



City of Marco Island

CITY OF MARCO ISLAND, FLORIDA

**COMPREHENSIVE ANNUAL FINANCIAL REPORT
For the Fiscal Year Ended September 30, 2017**

**PREPARED BY:
THE CITY OF MARCO ISLAND'S FINANCE DEPARTMENT**

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INTRODUCTION SECTION

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May 31, 2018

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 nine months of the close of each fiscal year a complete set of financial statements presented in conformity with generally accepted accounting principles (GAAP) and audited in accordance with generally accepted auditing standards by a firm of independent licensed certified public accountants. Pursuant to that requirement, we hereby issue the comprehensive annual financial report of the City of Marco Island, Florida (the "City"), for the fiscal year ended September 30, 2017.

This report consists of management's representations concerning the finances of the City. Consequently, management assumes full responsibility for completeness and reliability of all 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 Mauldin & Jenkins, LLC, 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, 2017, 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 auditors concluded, based upon the audit, that there was a reasonable basis for rendering an unmodified opinion that the City's financial statements for the fiscal year ended September 30, 2017, are fairly presented in conformity with GAAP. The independent auditor's report is presented as the first component of the financial section of this report.

The Governmental Accounting Standards Board ("GASB") requires that 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

The City was incorporated on August 28, 1997. Marco Island, Florida, is located in the southwestern part of the state, on the Gulf of Mexico side of the Ten Thousand Islands region of the Florida Everglades. Originally discovered by the Spanish and named Isla de San Marco (Saint Mark's Island), modern development of the island began in the late 1960's by the Deltona Corporation. Prior to incorporation in 1997, the island was a part of unincorporated Collier County and was served by a local Fire Protection District. The City serves a permanent population of approximately 17,000, which grows

up to approximately 45,000 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. City Council is responsible 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. Council members are eligible to serve a maximum of eight years during their lifetime. The City Council Chairman is elected by the members of the City Council annually to a one-year term of office.

The City provides a full range of services authorized by statute and local charter. These include police, fire, parks, recreation, streets, drainage, capital improvements, planning, zoning, community affairs and development and general administrative services, as well as water production and distribution and wastewater collection and treatment. During the fiscal year ended September 30, 2004, as more fully described later in this report, the City acquired the water and wastewater operations on the island and now operates those services through the City's Water and Sewer Utility Department.

The Hideaway Beach Tax District was created as a component unit of the City in 2003. Voters in this private neighborhood approved a tax levy for re-nourishment of the beaches adjacent to the neighborhood.

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 the 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 fund level. Budgets are adopted for the following funds:

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

The City Manager may make transfers of appropriations within a fund or department. Budget amendments that increase fund appropriations require the approval of the City Council. The City Council has authorized the City Manager to amend, modify or otherwise adjust the operating budget to a maximum limit of \$50,000 in total amendments, modifications or adjustments during the year. A budget re-appropriation ordinance, consolidating all budget amendments approved during the course of the year and those recommended by the City Manager near the end of the fiscal year, officially amends the annual budget.

Capital planning for the community is accomplished through two separate long-term budget documents. The capital projects fund finances general government improvements to streets and intersections, storm drainage, bridges, park facilities, landscaping, vehicles, equipment, and general government buildings. A 5-year capital improvements plan is updated and adopted annually as part of the budget process. The

acquisition of Marco Island Utilities, discussed below, drove the need for an initial 10-year capital program to upgrade and expand both the water and wastewater systems. The comprehensive 10-year capital program is updated every 5 years and submitted to the state as required by Florida Statutes.

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 and an increasing number of permanent residents. The business community primarily provides goods and services to the permanent and visitor community.

The City 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 Ten Thousand Islands forming the western boundary of the Everglades. The community offers public beach access at both ends of the island, an additional beach access for the exclusive use of island residents, and river access between the island and the mainland. Beachfront property is high-density, with multi-family and tourist-oriented accommodations.

The long-term economic outlook for the City is positive. Since the low point caused by the recession, the island economy has enjoyed an exceptionally strong residential real estate market with high growth in new home starts and home and condominium re-sales. Marco Island will never be duplicated because the U.S. Army Corps of Engineers now prohibits “dredge and fill” coastal development and mangrove forests are federally-protected.

The 2016 assessed taxable valuations used for real property taxes in fiscal year 2017 showed a 9.4% increase from the prior year. The 2017 assessed taxable valuations to be used for real property taxes in fiscal year 2018 reflected an increase of 6.5% from the 2016 assessed valuations. It is projected that the 2018 valuations used to determine property taxes for fiscal year 2019 will again go up as the real estate market has seen an increase in values over the last year.

Long-term Financial Planning

The City includes a five-year capital improvement plan for both its governmental and enterprise activities. The budget reflects the emphasis on maintaining existing service levels and its present investment in facilities and people while attempting to fully fund the City’s pay go system, or “bucket plan”. A thorough review has resulted in a financial restructuring of capital projects and development of a “bucket plan” that will be used to reduce reliance on debt financing and stabilize property tax millage rate increases in the future.

Marco Island: In July 2002, the City negotiated a 15 year inter-local agreement with Collier County (the “County”) to transfer ownership of public roads and rights-of-way from the County to the newly formed City. Additionally, the County agreed to pay the City \$15 million in return for the City assuming the roadway segments. The last \$2 million dollars were withheld by the County due to a disagreement on the intent of the inter-local agreement. In June, 2017, the City amended the original agreement thereby transferring jurisdiction of Goodland Road, 92A, back to the County in lieu of receiving the last \$2 million. The City is a true island and has embarked on a repair and replacement process of all 15 bridges

within the City's limits. Moreover, the City continues to include drainage improvements, street resurfacing, and bike lane widening as part of its Capital Improvement Plan each year.

A master plan for various city parks was approved in 2005. Improvements at Mackle Park and Veterans Community Park have occurred in phases over the past few years with grant funding and annual expenditures of capital improvements funds. During fiscal year 2014 a nonbinding referendum was held to determine if residents of the island wanted a new Mackle Park community building. The vote was 51% in favor to construct the center up to a maximum of \$3.5 million. The project plans were completed in fiscal year 2015 and the construction contract was awarded during fiscal year 2016. The building was substantially complete as of November 2017. The Veterans Community Park continues to be a major focal point for the island activities such as seasonal festivals and a weekly farmers' market.

Marco Island Utilities: In November 2003, the City 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 utility fund was used to account for the wastewater distribution system serving approximately 1,200 accounts with central sewer on the 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 an adjacent area of unincorporated Collier County known as Marco Shores. Currently approximately 10,000 utility accounts are served. The cost of the utility acquisition was approximately \$85 million with additional funds raised to begin the upgrading of a neglected utility infrastructure. In March 2010, the City issued \$58 million in utility revenue bonds to fund and refund capital improvements on the City's utility investment. Additional funds for capital investment are provided through monthly revenue deposits to a capital reserve account and a renewal and replacement account as required by bond covenants. More information is contained in the MD&A and notes to the financials.

Financial Policies

The City's basic financial statements are prepared in conformity with generally accepted accounting principles. The Governmental Accounting Standards Board is the acknowledged standard setting body for establishing accounting standards followed by governmental entities in the United States.

Investments: In 2002, the City Council approved an investment ordinance, and the City has a program of active portfolio management allowing for the purchase of investments as allowed by Florida Statutes to increase yields while maintaining safety and liquidity. Investments are limited to a maximum of five years with the exception of the investment of debt service reserves, which is limited to the remaining life of the corresponding debt, and the investment of pension trust funds.

Financial Reserve Policy: The City established a financial reserve policy to handle the distinctive emergencies and contingencies of our barrier island. Per that policy the City will maintain emergency reserves of 25% of general fund's operating budget for the proposed fiscal year.

Charter Spending Cap: The City 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. Currently, increases in annual spending are limited to 3% annually plus the annual change in the Social Security cost-of-living adjustments, or COLAs. 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 section of this report.

Risk Management: Through fiscal year 2004, the City 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 general liability loss, the first \$50,000 per occurrence of property loss, and the first \$350,000 per occurrence of workers' compensation loss. This program, administered through the Public Risk Insurance Trust, reduces the fixed costs of premiums paid while limiting the financial exposure to the City with the purchase of an annual aggregate stop-loss beginning at \$1,000,000 in cumulative annual losses. The City is a Drug-Free Workplace and has safety programs in place to minimize risk exposures. To prevent and control improper conduct in government the City instituted an employee fraud hotline where any wrongdoing can be reported in an anonymous manner.

Major Initiatives: City staff again presented their pay as you go capital plan to City Council and the Community as part of an initiative to reduce the reliance on debt to fund the City's capital program. The plan involves the funding of items over their expected life term so as to have the funds available by the time they are fully depreciated to acquire replacement items, if necessary. The plan provides the Department Directors the funding necessary to maintain an adequate level of service while allowing flexibility so that they may prioritize their expenditures.

Awards and Acknowledgements

Certificate of Achievement: The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to Marco Island, Florida, for our Comprehensive Annual Financial Report for the fiscal year ended September 30, 2016. This was the twelfth consecutive year that the government has achieved this prestigious award.

In order to be awarded a Certificate of Achievement, a city must publish an easily readable and efficiently organized Comprehensive Annual Financial Report. This 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 that our current Comprehensive Annual Financial Report continues to meet the Certificate of Achievement Program's 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. We also thank the City Manager, City Council, and Chair, for the interest and support in planning and conducting the financial operations of the City. Moreover, we wish to express our appreciation to the members of the Audit Advisory Committee for volunteering their time and input. In addition, we wish to express our appreciation to our audit firm, Mauldin & Jenkins, LLC, for their comprehensive and efficient examination of our accounts and suggestions for improvement.

Respectfully submitted,



Guillermo A. Polanco, CPA
Finance Director



Government Finance Officers Association

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

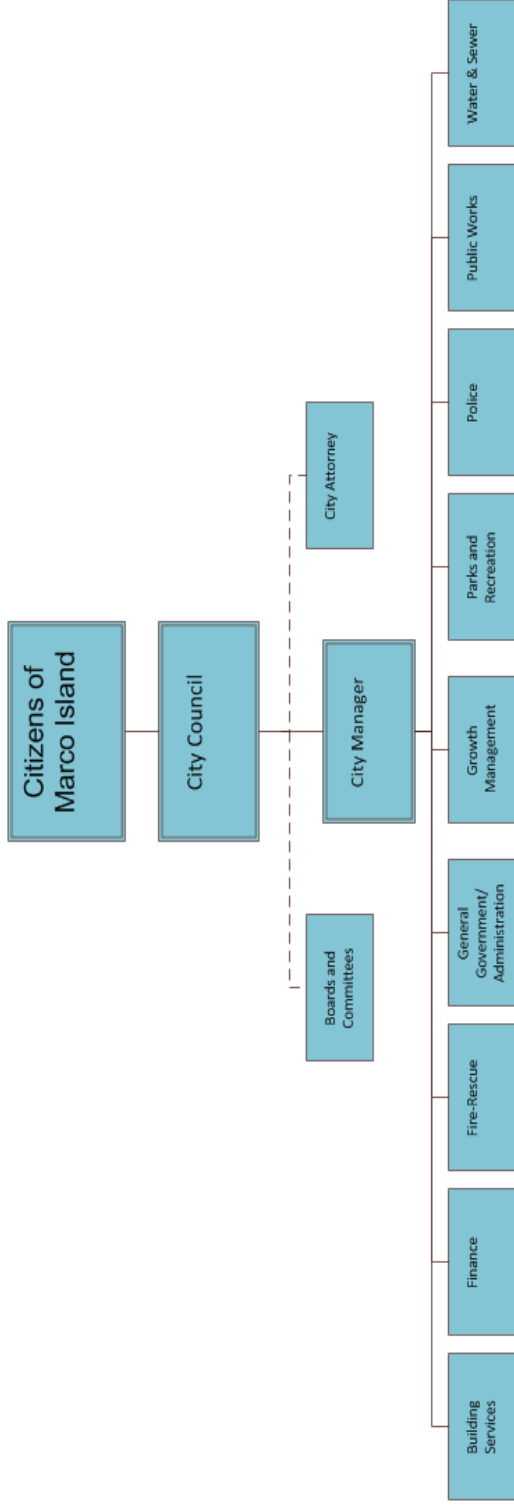
September 30, 2016

Christopher P. Morill

Executive Director/CEO

City of Marco Island

FY2017





PRINCIPAL OFFICIALS:

JARED GRIFFONI, CITY COUNCIL CHAIR
CHARLETTE ROMAN, CITY COUNCIL VICE-CHAIR
BOB BROWN, COUNCILOR
LARRY HONIG, CITY COUNCIL
HOWARD REED, COUNCILOR
JOE BATTE, COUNCILOR
VICTOR RIOS, COUNCILOR

ALAN L. GABRIEL, WEISS SEROTA, CONTRACTED CITY ATTORNEY

GUILLERMO A. POLANCO, INTERIM CITY MANAGER

DEBI MUELLER, ACTING FINANCE DIRECTOR

ALFRED SCHETTINO, POLICE CHIEF
LAURA M. LITZAN, CITY CLERK
JORDAN TUREK, PhD, IT DIRECTOR
MICHAEL MURPHY, FIRE CHIEF
JEFFREY POTEET, UTILITIES GENERAL MANAGER
TIMOTHY PINTER, PUBLIC WORKS DIRECTOR

CITY OF MARCO ISLAND, FLORIDA

FINANCIAL SECTION

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INDEPENDENT AUDITOR'S REPORT

City Council and City Manager
City of Marco Island, Florida

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Marco Island, Florida (the "City"), as of and for the year ended September 30, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City as of September 30, 2017, and the respective changes in financial position and, where applicable, cash flows thereof, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information and pension and other post-employment benefit schedules on pages 7-22 and 93-101, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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 fund statements and schedules, and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) and is also not a required part of the basic financial statements of the City.

The combining and individual fund statements and schedules and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual fund statements and schedules and the schedule of expenditures of federal awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The introductory section and statistical section have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 29, 2018, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

Bradenton, Florida
May 29, 2018

Mauldin & Jenkins, LLC

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CITY OF MARCO ISLAND, FLORIDA

MANAGEMENT DISCUSSION AND ANALYSIS

The purpose of financial reporting, in general, is to provide the readers of the financial statements with information that will help them make decisions or draw conclusions about an entity. 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 financial activities of the City for the fiscal year ended September 30, 2017. Readers are encouraged to consider the information presented here in conjunction with additional information that is furnished in the letter of transmittal, which can be found starting on page V of this report.

Financial Highlights

- The assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$182.3 million (*net position*). Of this amount, \$22.0 million, or 12.1% (*unrestricted net position*) may be used to meet the ongoing obligations to citizens and creditors. Governmental activities accounts for 47.9% of total net position while business-type activities made up the remaining 52.1%.
- The City's total net position overall decreased by \$1.7 million or 0.9% during the current fiscal year.
- The City's business-type activities reported total net position of \$95.0 million, which is a decrease of \$1.7 million, or 1.7%, in comparison to the prior year.
- The City's governmental activities reported total net position of \$95.0 million, which is a decrease of \$1.7 million, or 1.7%, in comparison to the prior year.
- As of the close of the current fiscal year as reported in the fund financial statements, the City's governmental funds reported combined ending fund balances of \$24.3 million, a decrease of \$5.1 million in comparison with the prior year. Approximately 25.9% of this total amount, \$6.3 million, is *available for spending* at the government's discretion (*unassigned fund balance*).
- At the end of the current fiscal year, fund balance for the General Fund was \$9.2 million or 35.1% of the general fund expenditures and other financing uses. The \$6.8 million in *unassigned fund balance* includes \$4.8 million to meet the City's financial reserve policy.
- At the end of the current fiscal year, unrestricted net position of the water and sewer utility fund totals \$4.3 million compared to \$5.6 million in the prior year.
- The financial condition of the City continued to be strong in 2017. This strength allowed the City to withstand the effects of hurricane Irma on its operations and infrastructure. Major capital investments were made to both the utility system and the basic infrastructure of the community. Increased funding per the bucket plans for both governmental and business type capital infrastructure is reflected in the restricted fund balances. Professional department heads managed their operations within budgeted appropriations, and reserve levels are sufficient to respond in changing conditions.

CITY OF MARCO ISLAND, FLORIDA

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 statement consists of three components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. In addition to these basic financial statements, this report contains other supplementary information.

Government-wide Financial Statements: The focus of the *government-wide financial statements* is on the overall financial position and activities of the City. Reporting is similar to that of a private-sector business. The City's government-wide financial statements include the statement of net position and statement of activities. As described below, these statements do not include the City's fiduciary funds because resources of these funds cannot be used to finance the City's activities. However, the financial statements of fiduciary funds are included in the City's fund financial statements, because the City is financially accountable for those resources, even though they belong to other parties.

The *Statement of Net Position* presents information on all of the City's assets and liabilities, with the difference between the two reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating. Although the purpose of the City is not to accumulate net position, in general, as this amount increases it indicates that the financial position of the City is improving over time.

The *Statement of Activities* presents the revenues and expenses of the City as well as information showing how the City's net position changed during the most recent fiscal year. The items presented on the statement of activities are measured in a manner similar to the approach used in the private-sector in that revenues are recognized when earned and expenses are reported when incurred. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

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, law enforcement, fire/rescue services (emergency medical service and transport is provided by Collier County), planning and zoning, code compliance, building services, transportation, and parks. The business-type activities of the City include its water and wastewater treatment plants, water distribution, sewer collection services, sewer assessment districts, and its recreation services.

The government-wide financial statements include not only the City itself (known as the *primary government*), but also a legally separate special tax district for which the City is financially accountable. This *component unit* functions for all practicable purposes as an independent advisory board and special revenue fund of the City. The financial activity of this component unit is shown in a separate column from the primary government on the *Statement of Net Position* and *Statement of Activities*.

CITY OF MARCO ISLAND, FLORIDA

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, 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.

Government 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 the 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 (non-major funds). As of September 2017, the City has three major governmental funds: (1) the General Fund, (2) the Debt Service Fund, and (3) the Capital Projects Fund.

Proprietary Funds: The City has two proprietary funds: (1) enterprise funds and (2) internal service funds. For both types of funds, costs incurred are recovered through user fees and charges. *Enterprise funds* are used when the primary customers are citizens and businesses. *Internal service funds* are used when the fund provides benefits to the government's departments or other funds.

Enterprise funds are used to report the same functions as *business-type activities* in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in greater detail. The City's major proprietary fund accounts for the water and wastewater utility. A non-major fund reports the activities of the recreation programs and racquet center. The internal service fund accounts for the accumulation of reserves and payment of insurance premiums and claims.

Fiduciary Funds: *Fiduciary funds* are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are *not* reflected in the government-wide financial statements because the resources of those funds are *not* available to support the City's own programs. The City has two fiduciary funds: (1) a Firefighters' defined benefit pension trust fund, and (2) a Police Officers' defined benefit pension trust fund. Fiduciary funds are accounted for in a manner similar to proprietary funds.

CITY OF MARCO ISLAND, FLORIDA

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.

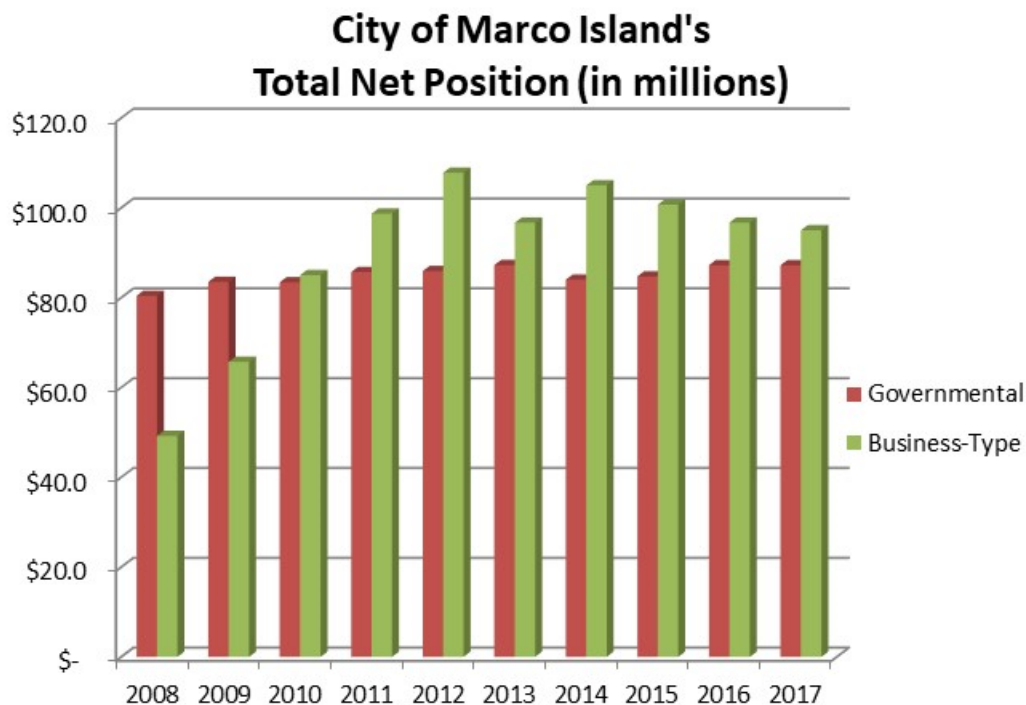
Other Information: In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information* concerning the City's defined benefit pension plans and budget-to-actual schedules for the City's General Fund.

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

Government-wide Financial Analysis

Net position serves as a useful indicator of the City's financial position. The City's total assets exceeded liabilities by \$182.3 million at the close of the fiscal year. This was an increase of approximately 0.9% compared to last year's net position of \$183.9 million. The chart below shows the steady and gradual increase up to a plateau over the last ten fiscal years of both the governmental and business-type activities.

The relative stability of the City's governmental performance is reflected in the \$0.1 million, or 0.1%, increase in total net position of governmental activities. This steadiness is primarily due to Council's desire to limit governmental debt and curb expenditures while at same time maintain its infrastructure. In business-type activities, the \$1.7 million, or 1.7%, decrease in total net position is primarily due to the depreciation expense recognized on the City's water and sewer infrastructure which has a direct relationship to the net investment in capital assets.



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A substantial portion of the City’s net position, 41.6%, reflects its investment in capital assets (e.g., land, buildings, improvements, infrastructure, and equipment; all categories are net of depreciation), 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 primarily from tax and water rates sources since the capital assets themselves cannot be used to liquidate these liabilities.

Some assets are subject to external restrictions on how they may be used. This portion of net position is earmarked for the completion of capital projects, debt service payments or growth-related expenses to parks, roads, police and fire rescue services. This amount totals \$82.5 million or 44.8% of net position as of the end of the fiscal year.

The remaining balance of unrestricted net position (\$22.0 million or 12.1%) may be used to meet the City’s ongoing obligations to citizens and creditors. The amount of the City’s total unrestricted position increased by \$2.1 million compared to last fiscal year with the majority of the increase occurring in the governmental activities’ net position. Approximately \$5.0 million of funds from restricted sources were invested in the system over the last fiscal year.

The following schedule is a summary of the fiscal 2017 Statement of Net Position with comparative information for fiscal 2016.

