(128,702)	
Less: current year depreciation	(747,974)	8,360,767
The statement of activities reports gains arising from the trade-in of existing capital assets to acquire new capital assets. Conversely, governmental funds do not report any gain or loss on a trade-in of capital assets		250,000
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		323,053
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		(88,217)
Accrued interest		(150,619)
Debt proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets:		
Proceeds from bonds payable	(6,000,000)	
Proceeds from capital lease obligation	(786,292)	
Bond issue costs	71,228	
Amortization of bond issue costs	(6,010)	
Add: principal payments	131,922	(6,589,152)
Change in Net Assets of Governmental Activities		$ 13,761,640

See accompanying notes.

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CITY OF MARCO ISLAND, FLORIDA
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
September 30, 2005

	Business-Type Activities - Enterprise Funds			
	Water and Sewer	Other - Nonmajor	Total	Governmental Activities- Internal Service Fund
Assets				
Current Assets				
Pooled cash and investments	$ --	85,317	85,317	357,747
Cash with fiscal agent	4,250,389	--	4,250,389	--
Accounts receivable - Net	1,623,300	495,774	2,119,074	--
Total Current Assets	5,873,689	581,091	6,454,780	357,747
Noncurrent Assets				
Restricted cash and investments	11,567,049	--	11,567,049	--
Bond issue costs - Net	2,136,284	--	2,136,284	--
Total Noncurrent Assets	13,703,333	--	13,703,333	--
Capital Assets				
Land	15,024,010	--	15,024,010	--
Transmission and distribution	31,126,007	--	31,126,007	--
Buildings and improvements	6,001,730	--	6,001,730	--
Vehicles and equipments	40,834,050	19,200	40,853,250	--
Construction in progress	8,648,511	1,624,565	10,273,076	--
Accumulated depreciation	(7,800,246)	(3,667)	(7,803,913)	
Total Capital Assets (Net of Accumulated Depreciation)	93,834,062	1,640,098	95,474,160	--
Total Assets	$ 113,411,084	2,221,189	115,632,273	357,747
Liabilities				
Current Liabilities				
Accounts payable	$ 1,388,085	1,063	1,389,148	2,588
Accrued liabilities	104,963	--	104,963	32,106
Accrued compensated absences	179,145	--	179,145	--
Accrued interest	2,340,389	--	2,340,389	--
Bonds payable - current portion	1,910,000	--	1,910,000	--
Due to other funds	438,574	587,831	1,026,405	--
Total Current Liabilities	6,361,156	588,894	6,950,050	34,694
Current Liabilities Payable from Restricted Assets -				
Deposits	53,995	--	53,995	--
Noncurrent Liabilities - Bonds payable	100,348,114	--	100,348,114	--
Total Liabilities	106,763,265	588,894	107,352,159	34,694
Net Assets				
Invested in capital assets, net of related debt	8,520,919	--	8,520,919	--
Restricted for:				
Construction	5,504,851	1,531,856	7,036,707	--
Capital reserve	2,784,204	--	2,784,204	--
Impact fees	1,791,445	--	1,791,445	--
Renewal and replacement	1,432,554	--	1,432,554	--
Unrestricted	(13,386,154)	100,439	(13,285,715)	323,053
Total Net Assets	6,647,819	1,632,295	8,280,114	323,053
Total Liabilities and Net Assets	$ 113,411,084	2,221,189	115,632,273	357,747

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, 2005

	Business-Type Activities - Enterprise Funds			
	Water and Sewer	Other - Nonmajor	Total	Governmental Activities- Internal Service Fund
Operating Revenues				
Charges for services	$ 17,584,305	1,635,934	19,220,239	620,600
Operating Expenses				
Personal services	2,991,826	--	2,991,826	--
Insurance	208,341	--	208,341	620,600
Utilities	1,927,694	--	1,927,694	--
Contractual fees	1,072,029	101,701	1,173,730	--
Repairs and maintenance	339,177	--	339,177	--
Supplies	966,903	--	966,903	--
Rental and lease costs	64,463	--	64,463	--
Other expenses	609,140	3,426	612,566	--
Amortization	35,365	--	35,365	--
Depreciation	3,893,713	1,920	3,895,633	--
Total Operating Expenses	12,108,651	107,047	12,215,698	620,600
Operating Income	5,475,654	1,528,887	7,004,541	--
Non-operating Income (Expense)				
Interest earnings	306,738	--	306,738	--
Interest expense	(4,687,764)	--	(4,687,764)	--
Other non-operating income	1,552,937	42,389	1,595,326	--
Total Non-operating Income (Expense)	(2,828,089)	42,389	(2,785,700)	--
Income before transfers and capital contributions	2,647,565	1,571,276	4,218,841	--
Transfers in	--	--	--	323,053
Transfers out	(108,759)	--	(108,759)	--
Capital contributions	504,360	--	504,360	--
Change in Net Assets	3,043,166	1,571,276	4,614,442	323,053
Net Assets - October 1, 2004	3,604,653	61,019	3,665,672	--
Total Net Assets - September 30, 2005	$ 6,647,819	1,632,295	8,280,114	323,053

See accompanying notes.

CITY OF MARCO ISLAND, FLORIDA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Year Ended September 30, 2005

	Business-Type Activities - Enterprise Funds			Governmental Activities - Internal Service Fund
	Water and Sewer	Other - Nonmajor	Total	
Cash Flows from Operating Activities				
Cash received from customers and users	$ 18,948,285	1,183,120	20,131,405	--
Cash received from interfund services provided	438,574	587,831	1,026,405	620,600
Cash payments to vendors for goods and services	(4,752,208)	(104,260)	(4,856,468)	(585,906)
Cash payments to employees for services	(2,944,985)	--	(2,944,985)	--
Net Cash Provided by Operating Activities	11,689,666	1,666,691	13,356,357	34,694
Cash flows from Noncapital Financing Activities				
Transfers in	--	--	--	323,053
Transfers out	(108,759)	--	(108,759)	--
Net Cash Provided by (Used in) Noncapital Financing Activities	(108,759)	--	(108,759)	323,053
Cash Flows from Capital and Related Financing Activities				
Acquisition of property, plant, and equipment	(7,722,516)	(1,624,565)	(9,347,081)	--
Payment of interest	(4,687,764)	--	(4,687,764)	--
Net Cash Used in Capital and Related Financing Activities	(12,410,280)	(1,624,565)	(14,034,845)	--
Cash Flows from Investing Activities - Interest received on investments	306,738	--	306,738	--
Net Increase (Decrease) in Cash and Cash Equivalents	(522,635)	42,126	(480,509)	357,747
Cash and Cash Equivalents - October 1, 2004	16,340,073	43,191	16,383,264	--
Cash and Cash Equivalents - September 30, 2005	$ 15,817,438	85,317	15,902,755	357,747
Reconciliation of Operating Income to Net Cash Provided by Operating Activities				
Operating income	$ 5,475,654	1,528,887	7,004,541	--
Adjustments to reconcile operating income to Net cash provided by operating activities:				
Depreciation	3,893,713	1,920	3,895,633	--
Amortization	35,365	--	35,365	--
Other non-operating income	1,552,937	42,389	1,595,326	--
Decrease (Increase) in assets and increase (decrease) in liabilities				
Accounts receivable	(119,835)	(495,203)	(615,038)	--
Accounts payable and accrued liabilities	435,539	867	436,406	34,694
Due to other funds	438,574	587,831	1,026,405	--
Deferred revenue	--	--	--	--
Deposits	(69,122)		(69,122)	--
Accrued compensation	46,841	--	46,841	--
Net Cash Provided by Operating Activities:	$ 11,689,666	1,666,691	13,356,357	34,694
Reconciliation of Cash and Cash Equivalents				
Pooled cash and investments	$ --	85,317	85,317	357,747
Cash with fiscal agent	4,250,389	--	4,250,389	--
Restricted cash and investments	11,567,049	--	11,567,049	--
Cash and Cash Equivalents - September 30, 2005	$ 15,817,438	85,317	15,902,755	357,747

See accompanying notes.