	Summary Statement of Net Position (in \$ millions)					
	Governmental Activities		Business-type Activities		Total	
	2017	2016	2017	2016	2017	2016
Current and other assets	\$ 28.7	\$ 30.3	\$ 87.5	\$ 95.1	116.2	\$ 125.4
Capital assets	72.4	72.8	184.6	198.1	257.0	270.9
Total Assets	101.1	103.1	272.1	293.2	373.1	396.3
Deferred outflows of resources	5.9	5.8	7.6	0.8	13.5	6.6
Current liabilities	3.9	3.0	3.6	5.5	7.5	8.5
Long-term debt and other liabilities	13.5	18.3	181.1	191.6	194.6	209.9
Total Liabilities	17.4	21.3	184.7	197.1	202.1	218.4
Deferred inflows of resources	2.3	-	-	-	2.3	-
Net Position:						
Investment in capital assets, net of related d	62.6	61.1	12.2	8.2	74.8	69.3
Restricted	7.7	8.5	77.8	82.0	85.5	90.5
Unrestricted	16.9	17.6	5.0	6.4	22.0	24.1
Total Net Position	\$ 87.3	\$ 87.2	\$ 95.0	\$ 96.7	182.3	\$ 183.9

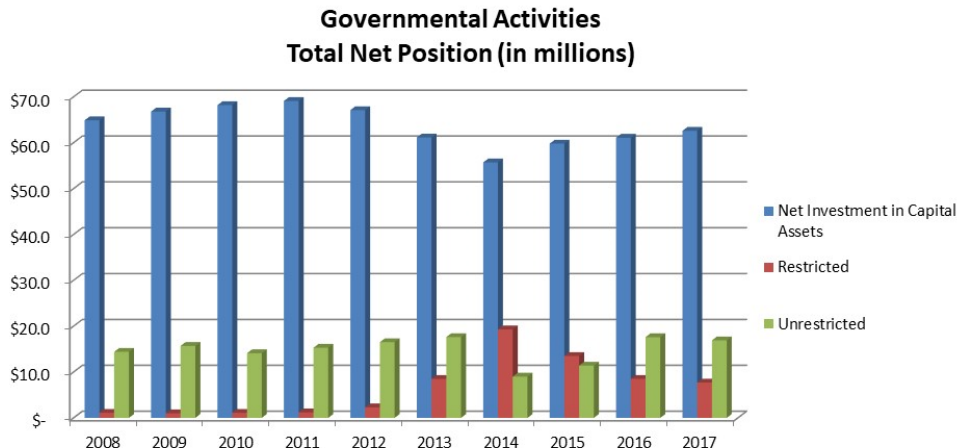
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The table below summarizes the City's Statement of Activities as of September 30, 2017 and 2016:

	Summary Statement of Activities (in \$ millions)					
	Governmental Activities		Business-type Activities		Total	
	2017	2016	2017	2016	2017	2016
Revenues:						
Program revenues:						
Charges for services	\$ 4.2	\$ 4.8	\$ 33.8	\$ 32.4	\$ 38.1	\$ 37.2
Operating grants and contributions	0.1	1.2	-	-	0.1	1.2
Capital grants and contributions	1.6	1.2	0.2	-	1.8	1.2
General revenues:						
Taxes	21.2	20.1	-	-	21.2	20.1
Other general revenues	3.3	3.2	1.7	1.9	5.0	5.1
Total Revenues	30.5	30.5	35.7	34.3	66.2	64.8
Expenses:						
Governmental activities:						
General government	4.9	4.4	-	-	4.9	4.4
Public safety	11.7	11.9	-	-	11.7	11.9
Building	1.7	1.5	-	-	1.7	1.5
Transportation	8.7	8.3	-	-	8.7	8.3
Culture and recreation	1.3	0.9	-	-	1.3	0.9
Disaster and recovery	2.0	-	-	-	2.0	-
Interest on long-term debt	0.2	0.3	-	-	0.2	0.3
Business-type activities:						
Water and sewer	-	-	37.2	37.9	37.2	37.9
Recreation	-	-	-	0.4	-	0.4
Total Expenses	30.6	27.3	37.2	38.3	67.9	65.6
Excess revenues over expenses before transfers	(0.2)	3.2	(1.5)	(4.0)	(1.7)	(0.8)
Transfers	0.2	-	(0.2)	-	-	-
Change in net position	0.0	3.2	(1.7)	(4.0)	(1.7)	(0.8)
Net position, beginning	87.2	84.0	96.7	100.7	183.9	184.7
Net Position, end of year	\$ 87.3	\$ 87.2	\$ 95.0	\$ 96.7	\$ 182.3	\$ 183.9

Government Activities:

The total net position of the City's governmental activities increased \$0.1 million from \$87.2 million last fiscal year to \$87.3 million in the current fiscal year. The revenues were used to fund normal operating expenses and infrastructure projects. The City continues to benefit from the City Council's strategic direction, which has resulted in operating efficiencies and cost savings. The change in total net position over the past ten years is presented in the bar chart shown below:

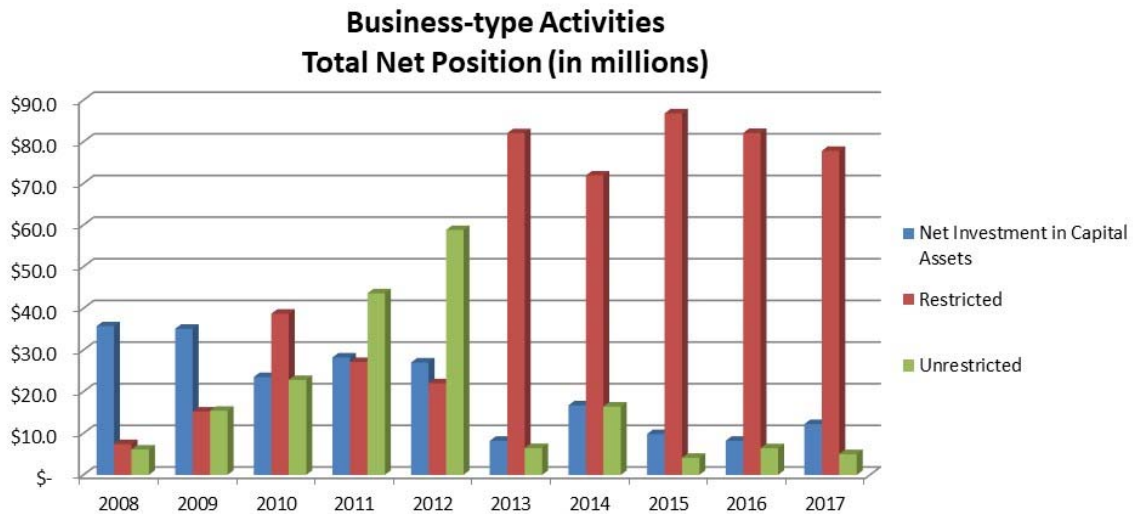


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Business-type Activities:

The City's total net position of the business-type activities decreased by \$1.7 million, or 1.7%, from \$96.7 million last fiscal year to \$95.0 million in the current fiscal year. In 2003, the City issued \$101 million in bonds for the acquisition of the water and sewer utility system for the island and an area adjacent to the island. The seven-year STRP plan that started in 2006 to replace deteriorating septic systems and provide a city-wide central sewer system was completed during the fiscal year.

The City's business-type activities investment in capital assets increased from last year by \$4.0 million, or 32.8%, primarily due to the new capital projects being completed.



Financial Analysis of the City's Funds

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. Traditional users of the governmental financial statements will find the fund financial statement presentation more familiar. The focus of the fund financial statements is on major *funds*, rather than *fund types*.

Governmental Funds: The focus of the City's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. The governmental funds presentation is designed to show the sources and uses of liquid resources. This is the manner in which the budget is typically developed. Such information is useful in assessing the City's financing requirements. In particular, *unassigned fund balance* may serve as a useful measure of the City's current financial resources available to spend for City operations.

As of the end of the current fiscal year, the City's *governmental funds* reported combined ending fund balances (non-spendable, restricted, assigned, and unassigned) of \$24.3 million, a decrease of \$1.3 million in comparison with the prior year. This decrease resulted primarily due to the use of funds in capital outlay expenditures.

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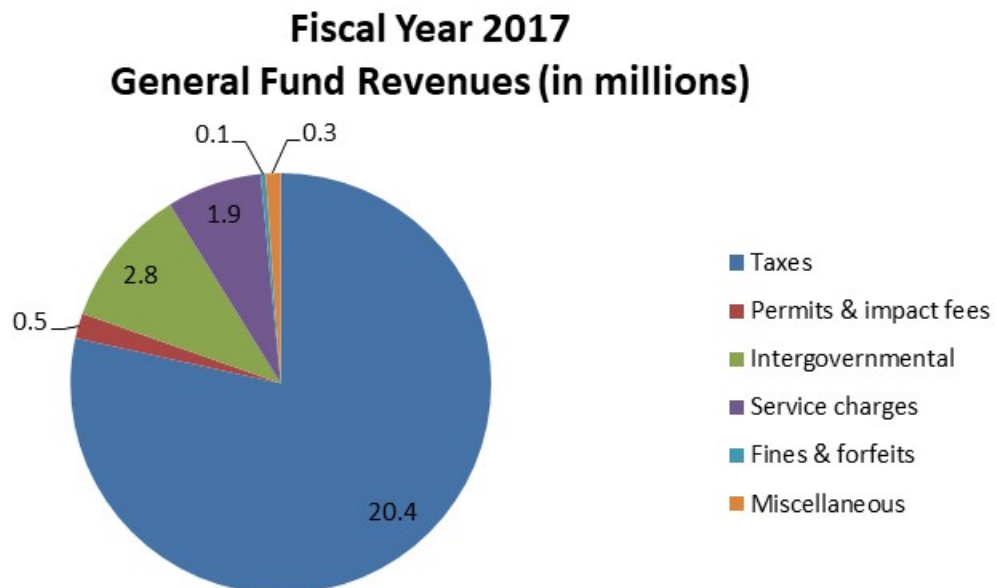
Assigned and unassigned fund balance is the portion of fund balance available for spending at the City's discretion. This year 65.8% of the total governmental fund balance constitutes assigned and unassigned fund balance. Of this amount, the Council has assigned or indicated its intention that \$9.7 million be used for the use of on-going capital improvement projects. Approximately \$6.3 million, including the City's financial reserve of \$4.8 million, is unassigned and available for future spending or emergencies and contingencies. The remaining \$1.5 million in unassigned fund balance is available for new spending.

The remainder of fund balance is *committed* (internal) or *restricted* (external) to indicate it is not available for new spending because it has already been appropriated by enabling legislation for specific purposes, including debt service, parks construction, road construction, and public safety services.

The *general fund* is the chief operating fund of the City. General tax revenues and other receipts that are not allocated by law or contractual agreement to another fund are accounted for in this fund. General operating expenditures, fixed charges, and capital improvement costs not paid through other funds are paid from this fund.

At the end of the current fiscal year, the general fund's total fund balance is \$9.2 million. The City has a long history of planning for contingencies and has a financial reserve policy which sets aside a 25% reserve of the prior year's budget, or approximately three months of normal general fund operating expenditures to cover emergencies and other contingencies that may occur.

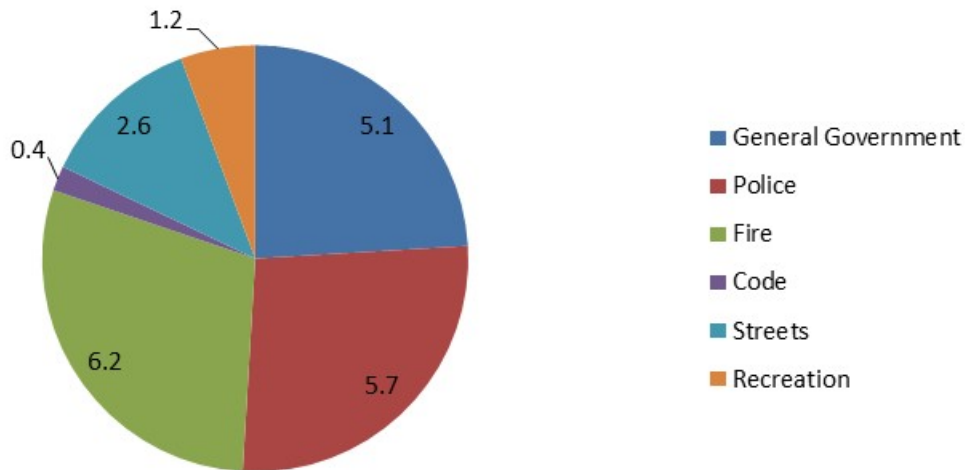
City Council has made a conscious decision to use ad valorem taxes (property taxes) as its primary revenue source for the general fund instead of diversifying its revenue base with other taxes, user fees, and charges for services. Total general fund revenues decreased \$0.1 million compared to last year. The pie chart below shows the breakdown by percentage of general fund revenues by type.



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Total general fund operating expenditures increased by \$1.5 million. Public safety expenditures decreased by \$0.4 million due to additional amounts contributed to pension plans in the prior. Expenditures for other departments, other than general government which had a \$1 million write off due to the settlement with Collier County over an interlocal agreement concerning Goodland Road, remained comparatively stable due to management's continued effort to operate in a more efficient manner. The pie chart below shows the breakdown of fiscal year 2017 general fund expenditures by department category.

Fiscal Year 2017 General Fund Expenditures (in millions)



The capital projects fund is the City's other major fund. Since its incorporation in 1997, the City has embarked upon major infrastructure projects throughout the city limits. Current projects focus on the on the repairs of bridges, road surfaces, drainage lines and maintenance of existing infrastructure and improvements to parks and open spaces for community events. An asset replacement fund was created in fiscal year 2010 to minimize this condition by allowing for a build up of reserves which can be used in future years. During fiscal year ended September 30, 2017, \$6.4 million in capital projects were completed.

Proprietary Funds: The City's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail. Proprietary funds account for services that are generally supported by user fees and charges to customers. Proprietary funds are presented on a total economic resource basis. Proprietary fund statements provide both short and long term financial information. The City's proprietary fund is composed of two enterprise funds and one internal service fund. Unrestricted net position for all enterprise funds at the end of the year was \$7.5 million. The City's major enterprise fund is the water and sewer utility fund and its non-major fund is the recreation fund.

The water and sewer utility began several major multi-year capital construction projects during 2006 and the City Council determined that it was in the best interest of the City to use the City's available resources during construction, thereby delaying the need for the issuance of debt and incurring interest

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expenses. In addition, the City obtained State Revolving Fund Loans from the Florida Department of Environment Protection for the financing of sewer assessment districts constructed each fiscal year, as well as permanent financing with other financial institutions which will be paid from the various sewer assessment districts.

Overall, the water and sewer utility fund's net position as shown on the fund financial statements decreased by \$1.5 million from \$95.8 million in the prior year to \$94.3 million at the end of this fiscal year. The majority of the decrease is a result of depreciation expense and its effect on net investment in capital assets. Operating revenues for the proprietary fund increased by \$1.8 million, or 5.6%, and operating expenses, not including depreciation and amortization costs, remained consistent compared to the prior year. Interest income decreased by \$0.3 million, or 16.7%, compared with the prior year. Interest expense also decreased by \$1.2 million, or 15%, compared with prior year due primarily to the advanced refunding of outstanding debt. Operating income before non-operating revenues, capital contributions, and transfers was \$3.8 million this fiscal year compared to \$2.5 million last fiscal year, representing an increase of \$1.3 million primarily due to an increase in revenues and a decrease in the contractual fees and supplies. Staff is closely monitoring impacts on revenues due to conservation, record weather conditions, and elasticity in volumetric usage due to the system's compulsory rate increases.

General Fund Budgetary Highlights and Charter Spending Cap

There was an increase of \$1,304,522 in appropriations in the general fund during the year end September 30, 2017. Historically, the City develops a conservative budget based upon 96% of ad valorem taxes, and between 90% and 95% of the State's various state-shared revenue projections due to the uncertainty in the economy. Actual revenue received was \$1.5 million more than budgeted. This was primarily due to a conservative budget approach on ad-valorem revenue. Permit and impact fees exceeded budget by \$0.4 million. In the long term we expect a downward trend in CST revenue due to the shift in telecommunications from land lines to wireless devices. Overall, departmental expenditures were in line with budgeted expenditures.

Charter Spending Cap: The City is governed by a spending cap in the City Charter, limiting the growth in expenditures to 3% plus the year-to-year change in the federal cost of living adjustment (COLA) from the preceding year. In September 2002, voters approved amending the spending cap by removing all expenditures of self-supporting or business-type enterprise funds and expenditures funded by grants, gifts, and impact fees from the calculation of expenditures covered by the spending cap.

Ordinance 14-08, approved by the City Council in August 2014, replaced Resolution 03-03 as adopted by City Council on January 13, 2003. The Ordinance establishes the legislative intent and procedures for the calculation of the expenditure limitations. Exhibit A of the Ordinance sets forth the following policies and procedures used to calculate the spending cap limits:

1. The term "operating expenditures" shall be interpreted as "expenditures from the operating budget of the City's Government Fund."
2. Expenditures from the operating budget shall include transfers into capital asset funds for future use.
 - a. GASB states that "expenditures represent the use or expected use of current financial resources" and that "expenditures of governmental fund resources" may give rise to general

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- capital assets, which are defined as “capital assets of the government that are not specifically related to activities reported in proprietary or fiduciary funds.”
- b. GASB Codification Chapter 1600.116 defines “expenditures” as decreases in net financial resources.”
 3. The term “prior year’s expenditures” shall be interpreted as the City’s determination of actual expenditures for the current year at the time the spending cap calculation is to be undertaken.
 4. The term “then current Federal COLA (Department of Labor, Bureau of Statistics, Consumer price Index)” shall be interpreted as the prior year’s COLA released by the Social Security Administration in October. That is starting with Fiscal Year 2015 the COLA used will be SSA COLA released in October 2013 (effective January 1, 2014).

As of September 30, 2017, any accumulated capital funds will remain in the capital projects assigned fund balance, as defined by the implementation of GASB 54, in order to exclude them in the future year’s spending cap calculation. For the fiscal year ended September 30, 2017, the City was in compliance with the Charter Spending Cap:

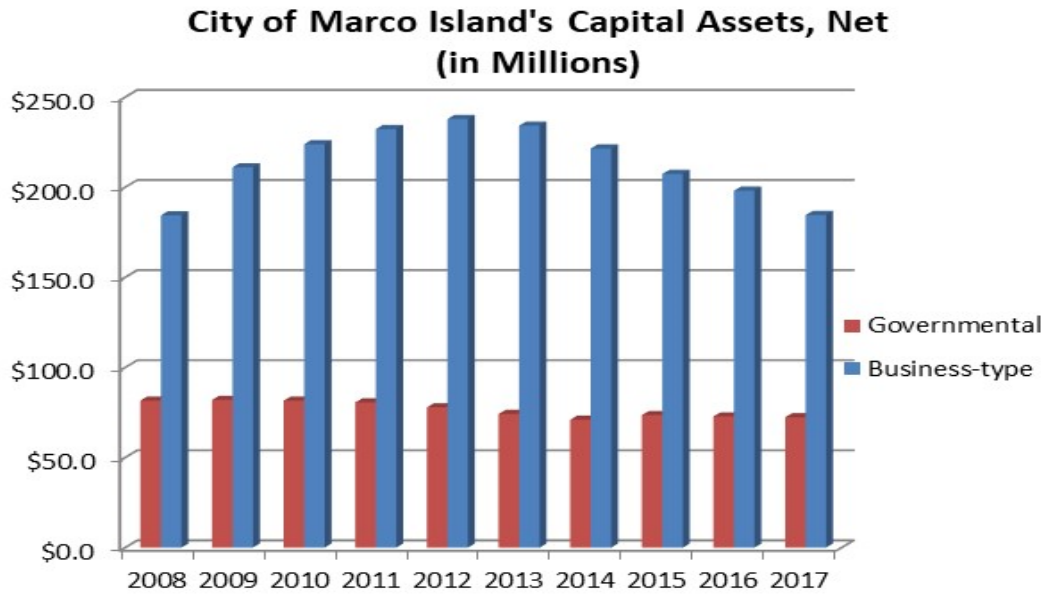
Expenditures fiscal year 2017	
General Fund	\$ 21,208,063
General Fund Transfer to Capital Projects Fund	3,890,511
Debt Service	<u>1,229,189</u>
Total of all funds subject to Spending Cap	<u>26,327,763</u>
Less expenditures funded by grants and gifts	(468,700)
Less expenditures funded by enterprise funds	<u>(908,112)</u>
Fiscal Year 2017 expenditures subject to Spending Cap	<u>24,950,951</u>
Plus percentages permitted by City Charter	
3% general expenditures increase	748,529
0.3% expected COLA released in October 2016	<u>74,853</u>
Total percentage increase permitted	<u>823,382</u>
Fiscal Year 2018 Spending Cap	<u><u>\$ 25,774,333</u></u>

Effective October 1, 2017, the fiscal year 2018 General Fund Budget approved by City Council was \$24,897,676. Annual contributions committed to the asset replacement reserve fund are covered by the spending cap while future expenditures from the fund will be exempt from the spending cap.

Capital Assets and Debt Administration

As expected, the City’s investment in capital assets and its use of debt financing has changed dramatically since the acquisition of the water and sewer system.

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Capital Assets: The City's capital assets balance (net of accumulated depreciation) for its governmental and business-type activities as of September 30, 2017, was \$257 million. The amount of net capital assets includes land, buildings, and improvements other than buildings, machinery and equipment.

The \$0.4 million decrease in governmental capital assets, net of depreciation, is primarily due to the depreciation on the City's infrastructure; \$13.5 million of the total decrease is related to business-type capital assets, net of depreciation. Additional information on capital assets can be found in Note 6 to the financial statements.

Long-term Debt: The City continues to have strong underlying bond ratings. Standard and Poor's, Moody's and Fitch have issued ratings of "AA+", "Aaa", and "AA+" for the City's general obligation bond issue; "AA", "Aa2", "AA" for the City's sales tax revenue bond issue; and "A+", "Aa3", and "AA-" for the Water and Sewer Utility system revenue bond issues, respectively.

At the end of the current year, the City had total long-term debt (excluding accrued compensated absences, OPEB liability, and deferred assessments) outstanding of \$189.9 million. Of this amount \$9.8 million is considered governmental obligations and the remaining \$180.1 million is business-type debt which is secured solely by specified water and sewer utility fund revenue sources.

Of the \$9.8 million in governmental debt, \$2.3 million was approved by referendum by the City's voters and an additional ad-valorem property tax is collected to retire this debt. This debt was partially refunded by the 2014 general obligation series. Sales tax revenue was pledged to cover \$1.6 million in governmental debt. Capital leases of \$0.5 million are secured by non-ad valorem revenue. In 2014 the City issued a non-ad valorem capital improvement revenue bond in the amount of \$6 million to finance the Smokehouse Bay Bridge project. The capital improvement revenue bond has a balance of \$5.4 million.

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City of Marco Island's Total Debt (in Millions)



As is common for a newly acquired utility system, the City has significant debt related to its water and wastewater utility system. Utility Series 2003 Revenue Bonds were issued to finance the acquisition of the water and wastewater utility system from Florida Water Services, Inc. in November 2003. Utility Series 2006 and 2008 Revenue Bonds and State revolving loan funds from 2007 and 2010 were used to finance additional capital improvements to the City's water and wastewater systems. During fiscal year 2010, tax-exempt bonds were issued to refund and reimburse the water and sewer utility for projects previously committed and spent as well as for supplementary projects. In addition, taxable bonds were issued to refund the prior year's bonds and to fund a deposit to the required debt service reserve. The Series 2011 revenue bonds took advantage of favorable market conditions to refund a portion of the original 2003 acquisition revenue bonds. The Series 2013 revenue bonds also took advantage of favorable market conditions to refund the remainder of the original 2003 acquisition revenue bonds and the 2008 series.

The debt service of the assessment bonds and state revolving loans are secured solely by the special assessments charged to each district. Construction of all seventeen districts is complete and permanent financing with a balance totaling \$44.5 million is in place. The remaining \$135.6 million of the total \$180.2 million in business-type debt is secured by the general rate base customer fees. Additional information on long-term debt can be found in Note 8 to the financial statements.

Economic Factors and Next Year's Budget and Rates

Collier County is located on the southwest coast of the Florida peninsula, across the state and directly west of the Miami-Fort Lauderdale area. The County's principal industries include tourism, agriculture, fishing and cattle ranching. Located on a barrier island along the Gulf of Mexico, the City's local economy is based primarily on upscale resort and retirement activities. It was originally marketed as a winter retreat for people with permanent homes in the north.

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The region enjoys a climate that is classified as sub-tropical and the City has a permanent population of approximately 17,000 which grows to 45,000 in peak winter season with the influx of part-time residents and tourists. The City is the second largest municipality (after the City of Naples) located in Collier County.

The County's median age of 50.3 is nearly 8.2 years older than the state's median age. More than 31% of the county's residents are 65 or older, compared with 19.9% statewide. Per the U.S. Department of Labor, the unemployment rate for Collier County is currently 3.8%, down 19% from a year ago.

The Collier County Tourist Development Commission (Naples, Marco Island, Everglades City Convention and Visitors Bureau) reported that the number of visitors to the three Collier County cities decreased by 1.1% compared to 2016 with the majority being Floridians at 40.6%, out-of-state at 33.5%, and the remaining 25.9% from other countries.

Property Values and Taxes: Real property values in Southwest Florida increased dramatically after incorporation in 1997 and prior to 2007. Taxable values on Marco Island increased from \$3.9 billion in 2001 to \$12 billion in 2007. As is true across the country, the growth proved to be unsustainable and eventually the housing bubble burst with values falling significantly. The City's assessed valuation decreased to approximately the 2005 values. The City's fiscal 2017 taxable value is \$9.3 billion which reflects an increase of 9.4% from the fiscal 2016 value. The City's fiscal 2018 taxable value is approximately \$9.9 billion which reflects an increase of 6.3% from the fiscal 2017 value.

Taxable Values



In 1995, the State of Florida limited all local governments' ability to raise property assessments of homestead property in any given year to 3% or cost of living, whichever is lower. Statutory changes to the state's tax laws were passed by the Florida Legislature in 2007 to assist homeowners when the taxable valuations were increasing substantially each year. Implementation of a key provision of the law started for budgets beginning in fiscal year 2008 and provided maximum millage rates for all local governments. In effect, the State required all governments to decrease property taxes by rolling back the operating millage rate to fiscal year 2002 values. Further tax reform regulations allow municipalities to increase the tax rate to the point where tax revenues equal the rolled-back tax rate plus growth in Florida personal income with a simple majority vote of the City Council.

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City residents enjoy a standard operating millage rate of 1.9966 mills in fiscal year 2017 that is only .1261 more than the pre-incorporation millage rate of 1.8705 from 1997 while services were expanded to include a local police presence, improved streets and drainage, and additional recreation capabilities. The City's charter mandated spending cap further limited increases to the City's millage rate during the years when the property values were increasing rapidly. The City has made a practice of living within its means. During the housing bubble expansion, many local governments throughout the State increased services and expanded their budgets while the City has made a practice of living within its means. Those same governments have endured severe cuts due to the unsustainable growth that the housing bubble created while the City has enjoyed a relative flat change to its millage rates.

Additionally, City Council and residents prefer the use of ad valorem taxes rather than diversifying the City's revenue base with the use of franchise fees and other optional taxes. The City's share of the total ad valorem tax bill received by the residents from Collier County is 18%. What this means to taxpayers is that 18 cents of every \$1 on the property tax bill is distributed for use within the City limits. The remainder of the property tax bill is spent by other taxing agencies including Collier County and the school board.