CITY OF MARCO ISLAND, FLORIDA
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUND
PENSION TRUST FUND
September 30, 2005

	Pension Trust Fund
Assets:	
Pooled cash and cash equivalents	$ 224,981
Investments, at fair value:	
Common stock	943,003
Government bonds	604,435
Accrued interest	5,109
Total Assets	$ 1,777,528
Net Assets	
Held in trust for pension benefits and other purposes	$ 1,777,528

See accompanying notes.

CITY OF MARCO ISLAND, FLORIDA
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUND
PENSION TRUST FUND
For the Year Ended September 30, 2005

	Pension Trust Fund
Additions	
Contributions:	
Employer	$ 50,930
Employee	5,354
State of Florida insurance funds, from the City General Fund	306,463
Total contributions	362,747
Investment income (expense):	
Investment earnings	135,611
Investment expenses	(13,577)
Net investment income	122,034
Total Additions	484,781
Deductions	
Legal	8,203
Actuary	5,630
Administrative	2,728
Total Deductions	16,561
Change in Net Assets	468,220
Net Assets - October 1, 2004	1,309,308
Net Assets - September 30, 2005	$ 1,777,528

See accompanying notes.

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NOTES TO FINANCIAL STATEMENTS

Note 1 – Summary of significant accounting policies

A. Reporting entity

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

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

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

In addition to the discretely presented component unit, this report also includes the accounts and transactions of the City of Marco Island Firefighters' Pension Plan (the Firefighters' Pension Plan). The Firefighters' Pension Plan does not satisfy the definition of a component unit because it is 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 nonfiduciary activities of the primary government and its component unit. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. Likewise, the *primary government* is reported separately from its legally separate *component unit* for which the primary government is financially accountable.

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

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.

GASB Statement No. 34 requires the City to report and depreciate new infrastructure assets, which include roads, bridges, traffic signals, medians, etc. The historical cost or depreciation of these assets had not been historically reported in the financial statements. Under GASB No. 34, the retroactive reporting of infrastructure was subject to an extended implementation period and is first effective for the fiscal year ending 2006. During the year ended September 30, 2005, the City implemented the infrastructure provisions of GASB No. 34. As part of the implementation of this provision, capital assets and net assets for the governmental funds in the government-wide statements have been restated. The restatement required by the recognition of these assets increases the beginning balances of net assets and capital assets in the amount of $9,255,750.

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.

- The *capital projects fund* accounts for the activities associated with construction and the preservation of the City's governmental capital assets.

The City reports the following major proprietary fund:

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

Additionally, the City reports the following fund types:

- The *internal service fund* accounts for the collection of premiums, accumulation of reserves, and payment of insurance claims for the City since the City became self-insured during the fiscal year.

- The *pension trust fund* accounts for the activities of the Firefighters' Pension Plan, which accumulates resources for defined benefit payments to qualified employees.

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

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the government's water and sewer function and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned. In the fund financial statements, the City charged the Building Services Fund $342,840 for indirect services provided by General Fund departments which have been eliminated in the government-wide statement of activities in accordance with this policy.

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

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the water and sewer enterprise fund, electric fund, and the recreation enterprise fund are charges to customers for sales and services. The water and sewer fund also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise funds and the internal service fund include the cost of sales and services, administrative expenses, and

depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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

D. Assets, liabilities, and net assets or equity

1. Deposits and investments

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

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

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

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

2. Receivables and payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the noncurrent 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.

GASB Statement No. 34, which the City implemented during the fiscal year ending September 30, 2003, requires the City to report and depreciate infrastructure assets, retroactively. Since neither the historical cost of infrastructure assets nor the related depreciation have historically been reported in the financial statements, the retroactive reporting of infrastructure was subject to an extended implementation period. During the fiscal year ended September 30, 2005, the City implemented the retroactive infrastructure provisions.

In the case of the initial capitalization of general infrastructure, the City was able to estimate the historical cost through backtrending (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 spent in relation to the capital assets that do not increase the capacity or efficiency of the item or extend its useful life beyond the original estimate. In the case of donations, the City values these assets at the estimated fair value of the item at the date of its donation.

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

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

6. Compensated absences

It is the government's policy to permit employees to accumulate earned but unused personal leave amounts. These amounts are accrued when incurred in the government-wide, proprietary, and fiduciary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements. Compensated absences are generally liquidated by the general fund.

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

7. Long-term obligations

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

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

8. Fund equity

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

9. Pension costs

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

10. Property tax calendar

The City levies property taxes each November 1, which become a lien on real and personal property located in the City. The assessment of all properties and the collection of all property taxes are made through the Property Appraiser and Tax Collector of Collier County, Florida. The current year's tax levy is based on taxable assessed real and personal property values totaling $7,117,033,513.

Details of the tax calendar are presented below:

Lien Date	January 1, 2004
Levy Date	October 1, 2004
Installment Payments	
First Installment	No Later Than June 30, 2004
Second Installment	No Later Than September 30, 2004

Third Installment	No Later Than December 31, 2004
Fourth Installment	No Later Than March 31, 2005
Regular Payments	
Discount Periods	November 2004 Through February 2006
No Discount Period	After March 1, 2005
Delinquent Date	April 1, 2005

Note 2 – 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.

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 reappropriated 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 2005 fiscal year, as adopted by City Council, was $15,601,372. The final actual amount for the 2005 fiscal year was $15,154,798, which was below the spending cap limit.

B. Excess of expenditures over appropriations

For the year ended September 30, 2005, general government other-unclassified expenditures exceeded appropriations.

Note 3 – Detailed Notes on All Funds

A. Deposits and Investments

As of September 30, 2005, 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	$ --	$ 5,655,148	$ --	$ --	$ --	$ 5,655,148
Money market	--	994,668	--	--	--	994,668
U.S. securities	--	5,729,055	30,479,352	80,415	307,138	36,595,960
Common stock	943,003	--	--	--	--	943,003
State Board of Administration	--	767,865	--	--	--	767,865
Cash held with fiscal agent	4,250,389	--	--	--	--	4,250,389
Total deposits and investments	$ 5,193,392	$ 13,146,736	$ 30,479,352	$ 80,415	$ 307,138	$ 49,207,033

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 fund, to maturities of five years or less. The investment maturities of the pension trust fund are not limited.

Credit Risk

State law limits investments in commercial paper, corporate bonds, and mutual funds to the top two ratings issued by the nationally recognized statistical rating organizations. The City has no investment policy that would further limit its investment choices. As of September 30, 2005, the City's investment in the state investment pool (State Board of Administration) was rated AAA by Standard & Poor's ratings.

Concentration of Credit Risk

The City's investment policy allows the following investment types and limitations:

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

The pension trust fund investments are determined by the Board of Directors of the pension trust fund. The portfolio of the pension trust fund is geared for long-term growth and is allocated at 60% common stocks and 40% bond funds, with a maximum of 10% of the portfolio 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' Pension Fund, governed by the Fire Pension Board, has authorized a maximum of 10% of funds to be invested in foreign securities.

B. Receivables

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

	General	Capital Project	Water & Sewer	Nonmajor Governmental Funds	Nonmajor Business-type Funds	Total
Receivables:						
Accounts	$ 186,718	$ --	$ 1,655,377	$ 40,096	$ 495,774	$ 2,377,965
Assessments	--	31,502	--	--	--	31,502
Interest	167,982	--	--	--	--	167,982
Gross receivables	354,700	31,502	1,655,377	40,096	495,774	2,577,449
Less: allowances for uncollectibles	28,833	--	32,077	--	--	60,910
Net total receivables	$ 325,867	$ 31,502	$1,623,300	$ 40,096	$ 495,774	$ 2,516,539

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, 2005, deferred revenue reported in the governmental funds consists of receivables recognized for sidewalk assessments.

C. Interfund Receivables, Payables, and Transfers

The composition of interfund balances as of September 30, 2005, is as follows:

Receivable Fund	Payable Fund	Amount
General	Emergency Relief	$ 34,552
General	Water & Sewer	438,574
General	Electric	587,831
Capital Projects	General	1,012,961
Total		$ 2,073,918

The outstanding balance between funds result mainly from the time lag between the dates that interfund goods and services are provided or reimbursable expenditures occur, transactions are recorded in the accounting system, and/or payments between funds are made. Interfund balances September 30, 2005 per the government-wide statement activities consists of amounts payable to the general fund from the water and sewer fund ($438,574) and electric fund ($587,831) in the amount of $1,026,405.

For the year ended September 30, 2005, the interfund transfers were as follows:

	Transfers in:			
Transfers out	General	Internal Service	Non-major	Total
General	$ --	214,294	826,732	1,041,026
Capital Project	5,726,890	--	18,961	5,745,851
Water and Sewer	--	108,759	--	108,759
Total	$ 5,726,890	323,053	845,693	6,895,636

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, (3) move unrestricted general fund revenues to finance various programs that the government must account for in other funds in accordance with budgetary authorizations, and (4) move unrestricted general fund and water and sewer fund revenues to the internal service fund to establish a reserve.

D. Capital assets

	Beginning Balance (as restated)	Increases	(Decreases)	Ending Balance
Governmental Activities				
Capital assets not being depreciated:				
Land	$ 14,825,071	$ --	$ --	$ 14,825,071
Construction in progress	3,726,538	5,375,488	(2,144,104)	6,957,922
Total capital assets not being depreciated	18,551,609	5,375,488	(2,144,104)	21,782,993
Capital assets being depreciated:				
Buildings and improvements	3,676,689	25,740	--	3,702,429
Vehicles and equipment	3,456,571	1,186,309	(548,588)	4,094,292
Road network	5,616,351	231,861	--	5,848,212
Storm water	5,974,053	1,241,064	--	7,215,117
Pathway	2,021,943	768,217	--	2,790,160
Parks	227,992	8,079	--	236,071
Bridge network	3,653,323	2,544,789	--	6,198,112
Total capital assets being depreciated	24,626,922	6,006,059	(548,588)	30,084,393
Total accumulated depreciation for:				
Buildings and improvements	(1,378,986)	(154,990)	--	(1,533,976)
Vehicles and equipment	(1,618,055)	(414,090)	419,886	(1,612,259)
Road network	(1,742,386)	(57,502)	--	(1,799,888)
Storm water	(2,235,463)	(76,516)	--	(2,311,979)
Pathway	(780,027)	(6,943)	--	(786,970)
Parks	(21,179)	(12,383)	--	(33,562)
Bridge network	(749,342)	(25,550)	--	(774,892)
Total accumulated depreciation	(8,525,438)	(747,974)	419,886	(8,853,526)
Total capital activities being depreciated, net	16,101,484	5,258,085	(128,702)	21,230,867
Total governmental activities capital assets, net	$ 34,653,093	$ 10,633,573	$ (2,272,806)	$ 43,013,860
Business-Type Activities				
Capital assets not being depreciated:				
Land	$ 15,024,010	$ --	$ --	$ 15,024,010
Construction in progress	2,453,568	9,321,725	(1,502,217)	10,273,076
Total capital assets not being depreciated	17,477,578	9,321,725	(1,502,217)	25,297,086
Capital assets being depreciated:				
Transmission and distribution	29,905,955	1,220,052	--	31,126,007
Buildings and improvements	5,858,969	142,762	--	6,001,731
Vehicles and equipment	40,184,131	669,119	--	40,853,250
Total capital assets being depreciated	75,949,055	2,031,933	--	77,980,988
Less accumulated depreciation for:				
Buildings and improvements	(2,020,402)	(1,787,259)	--	(3,807,661)
Vehicles and equipment	(1,887,879)	(2,108,374)	--	(3,996,253)
Total accumulated depreciation	(3,908,281)	(3,895,633)	--	(7,803,914)
Total capital assets being depreciated, net	72,040,774	(1,863,700)	--	70,177,074
Total business-type activities capital assets, net	$ 89,518,352	$ 7,458,025	$ (1,502,217)	$ 95,474,160

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

Governmental Activities:	
General government	$ 94,897
Police services	124,050
Fire and rescue	197,836
Code compliance	3,350
Building services	7,424
Transportation	173,162
Culture and recreation	147,255
Total depreciation expense – Governmental activities	$ 747,974

Business-Type Activities:		
Water and sewer	$	3,893,713
Recreation		1,920
Total depreciation expense – Business-type activities		3,895,633
Total Depreciation Expense	$	4,643,607

As noted in Note 1, the City implemented the infrastructure provisions of GASB No. 34 during the year ended September 30, 2005. The effect of the implementation increased the beginning balances of the following governmental activities totals as follows:

Capital assets not being depreciated	$	321,542
Capital assets being depreciated		14,236,864
Accumulated depreciation		(5,302,656)
Capital assets being depreciated, net		8,934,208
Governmental activities capital assets, net	$	9,255,750

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		--
Total	$	786,292

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, 2005, is as follows:

2006	$	85,700
2007		85,700
2008		85,700
2009		85,700
2010		85,700
2011		85,700
Total minimum lease payments		514,200
Less: Amount representing interest		(54,830)
Present value of minimum lease payments	$	459,370

F. Long-Term Liabilities

Primary Government

Long-term liability activity for the year ended September 30, 2005, was as follows:

	Beginning Balance	Additions	(Reductions)	Ending Balance	Due Within One Year
Governmental Activities					
Revenue bonds	$ 835,000	$ --	$ (55,000)	$ 780,000	$ 55,000
General obligation bonds	9,860,000	--	--	9,860,000	545,000
Sales tax revenue bonds	--	6,000,000	--	6,000,000	--
Capital lease	--	536,292	(76,922)	459,370	69,973
Compensated absences	562,195	228,766	(140,549)	650,412	162,603
Total governmental activity long-term liabilities	$ 11,257,195	$ 6,765,058	$ (272,471)	$ 17,749,782	$ 832,576
Business Activities					
Revenue bonds					
Principal	$ 101,115,000	$ --	$ --	$ 101,115,000	$ 1,910,000
Premium	1,183,818	--	(40,704)	1,143,114	40,704
Compensated absences	132,304	79,917	(33,076)	179,145	44,786
Total business-type activity long-term liabilities	$ 102,431,122	$ 79,917	$ (73,780)	$ 102,437,259	$ 1,995,490

During 2000, the City issued revenue bonds for governmental activities for the repair of the Factory Bay Bridge. The original amount of the revenue bonds was $985,000. The bonds are issued as 15-year serial bonds with varying amounts of principal maturing each year from $55,000 to $90,000. Interest rates on the bonds vary from 4.25 percent to 5.75 percent. As of September 30, 2005, $780,000 of the principal was outstanding. Annual debt service requirements for the revenue bonds are as follows:

Fiscal Year	Principal	Interest
2006	$ 55,000	$ 38,143
2007	60,000	35,540
2008	60,000	32,795
2009	65,000	29,904
2010	65,000	26,865
2011-2015	385,000	80,369
2016	90,000	2,588
Total	$ 780,000	$ 246,204