Water and Wastewater Utility: In November 2003, the City achieved a long-term objective with the acquisition of the local water and wastewater operations from a private provider. Prior to this 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 Inc. under contract. The City issued \$101 million in utility revenue bonds to purchase utility operations on Marco Island and at an adjacent area on the mainland of unincorporated Collier County also known as Marco Shores. The cost of the utility acquisition was approximately \$85 million and the additional funds were used to begin the upgrading of a neglected utility infrastructure. Annual funding for capital improvements are required by bond covenants and are deposited monthly to a renewal and replacement fund and a capital reserve fund. Likewise, subsequent project revenue was provided by bonds issued in 2006, 2007, 2008, 2010 and 2011.

The City's demand for fresh water consumption over the past few years has been declining; the wastewater production is growing as more properties are connecting to the central sewer system as part of the seven-year Septic Tank Replacement Program (STRP). Infrastructure for the 17 sewer assessment districts has been connected to the central wastewater system, thereby providing more sewage for treatment. Rather than disposing the treated effluent into deep injection wells, the City expanded its investment in the re-use water distribution system. Re-use or effluent water sales lower the usage of potable water and thus defer some capacity improvements to a future date. This deferment of expensive improvements to the water plant lowers the costs to all the current and future system users even if each individual user does not have access to re-use distribution system.

During fiscal 2013, as part of refinancing the 2003 and 2008 bond issues, the City Council adopted Resolution No. 13-16 ratifying and confirming its acceptance and approval to increase rates through and including fiscal year 2018. The base and volumetric rate increases of 7%, 2.1%, 2.1%, 2.2%, and 2.3% are scheduled to take effect at the beginning of each fiscal year from 2014 through 2018 respectively. The 2013 refunding bonds resulted in the release of reserves in the amount of \$6.6 million and a debt service reduction in the amount of \$3.4 million over the remaining term of the bonds. As of December 7, 2016, the City closed on the 2016 bond series which refunded the 2010A bond series. As of December 7, 2016, the City also fully paid off, legally defeased, the 2010B bond series with a balance of \$6.2 million by using available water and sewer impact fee funds that arose from several large

CITY OF MARCO ISLAND, FLORIDA

commercial projects on the island. The 2016 refunding bonds resulted in the release of reserves in the amount of \$1.9 million and a debt service reduction in the amount of \$6.9 million over the remaining term of the bonds. The legal defeasance of the 2010B bonds resulted in the release of reserves in the amount of \$.6 million and interest savings in the amount of \$4.4 million. An additional \$1.3 million in reserves will be released in 2020, on the bonds callable date.

Hideaway Beach District: The City is responsible for a legally separate special tax district for which the City maintains accounting records and is financially accountable. This component unit is funded through ad valorem taxes and has an independent advisory board that makes recommendations which are subsequently reviewed and ratified by City Council.

In 2003, voters in the Hideaway Beach neighborhood voted to tax themselves by establishing a special taxing district as the financing mechanism for the area's beach re-nourishment plan. The taxing district requested and received approval for a short-term loan from the City to implement the final phase of the plan in conjunction with funds received from the Collier County Tourist Development Council (TDC). Property values in Hideaway Beach increased by 9.3% compared to last fiscal year, and the tax levy in the Hideaway Beach District was lowered to 1.2 mils from the last fiscal year at 1.5 mils.

Requests for Information

This financial report is designed to provide interested users with a general overview of the City finances. An electronic version of this report and prior year's reports can be found on the City's website at www.cityofmarcoisland.com. 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

BASIC FINANCIAL STATEMENTS

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CITY OF MARCO ISLAND, FLORIDA

STATEMENT OF NET POSITION
September 30, 2017

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	Hideaway Beach District
ASSETS				
Cash and cash equivalents	\$ 11,994,253	7,275,017	19,269,270	1,431,553
Accounts receivable	41,403	2,640,360	2,681,763	-
Assessments - current portion	-	939,839	939,839	-
Assessments - interest	-	2,497,223	2,497,223	-
Accrued interest	-	93,087	93,087	-
Internal balances	(744,545)	744,545	-	-
Due from other governments	858,441	-	858,441	-
Prepaid items	38,113	7,739,314	7,777,427	-
Restricted Cash and cash equivalents	16,469,922	48,006,218	64,476,140	-
Assessments receivable	-	17,583,157	17,583,157	-
Net pension asset	-	-	-	-
Capital assets (net of accumulated depreciation)				
Land	15,363,360	17,415,059	32,778,419	-
Buildings	13,733,351	6,818,790	20,552,141	-
Improvements other than buildings	-	126,729,910	126,729,910	-
Infrastructure	101,694,159	99,823,164	201,517,323	-
Equipment	11,915,048	72,885,954	84,801,002	-
Accumulated depreciation	(71,993,120)	(140,090,595)	(212,083,715)	-
Construction in progress	1,686,671	984,510	2,671,181	-
Net capital assets	72,399,469	184,566,792	256,966,261	-
Total assets	101,057,056	272,085,552	373,142,608	1,431,553
DEFERRED OUTFLOWS OF RESOURCES				
Deferred outflows or resources - pensions	5,911,204	-	5,911,204	-
Deferred outflows or resources - loss on refunding	-	7,580,513	7,580,513	-
Total deferred outflows of resources	5,911,204	7,580,513	13,491,717	-

See accompanying notes to financial statements.

CITY OF MARCO ISLAND, FLORIDA

STATEMENT OF NET POSITION
September 30, 2017

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	Hideaway Beach District
LIABILITIES				
Accounts payable and other	3,698,416	523,191	4,221,607	7,642
Customer deposits	105,100	14,000	119,100	-
Accrued interest	85,167	3,064,086	3,149,253	-
Total current	3,888,683	3,601,277	7,489,960	7,642
Noncurrent liabilities				
Bonds, notes, and capital leases, net of unamortized discounts and premiums				
Due within one year	1,814,699	8,518,277	10,332,976	-
Due in more than one year	7,965,891	171,657,297	179,623,188	-
Compensated absences				
Due within one year	328,132	136,288	464,420	-
Due in more than one year	1,079,400	394,836	1,474,236	-
Net pension liability	1,462,784	-	1,462,784	-
OPEB	870,678	360,795	1,231,473	-
Total noncurrent liabilities	13,521,584	181,067,493	194,589,077	-
Total liabilities	17,410,267	184,668,770	202,079,037	7,642
DEFERRED INFLOWS OF RESOURCES				
Deferred inflows of resources - pensions	2,290,215	-	2,290,215	-
NET POSITION				
Net investment in capital assets	62,618,879	12,165,860	74,784,739	-
Restricted				
Capital Outlay	-	7,209,826	7,209,826	-
Debt Service	1,534,670	67,230,127	68,764,797	-
R&R	973,817	1,482,543	2,456,360	-
Impact and public safety programs	1,753,850	1,864,123	3,617,973	-
Building	3,459,262	-	3,459,262	-
Unrestricted	16,927,300	5,044,816	21,972,116	1,423,911
Total net position	\$ 87,267,778	94,997,295	182,265,073	1,423,911

See accompanying notes to financial statements.

CITY OF MARCO ISLAND, FLORIDA

STATEMENT OF ACTIVITIES
For the Year Ended September 30, 2017

Functions/Programs	Program Revenues					Net (Expense) Revenue and Changes in Net Assets		Component Unit Hialeah Beach District
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Primary Government Business-type Activities	Total	
Primary government								
Governmental activities								
General government	\$ 4,947,403	964,375	11,325	-	(3,971,703)	-	(3,971,703)	-
Police	4,727,400	116,729	-	-	(4,610,671)	-	(4,610,671)	-
Fire	6,606,013	446,183	114,754	273,963	(5,771,113)	-	(5,771,113)	-
Code	413,577	96,341	-	-	(317,236)	-	(317,236)	-
Building	1,724,854	1,973,453	-	-	248,599	-	248,599	-
Transportation	8,722,454	200,000	-	1,186,860	(7,335,594)	-	(7,335,594)	-
Physical environment	-	-	-	162,501	162,501	-	162,501	-
Disaster and recovery	1,955,216	-	-	-	(1,955,216)	-	(1,955,216)	-
Culture	1,343,864	423,041	5,400	-	(915,423)	-	(915,423)	-
Interest on long-term debt	205,166	-	-	-	(205,166)	-	(205,166)	-
Total governmental activities	30,645,947	4,220,122	131,479	1,623,324	(24,671,022)	-	(24,671,022)	-
Business-type activities								
Water and sewer	37,217,643	33,834,808	-	200,000	-	(3,182,835)	(3,182,835)	-
Total business-type activities	37,217,643	33,834,808	-	200,000	-	(3,182,835)	(3,182,835)	-
Total primary government	\$ 67,863,590	38,054,930	131,479	1,823,324	(24,671,022)	(3,182,835)	(27,853,857)	-
Component Unit								
Hialeah Beach District	50,541	-	-	-	-	-	-	(50,541)
Total business-type activities	50,541	-	-	-	-	-	-	(50,541)
General revenues								
Property taxes				18,808,680			18,808,680	531,323
Communication service tax				951,887			951,887	-
Other taxes				1,481,292			1,481,292	-
State shared revenue				2,732,383			2,732,383	-
Interest and investment earnings				304,575		1,537,973	1,842,548	5,927
Misc revenues				242,066		136,103	378,169	2
Transfers				179,006		(179,006)	-	-
Total general revenues and transfers				24,699,889		1,495,070	26,194,959	537,252
Changes in net position				28,867		(1,687,765)	(1,658,898)	486,711
Net position, beginning				87,238,911		96,685,060	183,923,971	937,200
Net assets - ending				\$ 87,267,778		94,997,295	182,265,073	1,423,911

See accompanying notes to financial statements.

CITY OF MARCO ISLAND, FLORIDA

Balance Sheet
Governmental Funds
September 30, 2017

	<u>General</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Total Nonmajor Funds</u>	<u>Total Governmental Funds</u>
Assets					
Pooled cash and cash equivalents	\$ 10,408,298	-	-	-	10,408,298
Receivables					
Accounts, net	33,311	-	-	8,092	41,403
Due from other governments	834,345	-	-	24,096	858,441
Prepaid items	38,113	-	-	-	38,113
Restricted cash and cash equivalents	-	1,534,669	11,334,547	3,600,706	16,469,922
Total assets	<u>\$ 11,314,067</u>	<u>1,534,669</u>	<u>11,334,547</u>	<u>3,632,894</u>	<u>27,816,177</u>
Liabilities					
Accounts payable	\$ 1,968,423	-	635,246	527,989	3,131,658
Accrued liabilities	81,033	-	1,619	200,601	283,253
Customer deposits	105,100	-	-	-	105,100
Total liabilities	<u>2,154,556</u>	<u>-</u>	<u>636,865</u>	<u>728,590</u>	<u>3,520,011</u>
Fund balances					
Nonspendable	38,113	-	-	-	38,113
Restricted					
Parks construction and operation	469,228	-	-	-	469,228
Road construction	1,273,300	-	-	-	1,273,300
Fire services	327,556	-	-	-	327,556
Police services	238,724	-	-	-	238,724
Debt service	-	1,534,669	-	-	1,534,669
Building services	-	-	-	3,459,262	3,459,262
Committed					
Asset replacement	-	-	973,817	-	973,817
Assigned					
Capital projects	-	-	9,723,865	-	9,723,865
Unassigned	6,812,590	-	-	(554,958)	6,257,632
Total fund balances	<u>9,159,511</u>	<u>1,534,669</u>	<u>10,697,682</u>	<u>2,904,304</u>	<u>24,296,166</u>
Total liabilities and fund balances	<u>\$ 11,314,067</u>	<u>1,534,669</u>	<u>11,334,547</u>	<u>3,632,894</u>	<u>27,816,177</u>

See accompanying notes to financial statements.

CITY OF MARCO ISLAND, FLORIDA

Reconciliation of the Balance Sheet—Governmental Funds
to the Statement of Net Position

September 30, 2017

Total fund balances governmental funds	\$	24,296,166
Total net assets reported for governmental activities in the Statement of Net Position is different because:		
Capital assets used in governmental activities are not financial resources and, therefore are not reported in the funds.		72,399,469
Accrued long term debt interest expense is not a financial use and, therefore is not reported in the funds.		(85,167)
Long term liabilities, including long-term debt, compensated absences, and other post-employment benefits are not due and payable in the current period, and therefore are not reported in the funds.		(12,058,800)
Net pension liabilities are long term and are not due and payable in the current period, and therefore are not reported in the funds.		(1,462,784)
Deferred outflows and inflows or resources related to pensions are applicable to future periods and, therefore, are not reported in the funds.		3,620,989
Internal service funds are used by management to charge the costs of certain activities, such as insurance, to individual funds. This is the portion of net position included in governmental activities in the Statement of Net Position.		<u>557,905</u>
Net position of governmental activities	\$	<u><u>87,267,778</u></u>

See accompanying notes to financial statements.

CITY OF MARCO ISLAND, FLORIDA

Statement of Revenues, Expenditures and Changes in Fund Balances
 Governmental Funds
 Year Ended September 30, 2017

	<u>General</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Total Nonmajor Funds</u>	<u>Total Governmental Funds</u>
Revenues					
Taxes	\$ 20,449,597	792,262	-	-	21,241,859
Permits, fees and assessments	470,067	-	-	1,874,739	2,344,806
Intergovernmental	2,822,740	-	1,213,228	24,096	4,060,064
Charges for services	1,901,426	-	-	-	1,901,426
Fines and forfeitures	105,369	-	-	-	105,369
Interest	188,307	8,513	85,332	10,948	293,100
Miscellaneous	132,506	1	386,000	4,778	523,285
Total revenues	<u>26,070,012</u>	<u>800,776</u>	<u>1,684,560</u>	<u>1,914,561</u>	<u>30,469,909</u>
Expenditures					
Current					
General government	5,052,667	-	-	-	5,052,667
Police services	5,740,361	-	-	-	5,740,361
Fire and rescue	6,213,876	-	-	29,417	6,243,293
Code compliance	393,913	-	-	-	393,913
Building services	-	-	-	1,706,895	1,706,895
Transportation	2,571,329	-	-	-	2,571,329
Culture and recreation	1,235,917	-	-	-	1,235,917
Emergency and disaster recovery	-	-	-	1,955,216	1,955,216
Debt service					
Principal	-	1,854,583	-	-	1,854,583
Interest and fiscal charges	-	216,777	-	-	216,777
Capital outlay	-	-	6,393,058	169,308	6,562,366
Total expenditures	<u>21,208,063</u>	<u>2,071,360</u>	<u>6,393,058</u>	<u>3,860,836</u>	<u>33,533,317</u>
Excess (deficiency) of revenues over (under) expenditures	<u>4,861,949</u>	<u>(1,270,584)</u>	<u>(4,708,498)</u>	<u>(1,946,275)</u>	<u>(3,063,408)</u>
Other financing sources (uses)					
Transfers in	90,785	1,327,722	4,787,320	1,566,880	7,772,707
Transfers out	(5,119,700)	(36,541)	(552,060)	(295,654)	(6,003,955)
Total other financing sources (uses)	<u>(5,028,915)</u>	<u>1,291,181</u>	<u>4,235,260</u>	<u>1,271,226</u>	<u>1,768,752</u>
Change in fund balances	<u>(166,966)</u>	<u>20,597</u>	<u>(473,238)</u>	<u>(675,049)</u>	<u>(1,294,656)</u>
Fund balances, beginning	9,326,477	1,514,072	11,170,920	3,579,353	25,590,822
Fund balances, end of year	<u>\$ 9,159,511</u>	<u>1,534,669</u>	<u>10,697,682</u>	<u>2,904,304</u>	<u>24,296,166</u>

See accompanying notes to financial statements.

CITY OF MARCO ISLAND, FLORIDA

Reconciliation of the Statement of Revenues,
Expenditures and Changes in Fund Balances of Governmental Funds
to the Statement of Activities
Year Ended September 30, 2017

Net change in fund balance - governmental funds	\$	(1,294,656)
Amounts reported for governmental activities in the Statement of Activities are different because:		
<p>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 and reported as depreciation expense. This is the amount by which capital outlays & interfund transfers in (\$6,695,972) were less than depreciation (\$7,063,446) in the current period.</p>		
		(367,474)
<p>Debt proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Position. Repayment of debt principal is an expenditure in governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position. This is the amount of debt payments during the current period.</p>		
Principal payments on debt		1,485,000
Principal payments on capital lease		369,583
<p>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 governmental funds.</p>		
Changes in compensated absences		(56,305)
Accrued interest		11,611
Other post-employment benefits		(95,575)
<p>Governmental funds report pension plan contributions as expenditures. However in the Statement of Activities, the cost of pension benefits earned net of employee contributions is reported as pension expense.</p>		
Net pension expense		1,165,813
<p>Internal service funds are used by management to charge the costs of certain activities, such as insurance, to the funds. This is the net revenue (expense) of internal service funds reported in governmental activities.</p>		
		<u>(1,189,130)</u>
Change in net position of governmental activities	\$	<u><u>28,867</u></u>

See accompanying notes to financial statements.

CITY OF MARCO ISLAND, FLORIDA

Statement of Net Position

Proprietary Funds

September 30, 2017

Assets	Business-type Activities—Enterprise Funds			Governmental Activities—
	Water and Sewer	Recreation (Nonmajor)	Total	Internal Service Fund
Current assets				
Pooled cash and cash equivalents	\$ 7,275,017	-	7,275,017	1,585,955
Accounts receivable, net	2,640,360	-	2,640,360	-
Prepaid items	7,739,314	-	7,739,314	-
Assessments receivable - current portion	939,839	-	939,839	-
Assessments interest receivable	2,497,223	-	2,497,223	-
Interest receivable	93,087	-	93,087	-
Restricted cash and cash equivalents	39,339,285	-	39,339,285	-
Total current assets	60,524,125	-	60,524,125	1,585,955
Noncurrent assets				
Restricted cash and cash equivalents	8,666,933	-	8,666,933	-
Assessments receivable	17,583,157	-	17,583,157	-
Capital assets				
Land	17,415,059	-	17,415,059	-
Transmissions and distributions	126,729,910	-	126,729,910	-
Infrastructure	99,823,164	-	99,823,164	-
Buildings and improvements	6,818,790	-	6,818,790	-
Vehicles and equipment	72,885,954	-	72,885,954	-
Construction in progress	984,510	-	984,510	-
Accumulated depreciation	(140,090,595)	-	(140,090,595)	-
Net capital assets	184,566,792	-	184,566,792	-
Total noncurrent assets	210,816,882	-	210,816,882	-
Total assets	271,341,007	-	271,341,007	1,585,955
Deferred outflows of resources				
Deferred amounts on refunding debt	7,580,513	-	7,580,513	-
Total deferred inflows of resources	7,580,513	-	7,580,513	-

See accompanying notes to financial statements.

CITY OF MARCO ISLAND, FLORIDA

Statement of Net Position

Proprietary Funds

September 30, 2017

	<u>Business-type Activities—Enterprise Funds</u>			<u>Governmental Activities— Internal Service Fund</u>
	<u>Water and Sewer</u>	<u>Recreation (Nonmajor)</u>	<u>Total</u>	
Liabilities				
Current liabilities				
Accounts payable	\$ 318,394	-	318,400	51,753
Accrued liabilities	204,791	-	204,791	231,752
Accrued interest	3,064,086	-	3,064,086	-
Customer deposits	14,000	-	14,000	-
Compensated absences, current portion	136,288	-	136,288	-
Bonds payable, current portion	5,483,501	-	5,483,501	-
Notes payable, current portion	3,034,779	-	3,034,776	-
Total current liabilities	<u>12,255,839</u>	<u>-</u>	<u>12,255,842</u>	<u>283,505</u>
Noncurrent liabilities				
Compensated absences	394,836	-	394,836	-
Bonds payable	126,165,867	-	126,165,867	-
Notes payable	45,491,433	-	45,491,430	-
Other post-employment benefits	360,795	-	360,795	-
Total noncurrent liabilities	<u>172,412,931</u>	<u>-</u>	<u>172,412,928</u>	<u>-</u>
Total liabilities	<u>184,668,770</u>	<u>-</u>	<u>184,668,770</u>	<u>283,505</u>
Net Position				
Net investment in capital assets	12,165,860	-	12,165,860	-
Restricted				
Capital Reserve	7,209,826	-	7,209,826	-
Debt service	67,230,127	-	67,230,127	-
Renewal and replacement	1,482,543	-	1,482,543	-
Impact and public safety programs	1,864,123	-	1,864,123	-
Unrestricted	4,300,271	-	4,300,271	1,302,450
Net position	\$ <u>94,252,750</u>	<u>-</u>	94,252,750	<u>1,302,450</u>
Adjustment to reflect internal service fund activities reflected in enterprise funds			<u>744,545</u>	
Net position, business-type activities			\$ <u>94,997,295</u>	

See accompanying notes to financial statements.

CITY OF MARCO ISLAND, FLORIDA

Statement of Revenues, Expenses and Changes in Fund Net Position

Proprietary Funds

Year Ended September 30, 2017

	<u>Business-type Activities—Enterprise Funds</u>			<u>Governmental</u>
	<u>Water and Sewer</u>	<u>Recreation (Nonmajor)</u>	<u>Total</u>	<u>Activities— Internal Service Fund</u>
Operating revenues				
Charges for services				
Total operating revenues	\$ 33,834,808	-	33,834,808	1,413,036
Operating expenses				
Personnel services	5,922,406	-	5,922,406	-
Insurance	662,952	-	662,952	1,049,377
Utilities	2,115,424	-	2,115,424	-
Contractual fees	970,530	-	970,530	-
Repairs and maintenance	925,835	-	925,835	16,515
Supplies	1,094,025	-	1,094,025	-
Rental and lease costs	16,230	-	16,230	-
Other expenses	839,529	-	839,529	-
Amortization	190,848	-	190,848	-
Depreciation	17,267,949	-	17,267,949	-
Total operating expenses	30,005,728	-	30,005,728	1,065,892
Operating income	3,829,080	-	3,829,080	347,144
Nonoperating revenues (expenses)				
Interest income	1,537,973	-	1,537,973	11,475
Interest expense	(6,829,437)	-	(6,829,437)	-
Miscellaneous expense	(354,906)	-	(354,906)	(45)
Other nonoperating income (expense)	165,956	(35,134)	130,822	14,469
Gain on sale of capital assets	5,281	-	5,281	-
Total nonoperating revenues (expenses)	(5,475,133)	(35,134)	(5,510,267)	25,899
Income (loss) before contributions and transfers	(1,646,053)	(35,134)	(1,681,187)	373,043
Capital contributions	200,000	-	200,000	-
Transfers in	7,650	-	7,650	-
Transfers out	(122,292)	(29,230)	(151,522)	(1,624,880)
Change in net position	(1,560,695)	(64,364)	(1,625,059)	(1,251,837)
Net position, beginning of year	95,813,445	64,364	95,877,809	2,554,287
Net position, end of year	\$ 94,252,750	-	94,252,750	1,302,450
Adjustment to reflect the internal service fund activities related to the enterprise funds			(62,706)	
Change in net position, business-type activities			\$ (1,687,765)	

See accompanying notes to financial statements.

CITY OF MARCO ISLAND, FLORIDA

Statement of Cash Flows
Proprietary Funds
Year Ended September 30, 2017

	Business-type Activities—Enterprise Funds			Governmental
	Water and Sewer	Recreation (Nonmajor)	Total	Activities— Internal Service Fund
Cash flows from operating activities				
Cash received from customers and users	\$ 33,793,436	-	33,793,436	1,413,036
Cash payments to suppliers	(16,035,794)	(3,487)	(16,039,281)	(860,005)
Cash payments to employees for services	(5,863,730)	(4,684)	(5,868,414)	-
Net cash provided (used) by operating activities	<u>11,893,912</u>	<u>(8,171)</u>	<u>11,885,741</u>	<u>553,031</u>
Cash flows from noncapital financing activities				
Transfers In	7,650	-	7,650	-
Transfers Out	(122,292)	(29,230)	(151,522)	(1,624,880)
Net cash (used) by noncapital financing activities	<u>(114,642)</u>	<u>(29,230)</u>	<u>(143,872)</u>	<u>(1,624,880)</u>
Cash flows from capital and related financing activities				
Proceeds from special assessments	2,921,527	-	2,921,527	-
Proceeds from issuance of debt	38,520,000	-	38,520,000	-
Premium from issuance of debt	4,621,831	-	4,621,831	-
Proceeds from sale of capital assets	5,281	-	5,281	-
Principal paid on long-term debt	(8,019,100)	-	(8,019,100)	-
Interest paid on long-term debt	(7,256,674)	-	(7,256,674)	-
Payments to escrow on debt refunding	(52,852,485)	-	(52,852,485)	-
Capital contribution	200,000	-	200,000	-
Other receipts (payments)	20,550	(35,134)	(14,584)	14,424
Acquisition and construction of capital assets	(3,752,107)	-	(3,752,107)	-
Net cash provided (used) by capital and related financing activities	<u>(25,591,177)</u>	<u>(35,134)</u>	<u>(25,626,311)</u>	<u>14,424</u>
Cash flows from investing activities				
Interest and investment earnings	<u>1,534,767</u>	<u>-</u>	<u>1,534,767</u>	<u>11,475</u>
Net cash provided (used) by investing activities	<u>1,534,767</u>	<u>-</u>	<u>1,534,767</u>	<u>11,475</u>
Net (decrease) in cash and cash equivalents	<u>(12,277,140)</u>	<u>(72,535)</u>	<u>(12,349,675)</u>	<u>(1,045,950)</u>
Cash and cash equivalents, beginning of year, restated	<u>67,558,375</u>	<u>72,535</u>	<u>67,630,910</u>	<u>2,631,905</u>
Cash and cash equivalents, end of year	<u>\$ 55,281,235</u>	<u>-</u>	<u>55,281,235</u>	<u>1,585,955</u>
Reconciliation of operating income to net cash provided (used) by operating activities				
Operating income	\$ 3,829,080	-	3,829,080	347,144
Adjustments to reconcile operating income to net cash provided (used) by operating activities				
Depreciation and amortization	17,458,797	-	17,458,797	-
Changes in assets and liabilities:				
Accounts receivable	(13,372)	-	(13,372)	-
Prepays and other assets	(7,735,706)	35,134	(7,700,572)	134,964
Accounts payable	(1,675,563)	(38,621)	(1,714,184)	38,867
Accrued liabilities	21,667	(4,684)	16,983	32,056
Customer deposits	(28,000)	-	(28,000)	-
Compensated absences	(10,457)	-	(10,457)	-
Other post-employment benefits	47,466	-	47,466	-
Net cash provided (used) by operating activities	<u>\$ 11,893,912</u>	<u>(8,171)</u>	<u>11,885,741</u>	<u>553,031</u>
Reconciliation of cash and cash equivalents				
Pooled cash and cash equivalents	\$ 7,275,017	-	7,275,017	1,585,955
Restricted cash and cash equivalents	<u>48,006,218</u>	<u>-</u>	<u>48,006,218</u>	<u>-</u>
	<u>\$ 55,281,235</u>	<u>-</u>	<u>55,281,235</u>	<u>1,585,955</u>

CITY OF MARCO ISLAND, FLORIDA

See accompanying notes to financial statements.