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, 2005, the entire balance of the principal was outstanding. Annual debt service requirements for the general obligation bonds are as follows:

Fiscal Year	Principal	Interest
2006	$ 545,000	$ 299,834
2007	555,000	299,834
2008	565,000	277,834
2009	580,000	266,534
2010	590,000	254,934
2011-2015	3,230,000	997,238
2016-2020	3,795,000	429,455
Total	$ 9,860,000	$ 2,825,663

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

Fiscal Year	Principal	Interest
2006	$ --	$ 71,103
2007	--	213,310
2008	345,000	213,310
2009	350,000	202,960
2010	365,000	191,585
2011-2015	2,010,000	762,638
2016-2020	2,395,000	379,910
2021	535,000	20,865
Total	$ 6,000,000	$ 2,055,681

During 2004, the City issued revenue bonds for business-type activities for (1) the acquisition of certain water production, transmission, treatment, and disposal facilities and (2) the improvement of certain assets within these facilities. The original amount of the revenue bonds was $101,115,000, in addition to a premium paid on the bonds in the amount of $1,183,818. The bonds are issued as 30-year serial bonds with varying amounts of principal maturing each year from $1,910,000 to $6,280,000. Interest rates on the bonds vary from 2 percent to 5.25 percent. As of September 30, 2005, the entire balance of the principal was outstanding. Annual debt service requirements for the revenue bonds are as follows:

Fiscal Year	Principal	Interest
2006	$ 1,910,000	$ 4,661,678
2007	1,950,000	4,623,078
2008	1,990,000	4,583,678
2009	2,030,000	4,539,418
2010	2,075,000	4,486,526
2011-2015	11,420,000	21,319,113
2016-2020	14,320,000	18,270,150
2021-2025	18,465,000	14,029,744
2026-2030	23,575,000	8,803,681
2031-2034	23,380,000	2,409,250
Total	$ 101,115,000	$ 87,726,316

Discretely presented component unit

Long-term liability activity for Hideaway for the year ended September 30, 2005, was as follows:

	Beginning Balance	Additions	(Reductions)	Ending Balance	Due Within One Year
General obligation bonds	$ --	$ 2,900,000	$ --	$ 2,900,000	$ 430,000

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

Fiscal Year	Principal	Interest
2006	$ 430,000	$ 77,597
2007	450,000	64,881
2008	470,000	51,587
2009	490,000	37,715
2010	520,000	23,120
2011	540,000	7,803
Total	$ 2,900,000	$ 262,703

Note 4 – Other Information

A. Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. 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 coverages 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 year are as follows:

Unpaid claims, beginning of the fiscal year	$	--
Incurred claims (including IBNRs)		50,842
Claim payments		(18,736)
Unpaid claims, end of the fiscal year	$	32,106

B. Subsequent Events

During 2005, the City was struck by Hurricane Wilma, which caused damages to the City of approximately $3,000,000. The City expects the cost of repairing the damages to be covered by either the Federal Emergency Management Agency or insurance.

C. Contingent Liabilities

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

D. Commitments

The City has active construction projects as of September 30, 2005. As of September 30, 2005, the City's commitments with contractors are as follows:

Projects	Expended as of 9/30/05	Remaining Commitment
North Collier reconstruction design (T.B.E. Design)	$ 435,431	667,992
North Collier/Seaview storm drain (Quality Enterprises)	325,469	409,271
South Collier Boulevard (Quality Enterprises)	3,387,016	3,982,252
A.S.R. Wells (Southern Well Drilling)	1,933,783	1,329,767
Totals	$ 6,081,699	6,389,282

E. 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, 2004 (date of the latest annual actuarial valuation), employee membership data related to the Plan were:

Retirees and beneficiaries currently receiving benefits	0
Terminated employees entitled to benefits, but not yet receiving them	0
Retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits, but not yet receiving them	0
Active plan participants:	
Vested	2
Nonvested	10
Total active plan participants	12
Vested terminated members	0

Retired employees or their beneficiaries are entitled to pension payments for the longer of ten years or the retirees' remaining life equal to 3% of their final five-year average compensation times the number of years of credited service. The final five-year average compensation is the average annual compensation of the five highest years within the last ten years of service. Compensation includes overtime, but excludes lump-sum payments of unused leave. Maximum annual pension payments to retirees is 100% of their final five-year average compensation. An additional supplemental benefit is also payable in the monthly amount of $3 multiplied by credited service.

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

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

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

Summary of Significant Accounting Policies – Basis of Accounting and Valuation of Investments

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

Funding Policy

Participants in the Plan are required to pay 1% of their compensation 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, 2005, were based on actuarial computations performed for 2004, in the actuarial report dated October 1, 2004.

For the year ended September 30, 2005, the actuarially determined contribution amount was $124,866 with the anticipated state contribution of $73,936. Accordingly, the required employer contribution for 2005 was $50,930.

Annual Pension Cost and Net Pension Obligations

For 2005, the City's annual pension cost of $50,930 for the Plan was equal to the City's required and actual contributions. The required contribution was determined as part of the October 1, 2004 actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included: (a) 8% investment rate of return (net of administrative expenses); (b) projected salary increases of 6% per year; and (c) 4% rate of inflation. Additionally, the assumptions included postretirement benefit increases of 3% per year. Market value was used to determine the actuarial value of assets. The unfunded actuarial accrued liability is being amortized as a level dollar amount over thirty years. The remaining amortization period at October 1, 2004, was twenty-eight years (closed basis).

Three-Year Trend Information

Fiscal Year Ended September 30,	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
2002	$ 19,465	379.8%	$ (221,708)
2003	$ 92,072	99.1%	$ (220,853)
2004	$ 92,070	99.1%	$ (220,000)

The Florida Retirement System Plan – Firefighters

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

Plan Description

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

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

Funding Policy

The contribution requirements of the system members and the City are established and may be amended by the State. Plan members are not required to make contributions to the System. The City is required to contribute at an actuarially determined rate; the current rate is 18.53 percent of covered payroll. The City's contribution to the System for the years ended September 30, 2005, 2004, and 2003 were $153,826, $167,348, and $164,934 respectively, and were equal to the required contributions for each year.

F. Other Post-employment Benefits

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

STATISTICAL SECTION (UNAUDITED)

Table 1

CITY OF MARCO ISLAND, FLORIDA

Governmental Expenditures by Function (1)

Last Eight Fiscal Years (2)

	2005	2004	2003 (3)	2002	2001	2000	1999	1998
Police Services	$ 2,593,972	$ 2,594,499	$ 2,619,126	$ 2,297,618	$ 1,966,908	$ 1,937,778	$ -	$ -
Fire and Rescue Services	3,371,921	2,663,257	2,601,028	2,537,960	2,544,666	2,189,745	-	-
Public Safety (4)	-	-	-	-	-	-	3,118,387	2,299,690
Transportation	1,106,152	1,179,243	1,234,933	1,007,203	911,790	795,072	648,162	83,259
Culture & Recreation	1,244,657	1,545,047	1,393,598	1,215,340	1,160,876	928,508	890,758	299,379
Community Development	-	-	-	1,285,598	1,073,103	1,053,064	742,772	114,224
Code Compliance	112,562	195,834	189,074	-	-	-	-	-
Building Services	1,011,005	1,012,830	879,514	-	-	-	-	-
General Government	2,867,919	2,246,456	1,646,020	1,372,799	1,209,349	1,191,416	963,214	876,661
Debt Service	482,037	631,089	243,059	244,724	166,996	145,953	145,952	145,953
Capital Projects (5)	6,690,666	13,780,786	4,613,409	3,388,617	4,614,758	2,432,489	508,368	-
TOTAL	**$ 19,480,891**	**$ 25,849,041**	**$ 15,419,761**	**$ 13,349,859**	**$ 13,648,446**	**$ 10,674,025**	**$ 7,017,613**	**$ 3,819,166**

(1) Includes the General, Capital Projects, and nonmajor Governmental funds.

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

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

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

(5) 2004 capital outlay expenditures include land acquisition of the Veterans Community Park property financed by General Obligation Bonds.

Table 2

CITY OF MARCO ISLAND, FLORIDA

Governmental Revenue by Source (1)

Last Eight Fiscal Years (2)

	2005	2004	2003	2002	2001	2000	1999	1998
Ad Valorem Tax (3)	$ 10,870,426	$ 9,933,131	$ 9,156,048	$ 7,908,375	$ 5,647,540	$ 5,539,370	$ 6,248,575	$ 2,421,336
Other Taxes	1,715,553	1,937,859	1,620,388	1,456,842	916,544	832,635	782,929	562,882
Licenses & Permits	1,229,030	2,130,035	1,320,363	1,538,919	1,143,518	1,147,608	1,054,380	22,867
Intergov'tal Revenues	8,842,937	5,278,142	4,684,368	2,653,599	2,532,798	2,244,772	1,727,424	2,292,319
Charges for Services	355,670	522,944	321,882	439,640	224,104	202,721	159,460	15,653
Fines & Forfeitures	252,832	91,794	130,744	111,235	83,972	79,198	59,732	2,375
Interest Income	621,291	347,976	347,907	342,284	589,333	611,434	370,834	155,524
Miscellaneous	528,190	1,102,955	763,511	1,221,158	1,343,349	1,134,144	1,516,452	398,325
TOTAL	**$ 24,415,929**	**$ 21,344,836**	**$ 18,345,211**	**$ 15,672,052**	**$ 12,481,158**	**$ 11,791,882**	**$ 11,919,786**	**$ 5,871,281**

(1) Includes the General, Capital Projects, and nonmajor Governmental funds.

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

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

Table 3

CITY OF MARCO ISLAND, FLORIDA

Property Tax Levies and Collections (1)

Last Eight Fiscal Years (2)

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

Source: Collier County Tax Collector

(1) Under Florida State Statutes, property owners are entitled to up to a 4% reduction in ad valorem tax payments for early payment. Outstanding delinquent taxes for the City of Marco Island are not significant.

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

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

Table 4

CITY OF MARCO ISLAND, FLORIDA

Assessed Value of Exempt and Taxable Property

Last Eight Fiscal Years (1)

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

Source: Collier County Property Appraiser

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

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

(3) Information only. 2005 assessed values are used for fiscal year 2006 tax revenues.

(4) Includes the annexation of Key Marco. Key Marco responsible for approximately 4% of value growth.

Table 5

CITY OF MARCO ISLAND, FLORIDA

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

Last Eight Fiscal Years (1)

Fiscal Year Ended	City Operating	City Debt Service	Marco Fire District	Roads & Streets MSTU#1	Collier County Unincorp. MSTD	Marco Beautific'n MSTD	Collier County Parks & Rec MSTU	Collier County	Collier School Board	Mosquito Control	South FL Water Managm't	Water Pollution Control	Big Cypress Basin	Conservation Collier	TOTAL LEVY
1998 (2)	-	-	0.8800	0.1950	0.5721	0.1670	0.0535	3.6813	8.4240	0.1821	0.2840	0.0452	0.2780	-	14.7622
1999 (3)	2.1112	-	-	-	0.5887	-	0.0495	3.5510	8.5100	0.1953	0.2840	0.0413	0.2780	-	15.3310
2000	1.6500	-	-	-	0.5203	-	0.0436	3.5058	7.7600	0.1923	0.2840	0.0355	0.2780	-	13.9560
2001	1.5087	-	-	-	0.8425	-	0.0377	3.5028	7.7220	0.1748	0.2840	0.0445	0.2780	-	14.0725
2002	1.7437	-	-	-	0.8069	-	0.0318	3.8772	7.2310	0.1465	0.2840	0.0420	0.2425	-	14.1211
2003	1.6900	-	-	-	0.8069	-	0.0268	3.8772	6.9110	0.1167	0.2840	0.0347	0.2425	-	13.9898
2004	1.6200	-	-	-	0.8069	-	-	3.8772	6.5240	0.1051	0.2840	0.0347	0.2425	0.2500	13.7444
2005	1.5400	0.0460	-	-	0.8069	-	-	3.8772	6.2200	0.0962	0.2840	0.0347	0.2425	0.2500	13.3975

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

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

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

Table 6

CITY OF MARCO ISLAND, FLORIDA

Special Assessment Billing and Collection

Last Eight Fiscal Years (1)

Fiscal Year	Liens Assessed	Collections	Unpaid Balance
1998	$ -	$ -	$ -
1999	-	-	-
2000	-	-	-
2001	358,586 (2)	131,566	226,819
2002	139,809 (3)	165,109	201,519
2003	-	118,690	82,829
2004	202,362 (4)	140,917	61,445
2005	-	29,944	31,501

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

(2) Sidewalk assessment Districts I and II completed in fiscal year 2001.

(3) Sidewalk Assessment District III completed in fiscal year 2002.

(4) Sidewalk Assessment District IV completed in fiscal year 2004.

Table 7

CITY OF MARCO ISLAND, FLORIDA

Pledged Revenue Coverage
Water and Sewer Revenue Bonds

Last Two Fiscal Years (1)

Fiscal Year	Water/Sewer Revenues	Water/Sewer Impact Fees	Less: Operating Expenses	Net Revenues With Impact Fees	Net Revenues Without Impact Fees	Debt Service	Coverage With Impact Fees (2)	Coverage Without Impact Fees (3)
2004 (4)	$ 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	8,179,573	11,264,407	9,889,944	4,687,764	2.40	2.11

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

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

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

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

Table 8

CITY OF MARCO ISLAND, FLORIDA

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

Last Eight Fiscal Years (1)

Fiscal Year	Principal	Interest	Total	Total General Expenditures	Debt Service as a Percent of Total General Expenditures
1998	$ 72,272	$ 73,680	$ 145,952	$ 3,819,166	3.82%
1999	78,677	67,275	145,952	7,017,613	2.08%
2000	85,132	60,820	145,952	10,674,025	1.37%
2001	91,587	75,409	166,996	13,648,446	1.22%
2002	148,673	96,051	244,724	13,349,859	1.83%
2003	156,319	86,740	243,059	15,419,761	1.58%
2004	491,264 (2)	139,825	631,089	25,849,041	2.44%
2005	131,922	349,192	481,114	19,480,891	2.52%

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

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

Table 9

CITY OF MARCO ISLAND, FLORIDA

Ratio of Debt Principal Outstanding to Total Assessed Valuation

Last Eight Fiscal Years (1)

Fiscal Year	Debt Principal Outstanding End of Fiscal Year	Total Assessed Valuation	Debt Principal as a Percent of Total Valuation	Debt Principal Per Capita
1998	$ 901,652	$ 2,841,082,435	0.03%	$ 67
1999	822,975	3,060,987,023	0.03%	58
2000	737,843	3,466,113,897	0.02%	50
2001	1,265,649	3,874,706,433	0.03%	84
2002	1,482,583	4,691,374,309	0.03%	97
2003	1,326,264	5,609,081,378	0.02%	86
2004	10,695,000	6,352,910,401	0.17%	679
2005	17,099,370	7,117,033,513	0.24%	1,064

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

Table 10

CITY OF MARCO ISLAND, FLORIDA

Demographic Statistics

Population:

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
Projections:			
2005	15,930	319,905	17,872,295
2006	16,224	334,238	18,228,848
2010	17,055	405,000	19,655,063

Population by Age Group - 2000 Census:

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

Source: U.S. Census Bureau.