Statement of Fiduciary Net Position
Fiduciary Funds
September 30, 2017

	<u>Pension Trust Funds</u>
Assets	
Cash and cash equivalents	\$ 1,680,626
Contributions receivable	484,364
Investments, at fair value	
Government bonds	3,893,034
Corporate bonds	6,031,611
Equity securities	19,897,523
Real estate trust	750,000
Accrued interest	<u>11,970</u>
Total investments	<u>30,584,138</u>
Total assets	<u>32,749,128</u>
Net position	
Held in trust for pension benefits	<u>\$ 32,749,128</u>

See accompanying notes to financial statements.

CITY OF MARCO ISLAND, FLORIDA

Statement of Changes in Fiduciary Net Position
Fiduciary Funds
Year Ended September 30, 2017

	Pension Trust Funds
Additions	
Contributions	
Employer	\$ 3,087,537
Employee	36,052
State of Florida	484,364
Total contributions	3,607,953
Investment earnings	
Interest and dividend income	511,642
Net change in fair value of investments	2,749,898
Less investment expense	(212,662)
Net investment earnings	3,048,878
Total additions	6,656,831
Deductions	
Benefits paid	304,278
General administration	118,475
Total deductions	422,753
Change in net position	6,234,078
Net position, beginning of year	26,515,050
Net position, end of year	\$ 32,749,128

See accompanying notes to financial statements.

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

1. Summary of Significant Accounting Policies

(A) Reporting Entity

The City of Marco Island, Florida (the "City"), was established in a special election by mail ballot per Florida House of Representatives HB 1729 on August 28, 1997. 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.

As required by Governmental Accounting Standards Board (GASB), these financial statements present the government and its component units, entities for which the government is considered to be financially accountable. Discretely presented component units, on the other hand, are reported in a separate column in the government-wide financial statements to emphasize they are legally separate from the 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. The Hideaway Beach District was established on April 19, 2004, by the voters within the Hideaway Beach neighborhood to assess a special ad valorem tax within Hideaway.

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

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

(B) Government-wide and Fund Financial Statements

The basic financial statements consist of the government-wide financial statements and fund financial statements. Both sets of statements distinguish between the governmental and business-type activities of the City.

Government-wide financial statements include a Statement of Net Position and a Statement of Activities. These statements report on the government as a whole and provide a consolidated financial picture of the government. As part of the consolidation process, inter-fund activities are eliminated to avoid distorted financial results. The amounts reported as internal balances represent the residual amounts due between governmental and business-type activities. Fiduciary funds of the government are also excluded from this presentation since these resources are not available for general government funding purposes.

CITY OF MARCO ISLAND, FLORIDA
NOTES TO FINANCIAL STATEMENTS

The Statement of Net Position reports all financial and capital resources of the City's governmental and business-type activities. Governmental activities are those supported by taxes and intergovernmental revenues. Business type activities rely to a significant extent on fees and charges for support. The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges for goods or services that are recovered directly from customers for services rendered, 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 fiduciary funds 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.

Since the governmental fund financial statements are presented on a different measurement focus and basis of accounting than the government-wide statements, reconciliation is provided which briefly explains the adjustments necessary to reconcile the results of governmental fund accounting to the government-wide presentations.

(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.

Pension trust funds recognize employer and state contributions in the period in which the contributions are due, and the City has made a formal commitment to provide the contributions. Retirement benefits and refunds are recognized when due and payable in accordance with the terms of the Plan. The financial statements of the Plans are prepared using the *accrual basis* of accounting. Plan member contributions are recognized in the period in which the contributions are due.

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. Under the modified accrual basis of accounting, 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. Grant revenues are an exception, as they are considered available when eligible expenditures have occurred even though they may be collected for up to one year after the current fiscal year end. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. Debt service expenditures and accrued compensated absences expenditures are recorded only when payment is due.

CITY OF MARCO ISLAND, FLORIDA
NOTES TO FINANCIAL STATEMENTS

Property taxes, public services taxes, franchise taxes, licenses and permits, and interest income associated with the current fiscal period are all considered to be susceptible to accrual and are recorded as earned since they are measurable and available. All other revenue items are considered to be measurable and available only when cash is received by the City.

(D) Major Funds and Basis of Presentation

The accounts of the City are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for using a separate set of self-balancing accounts, which comprise its assets and deferred outflows of resources, liabilities and deferred inflows of resources, fund equities, revenues and expenditures or expenses. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

Accounting principles generally accepted in the United States of America set forth minimum criteria (percentage of the assets and deferred outflows of resources, liabilities and deferred inflows of resources, revenues or expenditures/expenses of either fund category or the governmental and enterprise combined), for the determination of major funds. The non-major funds are presented in one column in the fund financial statements.

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 and rescue services, planning and zoning, code compliance, transportation, culture and recreation, and general administration are provided by the general fund.
- The *debt service fund* accounts for the resources accumulated and payments made for principal and interest on long-term debt of the governmental funds.
- 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 *special revenue funds* account for revenue sources that are legally restricted to expenditure for specific purposes.
- The *internal service fund* accounts for the collection of premiums, accumulation of reserves and payment of insurance claims for the City.
- The *pension trust funds* account for the activities of the Firefighters' and Police Officers' Pension Plans, which accumulate resources for defined benefit payments to qualified employees.

CITY OF MARCO ISLAND, FLORIDA
NOTES TO FINANCIAL STATEMENTS

The accounting policies and the presentation of the financial report of the City have been designed to conform to accounting principles generally accepted in the United States of America as applicable to governmental units, in accordance with statements promulgated by the Governmental Accounting Standards Board.

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

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

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

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

(E) Assets, Liabilities and Net Position or Equity

(1) Deposits and Investments

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

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

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

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

CITY OF MARCO ISLAND, FLORIDA
NOTES TO FINANCIAL STATEMENTS

(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 inter-fund loans) or "advances to/from other funds" (i.e., the non-current portion of inter-fund 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 the 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.

Water and related wastewater charges to customers are based on actual water consumption. Consumption is determined on a monthly cycle basis. The City recognizes as revenue the estimated consumption as of September 30.

(3) Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements. The cost of these items are recorded as expenditures when consumed rather than when purchased.

(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 their use is limited by applicable bond covenants. Based on the bond covenants, most of these are maintained in separate custodial accounts.

(5) Capital Assets

Capital assets include property, plant, equipment and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items). They are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Proprietary fund capital assets are also recorded in their respective fund 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.

CITY OF MARCO ISLAND, FLORIDA
NOTES TO FINANCIAL STATEMENTS

Interest costs are capitalized when incurred by proprietary funds on debt where proceeds were used to finance the construction of assets. Interest earned on proceeds of tax-exempt borrowing arrangements restricted to the acquisition of qualifying assets is offset against interest costs in determining the amount to be capitalized.

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

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

Buildings and improvements	20-40 Years
Transmission and distribution	20-40 Years
Infrastructure	10-40 Years
Vehicles and equipment	5-10 Years

(6) Deferred Outflows/Inflows of Resources

The Statement of Net Position includes a separate section for deferred outflows of resources. This represents the usage of net position applicable to future periods and will not be recognized as expenditures until the future period to which it applies. The Statement of Net Position also includes a separate section, listed below total Liabilities, for deferred inflows of resources. This represents the acquisition of net position applicable to future periods and will not be recognized as revenue until the future period to which it applies.

The City includes deferred charges on refunded debt as deferred outflows of resources in the Government-wide Statement of Net Position. A deferred charge on refunded debt is the difference between the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the remaining life of the refunded (old) or the life of the refunding (new) debt.

The City also has deferred outflows and inflows related to the recording of changes in its net pension liability. Certain changes in the net pension liability are recognized as pension expense over time instead of all being recognized in the year of occurrence. Experience gains or losses result from periodic studies by the Plan's actuary which adjust the net pension liability for actual experience for certain trend information that was previously assumed, for example the assumed dates of retirement of plan members. These experience gains or losses are recorded as deferred outflows of resources or deferred inflows of resources and are amortized into pension expense over the expected remaining service lives of plan members. Changes in actuarial assumptions which adjust the net pension liability are also recorded as deferred outflows of resources or deferred inflows of resources and are amortized into pension expense over the expected remaining service lives of plan members. The difference between projected investment return

CITY OF MARCO ISLAND, FLORIDA
NOTES TO FINANCIAL STATEMENTS

on pension investments and actual return on those investments is also deferred and amortized against pension expense over a five year period.

(7) Compensated Absences

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

Full-time City employees earn from 160 to 224 hours annually, based upon years of service, and can accrue up to 720 hours. Sworn Police Officers under a collective bargaining agreement earn from 176 to 248 hours annually, based upon years of service, and can accrue up to 720 hours. City Firefighters under union contract earn from 216 to 360 hours annually, based upon years of service, and can accrue up to 936 hours. Upon termination, these employees are entitled to all accumulated earned leave hours paid out at the hourly rate.

(8) Long-term Obligations

Long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund financial statements. Bond premiums and discounts 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.

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.

(9) Nature and Purpose of Classifications of Net Position/Fund Balances

Net position is the result of assets and deferred outflows of resources less liabilities and deferred inflows of resources. The net position of the government-wide and proprietary funds are categorized as net investment in capital assets, reduced by accumulated depreciation and any outstanding debt incurred to acquire, construct or improve those assets excluding unexpended bond proceeds, restricted or unrestricted. The first category represents net position related to property, plant, equipment and infrastructure. The restricted category represents the balance of assets restricted by requirements of revenue bonds and other externally imposed constraints or by legislation in excess of the related liabilities payable from restricted assets. Unrestricted net position consists of the net position not meeting the definition of either of the other two components.

The City classifies fund balance in accordance with GASB Statement No. 54 *“Fund Balance Reporting and Governmental Fund Type Definitions.”* This Statement enhances the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. In the fund financial statements,

CITY OF MARCO ISLAND, FLORIDA
NOTES TO FINANCIAL STATEMENTS

governmental funds report fund classifications that comprise a hierarchy based primarily on the extent to which the City is bound to honor constraints on the specific purposes for which amounts in those funds can be spent.

Nonspendable fund balance include amounts that cannot be spent because they are either: (a) not in spendable form or (b) legally or contractually required to be maintained intact.

Restricted fund balance amounts that are restricted to specific purposes either by: (a) constraints placed on the use of resources by creditors, grantors, contributors, or laws or regulations of other governments or (b) imposed by law through constitutional provisions or enabling legislation are classified as restricted fund balances.

Committed fund balance amounts that can only be used for specific purposes pursuant to constraints imposed by the City Council through an ordinance or resolution, which are equally binding, are classified as committed fund balances.

Assigned fund balance amounts that are constrained by the City's intent to be used for specific purposes but are neither restricted nor committed are classified as assigned fund balances. Assignments are made by the City Manager based on Council direction through a resolution.

Unassigned fund balance represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the general fund.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources (committed, assigned and unassigned) as they are needed. When unrestricted resources (committed, assigned and unassigned) are available for use it is the City's policy to use committed resources first, then assigned, and then unassigned as they are needed but reserves the right to selectively defer the use of these funds.

(10) Financial Reserve Policy

The City maintains an adequate General Fund balance to provide liquidity in the event of an economic downturn or natural disaster and management administers the Council's direction for an Emergency Reserve of 25% of the proposed fiscal year General Fund Operating Budget. This amount is included in the General Fund unassigned fund balance and represents \$6,224,419 of the \$6,812,590 unassigned fund balance at September 30, 2017.

(11) Net Position

In the government-wide financial statements, the net investment in capital assets is capital assets net of related debt for the governmental activities and business-type activities, if applicable. Debt relating to capital assets is issued subsequently to the utility capital asset purchase in many instances, due to the nature of the utility capital projects with the septic tank replacement program. Capital assets are acquired using temporary financing which is later refunded when permanent bonds and notes are issued.

CITY OF MARCO ISLAND, FLORIDA
NOTES TO FINANCIAL STATEMENTS

(F) Other Policies

(1) 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 tax levy is based on taxable assessed real and personal property values totaling \$8.5 billion for fiscal year 2016 and \$9.3 billion for fiscal year 2017. Details of the tax calendar are presented below:

Lien Date	January 1, 2016
Levy Date	November 1, 2016
Installment Payments	
First Installment	No Later Than June 30, 2016
Second Installment	No Later Than September 30, 2016
Third Installment	No Later Than December 31, 2016
Fourth Installment	No Later Than March 31, 2017
Regular Payments	
Discount Periods	November 2016 through February 2017
No Discount Period	After March 1, 2017
Delinquent Date	April 1, 2017

(2) Property Tax Limitation

The City is permitted by state statutes to levy taxes up to 10 mills of assessed value. The millage rate levied by the City for the fiscal year ended September 30, 2017, was 1.99. Current tax collections for the City were approximately 96.7% of the total tax levy.

(3) Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

(4) Encumbrances

Budgets in governmental funds are encumbered upon issuance of purchase orders, contracts or other forms of legal commitments. While appropriations lapse at the end of the fiscal year, the succeeding year's budget ordinance specifically provides for the re-appropriation of year-end encumbrances.

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

2. Stewardship, Compliance and Accountability

Annual budgets are adopted on a basis consistent with generally accepted accounting principles and are prepared for all governmental funds. Prior to May 1, all agencies of the government submit requests for appropriations to the City Manager so that a budget may be prepared. During August, 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. The City Council has authorized the City Manager to amend, modify or otherwise adjust the operating budget to a maximum limit of \$50,000 per fiscal year. The legal level of budgetary control (i.e., the level at which expenditures may not legally exceed appropriations) is the fund level.

At September 30, 2017, the grants fund, a nonmajor fund, has a deficit fund balance of \$554,958. The reason for the deficit is related to expenditures incurred for recovery from Hurricane Irma. The City is expecting reimbursement of these expenditures through grants, however, the corresponding revenue was not measurable as of the fiscal year end.

Encumbrance accounting is employed in all City funds. Encumbrances (i.e., purchase orders, contracts) outstanding at year end lapse and do not constitute expenditures or liabilities however, any approved commitments will be re-appropriated and honored during the subsequent year.

Certain budgeted expenditures are subject to a "spending cap." These expenditures are limited to an increase from the prior year's budgeted expenditures of 3% plus the then-current Social Security cost-of-living adjustment. This limitation was amended and clarified in 2002 by voter referendum and in 2014 by Council Ordinance replacing the 2003 Council Resolution. The spending cap for the 2017 fiscal year, as adopted by City Council, was \$27,037,556. The final actual amount for the 2017 fiscal year was \$26,327,753, which was in accordance with the spending cap limit.

3. Deposits and Investments

Cash and Equivalents include cash on hand, amounts in demand and time deposits and short-term Investments with original maturity of three months or less from the date acquired by the City. All of the City's deposits are held in qualified public depositories pursuant to State of Florida Statutes, Chapter 280, Security for Public Deposits Act. Under the Act, every qualified public depository shall deposit with the Finance Director eligible collateral of the depository to be held subject to his or her order. All collateral must be deposited with an approved financial institution. Any potential 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.

Investments include a wide range of securities that the City is authorized to invest in such as certificates of deposit, money market funds, U.S. Treasury obligations, State and U.S. Government Agencies and Enterprises, State and Local Government Series, the State Board of Administration investment pool, the Florida Municipal Investment Trust, mutual funds and repurchase agreements. The City's investment practices are governed by Chapter 280 and 218, Florida Statutes, City Code of Ordinances, Article VI, Section 2, the adopted investment policy, and various legal covenants related to

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

outstanding bond issues. For all investments authorized by statute and policy, the City applies the "Prudent Person Rule" when developing investment strategies. The City uses only financial institutions qualified as public depositories by the State of Florida or "approved" security dealers to place its investments unless bond covenants specifically require other financial institutions to be used.

The Florida Municipal Investment Trust (Municipal Trust) was created under the laws of the State of Florida to provide eligible units of local government with an investment vehicle to pool their surplus funds and to reinvest such funds in one or more investment portfolios under the direction and daily supervision of an investment advisor. The Florida League of Cities serves as the administrator, investment manager and secretary-treasurer of the Trust.

Throughout the fiscal year the City also utilizes Salem Trust Securities as its custodial agent for individual investments it transacts throughout the year. Salem Trust is recognized as the leading provider of custodial and benefits payment services to municipalities throughout the southeast United States.

As of September 30, 2017, the City and its component unit had the following deposits and investments:

<u>Deposit and Investment Type</u>	<u>No Specific Maturity</u>	<u>Matures In Less Than One Year</u>	<u>Matures in 1-5 Years</u>	<u>Matures in 5-10 Years</u>	<u>Matures in 10+ Years</u>	<u>Total (at Fair Value)</u>
Deposits with Bank	\$ 4,334,998	-	-	-	-	4,334,998
Money Market Funds	10,475,392	-	-	-	-	10,475,392
U.S. Government Securities	-	-	-	-	4,207,105	4,207,105
FMIvT	-	-	66,159,468	-	-	66,159,468
Total Deposits and Investments	\$ 14,810,390	-	66,159,468	-	4,207,105	85,176,963

Investments and cash held on deposit with banks for the discretely presented component unit as of September 30, 2017, is \$1,431,553.

Fair Value Measurement: The City categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset.

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

The City's investments at September 30, 2017, are reported as follows:

	Amount	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments by fair value level				
Bonds and Notes	\$ 4,207,105	-	4,207,105	-
Total investments by fair value level	<u>\$ 4,207,105</u>	<u>-</u>	<u>4,207,105</u>	<u>-</u>
Investments measured at the net asset value (NAV)				
FMIvT 0-2 Year High Quality Bond	\$ 28,808,812			
FMIvT 1-3 Year High Quality Bond	37,350,656			
Total investments measured at NAV	<u>66,159,468</u>			
Total investments measured at fair value	<u>\$ 70,366,573</u>			
		Unfunded	Redemption	Redemption
Investments measured at NAV	Fair Value	Commitments	Frequency (if	Notice
			Currently Eligible)	Period
FMIvT 0-2 Year High Quality Bond	\$ 28,808,812	-	-	-
FMIvT 1-3 Year High Quality Bond	37,350,656	-	-	-
Total investments measured at NAV	<u>\$ 66,159,468</u>			

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 for debt service requirements, to maturities of five years or less. The FMIvT uses a weighted average days to maturity (WAM) method. A portfolio's WAM reflects the average maturity in days based on final maturity or reset date, in the case of floating rate instruments. WAM measures the sensitivity of the portfolio to interest rate changes. The FMIvT 0-2 Year High Quality Bond has a WAM of .80 in years and the FMIvT has a WAM of 1.50 in years. The investment maturities of the pension trust funds are not limited.

Credit Risk: While authorized by policy, the City has no investments in commercial paper, bankers' acceptances, or corporate bonds. Federal agencies carry only an implicit guarantee from the government and are not full faith and credit investments such as U.S. Treasury Bills and Bonds. The City also has investments of \$4,207, 105 in State of Wisconsin Build America Bonds, rated Aa2, as part of its debt service reserves which parallel the 20 year life of the 2010A series issued.

The City holds investments with the Florida Municipal Investment Trust (FMIvT), an external investment pool under GASB 40. These investments are held in 0 to 3 year high quality bonds with an AAA Standard & Poor's rating. External financial statements are available at www.floridaleagueofcities.com/finance. The City also uses Salem Trust in a custodial capacity for its debt services reserves as required to be set aside by the individual debt issues. The investments include both U.S. Government Securities and Money Market Funds.

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

In its investment policy, the City specifies that in satisfying the investment objectives of safety of capital, liquidity of funds, and investment income, the objective will be to mitigate credit risk and interest rate risk. Potential market risk will be limited as the City's cash needs are evaluated.

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

<u>Investment Type</u>	<u>Maximum Portfolio Allocation</u>	<u>Maximum Investment with any Institution</u>
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 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

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 25% to 200% 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. Investment securities are purchased on a delivery-vs-payment basis through third party safekeeping accounts.

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

The Pension Trust Fund investments are determined by the Board of Trustees of each pension trust plan. The portfolios of the Pension Trust Funds have long-term growth strategy and have a target allocation of 60% common stocks and 40% bond funds, with a maximum of 10% of the portfolios being invested in foreign investments. The investment policy requires that all fixed income securities must hold a rating in one of the three highest classifications by a major rating service.