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

Table 11

CITY OF MARCO ISLAND, FLORIDA

Construction Activity

Last Eight Years (1)

Calendar Year (2)	New Single-Family Residences	New Multi-Family Units	Total Permits Issued	Estimated Value of Work Permitted
1998 (3)	40	12	669	$ 12,365,583
1999	336	79	3,684	105,659,151
2000	369	237	3,758	134,497,043
2001	257	111	3,495	131,113,481
2002	202	254	4,304	244,080,609
2003	211	172	4,981	250,881,391
2004	233	123	4,836	254,203,953
2005	136	33	4,917	151,073,546

Source: City of Marco Island Building Department.

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

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

(3) Three months data.

Table 12

CITY OF MARCO ISLAND, FLORIDA

Principal Taxpayers
As of January 1, 2005

Taxpayer:	Property by Type:	January 1, 2004 Assessed Valuation	% of Total Assessed Valuation
1) City Natl Bank of Miami dba Marriott Marco Island Resort	Hospitality	$ 91,497,781	1.29%
2) Marco Beach Hotel, Inc.	Hospitality	45,624,418	0.65%
3) Boykin Marco LLC, dba Marco Island Radisson Hotel	Hospitality	31,624,130	0.44%
4) Marco Island Condo LLC, Inc.	Real Estate Developer	15,815,085	0.22%
5) Bay Colony - Gateway Inc.	Real Estate Developer	15,480,144	0.22%
6) Marco Town Center, Inc.	Real Estate Developer	14,036,036	0.20%
7) A & N of Marco Inc.	Real Estate Developer	12,445,492	0.17%
8) Bates, Wesley C.	Residence	9,192,483	0.13%
9) Gregg Holdings, Inc.	Real Estate Developer	8,724,519	0.12%
10) Venetian Investments, Inc.	Real Estate Developer	7,580,562	0.11%
Total		**$ 244,440,088**	**3.44%**

Source: Collier County Property Appraiser

Table 13

CITY OF MARCO ISLAND, FLORIDA

Miscellaneous Statistics

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

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SUPPORTING STATEMENTS AND SCHEDULES

Nonmajor Governmental Funds

Special Revenue Funds

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

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

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

Debt Service Fund

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

CITY OF MARCO ISLAND, FLORIDA
NONMAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
September 30, 2005

	Emergency Relief	Building Services	Debt Service	Nonmajor Fund Totals
Assets				
Pooled cash and investments	$ --	2,460,576	508,100	2,968,676
Accounts receivable - Net	40,096	--	--	40,096
Total Assets	40,096	2,460,576	508,100	3,008,772
Liabilities and Fund Balances				
Liabilities				
Accounts payable	5,544	12,026	--	17,570
Accrued liabilities	--	16,569	--	16,569
Due to other funds	34,552	--	--	34,552
Total Liabilities	40,096	28,595	--	68,691
Fund Balances				
Reserved for building department	--	2,431,981	--	2,431,981
Reserved for debt service	--	--	508,100	508,100
Total Fund Balances	--	2,431,981	508,100	2,940,081
Total Liabilities and Fund Balances	$ 40,096	2,460,576	508,100	3,008,772

CITY OF MARCO ISLAND, FLORIDA
NONMAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
For the Year Ended September 30, 2005

	Emergency Relief	Building Services	Debt Service	Nonmajor Fund Totals
Revenues				
Taxes	$ --	--	315,630	315,630
Licenses and permits	--	1,191,347	--	1,191,347
Intergovernmental	45,246	--	--	45,246
Interest	--	49,680	--	49,680
Total Revenues	45,246	1,241,027	315,630	1,601,903
Expenditures				
Current:				
General government	216,432	--	923	217,355
Building services	--	1,011,005	--	1,011,005
Debt service:				
Principal	--	--	131,922	131,922
Interest	--	--	349,192	349,192
Total Expenditures	216,432	1,011,005	482,037	1,709,474
Excess (Deficiency) of Revenues Over (Under) Expenditures	(171,186)	230,022	(166,407)	(107,571)
Other Financing Sources (Uses) -				
Transfers in	171,186	--	674,507	845,693
Net Change in Fund Balances	--	230,022	508,100	738,122
Fund Balances - October 1, 2004	--	2,201,959	--	2,201,959
Fund Balances - September 30, 2005	$ --	2,431,981	508,100	2,940,081

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, 2005

	Budgeted amounts		Actual	Variance with
	Original	Final	amounts	final budget
Revenues				
Intergovernmental	$ 4,522,591	6,345,011	6,155,511	(189,500)
Miscellaneous	350,000	350,000	352,234	2,234
Total Revenues	4,872,591	6,695,011	6,507,745	(187,266)
Expenditures				
Capital outlay	17,304,100	20,295,520	6,690,666	13,604,854
Total Expenditures	17,304,100	20,295,520	6,690,666	13,604,854
Excess of Revenues Over Expenditures	(12,431,509)	(13,600,509)	(182,921)	13,417,588
Other Financing Sources (Uses)				
Transfers in	3,016,509	3,116,509	--	(3,116,509)
Transfers out	--	--	(5,745,851)	(5,745,851)
Bond issue costs	--	--	(71,228)	(71,228)
Proceeds from bonds payable	9,415,000	10,585,000	6,000,000	(4,585,000)
Total Other Financing Sources (Uses)	12,431,509	13,701,509	182,921	(13,518,588)
Net Change in Fund Balance	--	101,000	--	(101,000)
Fund Balance - October 1, 2004	--	--	--	--
Fund Balance - September 30, 2005	$ --	101,000	--	(101,000)

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, 2005

	Budgeted amounts		Actual	Variance with
	Original	Final	amounts	final budget
Revenues				
Licenses and permits	$ 977,730	1,055,180	1,191,347	136,167
Interest	--	--	49,680	49,680
Total Revenues	977,730	1,055,180	1,241,027	185,847
Expenditures				
Current:				
Building services:				
Personal services	487,925	497,925	491,712	6,213
Operating expenses	489,805	548,055	514,773	33,282
Capital outlay	--	9,200	4,520	4,680
Total Expenditures	977,730	1,055,180	1,011,005	44,175
Excess of Revenues Over Expenditures	--	--	230,022	230,022
Fund Balance - October 1, 2004	2,201,959	2,201,959	2,201,959	--
Fund Balance - September 30, 2005	$ 2,201,959	2,201,959	2,431,981	230,022

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, 2005

	Budgeted amounts		Actual	Variance with
	Original	Final	amounts	final budget
Revenues - Taxes	$ 311,100	299,835	315,630	15,795
Expenditures				
Current:				
General government	1,635	1,635	923	712
Debt service:				
Principal	55,000	133,000	131,922	1,078
Interest	580,444	592,444	349,192	243,252
Total Expenditures	637,079	727,079	482,037	245,042
Excess of Revenues Over Expenditures	(325,979)	(427,244)	(166,407)	260,837
Other Financing Sources (Uses) -				
Transfers in	337,245	427,244	674,507	247,263
Net Change in Fund Balance	11,266	--	508,100	508,100
Fund Balance - October 1, 2004	--	--	--	--
Fund Balance - September 30, 2005	$ 11,266	--	508,100	508,100

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

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Nonmajor Proprietary Funds

The Electric Fund – This fund accounts for the revenues from the franchise agreement with Lee County Electric Cooperative, Inc. to provide electricity, in addition to the related construction of underground power and street lighting throughout the community.

The Recreation Fund – This fund accounts for recreational programs that are self-supporting.

CITY OF MARCO ISLAND, FLORIDA
NONMAJOR PROPRIETARY FUNDS
COMBINING STATEMENT OF NET ASSETS
September 30, 2005

	Electric	Recreation	Nonmajor Fund Totals
Assets			
Current Assets			
Pooled cash and investments	$ --	85,317	85,317
Accounts receivable - Net	495,122	652	495,774
Total Current Assets	495,122	85,969	581,091
Capital Assets			
Vehicles and equipment	--	19,200	19,200
Construction in progress	1,624,565	--	1,624,565
Accumulated depreciation	--	(3,667)	(3,667)
Total Capital Assets (Net of Accumulated Depreciation)	1,624,565	15,533	1,640,098
Total Assets	$ 2,119,687	101,502	2,221,189
Liabilities and Fund Balances			
Liabilities			
Accounts payable	$ --	1,063	1,063
Due to other funds	587,831	--	587,831
Total Liabilities	587,831	1,063	588,894
Net Assets			
Restricted for construction	1,531,856	--	1,531,856
Unrestricted	--	100,439	100,439
Total Net Assets	1,531,856	100,439	1,632,295
Total Liabilities and Net Assets	$ 2,119,687	101,502	2,221,189

CITY OF MARCO ISLAND, FLORIDA
NONMAJOR PROPRIETARY FUNDS
COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
For the Year Ended September 30, 2005

	Electric	Recreation	Nonmajor Fund Totals
Operating Revenues			
Charges for services	$ 1,531,856	104,078	1,635,934
Operating Expenses			
Contractual fees	--	101,701	101,701
Other expenses	--	3,426	3,426
Depreciation	--	1,920	1,920
Total Operating Expenses	--	107,047	107,047
Operating Income	1,531,856	(2,969)	1,528,887
Non-operating Income			
Other non-operating income	--	42,389	42,389
Change in Net Assets	1,531,856	39,420	1,571,276
Net Assets - October 1, 2004	--	61,019	61,019
Net Assets - September 30, 2005	$ 1,531,856	100,439	1,632,295

CITY OF MARCO ISLAND, FLORIDA
NONMAJOR PROPRIETARY FUNDS
COMBINING STATEMENT OF CASH FLOWS
For the Year Ended September 30, 2005

	Electric	Recreation	Nonmajor Fund Totals
Cash Flows from Operating Activities			
Cash received from customers and users	$ 1,036,734	146,386	1,183,120
Cash received from interfund services provided	587,831	--	587,831
Cash payments to vendors for goods and services	--	(104,260)	(104,260)
Net Cash Provided by Operating Activities	1,624,565	42,126	1,666,691
Cash Flows from Capital and Related Financing Activities - Acquisition of property, plant, and equipment	(1,624,565)	--	(1,624,565)
Net Increase in Cash and Cash Equivalents	--	42,126	42,126
Cash and Cash Equivalents - October 1, 2004	--	43,191	43,191
Cash and Cash Equivalents - September 30, 2005	$ --	85,317	85,317
Reconciliation of Operating Income to Net Cash Provided by Operating Activities			
Operating income	$ 1,531,856	(2,969)	1,528,887
Adjustments to reconcile operating income to Net cash provided by operating activities:			
Depreciation	--	1,920	1,920
Other non-operating income	--	42,389	42,389
Decrease (Increase) in assets and increase (decrease) in liabilities			
Accounts receivable	(495,122)	(81)	(495,203)
Accounts payable and accrued liabilities	--	867	867
Due to other funds	587,831	--	587,831
Net Cash Provided by Operating Activities:	$ 1,624,565	42,126	1,666,691

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Other Schedules

CITY OF MARCO ISLAND, FLORIDA
CAPITAL ASSETS USED IN THE OPERATION OF GOVERNMENTAL FUNDS
SCHEDULE BY FUNCTION AND ACTIVITY
September 30, 2005

	Land	Buildings and Improvements	Infrastructure	Vehicles and Equipment	Construction in Process	Total
Governmental Activities						
City council	$ --	--	--	23,310	--	23,310
Executive	--	--	--	29,771	--	29,771
Finance	--	--	--	90,913	--	90,913
Community development	45,000	--	--	69,793	--	114,793
Other general government	890,030	675,156	--	300,652	--	1,865,838
Total General Government	935,030	675,156	--	514,439	--	2,124,625
Public Safety						
Code compliance	--	--	--	23,914	--	23,914
Police services	--	15,587	--	866,698	156,921	1,039,206
Fire and rescue	575,227	1,802,743	--	1,948,756	--	4,326,726
Building services	--	13,857	--	68,004	--	81,861
Total Public Safety	575,227	1,832,187	--	2,907,372	156,921	5,471,707
Culture and Recreation						
Park maintenance	212,596	17,155	--	325,636	--	555,387
Recreation	3,167,100	1,156,205	--	97,983	--	4,421,288
Beautification	121,988	21,726	--	87,336	--	231,050
Pathways	--	--	2,790,160	--	56,399	2,846,559
Beaches and waterways	--	--	--	--	191,753	191,753
Parks	9,813,130	--	236,071	--	619,780	10,668,981
Total Culture and Recreation	13,314,814	1,195,086	3,026,231	510,955	867,932	18,915,018
Transportation						
Public works	--	--	--	161,527	--	161,527
Road network	--	--	5,848,212	--	5,054,144	10,902,356
Storm water	--	--	7,215,117	--	397,562	7,612,679
Bridge network	--	--	6,198,112	--	481,363	6,679,475
Total Primary Government	--	--	19,261,441	161,527	5,933,069	25,356,037
Total Governmental Funds Capital Assets	$ 14,825,071	3,702,429	22,287,672	4,094,293	6,957,922	51,867,387

CITY OF MARCO ISLAND, FLORIDA
CAPITAL ASSETS USED IN THE OPERATION OF GOVERNMENTAL FUNDS
SCHEDULE OF CHANGES BY FUNCTION AND ACTIVITY
For the Year Ended September 30, 2005

	Governmental funds capital assets 10/1/2004 (as restated)	Acquisitions	Transfers and deductions	Governmental funds capital assets 9/30/05
Governmental Activities				
City Council	$ 23,310	--	--	23,310
Executive	34,211	--	(4,440)	29,771
Finance	75,146	15,767	--	90,913
Community development	88,353	7,493	18,947	114,793
Other general government	1,769,093	99,345	(2,600)	1,865,838
Total General Government	1,990,113	122,605	11,907	2,124,625
Public Safety				
Code compliance	23,914	--	--	23,914
Police services	900,251	203,496	(64,541)	1,039,206
Fire and rescue	3,917,845	941,603	(532,722)	4,326,726
Building services	71,873	12,336	(2,348)	81,861
Total Public Safety	4,913,883	1,157,435	(599,611)	5,471,707
Culture and Recreation				
Park maintenance	541,844	12,244	1,299	555,387
Recreation	4,419,993	1,295	--	4,421,288
Beautification	231,050	--	--	231,050
Pathways	2,330,466	783,130	(267,037)	2,846,559
Beaches and waterways	35,748	156,005	--	191,753
Parks	10,275,600	401,460	(8,079)	10,668,981
Total Culture and Recreation	17,834,701	1,354,134	(273,817)	18,915,018
Transportation				
Public works	114,118	9,592	37,817	161,527
Road network	6,824,723	4,085,343	(7,710)	10,902,356
Storm water	6,579,488	1,626,287	(593,096)	7,612,679
Bridge network	4,921,505	3,026,152	(1,268,182)	6,679,475
Total Primary Government	18,439,834	8,747,374	(1,831,171)	25,356,037
Total Capital Assets	$ 43,178,531	11,381,548	(2,692,692)	51,867,387