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

As of September 30, 2017, the Pension Plans had the following deposits and investments:

<u>Deposit and Investment Type</u>	<u>No Specific Maturity</u>	<u>Matures In Less Than One Year</u>	<u>Matures in 1-5 Years</u>	<u>Matures in 5-10 Years</u>	<u>Matures in 10+ Years</u>	<u>Total (at Fair Value)</u>
Deposits with bank	\$ 26,717	-	-	-	-	26,717
Money market funds	1,653,909	-	-	-	-	1,653,909
Government bonds	-	-	3,893,034	-	-	3,893,034
Corporate bonds	-	-	6,031,611	-	-	6,031,611
Equity securities	19,897,523	-	-	-	-	19,897,523
Real estate trust	-	-	750,000	-	-	750,000
Total Deposits and Investments	<u>\$ 21,578,149</u>	<u>-</u>	<u>10,674,645</u>	<u>-</u>	<u>-</u>	<u>32,252,794</u>

The Pension Trust Fund's investments at September 30, 2017, are reported as follows:

		<u>Fair Value Measurements Using</u>		
		<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
Investments by fair value level	<u>Amount</u>			
Mutual Funds				
Government bonds	\$ 3,893,034	3,893,034	-	-
Corporate bonds	6,031,611	6,031,611	-	-
Equity securities	19,897,523	19,897,523	-	-
Total investments by fair value level	<u>\$ 29,822,168</u>	<u>29,822,168</u>	<u>-</u>	<u>-</u>
Investments measured at NAV	<u>Fair Value</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency (if Currently Eligible)</u>	<u>Redemption Notice Period</u>
Real estate trust	<u>\$ 750,000</u>	-	-	-
Total investments measured at NAV	<u>\$ 750,000</u>			

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

4. Receivables

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

	<u>Governmental Activities</u>		<u>Business-type Activities</u>	<u>Total</u>
	<u>General</u>	<u>Nonmajor</u>	<u>Water and Sewer</u>	
Receivables				
Accounts	\$ 225,639	8,092	2,672,437	2,906,168
Assessments	-	-	18,522,996	18,522,996
Due from other governments	834,345	24,096	-	858,441
Interest	-	-	93,087	93,087
Assessments, interest	-	-	2,497,223	2,497,223
Gross receivables	1,059,984	32,188	23,785,743	24,877,915
Less allowance for uncollectibles	192,328	-	32,077	224,405
Net total receivables	<u>\$ 867,656</u>	<u>32,188</u>	<u>23,753,666</u>	<u>24,653,510</u>

5. Inter-fund Transfers

For the year ended September 30, 2017, the inter-fund transfers were as follows:

<u>Transfer Out</u>	<u>Transfer In</u>					<u>Total</u>
	<u>General Fund</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Nonmajor Grants</u>	<u>Water & Sewer</u>	
General	\$ -	1,229,189	3,890,511	-	-	5,119,700
Nonmajor funds	61,555	-	226,449	-	7,650	295,654
Water & Sewer	-	61,992	60,300	-	-	122,292
Recreation Enterprise	29,230	-	-	-	-	29,230
Self-Insurance	-	-	58,000	1,566,880	-	1,624,880
Total	<u>\$ 90,785</u>	<u>1,291,181</u>	<u>4,235,260</u>	<u>1,566,880</u>	<u>7,650</u>	<u>7,191,756</u>

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

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

6. Capital Assets

Capital asset balances and activity for the year ended September 30, 2017, were as follows:

	<u>Beginning</u>	<u>Increases</u>	<u>(Decreases)</u>	<u>Ending</u>
Governmental Activities				
Capital assets not being depreciated:				
Land	\$ 15,363,360	-	-	15,363,360
Construction in progress	1,118,742	5,236,485	(4,668,556)	1,686,671
Total capital assets not being depreciated	<u>16,482,102</u>	<u>5,236,485</u>	<u>(4,668,556)</u>	<u>17,050,031</u>
Capital assets being depreciated:				
Buildings and improvements	10,370,375	3,362,976	-	13,733,351
Vehicles and equipment	10,855,918	1,292,950	(233,820)	11,915,048
Road network	46,583,604	161,563	-	46,745,167
Storm water	16,769,289	883,903	-	17,653,192
Pathway	4,570,865	145,559	-	4,716,424
Parks	5,865,880	179,603	-	6,045,483
Bridge network	25,495,246	101,489	-	25,596,735
Beach and waterway	937,158	-	-	937,158
Total capital assets being depreciated	<u>121,448,335</u>	<u>6,128,043</u>	<u>(233,820)</u>	<u>127,342,558</u>
Accumulated depreciation for:				
Buildings and improvements	(4,774,088)	(416,264)	-	(5,190,352)
Vehicles and equipment	(8,414,948)	(1,126,470)	233,820	(9,307,598)
Road network	(33,130,368)	(3,034,017)	-	(36,164,385)
Storm water	(8,194,617)	(881,147)	-	(9,075,764)
Pathway	(2,174,557)	(177,305)	-	(2,351,862)
Parks	(1,844,424)	(354,561)	-	(2,198,985)
Bridge network	(6,285,151)	(1,016,005)	-	(7,301,156)
Beach and waterway	(345,341)	(57,677)	-	(403,018)
Total accumulated depreciation	<u>(65,163,494)</u>	<u>(7,063,446)</u>	<u>233,820</u>	<u>(71,993,120)</u>
Total capital activities being depreciated, net	<u>56,284,841</u>	<u>(935,403)</u>	<u>-</u>	<u>55,349,438</u>
Total governmental activities capital assets, net	\$ <u>72,766,943</u>	<u>4,301,082</u>	<u>(4,668,556)</u>	<u>72,399,469</u>
Business-type Activities				
Capital assets not being depreciated:				
Land	\$ 17,415,059	-	-	17,415,059
Construction in progress	5,621,328	1,940,240	(6,577,058)	984,510
Total capital assets not being depreciated	<u>23,036,387</u>	<u>1,940,240</u>	<u>(6,577,058)</u>	<u>18,399,569</u>
Capital assets being depreciated:				
Transmission and distribution	126,358,635	371,275	-	126,729,910
Infrastructure	93,692,901	6,130,263	-	99,823,164
Buildings and improvements	6,814,964	67,680	(63,854)	6,818,790
Vehicles and equipment	71,258,488	1,819,707	(192,241)	72,885,954
Total capital assets being depreciated	<u>298,124,988</u>	<u>8,388,925</u>	<u>(256,095)</u>	<u>306,257,818</u>
Accumulated depreciation for:				
Transmission and distribution	(39,799,855)	(1,924,289)	-	(41,724,144)
Infrastructure	(34,638,144)	(10,525,154)	-	(45,163,298)
Buildings and improvements	(2,891,897)	(264,210)	7,982	(3,148,125)
Vehicles and equipment	(45,713,711)	(4,554,296)	212,979	(50,055,028)
Total accumulated depreciation	<u>(123,043,607)</u>	<u>(17,267,949)</u>	<u>220,961</u>	<u>(140,090,595)</u>
Total capital assets being depreciated, net	<u>175,081,381</u>	<u>(8,879,024)</u>	<u>(35,134)</u>	<u>166,167,223</u>
Total business-type activities capital assets, net	\$ <u>198,117,768</u>	<u>(6,938,784)</u>	<u>(6,612,192)</u>	<u>184,566,792</u>

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

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

Governmental Activities:	
General government	\$ 251,069
Police Services	213,102
Fire and rescue	302,579
Code compliance	19,664
Building Services	17,959
Transportation	6,151,125
Culture and recreation	<u>107,948</u>
Total depreciation expense, governmental activities	7,063,446
Business-type Activities	
Water and sewer	<u>17,267,949</u>
Total depreciation expense	<u>\$ 24,331,395</u>

7. Leases

Capitalized leases payable at September 30, 2017, amounted to \$500,590. These obligations, which are collateralized by vehicles, equipment, and software have total annual installments ranging from \$30,602 to \$90,697 including interest ranging from 1.69% to 1.98% and mature through 2021. The assets acquired through capital lease, as reported in the governmental activities, are as follows:

Vehicles and Equipment	\$ 1,873,702
Less accumulated depreciation	<u>(872,759)</u>
Total	<u>\$ 1,000,943</u>

The lease agreement qualifies as a capital lease for accounting purposes and therefore will be recorded at the present value of the future minimum lease payments. 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, 2017, are as follows:

2018	\$ 310,912
2019	142,817
2020	30,603
2021	<u>32,084</u>
Total minimum lease payments	516,416
Less amount representing interest	<u>(15,826)</u>
Present value of minimum lease payments	<u>\$ 500,590</u>

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

8. Long-term Liabilities

Long-term liability activity for the year ended September 30, 2017, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental Activities					
General obligation bonds, 2014	\$ 3,080,000	-	(755,000)	2,325,000	765,000
Sales tax revenue bonds, 2015	1,980,000	-	(385,000)	1,595,000	395,000
Capital Improvement Revenue Note, 2014	5,705,000	-	(345,000)	5,360,000	355,000
Capital leases	870,173	-	(369,583)	500,590	299,699
Net pension liability	4,524,472	5,393,690	(8,455,378)	1,462,784	-
Other post-employment benefit liability	775,103	150,836	(55,261)	870,678	-
Compensated absences	1,351,227	957,901	(901,596)	1,407,532	328,132
Total governmental activity long-term liabilities	<u>\$ 18,285,975</u>	<u>6,502,427</u>	<u>(11,266,818)</u>	<u>13,521,584</u>	<u>2,142,831</u>
Business Activities					
Revenue bonds, 2006	\$ 3,151,280	-	(344,927)	2,806,353	358,150
Revenue bonds, 2010A:					
Principal	45,405,000	-	(40,445,000)	4,960,000	1,175,000
Discount	(118,498)	-	118,498	-	-
Revenue bonds, 2010B	6,435,000	-	(6,435,000)	-	-
State revolving loan, 2011	4,277,594	-	(235,327)	4,042,267	241,646
Revenue bonds, 2011	20,136,915	-	(3,132,502)	17,004,413	3,216,703
Revenue bonds, 2013:					
Principal	61,735,000	-	(265,000)	61,470,000	275,000
Premium	2,513,021	-	(147,825)	2,365,196	147,825
Revenue bonds, 2016:					
Principal	-	38,520,000	-	38,520,000	-
Premium	-	4,621,831	(98,427)	4,523,404	310,823
Other post-employment benefit liability	313,329	56,608	(9,142)	360,795	-
Compensated absences	541,581	423,296	(433,753)	531,124	136,288
Total Water and Sewer	<u>144,390,222</u>	<u>43,621,735</u>	<u>(51,428,405)</u>	<u>136,583,552</u>	<u>5,861,435</u>
Assessment Districts					
Assessment revenue bonds, 2008	1,597,831	-	(105,797)	1,492,034	110,275
Assessment revenue bonds, 2008	503,993	-	(33,370)	470,623	34,783
State revolving loan, 2009-2013	34,527,853	-	(1,973,240)	32,554,613	2,033,081
Assessment revenue bonds, 2009	625,089	-	(33,852)	591,237	35,849
Assessment revenue bonds, 2009	1,320,871	-	(71,531)	1,249,340	75,752
Assessment revenue bonds, 2009	1,823,175	-	(98,733)	1,724,442	104,560
Assessment revenue bonds, 2009	201,560	-	(9,299)	192,261	10,094
Assessment revenue bonds, 2010	1,084,696	-	(60,570)	1,024,126	63,837
Assessment revenue bonds, 2010	1,433,349	-	(80,040)	1,353,309	84,356
Assessment revenue bonds, 2012	1,206,822	-	(65,210)	1,141,612	67,929
Assessment revenue bonds, 2012	1,290,052	-	(69,708)	1,220,344	72,614
Assessment revenue bonds, 2013	345,000	-	(20,000)	325,000	20,000
Assessment revenue bonds, 2013	1,220,000	-	(75,000)	1,145,000	80,000
Total Assessment Districts	<u>47,180,291</u>	<u>-</u>	<u>(2,696,350)</u>	<u>44,483,941</u>	<u>2,793,130</u>
Total business activity long-term liabilities	<u>\$ 191,570,513</u>	<u>43,621,735</u>	<u>(54,124,755)</u>	<u>181,067,493</u>	<u>8,654,565</u>

CITY OF MARCO ISLAND, FLORIDA
NOTES TO FINANCIAL STATEMENTS

Governmental Activities

On November 5, 2015, the City issued a sales tax revenue bond to partially refund the Series 2005 sales tax revenue bond which funded various capital improvements including transportation improvements and a new police station. The amount of the bond issued was \$1,980,000 and is secured by proceeds of the half-cent sales tax and monies on deposit. The interest rate on the note is fixed at 1.31% over 6 years. As of September 30, 2017, \$1,595,000 was outstanding. Annual debt service requirements for the sales tax revenue bonds are as follows:

Fiscal Year	Principal	Interest
2018	\$ 395,000	18,307
2019	395,000	13,133
2020	400,000	7,926
2021	405,000	2,653
Total	\$ 1,595,000	42,019

On June 17, 2014, the City issued a capital improvement note for the costs associated with the replacement of the Smokehouse Bay Bridge. The original amount of the capital improvement bond was \$6,045,000.00 and secured by pledged revenues, which consist of non-ad valorem revenues budgeted, appropriated and deposited. The interest rate on the note is fixed at 2.46% over 15 years. As of September 30, 2017, \$5,360,000 was outstanding. Annual debt service requirements to maturity for the bond are as follows:

Fiscal Year	Principal	Interest
2018	\$ 355,000	127,489
2019	365,000	118,633
2020	375,000	109,532
2021	380,000	100,245
2022	390,000	90,775
2023-2027	2,100,000	303,200
2028-2030	1,395,000	51,967
Total	\$ 5,360,000	901,841

On March 30, 2004, the City issued general obligation bonds for governmental activities for the acquisition of land, secured by ad valorem revenue and pledged with the full faith and credit of the City. The original amount of the general obligation bonds was \$9,860,000. The bonds were issued as 15-year serial bonds. Interest rates on the bonds varied from 3.125% to 3.8%. On August 8, 2014, the City issued a general obligation bond to partially refund the Series 2004 general obligation bond. The amount of the bond issued was \$3,875,000 and is secured by ad valorem revenue and pledged with full faith and credit of the City. The interest rate on the note is fixed at 1.24% over 6 years.

CITY OF MARCO ISLAND, FLORIDA
NOTES TO FINANCIAL STATEMENTS

As of September 30, 2017, \$2,325,000 was outstanding. Annual debt service requirements to maturity for the note are as follows:

Fiscal Year	Principal	Interest
2018	\$ 765,000	28,830
2019	775,000	19,344
2020	785,000	9,734
Total	\$ 2,325,000	57,908

Water and Sewer

On December 5, 2006, the City issued revenue bonds for business-type activities to pay the costs of constructing certain additions, extensions, supplements and replacements to the City's water and wastewater utility system. The original amount of the revenue bonds was \$5,500,000, secured by a senior lien pledge on net revenues of the water and sewer fund. The bonds are issued as 15-year serial bonds with varying amounts of principal maturing each year from \$332,803 to \$446,412. The interest rate on bonds is fixed at 3.74%. As of September 30, 2017, \$2,806,353 was outstanding. Annual debt service requirements to maturity for the revenue bonds are as follows:

Fiscal Year	Principal	Interest
2018	\$ 358,150	99,644
2019	371,545	85,809
2020	385,441	71,634
2021	399,683	56,573
2022	414,804	41,131
2023-2024	876,730	33,596
Total	\$ 2,806,353	388,387

On April 1, 2010, the City issued Series 2010A revenue bonds for business-type activities to: (1) finance or reimburse the costs of construction of planned system improvements, (2) currently refund the System's series 2009A bonds, and (3) fund a deposit to the 2010A reserve fund. The new bonds were issued on parity with the system revenue bonds series 2003, 2006, and 2008 bonds. The original amount of the revenue bonds was \$50,475,000 with a discount of \$151,586. The revenue bonds are comprised of serial and term bonds of which \$18,265,000 is a 15-year serial bond, \$6,460,000 is a term bond due October 1, 2029, yielding 4.87% interest, \$10,020,000 is a term bond due October 1, 2034, yielding 5.03% interest, and \$15,730,000 is a term bond due October 1, 2040, yielding 5.10% interest. Interest rates on the bonds vary from 3% to 5%. The 15-year serial bonds are issued with varying amounts of principal maturing each year from \$1,085,000 to \$1,440,000. The bonds are secured by pledged revenues which consist of a senior lien pledge on net revenues of the water and sewer fund and any water and sewer capital facility fees.

On November 1, 2016, the City issued Series 2016 revenue bonds in the amount of \$38,520,000 to partially refund the City's utility system revenue bonds, Series 2010A. Interest rates on the bonds vary from 3.00% to 5.00% over 20 years. The new bonds were issued on parity with City's Utility Revenue Bond, Series 2006, the Tax-Exempt Utility System Improvement and Refunding Revenue Bonds, Series

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

2010A, not refunded with proceeds of the Series 2016 Bonds. The original amount of the revenue bond was \$38,520,000 with a discount of \$4,621,831. The bonds are secured and payable solely from the net revenues of the water and sewer system. As of September 30, 2017, \$38,520,000 of the principal was outstanding for the 2016 Series and \$4,960,000 for the 2010A non-refunded portion. The aggregate difference in debt service for the 2016 revenue bonds is \$7,219,175 less than the Series 2010A and the economic gain of the refunding for the City is \$3,107,251. Annual debt service requirements for the revenue bonds are as follows:

Fiscal Year	Principal	Interest
2018	\$ -	1,633,169
2019	-	1,633,169
2020	-	1,633,169
2021	-	1,633,169
2022	1,330,000	1,599,919
2023-2027	7,220,000	6,942,094
2028-2032	8,825,000	4,978,694
2033-2037	10,895,000	2,945,378
2038-2041	10,250,000	768,731
Total	\$ 38,520,000	23,767,491

Fiscal Year	Principal	Interest
2018	\$ 1,175,000	176,969
2019	1,215,000	136,613
2020	1,255,000	83,975
2021	1,315,000	26,300
Total	\$ 4,960,000	423,856

On April 1, 2010, the City issued tax exempt series 2010B revenue bonds for business-type activities to: (1) currently refund the System's taxable series 2009B bond and (2) fund a deposit to the reserve fund. The new bonds were issued on parity with the system revenue series 2003, 2006, and 2008 bonds. The original amount of the revenue bonds was \$7,365,000, of which \$2,075,000 is a 10-year serial bond and \$5,290,000 is a term bond due October 1, 2033, yielding 6.79% interest. The 10-year serial bonds are issued with varying amounts of principal maturing each year from \$200,000 to \$250,000. Interest rates on the bonds vary from 3.796% to 5.35%. The bonds are secured by pledged revenues which consist of a senior lien pledge on net revenues of the water and sewer fund and any water and sewer capital facility fees. The City used accumulated sewer system capital facilities fees and water system capital facilities fees to legally defease all of the City's outstanding Taxable Utility System Refunding Revenue Bonds, Series 2010B.

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

On May 15, 2011, the City received funding under the State of Florida Department of Environmental Protection Revolving Loan Program in the amount of \$5,000,000 to fund the construction of a high service pump station, a 4 MG water tank, and an operations building all associated with drinking water. In 2012, an additional \$309,320 was received. Funds are secured by utility system revenues and impact fees. Pledged revenue is a junior lien pledge of system revenue. The interest rate is fixed at 2.66% on the original loan and 2.81% on the additional loan amount. As of September 30, 2017, the City had \$4,042,267 outstanding.

Annual debt service requirements for the state revolving funding to maturity are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>
2018	\$ 241,646	106,280
2019	248,139	99,788
2020	254,805	93,121
2021	261,650	86,276
2022	268,679	79,247
2023-2027	1,455,632	283,998
2028-2031	1,311,716	79,988
Total	\$ <u>4,042,267</u>	<u>828,698</u>

On November 6, 2003, the City issued revenue bonds for business-type activities for: (1) the acquisition of certain water production, transmission, wastewater 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 \$1,221,130. The bonds are secured by pledged revenues which consist of a senior lien pledge on net revenues of the water and sewer fund and any water and sewer capital facility fees. The City has refunded the remaining balance of this issue through the utility system refunding revenue bonds 2011 Series and 2013 Series.

On August 23, 2011, the City issued series 2011 in the amount of \$26,253,513 million to partially refund the City's utility system revenue bonds, series 2003. The fixed interest rate of Series 2011 is 2.769% over 10 years. The new bonds were issued on parity with the un-refunded portion of the utility system revenue bonds series 2003, 2006, 2008, utility system improvement and refunding revenue bonds series 2010A, and utility system refunding revenue bonds series 2010B. The original amount of the revenue bonds was \$26,253,513 with a discount of \$2,996,740. The bonds are secured and payable solely from the net revenues of the water and sewer system. As of September 30, 2017, \$17,004,413 of the principal was outstanding. Annual debt service requirements to maturity for the revenue bonds are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>
2018	\$ 3,216,703	426,317
2019	3,305,886	336,012
2020	3,399,663	243,174
2021	3,492,638	147,750
2022	3,589,523	49,695
Total	\$ <u>17,004,413</u>	<u>1,202,948</u>

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

On October 1, 2013, the City issued Series 2013 in the amount of \$61,995,000 million to refund the remainder of the city’s utility system revenue bond, Series 2003 and Series 2008. The average interest rate of Series 2013 is 5.0% over 20 years. The new bonds were issued on parity with the utility system revenue bonds series 2006, utility system improvement and refunding revenue bonds series 2010A, utility system refunding revenue bonds series 2010B, and utility system refunding revenue bonds series 2011. The original amount of the revenue bonds was \$61,995,000 with a premium of \$2,956,496. The bonds are secured and payable solely from the net revenues of the water and sewer system. As of September 30, 2017, \$61,470,000 of the principal was outstanding. Annual debt service requirements to maturity for the revenue bonds are as follows:

Fiscal Year		Principal	Interest
2018	\$	275,000	3,018,007
2019		285,000	3,009,607
2020		415,000	2,999,107
2021		430,000	2,986,432
2022		440,000	2,971,182
2023-2027		22,285,000	12,095,535
2028-2032		25,360,000	6,333,223
2033-2034		11,980,000	637,087
Total	\$	61,470,000	34,050,180

Sewer Assessments

In order to fund construction of the City’s Septic Tank Replacement Program (STRP) wastewater utility expansion in certain areas of the City, the City has issued two types of Special Assessment Improvement Debt. The City is acting as agent in the collection of the special assessments levied and in the payment of the Special Assessment Bonds outstanding. Such bonds are collateralized by the special assessments levied against the benefited property owners. As part of its agreement with the State of Florida Department of Environmental Protection, the City agreed to a covenant to budget and appropriate legally available funds in the event collection assessments are insufficient and thus the City has a legal obligation to cover deficiencies in the event of default for loans obtained through the State Revolving-Loan Fund (SRF) Program. Special assessment debt obtained through other non-SRF bank loans are backed solely by assessment revenue. The City’s obligation for the non-SRF bank loan special assessment debt is limited to payments on behalf of those property owners who have entered into deferred payment agreements with the City and the City has not made any indication that it has a legal or moral obligation for any other portion of these non-SRF bank loan debts.

On March 7, 2008, the City issued special assessment revenue bonds to pay the costs of the subordinate wastewater improvement project for the Tigertail District in the amount of \$2,321,886 and is secured by capacity and construction assessments on individual properties within the District. The bonds have varying amounts of principal maturing each year ranging from \$101,833 to \$164,258. The interest rate on the bonds is fixed at 4.01%.

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

As of September 30, 2017, \$1,492,034 was outstanding. Annual debt service requirements for the revenue bonds are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>
2018	\$ 110,275	58,438
2019	114,758	53,865
2020	119,424	49,233
2021	124,152	44,154
2022-2026	701,325	139,217
2027-2028	<u>322,100</u>	<u>13,281</u>
Total	<u>\$ 1,492,034</u>	<u>358,188</u>

On March 7, 2008, the City issued special assessment revenue bonds to pay the costs of the wastewater improvement project for the South Barfield District. The original amount of the revenue bonds was \$732,378 and is secured by capacity and construction assessments on individual properties within the District. The bonds have varying amounts of principal maturing each year ranging from \$32,121 to \$51,811. The interest rate on the bonds is fixed at 4.01%. As of September 30, 2017, \$470,623 was outstanding. Annual debt service requirements for the revenue bonds to maturity are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>
2018	\$ 34,783	18,433
2019	36,198	16,990
2020	37,669	15,529
2021	39,160	13,927
2022-2026	221,215	43,912
2027-2028	<u>101,598</u>	<u>4,189</u>
Total	<u>\$ 470,623</u>	<u>112,980</u>

The City received additional funding under the State of Florida Department of Environmental Protection Revolving Loan Program in 2007 through 2013. Funds are utilized for neighborhood construction of the Septic Tank Replacement Program and are secured by assessments against individual properties, with a back-up covenant to budget and appropriate additional funds as necessary. Interest rates range from 2.6% to 3.8%. As of September 30, 2017, \$32,554,613 was outstanding. Annual debt service requirements for the state revolving funding are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>
2018	\$ 2,033,081	960,680
2019	2,094,754	899,009
2020	2,158,307	835,455
2021	2,223,802	769,960
2022-2026	12,174,106	2,795,158
2027-2031	10,643,786	934,727
2032	<u>1,226,777</u>	<u>27,718</u>
Total	<u>\$ 32,554,613</u>	<u>7,222,707</u>

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

On July 21, 2009, the City issued special assessment revenue bonds to pay the costs of the subordinate wastewater improvement project for the North Marco District. The original amount of the revenue bonds is \$840,000 and is secured by capacity assessments on individual properties within the District. The bonds have varying amounts of principal maturing each year ranging from \$32,142 to \$65,376. The interest rate on the bonds is fixed at 5.54%. As of September 30, 2017, \$591,237 was outstanding. Annual debt service requirements to maturity for the revenue bonds are as follows:

Fiscal Year	Principal	Interest
2018	\$ 35,849	32,211
2019	37,863	30,141
2020	39,989	28,029
2021	42,162	25,649
2022-2026	249,472	88,871
2027-2029	185,902	16,095
Total	\$ 591,237	220,996

On July 21, 2009, the City issued special assessment revenue bonds to pay the costs of the wastewater improvement project for the North Barfield District. The original amount of the revenue bonds is \$1,775,000 and is secured by capacity assessments on individual properties within the District. The bonds have varying amounts of principal maturing each year ranging from \$67,920 to \$138,147. The interest rate on the bonds is fixed at 5.54%. As of September 30, 2017, \$1,249,340 was outstanding. Annual debt service requirements for the revenue bonds are as follows:

Fiscal Year	Principal	Interest
2018	\$ 75,752	68,065
2019	80,007	63,691
2020	84,501	59,227
2021	89,093	54,198
2022-2026	527,159	187,793
2027-2029	392,828	34,012
Total	\$ 1,249,340	466,986

On July 21, 2009, the City issued special assessment revenue bonds for business-type activities to pay the costs of the subordinate wastewater improvement project for the West Winterberry District. The original amount of the revenue bonds was not to exceed \$2,450,000 and is secured by capacity assessments on individual properties within the District. The bonds have varying amounts of principal maturing each year ranging from \$93,748 to \$190,681. The interest rate on the bonds is fixed at 5.54%.

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

As of September 30, 2017, \$1,724,442 was outstanding. Annual debt service requirements for the revenue bonds are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>
2018	\$ 104,560	93,949
2019	110,433	87,912
2020	116,636	81,751
2021	122,973	74,808
2022-2026	727,628	259,210
2027-2029	<u>542,212</u>	<u>46,946</u>
Total	<u>\$ 1,724,442</u>	<u>644,576</u>

On July, 21, 2009, the City issued taxable special assessment revenue bonds to pay the costs of the wastewater improvement project for the Old Marco District. The original amount of the revenue bonds is \$260,000 and is secured by capacity and construction assessments on individual properties within the District. The bonds have varying amounts of principal maturing each year ranging from \$8,646 to \$23,693. The interest rate on the bonds is fixed at 7.96%. As of September 30, 2017, \$192,261 was outstanding. Annual debt service requirements for the revenue bonds are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>
2018	\$ 10,094	15,113
2019	10,909	14,265
2020	11,789	13,385
2021	12,706	12,362
2022-2026	80,850	43,969
2027-2029	<u>65,913</u>	<u>8,281</u>
Total	<u>\$ 192,261</u>	<u>107,375</u>

On March 2, 2010, the City issued special assessment revenue bonds for business-type activities to pay the costs of the subordinate wastewater improvement project for the Lamplighter District. The original amount of the revenue bonds was not to exceed \$1,400,000 and is secured by capacity assessments on individual properties within the District. The bonds have varying amounts of principal maturing each year ranging from \$57,755 to \$110,772. The interest rate on the bonds is fixed at 5.07%. As of September 30, 2017, \$1,024,126 was outstanding. Annual debt service requirements for the revenue bonds are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>
2018	\$ 63,837	51,017
2019	67,119	47,652
2020	70,569	44,230
2021	74,080	40,396
2022-2026	336,839	139,231
2027-2029	<u>411,682</u>	<u>25,018</u>
Total	<u>\$ 1,024,126</u>	<u>347,544</u>

CITY OF MARCO ISLAND, FLORIDA
NOTES TO FINANCIAL STATEMENTS

On March 2, 2010, the City issued special assessment revenue bonds for business-type activities to pay the costs of the subordinate wastewater improvement project for the Sheffield District. The original amount of the revenue bonds was not to exceed \$1,850,000 and is secured by capacity assessments on individual properties within the District. The bonds have varying amounts of principal maturing each year ranging from \$76,319 to \$146,377. The interest rate on the bonds is fixed at 5.07%.

As of September 30, 2017, \$1,353,309 was outstanding. Annual debt service requirements for the revenue bonds are as follows:

Fiscal Year	Principal	Interest
2018	\$ 84,356	67,415
2019	88,692	62,969
2020	93,252	58,446
2021	97,892	53,381
2022-2026	571,069	183,983
2027-2029	418,048	33,060
Total	\$ 1,353,309	459,254

On March 1, 2012, the City issued special assessment revenue bonds for business-type activities for the Mackle Park District. The revenue bonds are for \$1,550,000 and are secured by capacity assessments on individual properties within the District. The bonds have varying amounts of principal maturing each year ranging from \$66,917 to \$232,372. The interest rate on the bonds is fixed at 4.17%.

As of September 30, 2017, \$1,220,344 was outstanding. Annual debt service requirements for the revenue bonds are as follows:

Fiscal Year	Principal	Interest
2018	\$ 72,614	49,374
2019	75,642	46,283
2020	78,796	43,063
2021	82,082	39,709
2022-2026	464,699	143,125
2027-2030	446,511	38,190
Total	\$ 1,220,344	359,744

On March 1, 2012, the City issued special assessment revenue bonds for business-type activities for the Kendall District. The revenue bonds are for \$1,450,000 and are secured by capacity assessments on individual properties within the District. The bonds have varying amounts of principal maturing each year ranging from \$62,600 to \$217,379. The interest rate on the bonds is fixed at 4.17%. As of September 30, 2017, \$1,141,612 was outstanding.

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

Annual debt service requirements for the revenue bonds are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>
2018	\$ 67,929	46,189
2019	70,762	43,297
2020	73,713	40,285
2021	76,787	37,147
2022-2026	434,719	133,890
2027-2030	<u>417,702</u>	<u>35,723</u>
Total	<u>\$ 1,141,612</u>	<u>336,531</u>

On August 1, 2013, the City issued special assessment revenue bonds for business-type activities for the Gulfport District. The revenue bonds are for \$1,430,000 and are secured by capacity assessments on individual properties within the District. The bonds have varying amounts of principal maturing each year ranging from \$75,000 to \$115,000. The interest rate on the bonds is fixed at 3.6%. As of September 30, 2017, \$1,145,000 was outstanding. Annual debt service requirements for the revenue bonds are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>
2018	\$ 80,000	39,780
2019	80,000	36,900
2020	85,000	33,930
2021	85,000	30,870
2022-2026	485,000	104,310
2027-2029	<u>330,000</u>	<u>18,180</u>
Total	<u>\$ 1,145,000</u>	<u>263,970</u>

On August 1, 2013, the City issued special assessment revenue bonds for business-type activities for the East Winterberry North District. The revenue bonds are for \$395,000 and are secured by capacity assessments on individual properties within the District. The bonds have varying amounts of principal maturing each year ranging from \$20,000 to \$35,000. The interest rate on the bonds is fixed at 3.6%. As of September 30, 2017, \$325,000 was outstanding. Annual debt service requirements for the revenue bonds are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>
2018	\$ 20,000	11,340
2019	25,000	10,530
2020	25,000	9,630
2021	25,000	8,730
2022-2026	135,000	29,790
2027-2029	<u>95,000</u>	<u>5,310</u>
Total	<u>\$ 325,000</u>	<u>75,330</u>

CITY OF MARCO ISLAND, FLORIDA
NOTES TO FINANCIAL STATEMENTS

During 2006, the City began a project to plan, design, and construct major renovations to its wastewater plant. The renovation project was divided into 17 different assessment districts. Each property owner of each district is to be assessed both a capacity charge to cover plant construction and new force mains and a construction charge based on each resident's number of required connections. These assessments are \$4,610 per Equivalent Residential Connection (ERC) for the capacity portion and from \$12,000 to \$15,000 per property for the construction portion.

Construction was completed for two districts in 2007; Tigertail and South Barfield. In 2008, an additional five districts were completed, North Barfield, West Winterberry, North Marco, Old Marco, and Port Marco. In 2009, Sheffield and Lamplighter were completed. In 2010, Kendall and Mackle Park districts were completed. In 2011, Gulfport, East Winterberry North, and East Winterberry South districts were completed. In 2012, Copperfield and Goldenrod districts were completed. The final and largest district, Estates, was completed in 2013, completing the work of the Septic Tank Replacement Program (STRP).

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

Property owners have three distinct payment options:

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

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

Assessments receivable and assessments interest receivable have been recognized in the water and sewer fund's statement of net position in relation to property owners paying on the payment terms outlined above. The current portion of the assessment receivable relates to the portion of payment option 2 above which will be received in the 2016 fiscal year. In addition to the assessments noted above, each property owner is responsible for the actual cost of connecting to the sewer line and abandoning their septic tank or other existing system. The property owner is responsible for selecting the contractor who will perform the work on the property.

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

9. Risk Management

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

1. Workers' Compensation
2. Public Officials' Liability
3. General and Property Liability
4. Automobile Liability
5. 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, \$10,000 for crime and \$100,000 for third party liability. Additionally, the agreement has a stop-loss policy which caps the aggregate annual loss for the City at \$1,000,000. The stop loss covers excess worker's compensation, general, law enforcement, automobile, public officials and employment practices liability. Settlements have not exceeded coverage for each of the past three years.

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

Changes in the balances of claims liabilities during the prior two fiscal years are as follows:

Estimated unpaid claims, October 1, 2015	\$	222,171
Incurred claims (including IBNRs)		1,023,145
Claim payments		<u>(1,045,620)</u>
Estimated unpaid claims, September 30, 2016		199,696
Incurred claims (including IBNRs)		269,998
Claim payments		<u>(237,942)</u>
Estimated unpaid claims, September 30, 2017	\$	<u><u>231,752</u></u>

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

10. 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.

11. Commitments

The City has numerous active construction projects. As of September 30, 2017, the City's commitments with contractors are as follows:

<u>Project</u>	<u>Contractor</u>	<u>Contract Amount</u>	<u>Completed to Date</u>	<u>Balance</u>
Mackle Park Community Center - Design	Victor J Latavish, Architect	\$ 383,360	382,103	1,257
Mackle Park Community Center - Construction	R.E. Crawford Construction	2,834,153	2,709,795	124,358
N. Barfield Shared Use Pathway - Engineering	Kimley Horn	152,147	138,615	13,532
N. Barfield Shared Use Pathway - Construction	Collier Paving & Concrete	674,545	541,443	133,102
Linear Trail Park Shared Use Pathway - Engineering	Kimley Horn	93,798	90,747	3,051
Yellowbird Street Improvements	Hole Montes, Inc	312,602	129,289	183,313
Total Governmental Projects		\$ 4,450,605	3,991,992	458,613
NWTP Surface Water	CH2M Hill, Inc	\$ 183,075	164,023	19,052
Marco Shores Alternative	AECOM	636,074	579,786	56,288
RWPF Membrane Replacement	Zenon Environmental Corp	318,400	268,365	50,035
Manhole Lining and Repairs	Heritage Builders LLC	124,740	-	124,740
NWTP Membrane Filtration Trains	Pall Corporation	790,000	39,500	750,500
Total Business-type Projects		\$ 2,052,289	1,051,674	1,000,615

12. Employee Retirement Systems and Pensions Plans

(a) The City of Marco Island Firefighters' Pension Plan

Plan Description

Plan Administration: The City administers a single-employer, defined benefit pension plan (the "Plan") that covers all fulltime firefighters hired after January 1, 1996. The Plan was created by Ordinance of the City Council which grants the authority to establish and amend the benefit terms to the Board of Trustees, subject to City Council approval. Management of the Plan is vested in the Board of Trustees, which consists of five members, two of whom are current or retired members of the Plan, one is a City resident, one is a City employee, and one of whom is appointed by the City Council from non-members of the Plan. The Plan does not prepare separate financial statements and is included as part of the pension trust funds in the City's financial reporting entity since it is not legally separate from the City.

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

Plan Membership: As of October 1, 2016, (date of the latest annual actuarial valuation), employee membership data related to the Plan were:

Inactive Plan Members or Beneficiaries Currently Receiving Benefits	1
Inactive Plan Members Entitled to But Not Yet Receiving Benefits	1
Active Plan Members	33
	<hr/>
	35
	<hr/> <hr/>

Benefits Provided: 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 after accumulating twenty-five years of service with the City, regardless of age.

Retired employees or their beneficiaries are entitled to pension payments for the longer of ten years or the retirees' remaining life equal to 3% of their final five-year average compensation times the number of years of credited service. The final five-year average compensation 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 are the lesser of \$90,000 or 100% of the average aggregate compensation for the three consecutive calendar years during which the firefighter was an active member and had his/her highest aggregate 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 average final compensation as of the actual retirement date.

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

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

Benefit terms provide for a 3% annual cost-of-living adjustment to each member's retirement allowance subsequent to the member's retirement date.

CITY OF MARCO ISLAND, FLORIDA
NOTES TO FINANCIAL STATEMENTS

Contributions: The City Ordinance grants the Board of Trustees authority to establish and amend the contribution requirements of the City and active plan members. The Board establishes rates based on an actuarially determined rate recommended by an independent actuary. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by plan members during the year, with an additional amount to finance any unfunded accrued liability. The City is required to contribute the difference between the actuarially determined rate and the contribution rate of plan members. For the year ended September 30, 2016, the active member contribution rate was 1%, which the City contributes based on the collective bargaining agreement, and the City's contribution rate was 43.82%. The State of Florida contributes casualty insurance premium taxes pursuant to Chapter 185, Florida Statutes, and the City contributes the required remaining balance, as determined by the actuary. The City recognized these on-behalf payments from the State as revenues and expenditures in the governmental fund financial statements.

The City makes periodic contributions totaling 100% of the actuarially determined amount (after state contributions) annually to the Plan. An actuarial valuation of the Plan is to be completed at least once every two years. Contributions for the fiscal year ended September 30, 2017, were based on actuarial computations performed for 2017, in the actuarial report dated October 1, 2015.

Net Pension Liability of the City

The components of the net pension liability of the City at September 30, 2017, were as follows:

Total pension liability	\$ 14,574,694
Plan fiduciary net position	<u>15,112,453</u>
City's net pension liability (asset)	<u>\$ (537,759)</u>
Plan fiduciary net position as a percentage of the total pension liability	103.69%

Actuarial assumptions: The total pension liability was determined by an actuarial valuation as of September 30, 2016, with update procedures performed by the actuary to roll forward to the total pension liability measured as of September 30, 2017. The following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.5%
Salary increases	7.5% to 13.0% based on service, including inflation.
Investment rate of return	7.0 %, net of pension plan investment expense, including inflation.

Mortality rates were based on the RP-2000 Healthy Annuitant Mortality Table for Males or Females, as appropriate.

The actuarial assumptions used in the September 30, 2016, valuation were based on the results of an actuarial experience study for the period October 1, 2015 – September 30, 2016.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These

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ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of September 30, 2017, are: Domestic Equity Securities – 9.83%, International Equity Securities – 8.80%, and Fixed Income Securities – 1.2%.

Discount rate: The discount rate used to measure the total pension liability was 7.00%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that City contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. The discount rate of 7.00% was the single rate which, when applied to all projected benefit payments, resulted in the same present value of benefit payments when the above discussed calculations are combined.

Changes in the Net Pension Liability of the City: The changes in the components of the net pension liability of the City for the year ended September 30, 2017, were as follows:

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (Asset) (a) - (b)
Balances at 9/30/16	\$ 13,998,569	12,990,030	1,008,539
Changes for the year:			
Service cost	897,578	-	897,578
Interest	1,039,601	-	1,039,601
Differences between expected and actual experience	(1,277,749)	-	(1,277,749)
Assumption Changes	(300,186)	-	(300,186)
Contributions - employer (from city)	-	1,140,053	(1,140,053)
Contributions - employer (from state)	-	389,408	(389,408)
Contributions - employee	-	22,407	(22,407)
Net investment income	-	702,748	(702,748)
Benefit payments, including refunds of employee contributions	(89,398)	(89,398)	-
Administrative expense	-	(42,795)	42,795
Other changes	306,279	-	306,279
Net changes	<u>576,125</u>	<u>2,122,423</u>	<u>(1,546,298)</u>
Balances at 9/30/17	<u>\$ 14,574,694</u>	<u>15,112,453</u>	<u>(537,759)</u>

The required schedule of changes in the City's net pension liability and related ratios immediately following the notes to the financial statements presents multiyear trend information about whether the value of plan assets is increasing or decreasing over time relative to the total pension liability.

Sensitivity of the net pension liability to changes in the discount rate: The following presents the net pension liability of the City, calculated using the discount rate of 7.00%, as well as what the City's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.00%) or 1-percentage-point higher (8.00%) than the current rate:

	1% Decrease (6.0%)	Current Discount Rate (7.0%)	1% Increase (8.0%)
City's net pension liability (asset)	\$ 1,119,971	(537,759)	(1,863,709)

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Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future, and actuarially determined amounts are subject to continual revision as results are compared to past expectations and new estimates are made about the future. Actuarial calculations reflect a long-term perspective. Calculations are based on the substantive plan in effect as September 30, 2017, and the current sharing pattern of costs between employer and employee.

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the year ended September 30, 2017, the City recognized pension expense of \$808,484. At September 30, 2017, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	1,230,871
Changes in assumptions	-	272,131
Net difference between projected and actual earnings on pension plan investments	854,231	-
City contributions subsequent to the measurement date	1,373,826	-
Total	\$ 2,228,057	1,503,002

City contributions subsequent to the measurement date of \$1,373,826 are reported as deferred outflows of resources and will be recognized as a reduction of the net pension liability in the year ending September 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended September 30:		
2018	\$	116,187
2019		116,187
2020		100,996
2021		(105,290)
2022		(156,538)
Thereafter		(720,313)
Total	\$	(648,771)

(b) The City of Marco Island Police Officers' Pension Plan

Plan Description

Plan Administration: In 2005, the City established and currently administers a single-employer, defined benefit pension plan (the Plan) that covers all full-time sworn police officers. The Plan was created by Ordinance of the City Council which grants the authority to establish and amend the

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benefit terms to the Board of Trustees, subject to City Council approval. Management of the Plan is vested in the Board of Trustees, which consists of five members, two of whom are current or retired members of the Plan, one is a City resident, one is a City employee, and one of whom is appointed by the City Council from non-members of the Plan. The Plan does not prepare separate financial statements and is included as part of the pension trust fund in the City's financial reporting entity since it is not legally separate.

Plan Membership: At September 30, 2017, pension plan membership consisted of the following:

Inactive Plan Members or Beneficiaries Currently Receiving Benefits	12
Inactive Plan Members Entitled to But Not Yet Receiving Benefits	34
Active Plan Members	<u>60</u>

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

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

Compensation includes overtime of up to 300 hours annually and lump-sum payments of unused leave, but excludes pay for special duty or extra-details. An additional supplemental benefit is also payable in the monthly amount of \$3, multiplied by credited service.

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

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

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

Benefit terms provide for a 3% annual cost-of-living adjustment to each member's retirement allowance subsequent to the member's retirement date.

Contributions: The City Ordinance grants the Board of Trustees authority to establish and amend the contribution requirements of the City and active plan members. The Board establishes rates based on an actuarially determined rate recommended by an independent actuary. The actuarially determined

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rate is the estimated amount necessary to finance the costs of benefits earned by plan members during the year, with an additional amount to finance any unfunded accrued liability. The City is required to contribute the difference between the actuarially determined rate and the contribution rate of plan members. For the year ended September 30, 2017, the active member contribution rate was 0.5%, which the City contributes based on the collective bargaining agreement, and the City's contribution rate was 32.59%. The State of Florida contributes casualty insurance premium taxes pursuant to Chapter 185, Florida Statutes, and the City contributes the required remaining balance, as determined by the actuary. The City recognized these on-behalf payments from the state as revenues and expenditures in the governmental fund financial statements.

The City makes periodic contributions totaling 100% of the actuarially determined amount (after state contributions) annually to the Plan. An actuarial valuation of the Plan is to be completed at least once every two years. Contributions for the fiscal year ended September 30, 2017, were based on actuarial computations performed for 2017, in the actuarial report dated October 1, 2015.

Net Pension Liability of the City

The components of the net pension liability of the City at September 30, 2017, were as follows:

Total pension liability	\$ 12,101,758
Plan fiduciary net position	<u>11,402,597</u>
City's net pension liability	<u>\$ 699,161</u>
Plan fiduciary net position as a percentage of the total pension liability	94.22%

Actuarial assumptions: The total pension liability was determined by an actuarial valuation as of October 1, 2016, with update procedures performed by the actuary to roll forward to the total pension liability measured as of September 30, 2017. The following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.3%
Salary increases	6.0% on average, including inflation.
Investment rate of return	7.5 %, net of pension plan investment expense, including inflation.

Mortality rates were based on the RP-2000 Healthy Annuitant Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on Scale AA.

The actuarial assumptions used in the October, 1 2016, valuation were based on the results of an actuarial experience study for the period October 1, 2015 – September 30, 2016.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of September 30, 2017, are: Domestic Equity Securities – 7.7%, International Equity Securities, – 7.3% and Fixed Income Securities – 2.5%.

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Discount rate: The discount rate used to measure the total pension liability was 7.5%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that City contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to projected benefit payments to determine the total pension liability.

Changes in the Net Pension Liability of the City: The changes in the components of the net pension liability of the City for the year ended September 30, 2017, were as follows:

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balances at 9/30/16	\$ 10,799,955	8,712,027	2,087,928
Changes for the year:			
Service cost	608,707	-	608,707
Interest	846,524	-	846,524
Differences between expected and actual experience	(538,486)	-	(538,486)
Assumption Changes	572,589	-	572,589
Contributions - employer (from city)	-	2,155,279	(2,155,279)
Contributions - employer (from state)	-	194,972	(194,972)
Contributions - employee	-	11,090	(11,090)
Net investment income	-	595,780	(595,780)
Benefit payments, including refunds of employee contributions	(224,916)	(224,916)	-
Administrative expense	-	(41,635)	41,635
Other changes	37,385	-	37,385
Net changes	<u>1,301,803</u>	<u>2,690,570</u>	<u>(1,388,767)</u>
Balances at 9/30/17	<u>\$ 12,101,758</u>	<u>11,402,597</u>	<u>699,161</u>

The Plan's fiduciary net position as a percentage of the total pension liability 94.2%

The required schedule of changes in the City's net pension liability and related ratios immediately following the notes to the financial statements presents multiyear trend information about whether the value of plan assets is increasing or decreasing over time relative to the total pension liability.

Sensitivity of the net pension liability to changes in the discount rate: The following presents the net pension liability of the City, calculated using the discount rate of 7.5%, as well as what the City's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.5%) or 1-percentage-point higher (8.5%) than the current rate:

	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
City's net pension liability	\$ 2,528,128	699,161	(829,692)

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future, and actuarially determined amounts are subject to continual revision as results are compared to past expectations and new estimates are made about the future. Actuarial calculations reflect a long-term perspective. Calculations are based on the substantive plan in

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effect as of September 30, 2017, and the current sharing pattern of costs between employer and employee.

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the year ended September 30, 2017, the City recognized pension expense of \$967,849. At September 30, 2017, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 36,395	403,865
Changes in assumptions	429,442	-
Net difference between projected and actual earnings on pension plan investments	490,740	-
City contributions subsequent to the measurement date	2,198,075	-
Total	\$ 3,154,652	403,865

City contributions subsequent to the measurement date of \$2,198,075 are reported as deferred outflows of resources and will be recognized as a reduction of the net pension liability in the year ending September 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended September 30:	
2018	\$ 177,966
2019	177,965
2020	170,470
2021	26,311
2022	-
Thereafter	-
Total	\$ 552,712

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(c) Statement of Fiduciary Net Position for the Pension Trust Funds

The combining statement of fiduciary net position for the pension trust funds as of September 30, 2017, is as follows:

	<u>Fire Pension</u>	<u>Police Pension</u>	<u>Total Pension Trust Funds</u>
Assets			
Cash and cash equivalents	\$ 1,068,162	612,464	1,680,626
Contributions Receivable	303,572	180,792	484,364
Investments, at fair value:			
Government bonds	1,965,464	1,927,570	3,893,034
Corporate bonds	3,047,343	2,984,268	6,031,611
Common stock	10,911,195	8,896,896	19,808,091
ETF's & CEF's	50,068	39,364	89,432
Real estate trust	750,000	-	750,000
Accrued interest	6,045	5,925	11,970
Total Assets	<u>18,101,849</u>	<u>14,647,279</u>	<u>32,749,128</u>
Net Position			
Held in trust for pension benefits	\$ <u>18,101,849</u>	<u>14,647,279</u>	<u>32,749,128</u>

(d) Statement of Changes in Fiduciary Net Position for the Pension Trust Funds

The combining statement of changes in fiduciary net position for the pension trust funds as of September 30, 2017, is as follows:

	<u>Fire Pension</u>	<u>Police Pension</u>	<u>Total Pension Trust Funds</u>
Additions			
Contributions			
Employer	\$ 1,070,254	2,017,283	3,087,537
Employee	24,424	11,628	36,052
State of Florida	303,572	180,792	484,364
Total contributions	<u>1,398,250</u>	<u>2,209,703</u>	<u>3,607,953</u>
Investment earnings			
Investment interest and dividends	284,723	226,919	511,642
Net change in fair value of investments	1,526,022	1,223,876	2,749,898
Less: Investment expenses	(121,835)	(90,827)	(212,662)
Net investment earnings	<u>1,688,910</u>	<u>1,359,968</u>	<u>3,048,878</u>
Total Additions	<u>3,087,160</u>	<u>3,569,671</u>	<u>6,656,831</u>
Deductions			
Legal	13,750	14,000	27,750
Actuary	34,066	17,831	51,897
Administrative	20,762	18,066	38,828
Benefits paid	29,186	275,092	304,278
Total Deductions	<u>97,764</u>	<u>324,989</u>	<u>422,753</u>
Change in Net Position	2,989,396	3,244,682	6,234,078
Net Position, October 1, 2016	<u>15,112,453</u>	<u>11,402,597</u>	<u>26,515,050</u>
Net Position, September 30, 2017	\$ <u>18,101,849</u>	<u>14,647,279</u>	<u>32,749,128</u>

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(e) The Florida Retirement System Plan, Firefighters

General Information about the Florida Retirement System (FRS)

The FRS was created in Chapter 121, Florida Statutes, to provide a defined benefit pension plan for participating public employees. The FRS was amended in 1998 to add the Deferred Retirement Option Program under the defined benefit plan and amended in 2000 to provide a defined contribution plan alternative to the defined benefit plan for FRS members effective July 1, 2002. This integrated defined contribution pension plan is the FRS Investment Plan. Chapter 112, Florida Statutes, established the Retiree Health Insurance Subsidy (HIS) Program, a cost-sharing multiple-employer defined benefit pension plan to assist retired members of any state-administered retirement system in paying the costs of health insurance.

Provisions relating to the FRS are established by Chapters 121 and 122, Florida Statutes; Chapter 112, Part IV, Florida Statutes; Chapter 238, Florida Statutes; and Florida Retirement System Rules, Chapter 60S, Florida Administrative Code; wherein eligibility, contributions, and benefits are defined and described in detail. Such provisions may be amended at any time by further action from the Florida Legislature. The FRS is a single retirement system administered by the Florida Department of Management Services, Division of Retirement, and consists of two cost-sharing multiple-employer defined benefit plans and other nonintegrated programs. A comprehensive annual financial report of the FRS, which includes its financial statements, required supplementary information, actuarial report, and other relevant information, is available from the Florida Department of Management Services' Web site (www.dms.myflorida.com).

FRS Pension Plan

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

The FRS Pension Plan (Plan) is a cost-sharing multiple-employer defined benefit pension plan, with a Deferred Retirement Option Program (DROP) for eligible employees. The general classes of membership are as follows:

- *Special Risk Class* – Members who are employed as law enforcement officers and meet the criteria to qualify for this class.

Employees enrolled in the Plan prior to July 1, 2011, vest at 6 years of creditable service and employees enrolled in the Plan on or after July 1, 2011, vest at 8 years of creditable service. All vested members classified as special risk, enrolled prior to July 1, 2011, are eligible for normal retirement benefits at age 55 or at any age after 25 years of service. All members classified as special risk enrolled in the Plan on or after July 1, 2011, once vested, are eligible for normal retirement benefits at age 60 or any time after 30 years of creditable service. Employees enrolled in the Plan may include up to 4 years of credit for military service toward creditable service. The Plan also includes an early retirement provision; however, there is a benefit reduction for each year a member retires before his or her normal retirement date. The Plan provides retirement, disability, death benefits, and annual cost-of-living adjustments to eligible participants.

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DROP, subject to provisions of Section 121.091, Florida Statutes, permits employees eligible for normal retirement under the Plan to defer receipt of monthly benefit payments while continuing employment with an FRS-participating employer. An employee may participate in DROP for a period not to exceed 60 months after electing to participate. During the period of DROP participation, deferred monthly benefits are held in the FRS Trust Fund and accrue interest. The net pension liability does not include amounts for DROP participants, as these members are considered retired and are not accruing additional pension benefits.