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

	2004	2005	Increase (Decrease)
Operating Revenues			
Charges for services	$ 15,066,421	17,584,305	2,517,884
Operating Expenses			
Personal services	2,712,961	2,991,826	278,865
Insurance	220,764	208,341	(12,423)
Utilities	1,563,068	1,927,694	364,626
Contractual fees	1,309,239	1,072,029	(237,210)
Repairs and maintenance	544,469	339,177	(205,292)
Supplies	1,010,474	966,903	(43,571)
Rental and lease costs	100,375	64,463	(35,912)
Other expenses	260,041	609,140	349,099
Amortization	32,418	35,365	2,947
Depreciation	3,474,169	3,893,713	419,544
Total Operating Expenses	11,227,978	12,108,651	880,673
Operating Income	$ 3,838,443	5,475,654	1,637,211

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REQUIRED SUPPLEMENTARY INFORMATON

CITY OF MARCO ISLAND, FLORIDA
SCHEDULE OF FUNDING PROGRESS
CITY OF MARCO ISLAND FIREFIGHTERS' PENSION PLAN
September 30, 2005

Actuarial valuation date	(a) Actuarial value of assets	(b) Actuarial accrued liability (AAL) entry age	(b-a) Unfunded (Overfunded) AAL (UAAL)	(A/B) funded ratio	(c) Covered payroll	(b-a)/(c) UAAL as a percentage of covered payroll
10/1/1997	$ 53,383	$ 41,289	$ (12,094)	129.3%	$ 164,716	(7.3)%
10/1/2000	364,049	105,398	(258,651)	345.4%	90,046	(287.2)%
10/1/2002	331,733	248,387	(83,346)	133.6%	365,065	(22.8)%
10/1/2004	684,654	523,963	(160,691)	130.7%	528,346	(30.4)%

Note: Latest valuation was October 1, 2004

CITY OF MARCO ISLAND, FLORIDA
SCHEDULE OF EMPLOYER AND STATE CONTRIBUTIONS
CITY OF MARCO ISLAND FIREFIGHTERS' PENSION PLAN
September 30, 2005

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

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, 2005
(With Comparative Actual Totals for 2004)

	Budgeted amounts		Actual	Variance with	September 30, 2004 actual
	Original	Final	amounts	final budget	amounts
Revenues					
Taxes	$ 12,042,000	12,042,000	12,270,349	228,349	11,870,991
Licenses and permits	28,000	28,000	37,683	9,683	34,726
Intergovernmental	2,133,600	2,163,600	2,642,180	478,580	2,821,205
Charges for services	332,000	332,000	355,670	23,670	522,944
Fines and forfeitures	62,000	62,000	252,832	190,832	91,794
Interest income	350,000	350,000	571,611	221,611	347,976
Miscellaneous	225,000	225,000	175,956	(49,044)	391,961
Total Revenues	15,172,600	15,202,600	16,306,281	1,103,681	16,081,597
Expenditures					
Current:					
General government:					
Legislative	57,846	57,948	53,260	4,688	58,570
Executive	406,462	407,182	402,425	4,757	395,652
Finance	991,924	1,077,768	978,346	99,422	401,183
Legal	152,194	152,464	127,000	25,464	133,720
Community development	425,375	426,129	368,968	57,161	362,500
Other - unclassified	1,125,609	395,039	721,488	(326,449)	840,537
Total general government	3,159,409	2,516,530	2,651,487	(134,957)	2,192,163
Public safety:					
Police services	2,610,824	2,649,642	2,593,972	55,670	2,464,443
Fire and rescue	2,616,540	3,477,094	3,371,921	105,173	2,529,754
Code compliance	195,027	195,373	112,562	82,811	186,017
Total public safety	5,422,391	6,322,108	6,078,455	243,653	5,180,214
Highways and streets	1,146,195	1,148,227	1,106,152	42,075	1,120,130
Culture and recreation:					
Parks maintenance	359,437	360,074	296,165	63,909	491,532
Recreation programs	518,575	519,494	475,391	44,103	437,692
Racquet center	121,181	121,395	112,653	8,742	123,206
Beautification	477,701	478,548	360,448	118,100	415,167
Total culture and recreation	1,476,894	1,479,513	1,244,657	234,856	1,467,597
Total Expenditures	11,204,890	11,466,378	11,080,751	385,627	9,960,104
Excess of Revenues Over Expenditures	3,967,710	3,736,222	5,225,530	1,489,308	6,121,493
Other Financing Sources (Uses)					
Transfers in	--	--	5,726,890	5,726,890	--
Transfers out	(3,353,754)	(3,353,754)	(1,041,026)	2,312,728	(1,932,385)
Proceeds from capital lease	--	786,292	786,292	--	--
Total Other Financing Sources (Uses)	(3,353,754)	(2,567,462)	5,472,156	8,039,618	(1,932,385)
Net Change in Fund Balances	613,956	1,168,760	10,697,686	9,528,926	4,189,108
Fund Balances - Beginning Balance	17,404,962	17,407,962	17,407,962	--	13,218,854
Fund Balances - Ending Balance	$ 18,018,918	18,576,722	28,105,648	9,528,926	17,407,962

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

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OTHER REPORTS AND LETTERS

CPA ASSOCIATES
Certified Public Accountants
and Consultants

INPEDENDENT 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*

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

We have audited the financial statements of the City of Marco Island, Florida as of and for the year ended September 30, 2005 and have issued our report thereon dated November 23, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

Compliance and Other Matters

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

Members: ■ American Institute of CPA ■ Center for Public Company Audit Firms ■ Private Companies Practice Section ■ Florida Institute of CPA

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

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

CPA Associates

November 23, 2005
Bradenton, Florida

CPA ASSOCIATES
Certified Public Accountants
and Consultants

MANAGEMENT LETTER

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

We have audited the basic financial statements of the City of Marco Island, Florida, as of and for the fiscal year ended September 30, 2005, and have issued our report thereon dated November 23, 2005, which was unqualified.

We conducted our audit in accordance with United States generally accepted auditing standards; the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. We have issued our Independent Auditor's Report on Compliance and Internal Control over Financial Reporting. Disclosures in that report, which is dated November 23, 2005, should be considered in conjunction with this management letter.

Additionally, our audit was conducted in accordance with the provisions of Chapter 10.550, Rules of the Auditor General. Those rules [Section 10.544(1)(g)1.(a)] require that we address in the management letter, if not already addressed in the auditor's reports on compliance and internal controls, whether or not inaccuracies, shortages, defalcations, fraud, and/or violations of laws, rules, regulations, and contractual provisions reported in the preceding annual financial audit report have been corrected. There were no such matters disclosed in the preceding audit reports.

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

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

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

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

The Rules of the Auditor General [Section 10.554(1)(g)5.] also require that the name or official title and legal authority for the primary government and each component unit of the reporting entity be disclosed in the management letter. The City of Marco Island, Florida was established in a special election by mail ballot per Florida House of Representatives HB 1729 on August 28, 1997. In addition, an annual financial report for the City of Marco Island, Florida also includes the accounts and transaction of the following entity, which does not satisfy the definition of component units because it is not legally separate from the City:

Entity	Presentation
City of Marco Island Firefighters' Pension Plan	Blended

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

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

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

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

As required by the Rules of the Auditor General [Section 10.554(1)(g)6.b.], we determined that the annual financial report of the City of Marco Island, Florida for the fiscal year ended September 30, 2005, filed with the Department of Financial Services pursuant to Section 218.32, Florida Statutes, is in agreement with the annual financial audit report for the fiscal year ended September 30, 2004.

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

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

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

CPA Associates

November 23, 2005
Bradenton, Florida