Benefits Provided. Benefits under the Plan are computed on the basis of age and/or years of service, average final compensation, and service credit. Credit for each year of service is expressed as a percentage of the average final compensation. For members initially enrolled before July 1, 2011, the average final compensation is the average of the 5 highest fiscal years' earnings; for members initially enrolled on or after July 1, 2011, the average final compensation is the average of the 8 highest fiscal years' earnings. The total percentage value of the benefit received is determined by calculating the total value of all service, which is based on retirement plan and/or the class to which the member belonged when the service credit was earned. Members are eligible for in-line-of-duty or regular disability and survivors' benefits. The following chart shows the percentage value for each year of service credit earned:

<u>Class, Initial Enrollment, and Retirement Age/Years of Service</u>	<u>% Value</u>
Regular Class members initially enrolled before July 1, 2011	
Retirement up to age 62 or up to 30 years of service	1.60
Retirement at age 63 or with 31 years of service	1.63
Retirement at age 64 or with 32 years of service	1.65
Retirement at age 65 or with 33 or more years of service	1.68
Regular Class members initially enrolled on or after July 1, 2011	
Retirement up to age 65 or up to 33 years of service	1.60
Retirement at age 66 or with 34 years of service	1.63
Retirement at age 67 or with 35 years of service	1.65
Retirement at age 68 or with 36 or more years of service	1.68
Special Risk Regular	
Service from December 1, 1970 through September 30, 1974	2.00
Service on and after October 1, 1974	3.00
Senior Management Service Class	2.00

As provided in Section 121.101, Florida Statutes, if the member is initially enrolled in the FRS before July 1, 2011, and all service credit was accrued before July 1, 2011, the annual cost-of-living adjustment is 3% per year. If the member is initially enrolled before July 1, 2011, and has service credit on or after July 1, 2011, there is an individually calculated cost-of-living adjustment. The annual cost-of-living adjustment is a proportion of 3% determined by dividing the sum of the pre-July 2011 service credit by the total service credit at retirement multiplied by 3%. Plan members initially enrolled on or after July 1, 2011, will not have a cost-of-living adjustment after retirement.

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Contributions. The Florida Legislature establishes contribution rates for participating employers and employees.

<u>Class</u>	<u>Percent of Gross Salary</u>	
	<u>Employee</u>	<u>Employer (1)</u>
FRS, Special Risk	3.00	22.57
Deferred Retirement Option Program - Applicable to Members from All of the Above Classes	0.00	12.99
FRS, Reemployed Retiree	(2)	(2)

- Notes: (1) Employer rates include 1.66% for the postemployment health insurance subsidy. Also, employer rates, other than for DROP participants, include 0.06% for administrative costs of the Investment Plan.
- (2) Contribution rates are dependent upon retirement class in which reemployed.

The City's contributions, including employee contributions, to the defined benefit pension plan totaled \$95,149 for the fiscal year ended September 30, 2017, excluding HIS plan contributions.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions. At September 30, 2017, the City reported a liability of \$1,104,536 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2016. The City's proportionate share of the net pension liability was based on the City's 2016-17 fiscal year contributions relative to the total 2016-17 fiscal year contributions of all participating members. At June 30, 2017, the City's proportionate share was 0.00373415 percent, which was a decrease of 0.000859 from its proportionate share measured as of June 30, 2016.

For the fiscal year ended September 30, 2017, the City recognized pension expense of \$120,195. In addition, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

<u>Description</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 101,370	6,119
Change of assumptions	371,202	-
Net difference between projected and actual earnings on FRS pension plan investments	-	27,373
Changes in proportion and differences between City FRS contributions and proportionate share of contributions	-	239,894
City FRS contributions subsequent to the measurement date	25,206	-
Total	\$ 497,778	273,386

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The deferred outflows of resources related to pensions totaling \$25,206 resulting from City contributions subsequent to the measurement date, will be recognized as a reduction of the net pension liability in the fiscal year ended September 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Fiscal Year Ending September 30</u>	<u>Amount</u>
2018	\$ (25,999)
2019	(69,103)
2020	(48,317)
2021	(9,872)
2022	(33,390)
Thereafter	(12,505)
Total	<u>\$ (199,186)</u>

Actuarial Assumptions. The total pension liability in the July 1, 2015, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.60 percent
Salary Increases	3.25 percent, average, including inflation
Investment rate of return	7.10 percent, net of pension plan investment expense, including inflation

Mortality rates were based on the Generational RP-2000 with Projection Scale BB.

The actuarial assumptions used in the July 1, 2016, valuation were based on the results of an actuarial experience study for the period July 1, 2009, through June 30, 2014.

The long-term expected rate of return on pension plan investments was not based on historical returns, but instead is based on a forward-looking capital market economic model. The allocation policy's description of each asset class was used to map the target allocation to the asset classes shown below. Each asset class assumption is based on a consistent set of underlying assumptions, and includes an adjustment for the inflation assumption.

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The target allocation and best estimates of arithmetic and geometric real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation¹</u>	<u>Annual Arithmetic Return</u>	<u>Compound Annual (Geometric) Return</u>	<u>Standard Deviation</u>
Cash	1.00%	3.00%	3.00%	1.80%
Fixed income	18.00%	4.50%	4.40%	4.20%
Global equity	3.00%	7.80%	6.60%	17.00%
Real estate	26.50%	6.60%	5.90%	12.80%
Private Equity	21.20%	11.50%	7.80%	30.00%
Strategic investments	5.30%	6.10%	5.60%	9.70%
Total	<u>100.00%</u>			
Assumed inflation - Mean			2.60%	1.90%

¹ As outlined in the Plan's investment policy

Discount Rate. The discount rate used to measure the total pension liability was 7.60%. The plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the discount rate for calculating the total pension liability is equal to the long-term expected rate of return.

Sensitivity of the City's Proportionate Share of the Net Position Liability to Changes in the Discount Rate. The following presents the City's proportionate share of the net pension liability calculated using the discount rate of 7.10%, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (6.10%) or 1 percentage point higher (8.10%) than the current rate:

	<u>1% Decrease (6.10%)</u>	<u>Current Discount Rate (7.10%)</u>	<u>1% Increase (8.10%)</u>
City's proportionate share of the net pension liability	<u>\$ 1,999,143</u>	<u>1,104,536</u>	<u>361,807</u>

Pension Plan Fiduciary Net Position. Detailed information about pension plan's fiduciary net position is available in the separately issued FRS Pension Plan and Other State-Administered Systems Comprehensive Annual Financial Report.

HIS Pension Plan

Plan Description. The HIS Pension Plan (HIS Plan) is a cost-sharing multiple-employer defined benefit pension plan established under Section 112.363, Florida Statutes, and may be amended by the Florida Legislature at any time. The benefit is a monthly payment to assist retirees of state-administered retirement systems in paying their health insurance costs and is administered by the Florida Department of Management Services, Division of Retirement.

Benefits Provided. For the fiscal year ended September 30, 2017, eligible retirees and beneficiaries received a monthly HIS payment equal to the number of years of creditable service completed at the time of retirement multiplied by \$5. The payments are at least \$30 but not more than \$150 per month, pursuant to Section 112.363, Florida Statutes. To be eligible to receive a HIS benefit, a retiree under a state-administered retirement system must provide proof of health insurance coverage, which can include Medicare.

CITY OF MARCO ISLAND, FLORIDA
NOTES TO FINANCIAL STATEMENTS

Contributions. The HIS Plan is funded by required contributions from FRS participating employers as set by the Florida Legislature. Employer contributions are a percentage of gross compensation for all active FRS members. For the fiscal year ended September, 2017, the contribution rate was 1.66% of payroll pursuant to section 112.363, Florida Statutes. The City contributed 100% of its statutorily required contributions for the current and preceding 3 years. HIS Plan contributions are deposited in a separate trust fund from which HIS payments are authorized. HIS Plan benefits are not guaranteed and are subject to annual legislative appropriation. In the event the legislative appropriation or available funds fail to provide full subsidy benefits to all participants, benefits may be reduced or canceled.

The City's contributions to the HIS Plan totaled \$10,045 for the fiscal year ended September 30, 2017.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions. At September 30, 2017, the City reported a net pension liability of \$196,846 for its proportionate share of the net pension liability. The current portion of the net pension liability is the City's proportionate share of benefit payments expected to be paid within one year, net of the City's proportionate share of the pension plan's fiduciary net position available to pay that amount. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2016. The City's proportionate share of the net pension liability was based on the City's 2016-17 fiscal year contributions relative to the total 2016-17 fiscal year contributions of all participating members. At June 30, 2017, the City's proportionate share was 0.00184098%, which was a decrease of 0.000462% from its proportionate share measured as of June 30, 2016.

For the fiscal year ended September 30, 2017, the City recognized pension expense of (\$3,877). In addition, the City reported deferred outflows of resources related to pensions from the following sources:

<u>Description</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ -	410
Change of assumptions	27,670	17,021
Net difference between projected and actual earnings on HIS pension plan investments	109	-
Changes in proportion and differences between City HIS contributions and proportionate share of HIS contributions	-	92,531
City contributions subsequent to the measurement date	3,047	-
Total	\$ 30,826	109,962

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

The deferred outflows of resources totaling \$3,047 was related to pensions resulting from City contributions subsequent to the measurement date and will be recognized as a reduction of the net pension liability in the fiscal year ended September 30, 2018. Other amounts reported as deferred outflows/inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Fiscal Year Ending June 30</u>	<u>Amount</u>
2018	\$ (25,620)
2019	(25,456)
2020	(25,377)
2021	(19,025)
2022	(7,503)
Thereafter	20,798
Total	<u>\$ (82,183)</u>

Actuarial Assumptions. The total pension liability in the July 1, 2015, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.60 percent
Salary Increases	3.25 percent, average, including inflation
Municipal Bond Rate	3.58 percent

Mortality rates were based on the Generational RP-2000 with Projected Scale BB.

The actuarial assumptions used in the July 1, 2016, valuation were based on the results of an actuarial experience study for the period July 1, 2009, through June 30, 2014.

Discount Rate. The discount rate used to measure the total pension liability was 2.85%. In general, the discount rate for calculating the total pension liability is equal to the single rate equivalent to discounting at the long-term expected rate of return for benefit payments prior to the projected depletion date. Because the HIS benefit is essentially funded on a pay-as-you-go basis, the depletion date is considered to be immediate, and the single equivalent discount rate is equal to the municipal bond rate selected by the plan sponsor. The Bond Buyer General Obligation 20-Bond Municipal Bond Index was adopted as the applicable municipal bond index.

Sensitivity of the City's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate. The following presents the City's proportionate share of the net pension liability calculated using the discount rate of 3.58%, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (2.58%) or 1 percentage point higher (4.58%) than the current rate:

	<u>1% Decrease (2.58%)</u>	<u>Current Discount Rate (3.58%)</u>	<u>1% Increase (4.58%)</u>
City's proportionate share of the net pension liability	\$ 224,627	196,846	173,706

Pension Plan Fiduciary Net Position. Detailed information about pension plan's fiduciary net position is available in the separately issued FRS Pension Plan and Other State Administered Systems Comprehensive Annual Financial Report.

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

(f) City Employee Pension Plan

The City is a single employer that contributes to a defined contribution pension plan created in accordance with Internal Revenue Code 401(a). The City of Marco Island's 401A Plan is available to all employees not covered under the Firefighters' or Police Officers' Pension Plans or the Firefighters' Florida Retirement System. The City has contracted with ICMA or VALIC for the plan administration.

For employees hired by the City as part of its acquisition of the water system from Florida Utility, Inc., the City contributes 5% of annual covered payroll plus a match up to 4% of any employee's voluntary contribution. For all other employees, the City contributes 5% of annual covered payroll, and employees do not contribute. Employer contributions for fiscal years ended September 30, 2017, 2016, and 2015 were \$446,513, \$334,371, and \$368,410, respectively. Employee contributions for fiscal years ended September 30, 2017, 2016, and 2015 were \$114,818, \$107,333, and \$105,614, respectively. Plan provision and contribution requirements are established and may be amended by the City Manager.

13. Other Post-employment Benefits

During fiscal year 2009, the City implemented GASB No. 45, Accounting and Financial Reporting by Employers for Post-employment Benefits Other than Pensions, for certain postemployment health care benefits provided by the City. The requirements of this Statement were implemented prospectively, with the actuarially determined liability at the October 1, 2009, date of transition being amortized over 30 years. As of October 1, 2016, the City has an actuarially determined liability of \$1,330,642. Accordingly, for financial reporting purposes, this liability for postemployment health care benefits is not reported in the financial statements for the City. The Plan does not prepare separate financial statements.

Plan Description: The City administers a single-employer defined benefit healthcare plan that provides medical, dental and vision coverage to retirees as well as their eligible spouses. Benefits are provided through the City's group health insurance plan, which covers both active and retired members. All City employees, with the exception of firefighters and sworn police officers, may retire after reaching the age of 55 with five or more years of service. Firefighters and sworn police officers may retire at age 55 with six years of service or upon accumulating twenty-five years of service with the City, regardless of age. Service-incurred disabled employees retire immediately; while non-service incurred disabled employees retire upon completion of eight years of service.

Number of Covered Participants:

Actives	193
Retirees	3
Eligible spouses	<u>1</u>
Total	<u><u>197</u></u>

CITY OF MARCO ISLAND, FLORIDA
NOTES TO FINANCIAL STATEMENTS

Funding Policy: For all retired employees, the employee contributes 100% of the active premium rate and may also purchase spouse coverage at the active premium rate. The City does not contribute any amount. Plan provisions and contribution requirements are established and may be amended by the City Manager. The post-retirement medical and dental benefits are currently funded on a pay-as-you go basis (i.e., the City funds on a cash basis as benefits are paid). No assets have been segregated and restricted to provide postretirement benefits. No trust or agency fund has been established for the plan. Benefits are generally liquidated by the general and enterprise funds.

Annual OPEB Cost and Net OPEB Obligation: The City's annual other post-employment benefit (OPEB) cost (expense) is calculated based on the *annual required contribution of the employer (ARC)*, an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

The following tables shows the City's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the City's net OPEB obligation:

	<u>Utilities</u>	<u>All Other</u>
Valuation Date	<u>10/1/2016</u>	<u>10/1/2016</u>
Applicable for Fiscal Year Ending	<u>9/30/2017</u>	<u>9/30/2017</u>
Annual Required Contribution	\$ 63,436	167,577
Interest on Net OPEB Obligation	12,533	31,004
Adjustment to Annual Required Contribution	<u>(19,361)</u>	<u>(47,745)</u>
Annual OPEB Cost/(Expense)	56,608	150,836
Net Contributions Made	<u>(9,142)</u>	<u>(55,261)</u>
Increase/(Decrease) in Net OPEB Obligation	47,466	95,575
Net OPEB Obligation- Beginning of Year	<u>313,329</u>	<u>775,103</u>
Net OPEB Obligation- End of Year	\$ <u><u>360,795</u></u>	<u><u>870,678</u></u>

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

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal year 2017, 2016, and 2015 were as follows:

Utilities Employees:

<u>Year Ending</u>	<u>Annual OPEB Cost</u>	<u>Percentage of OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
9/30/2017	\$ 56,608	16.1%	360,795
9/30/2016	58,951	31.3%	313,329
9/30/2015	56,183	32.6%	272,841

All Other Employees:

<u>Year Ending</u>	<u>Annual OPEB Cost</u>	<u>Percentage of OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
9/30/2017	\$ 150,836	36.6%	870,678
9/30/2016	176,662	55.1%	775,103
9/30/2015	172,460	55.8%	695,786

Funded Status and Funding Progress: The schedule below shows the balance of the actuarial accrued liability (AAL), part of which was unfunded as of September 30, 2017:

Utilities Employees:

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Accrued Liability (AAL) Unit Credit (b)</u>	<u>Unfunded AAL (UAAL) (b-a)</u>	<u>Funded Ratio (a/b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as % of Covered Payroll ((b-a)/c)</u>
10/1/2016	0	\$ 287,046	287,046	0.0%	3,860,023	7.4%
10/1/2015	0	N/A	N/A	N/A	N/A	N/A
10/1/2014	0	\$ 259,744	259,744	0.0%	3,613,640	7.2%

All Other Employees:

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Accrued Liability (AAL) Unit Credit (b)</u>	<u>Unfunded AAL (UAAL) (b-a)</u>	<u>Funded Ratio (a/b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as % of Covered Payroll ((b-a)/c)</u>
10/1/2016	0	\$ 1,043,596	1,043,596	0.0%	6,998,917	14.9%
10/1/2015	0	N/A	N/A	N/A	N/A	N/A
10/1/2014	0	\$ 1,261,015	1,261,015	0.0%	7,247,329	17.4%

CITY OF MARCO ISLAND, FLORIDA
NOTES TO FINANCIAL STATEMENTS

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events in the future. Amounts determined regarding the funded status of the plan and the annual required contributions by the City are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. The actuarial cost method used in the valuation to determine the Actuarial Accrued Liability (AAL) and the Actuarial Required Contribution (ARC) is the entry age normal (level percentage of pay). The actuarial assumptions included: (a) 4% funding interest rate; (b) pre-Medicaid and post-Medicaid healthcare inflation of 8.0%; (decreasing .75% each year to fiscal 2019, then decreasing 0.5% to the ultimate rate of 4.5% in fiscal 2020); (c) payroll growth/inflation of 0%; and (d) salary inflation of 6% per year. The actuarial accrued liability is being amortized as a level percentage of payrolls over thirty years (closed amortization basis).

Actuarial Methods and Assumptions: Projections of benefits are based on the substantive plan (the Plan as understood by the employer and plan members) and include the types of benefits in force at the valuation date and the pattern of sharing benefit costs between the City and the plan members to that point. Actuarial calculations reflect a long-term perspective and employ methods and assumptions that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets.

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CITY OF MARCO ISLAND, FLORIDA

REQUIRED SUPPLEMENTARY INFORMATION

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CITY OF MARCO ISLAND, FLORIDA

**SCHEDULE OF CHANGES IN THE CITY'S FIREFIGHTERS' PLAN NET PENSION LIABILITY
AND RELATED RATIOS**

	2017	2016	2015	2014
Total pension liability				
Service cost	\$ 973,296	\$ 897,579	\$ 824,223	\$ 715,385
Interest on total pension liability	1,197,793	1,039,601	966,233	775,313
Changes of benefit terms	-	-	-	-
Differences between expected and actual experience	(1,367,191)	(1,277,749)	(72,811)	(99,739)
Changes of assumptions	(362,515)	(300,186)	-	-
Benefit payments, including refunds of employee contributions	(29,186)	(89,398)	(35,884)	(23,556)
Other (increase in share plan balance)	212,957	306,279	359,927	434,351
Net change in total pension liability	625,154	576,126	2,041,688	1,801,754
Total pension liability - beginning	14,574,694	13,998,568	11,956,880	10,155,126
Total pension liability - ending (a)	\$ 15,199,848	\$ 14,574,694	\$ 13,998,568	\$ 11,956,880
Plan fiduciary net position				
Contributions - employer	1,070,254	1,140,053	1,716,158	714,633
Contributions - state	303,572	389,408	433,863	507,798
Contributions - employee	24,424	22,407	20,798	17,499
Net investment income	1,688,910	702,748	(181,460)	614,545
Benefit payments, including refunds of employee contributions	(29,186)	(89,398)	(35,884)	(23,556)
Administrative expenses	(68,578)	(42,795)	(41,545)	(34,552)
Other	-	-	-	-
Net change in plan fiduciary net position	2,989,396	2,122,423	1,911,930	1,796,367
Plan fiduciary net position - beginning	15,112,453	12,990,030	11,078,100	9,281,733
Plan fiduciary net position - ending (b)	\$ 18,101,849	\$ 15,112,453	\$ 12,990,030	\$ 11,078,100
Net pension liability - ending (a) - (b)	\$ (2,902,001)	\$ (537,759)	\$ 1,008,538	\$ 878,780
Plan fiduciary net position as a percentage of the total pension liability	119.09%	103.69%	92.80%	92.65%
Covered-employee payroll	\$ 2,442,445	\$ 2,240,686	\$ 2,079,800	\$ 1,749,863
County's net pension liability as a percentage of covered - employee payroll	-118.82%	-24.00%	48.49%	50.22%

Notes to the Schedule

The schedule will present 10 years of information once it is accumulated.

CITY OF MARCO ISLAND, FLORIDA

SCHEDULE OF CITY FIREFIGHTERS' PENSION PLAN CONTRIBUTIONS

	2017	2016	2015	2014
Actuarially determined contribution	\$ 1,373,826	\$ 1,529,461	\$ 2,150,054	\$ 1,222,431
Contributions in relation to the actuarially determined contribution	1,160,869	1,223,182	1,782,475	796,188
Contribution deficiency (excess)	\$ 212,957	\$ 306,279	\$ 367,579	\$ 426,243
Covered-employee payroll	2,442,445	2,240,686	2,079,800	1,749,863
Contributions as a percentage of Covered-employee payroll	47.53%	54.59%	85.70%	45.50%

Notes to the Schedule

Valuation Date	October 1, 2015
Note	Actuarially determined contributions are calculated as of October 1, which is two years prior to the beginning of the year in which contributions are reported
Cost Method	Entry Age Normal
Actuarial Asset Valuation Method	Market Value
Assumed Rate of Return	
On Investments	7.00%
Projected Salary Increases	7.5% to 13.0% based on service
Inflation	2.50%
Amortization Method	Level dollar, closed
Remaining Amortization Period	30 years

Notes to the Schedule

The schedule will present 10 years of information once it is accumulated.

CITY OF MARCO ISLAND, FLORIDA

SCHEDULE OF FIREFIGHTERS' PENSION PLAN INVESTMENT RETURNS

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Annual money-weighted rate of return, net of investment expenses for the City's Pension Plan	9.33%	5.25%	-0.99%	8.56%

Note to the Schedule

The schedule will present 10 years of information once it is accumulated.

CITY OF MARCO ISLAND, FLORIDA

**SCHEDULE OF CHANGES IN THE CITY'S POLICE PLAN NET PENSION LIABILITY
AND RELATED RATIOS**

	2017	2016	2015	2014
Total pension liability				
Service cost	\$ 663,919	\$ 608,707	\$ 623,438	\$ 570,609
Interest on total pension liability	946,784	846,524	754,375	671,200
Change in excess state money	(7,624)	-	-	-
Changes of benefit terms	-	-	-	-
Differences between expected and actual experience	85,166	(538,486)	72,789	-
Changes of assumptions	423,516	572,589	-	-
Benefit payments, including refunds of employee contributions	(268,523)	(224,916)	(188,605)	(180,411)
Other (increase in share plan balance)	-	37,385	7,624	-
Net change in total pension liability	1,843,238	1,301,803	1,269,621	1,061,398
Total pension liability - beginning	12,101,758	10,799,955	9,530,334	8,468,936
Total pension liability - ending (a)	\$ 13,944,996	\$ 12,101,758	\$ 10,799,955	\$ 9,530,334
Plan fiduciary net position				
Contributions - employer	2,017,283	2,155,279	1,499,693	687,863
Contributions - state	180,792	194,972	161,276	145,004
Contributions - employee	11,628	11,090	10,596	26,544
Net investment income	1,359,968	595,780	(73,973)	542,433
Benefit payments, including refunds of employee contributions	(275,092)	(224,916)	(188,605)	(181,990)
Administrative expenses	(49,897)	(41,635)	(56,277)	(35,433)
Other	-	-	-	-
Net change in plan fiduciary net position	3,244,682	2,690,570	1,352,710	1,184,421
Plan fiduciary net position - beginning	11,402,597	8,712,027	7,359,317	6,174,896
Plan fiduciary net position - ending (b)	\$ 14,647,279	\$ 11,402,597	\$ 8,712,027	\$ 7,359,317
Net pension liability - ending (a) - (b)	\$ (702,283)	\$ 699,161	\$ 2,087,928	\$ 2,171,017
Plan fiduciary net position as a percentage of the total pension liability	105.04%	94.22%	80.67%	77.22%
Covered-employee payroll	\$ 2,128,618	\$ 2,128,618	\$ 2,049,015	\$ 2,093,651
County's net pension liability as a percentage of covered - employee payroll	-32.99%	32.85%	101.90%	103.70%

Notes to the Schedule

The schedule will present 10 years of information once it is accumulated.

CITY OF MARCO ISLAND, FLORIDA

SCHEDULE OF CITY POLICE PENSION PLAN CONTRIBUTIONS

	2017	2016	2015	2014
Actuarially determined contribution	\$ 841,127	\$ 836,760	\$ 821,375	\$ 817,571
Contributions in relation to the actuarially determined contribution	<u>2,198,075</u>	<u>2,350,251</u>	<u>1,769,072</u>	<u>817,571</u>
Contribution deficiency (excess)	<u>\$ (1,356,948)</u>	<u>\$ (1,513,491)</u>	<u>\$ (947,697)</u>	<u>\$ -</u>
Covered-employee payroll	2,325,482	2,128,618	2,049,015	2,093,651
Contributions as a percentage of Covered-employee payroll	94.52%	110.41%	86.34%	39.05%

Notes to the Schedule

Valuation Date	October 1, 2015
Note	Actuarially determined contributions are calculated as of October 1, which is two years prior to the beginning of the year in which contributions are reported
Cost Method	
Actuarial Asset Valuation Method	
Assumed Rate of Return	
On Investments	7.50%
Projected Salary Increases	6.0% per year until the assumed retirement age. Projected salary at retirement is increased 20% to account for non-regular compensation.
Cost-of-living Adjustment	3.00%
Amortization Method	Level percentage of pay, closed
Remaining Amortization Period	30 years

Note to the Schedule

The schedule will present 10 years of information once it is accumulated.

CITY OF MARCO ISLAND, FLORIDA

SCHEDULE OF POLICE PENSION PLAN INVESTMENT RETURNS

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Annual money-weighted rate of return, net of investment expenses for the City's Pension Plan	11.31%	6.56%	-0.99%	8.56%

Note to the Schedule

The schedule will present 10 years of information once it is accumulated.

CITY OF MARCO ISLAND, FLORIDA

SCHEDULE OF THE CITY'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY - FLORIDA RETIREMENT SYSTEM PENSION PLAN

Reporting Period Ending	9/30/2017	9/30/2016	9/30/2015	9/30/2014	9/30/2013
Measurement Date	6/30/2017	6/30/2016	6/30/2015	6/30/2014	6/30/2013
City's proportion of the FRS net pension liability	0.003734150%	0.004592598%	0.004760033%	0.005609629%	0.006277953%
City's proportionate share of the FRS net pension liability	\$ 1,104,536	\$ 1,159,635	\$ 614,822	\$ 342,270	\$ 1,080,715
City's covered employee payroll	\$ 1,261,238	\$ 778,709	\$ 779,069	\$ 811,048	\$ 935,847
City's proportionate share of the FRS net pension liability as a percentage of its covered employee payroll	87.58%	148.92%	78.92%	42.20%	115.48%
FRS Plan fiduciary net position as a percentage of the FRS total pension liability	84.88%	84.88%	92.00%	96.09%	88.54%

SCHEDULE OF CITY CONTRIBUTIONS FLORIDA RETIREMENT SYSTEM PENSION PLAN

	9/30/2017	9/30/2016	9/30/2015	9/30/2014	9/30/2013
Contractually required FRS contribution	\$ 95,149	\$ 111,998	\$ 116,054	\$ 122,875	\$ -
FRS Contributions in relation to the contractually required contribution	(95,149)	(111,998)	(116,054)	(122,875)	-
FRS Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	-
Covered employee payroll	1,261,238	778,709	779,069	811,048	935,847
FRS Contributions as a percentage of covered employee payroll	7.54%	14.38%	14.90%	15.15%	0.00%

Notes to the Schedule

The schedule will present 10 years of information once it is accumulated.

CITY OF MARCO ISLAND, FLORIDA

SCHEDULE OF THE CITY'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY - HEALTH INSURANCE SUBSIDY PENSION PLAN

Reporting Period Ending	9/30/2017	9/30/2016	9/30/2015	9/30/2014	9/30/2013
Measurement Date	6/30/2017	6/30/2016	6/30/2015	6/30/2014	6/30/2013
City's proportion of the FRS net pension liability	0.184098000%	0.002320272%	0.002730819%	0.002898891%	0.003299738%
City's proportionate share of the FRS net pension liability	\$ 196,846	\$ 268,370	\$ 278,501	\$ 271,053	\$ 287,286
City's covered employee payroll	\$ 1,261,238	\$ 778,709	\$ 779,069	\$ 811,048	\$ 935,847
City's proportionate share of the FRS net pension liability as a percentage of its covered employee payroll	15.61%	34.46%	35.75%	33.42%	30.70%
FRS Plan fiduciary net position as a percentage of the FRS total pension liability	0.97%	0.97%	0.50%	0.99%	1.78%

SCHEDULE OF CITY CONTRIBUTIONS HEALTH INSURANCE SUBSIDY PENSION PLAN

	9/30/2017	9/30/2016	9/30/2015	9/30/2014	9/30/2013
Contractually required FRS contribution	\$ 10,045	\$ 11,803	\$ 10,439	\$ 9,931	\$ -
FRS Contributions in relation to the contractually required contribution	(10,045)	(11,803)	(10,439)	(9,931)	-
FRS Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -
Covered employee payroll	1,261,238	778,709	779,069	811,048	935,847
FRS Contributions as a percentage of covered employee payroll	0.80%	1.52%	1.34%	1.22%	0.00%

Notes to the Schedule

The schedule will present 10 years of information once it is accumulated.

CITY OF MARCO ISLAND, FLORIDA

OTHER POST EMPLOYMENT BENEFITS

Schedule of Funding Progress

Utilities Employees:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as % of Covered Payroll ((b-a)/c)
10/1/2016	0	\$ 287,046	287,046	0.0%	3,860,023	7.4%
10/1/2015	0	N/A	N/A	N/A	N/A	N/A
10/1/2014	0	\$ 259,744	259,744	0.0%	3,613,640	7.2%

All Other Employees:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as % of Covered Payroll ((b-a)/c)
10/1/2016	0	\$ 1,043,596	1,043,596	0.0%	6,998,917	14.9%
10/1/2015	0	N/A	N/A	N/A	N/A	N/A
10/1/2014	0	\$ 1,261,015	1,261,015	0.0%	3,613,640	17.4%

CITY OF MARCO ISLAND, FLORIDA

Schedule of Revenues, Expenditures and Changes in Fund Balances—Budget and Actual

General Fund

Year Ended September 30, 2017

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
Revenues				
Taxes	\$ 19,756,430	19,997,545	20,449,597	452,052
Permits, fees, and assessments	26,500	26,500	470,067	443,567
Intergovernmental	2,351,835	2,370,233	2,822,740	452,507
Charges for services	1,826,720	1,826,720	1,901,426	74,706
Fines and forfeitures	137,000	137,000	105,369	(31,631)
Interest	100,000	100,000	188,307	88,307
Miscellaneous	44,000	78,090	132,506	54,416
Total revenues	<u>24,242,485</u>	<u>24,536,088</u>	<u>26,070,012</u>	<u>1,533,924</u>
Expenditures				
Current				
General government				
Legislative	94,370	105,070	105,031	39
Executive	741,160	851,810	849,713	2,097
Finance	885,500	885,500	751,253	134,247
Legal	300,000	416,100	416,085	15
Information technology	525,475	574,525	579,902	(5,377)
Growth management	510,345	520,345	431,692	88,653
Other general government	1,262,145	1,965,645	1,918,991	46,654
Total general government	<u>4,318,995</u>	<u>5,318,995</u>	<u>5,052,667</u>	<u>266,328</u>
Public safety				
Police	5,748,390	5,795,452	5,740,361	55,091
Fire and rescue	6,071,835	6,295,205	6,213,876	81,329
Code compliance	485,090	485,090	393,913	91,177
Total public safety	<u>12,305,315</u>	<u>12,575,747</u>	<u>12,348,150</u>	<u>227,597</u>
Transportation	2,652,610	2,669,200	2,571,329	97,871
Culture and recreation	1,275,425	1,292,925	1,235,917	57,008
Capital outlay	-	-	-	-
Total expenditures	<u>20,552,345</u>	<u>21,856,867</u>	<u>21,208,063</u>	<u>648,804</u>
Excess of revenues over expenditures	<u>3,690,140</u>	<u>2,679,221</u>	<u>4,861,949</u>	<u>2,182,728</u>
Other financing sources (uses)				
Transfers in	61,555	61,555	90,785	29,230
Transfers out	(5,026,685)	(5,131,844)	(5,119,700)	12,144
Use of Reserves	1,274,990	2,371,149	-	(2,371,149)
Total other financing sources (uses)	<u>(3,690,140)</u>	<u>(2,699,140)</u>	<u>(5,028,915)</u>	<u>(2,329,775)</u>
Change in fund balance	-	(19,919)	(166,966)	(147,047)
Fund balance, beginning of year	9,326,477	9,326,477	9,326,477	-
Fund balance, end of year	\$ <u>9,326,477</u>	<u>9,306,558</u>	<u>9,159,511</u>	<u>(147,047)</u>

CITY OF MARCO ISLAND, FLORIDA

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

NOTE 1 BUDGETS AND BUDGETARY ACCOUNTING

Annual budgets are adopted for the general fund on a basis consistent with accounting principles generally accepted in the United States.

1. Prior to September 1, the City Manager submits to the City Council a budget estimate of the revenues and expenditures for all City departments and divisions for the fiscal year commencing the following October 1.
2. Upon receipt of the annual budget estimates, the City Council holds various budget workshops to review and amend the proposed budget.
3. Public hearings are held to obtain taxpayers' comments.
4. Prior to October 1, the budget is legally enacted through passage of an ordinance.
5. No department may legally expend or contract to expend amounts in excess of amounts appropriated for any department within an individual fund. Budget appropriations lapse at year end; however, the Finance Director, through the City Manager, is authorized to reserve at the beginning of the year the unpaid purchase orders, outstanding contracts, and other commitments from the prior year.
6. The adopted budget may be amended as follows:
 - a. The City Council has authorized the City Manager to amend, modify, or otherwise adjust the operating budget to a maximum limit of \$50,000. The legal level of budgetary control is at the fund level for the general fund. The City Council approves all other budget amendments.
 - b. The City Council approves supplemental appropriations via re-appropriation ordinance which consolidates all budget amendments approved during the course of the fiscal year and those recommended by the City Manager near the end of the fiscal year. There was an increase of \$634,742 in appropriations in the general fund during the year end September 30, 2017.
7. Encumbrance accounting is used in governmental funds. Encumbered purchase orders outstanding lapse at year-end.

NOTE 2 EXCESS EXPENDITURES OVER APPROPRIATION

Historically, the City develops a conservative budget based upon 96% of ad valorem taxes, and between 90% and 95% of the State's various state-shared revenue projections due to the uncertainty in the economy. Actual revenue received and use of reserves was \$.3 million less than budgeted. This was primarily due to a conservative budget approach on ad valorem revenue. Permit and impact fees exceeded budget by \$0.5 million. In the long term we expect a downward trend in CST revenue due to the shift in telecommunications from land lines to wireless devices. Overall, departmental expenditures were in line with budgeted expenditures.

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CITY OF MARCO ISLAND, FLORIDA

COMBINING AND INDIVIDUAL FUND FINANCIAL STATEMENTS

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CITY OF MARCO ISLAND, FLORIDA

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.

Grants Fund accounts for the revenues received from other governmental and private organizations to be used for specific purposes.

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

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CITY OF MARCO ISLAND, FLORIDA

Combining Balance Sheet
 Nonmajor Governmental Funds
 September 30, 2017

	<u>Special Revenue</u>		
	<u>Grants Fund</u>	<u>Building Fund</u>	<u>Total</u>
Assets			
Accounts receivable, net	\$ 8,092	-	8,092
Due from other governments	24,096	-	24,096
Restricted cash and cash equivalents	<u>90,695</u>	<u>3,510,011</u>	<u>3,600,706</u>
Total assets	\$ <u>122,883</u>	<u>3,510,011</u>	<u>3,632,894</u>
Liabilities			
Accounts payable	\$ 522,182	5,807	527,989
Accrued liabilities	<u>155,659</u>	<u>44,942</u>	<u>200,601</u>
Total liabilities	<u>677,841</u>	<u>50,749</u>	<u>728,590</u>
Fund balances			
Restricted	-	3,459,262	3,459,262
Unassigned	<u>(554,958)</u>	-	<u>(554,958)</u>
Total fund balances	<u>(554,958)</u>	<u>3,459,262</u>	<u>2,904,304</u>
Total liabilities and fund balances	\$ <u>122,883</u>	<u>3,510,011</u>	<u>3,632,894</u>

CITY OF MARCO ISLAND, FLORIDA

Combining Statement of Revenues, Expenditures and Changes in Fund Balances

Nonmajor Governmental Funds

Year Ended September 30, 2017

	Special Revenue		Total
	Grants Fund	Building Services	
Revenues			
Permits, fees and assessments	\$ -	1,874,739	1,874,739
Intergovernmental	24,096	-	24,096
Interest	-	10,948	10,948
Miscellaneous	4,778	-	4,778
Total revenues	28,874	1,885,687	1,914,561
Expenditures			
Current			
Emergency and disaster relief	1,955,216	-	1,955,216
Fire and rescue services	29,417	-	29,417
Building services	-	1,706,895	1,706,895
Capital outlay	167,501	1,807	169,308
Total expenditures	2,152,134	1,708,702	3,860,836
Excess (deficiency) of revenues over (under) expenditures	(2,123,260)	176,985	(1,946,275)
Other financing sources (uses)			
Transfers in	1,566,880	-	1,566,880
Transfers out	(7,650)	(288,004)	(295,654)
Total other financing sources (uses)	1,559,230	(288,004)	1,271,226
Change in fund balances	(564,030)	(111,019)	(675,049)
Fund balances, beginning of year	9,072	3,570,281	3,579,353
Fund balances, end of year	\$ (554,958)	3,459,262	2,904,304

CITY OF MARCO ISLAND, FLORIDA

Schedule of Revenues, Expenditures, and Changes in Fund Balances—Budget and Actual

Debt Service Fund

Year Ended September 30, 2017

	<u>Original budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
Revenues				
Taxes	\$ 793,195	793,195	792,262	(933)
Interest revenue	-	-	8,513	8,513
Miscellaneous	-	-	1	1
Total revenues	<u>793,195</u>	<u>793,195</u>	<u>800,776</u>	<u>7,581</u>
Expenditures				
Debt service				
Principal	1,851,070	1,851,070	1,854,583	(3,513)
Interest and fiscal charges	<u>235,310</u>	<u>235,310</u>	<u>216,777</u>	<u>18,533</u>
Total expenditures	<u>2,086,380</u>	<u>2,086,380</u>	<u>2,071,360</u>	<u>15,020</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(1,293,185)</u>	<u>(1,293,185)</u>	<u>(1,270,584)</u>	<u>22,601</u>
Other financing sources				
Transfers in	<u>1,293,185</u>	<u>1,293,185</u>	<u>1,291,181</u>	<u>(2,004)</u>
Total other financing sources	<u>1,293,185</u>	<u>1,293,185</u>	<u>1,291,181</u>	<u>(2,004)</u>
Change in fund balance	-	-	20,597	20,597
Fund balance, beginning of year	<u>1,514,072</u>	<u>1,514,072</u>	<u>1,514,072</u>	-
Fund balance, end of year	<u>\$ 1,514,072</u>	<u>1,514,072</u>	<u>1,534,669</u>	<u>20,597</u>

CITY OF MARCO ISLAND, FLORIDA

Schedule of Revenues, Expenditures and Changes in Fund Balance-Budget and Actual
 Capital Projects Fund
 Year Ended September 30, 2017

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
Revenues				
Intergovernmental	\$ -	1,563,217	1,213,228	(349,989)
Interest	-	-	85,332	85,332
Miscellaneous	-	386,000	386,000	-
Total revenues	<u>-</u>	<u>1,949,217</u>	<u>1,684,560</u>	<u>(264,657)</u>
Expenditures				
Capital outlay	<u>4,241,020</u>	<u>14,676,511</u>	<u>6,393,058</u>	<u>8,283,453</u>
Total expenditures	<u>4,241,020</u>	<u>14,676,511</u>	<u>6,393,058</u>	<u>8,283,453</u>
Deficiency of revenues over expenditures	<u>(4,241,020)</u>	<u>(12,727,294)</u>	<u>(4,708,498)</u>	<u>8,018,796</u>
Other financing sources (uses)				
Transfers in	4,261,855	4,665,263	4,235,260	(430,003)
Accumulation of reserves	<u>552,060</u>	<u>5,709,245</u>	-	<u>(5,709,245)</u>
Total other financing sources	<u>4,813,915</u>	<u>10,374,508</u>	<u>4,235,260</u>	<u>(6,139,248)</u>
Change in fund balance	572,895	(2,352,786)	(473,238)	1,879,548
Fund balance, beginning	<u>11,170,920</u>	<u>11,170,920</u>	<u>11,170,920</u>	-
Fund balance, end of year	<u>\$ 11,743,815</u>	<u>8,818,134</u>	<u>10,697,682</u>	<u>1,879,548</u>

CITY OF MARCO ISLAND, FLORIDA

Schedule of Revenues, Expenditures and Changes in Fund Balance-Budget and Actual

Grants Fund

Year Ended September 30, 2017

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
Revenues				
Intergovernmental	\$ -	37,000	24,096	(12,904)
Miscellaneous	-	-	4,778	4,778
Total revenues	<u>-</u>	<u>37,000</u>	<u>28,874</u>	<u>(8,126)</u>
Expenditures				
Current				
Emergency and disaster relief	-	1,468,983	1,955,216	(486,233)
Fire and rescue services	-	41,661	29,417	12,244
Capital outlay				
Emergency and disaster relief	-	97,897	167,501	(69,604)
Total expenditures	<u>-</u>	<u>1,608,541</u>	<u>2,152,134</u>	<u>(543,593)</u>
Deficiency of revenues over expenditures	<u>-</u>	<u>(1,571,541)</u>	<u>(2,123,260)</u>	<u>(551,719)</u>
Other financing sources (uses)				
Transfers in	-	1,611,855	1,566,880	(44,975)
Transfers out	-	-	(7,650)	(7,650)
Total other financing sources (uses)	<u>-</u>	<u>1,611,855</u>	<u>1,559,230</u>	<u>(52,625)</u>
Changes in fund balance	-	40,314	(564,030)	(604,344)
Fund balance, beginning of year	<u>9,072</u>	<u>9,072</u>	<u>9,072</u>	<u>-</u>
Fund balance, end of year	\$ <u><u>9,072</u></u>	<u><u>49,386</u></u>	<u><u>(554,958)</u></u>	<u><u>(604,344)</u></u>

CITY OF MARCO ISLAND, FLORIDA

Schedule of Revenues, Expenditures and Changes in Fund Balance-Budget and Actual

Building Services Fund

Year Ended September 30, 2017

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
Revenues				
Permits, fees and assessments	\$ 1,644,000	1,644,000	1,874,739	230,739
Interest	<u>10,000</u>	<u>10,000</u>	<u>10,948</u>	<u>948</u>
Total revenues	<u>1,654,000</u>	<u>1,654,000</u>	<u>1,885,687</u>	<u>231,687</u>
Expenditures				
Current				
Operating expenses	1,558,830	1,587,730	1,706,895	(119,165)
Capital outlay	<u>-</u>	<u>3,501</u>	<u>1,807</u>	<u>1,694</u>
Total expenditures	<u>1,558,830</u>	<u>1,591,231</u>	<u>1,708,702</u>	<u>(117,471)</u>
Excess (deficiency) of revenues over (under) expenditures	<u>95,170</u>	<u>62,769</u>	<u>176,985</u>	<u>114,216</u>
Other financing sources (uses)				
Accumulation of reserves	23,885	225,335	-	(225,335)
Transfers out	<u>(119,055)</u>	<u>(288,004)</u>	<u>(288,004)</u>	<u>-</u>
Total other financing sources (uses)	<u>(95,170)</u>	<u>(62,669)</u>	<u>(288,004)</u>	<u>(225,335)</u>
Changes in fund balance	-	100	(111,019)	(111,119)
Fund balance, beginning of year	<u>3,570,281</u>	<u>3,570,281</u>	<u>3,570,281</u>	<u>-</u>
Fund balance, end of year	\$ <u>3,570,281</u>	<u>3,570,381</u>	<u>3,459,262</u>	<u>(111,119)</u>

CITY OF MARCO ISLAND, FLORIDA

FIDUCIARY FUNDS

Fiduciary funds are used to account for the activities of funds held in a trustee or agency capacity for others that cannot be used to support the City's own programs. The City reports pension trust funds which are to account for the activities of the City's retirement systems, which accumulate resources for pension benefit payments made to employees.

Firefighters' Pension Fund accounts for the activities of the City's defined benefit retirement plan for all full-time sworn fire personnel.

Police Officers' pension Fund accounts for the activities of the City's defined benefit retirement plan for all full-time sworn police personnel.

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CITY OF MARCO ISLAND, FLORIDA

Combining Statement of Fiduciary Net Position

Fiduciary Funds

September 30, 2017

	Pension Trust		
	Fire Pension	Police Pension	Total
Assets			
Cash and cash equivalents	\$ 1,068,162	612,464	1,680,626
Contributions receivable	303,572	180,792	484,364
Investments, at fair value			
Government bonds	1,965,464	1,927,570	3,893,034
Corporate bonds	3,047,343	2,984,268	6,031,611
Common stock	10,911,195	8,896,896	19,808,091
ETF's & CEF's	50,068	39,364	89,432
Real estate trust	750,000	-	750,000
Accrued interest	6,045	5,925	11,970
Total investments	<u>16,730,115</u>	<u>13,854,023</u>	<u>30,584,138</u>
Total assets	<u>18,101,849</u>	<u>14,647,279</u>	<u>32,749,128</u>
Net position			
Held in trust for pension benefits	\$ <u>18,101,849</u>	<u>14,647,279</u>	<u>32,749,128</u>

CITY OF MARCO ISLAND, FLORIDA

Combining Statement of Changes in Fiduciary Net Position
Fiduciary Funds
Year Ended September 30, 2017

	Pension Trust		Total
	Firefighters' Pension	Police Officers' Pension	
Additions			
Contributions			
Employer	\$ 1,070,254	2,017,283	3,087,537
Employee	24,424	11,628	36,052
State of Florida	303,572	180,792	484,364
Total contributions	<u>1,398,250</u>	<u>2,209,703</u>	<u>3,607,953</u>
Investment earnings			
Interest and dividend income	284,723	226,919	511,642
Net change in fair value of investments	1,526,022	1,223,876	2,749,898
Less investment expense	<u>(121,835)</u>	<u>(90,827)</u>	<u>(212,662)</u>
Net investment earnings	<u>1,688,910</u>	<u>1,359,968</u>	<u>3,048,878</u>
Total additions	<u>3,087,160</u>	<u>3,569,671</u>	<u>6,656,831</u>
Deductions			
Benefits paid	29,186	275,092	304,278
General administration	68,578	49,897	118,475
Total deductions	<u>97,764</u>	<u>324,989</u>	<u>422,753</u>
Changes in net position	2,989,396	3,244,682	6,234,078
Net position, beginning of year	<u>15,112,453</u>	<u>11,402,597</u>	<u>26,515,050</u>
Net position, end of year	<u>\$ 18,101,849</u>	<u>14,647,279</u>	<u>32,749,128</u>

CITY OF MARCO ISLAND, FLORIDA

STATISTICAL SECTION

This part of the City of Marco Island’s Statistical comprehensive annual financial report presents detailed as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the City’s overall financial health.

<u>Contents</u>	Page
Financial Trends These schedules contain trend information to help the reader understand how the City’s financial performance and well-being have changed over time.	121-125
Revenue Capacity These schedules contain information to help the reader assess the factors affecting the City’s ability to generate its property taxes.	126-129
Debt Capacity These schedules present information to help the reader assess the affordability of the City’s current levels of outstanding debt and the city’s ability to issue additional debt in the future.	130-133
Demographic and Economic Information These schedules offer demographic and economic indicators to help the reader understand the environment within which the City’s financial activities take place and to help make comparisons over time and with other governments.	134 and 135
Operating Information These schedules contain information about the City’s operations and resource to help the reader understand how the City’s financial information relates to the services the City and the activities it performs.	136-138

Sources: Unless otherwise noted, the information in these schedules is derived from the comprehensive annual financial reports for the relevant year. The city implemented Statement 34 in 2004; schedules presenting government-wide information begin in that year.

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CITY OF MARCO ISLAND, FLORIDA

Net Position by Component
(Unaudited)

Last Ten Fiscal Years ⁽¹⁾
(Accrual Basis of Accounting)

Schedule 1

	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Governmental activities										
Net investment in capital assets	\$ 62,618,879	61,131,771	59,772,622	55,699,235	64,567,882	66,732,879	69,110,370	68,148,861	66,819,967	64,857,666
Restricted	7,721,599	8,491,539	13,505,166	19,289,949	4,542,380	1,504,310	1,271,905	1,161,008	971,144	6,856,789
Unrestricted	16,927,300	17,615,601	11,431,695	9,049,758	15,623,713	17,177,360	15,342,016	13,613,946	15,697,349	8,680,011
Total governmental activities net position	87,267,778	87,238,911	84,709,483	84,038,942	84,733,975	85,414,549	85,724,291	82,923,815	83,488,460	80,394,466
Business-type activities										
Net investment in capital assets	12,165,860	8,193,295	9,779,184	16,729,367	21,616,965	26,962,499	28,184,757	16,170,181	35,132,580	35,680,521
Restricted	77,786,619	82,049,230	86,752,586	71,877,466	66,333,894	22,184,698	26,945,022	13,404,422	15,227,514	7,454,188
Unrestricted	5,044,816	6,442,535	4,131,494	16,390,147	21,621,613	58,814,314	43,595,429	53,463,071	15,387,918	6,096,803
Total business-type activities net position	94,997,295	96,685,060	100,663,264	104,996,980	109,572,472	107,961,511	98,725,208	83,037,674	65,748,012	49,231,512
Primary government										
Net investment in capital assets	74,784,739	69,325,066	69,551,806	72,428,602	86,184,847	93,695,378	97,295,127	84,319,042	101,952,547	100,538,187
Restricted	85,508,218	90,540,769	100,257,752	91,167,415	70,876,274	23,689,008	28,216,927	17,331,189	16,198,658	14,310,977
Unrestricted	21,972,116	24,058,136	15,563,189	25,439,905	37,245,326	75,991,674	58,937,445	67,077,017	31,085,267	14,776,814
Total primary government net position	\$ 182,265,073	183,923,971	185,372,747	189,035,922	194,306,447	193,376,060	184,449,499	168,727,248	149,236,472	129,625,978

⁽¹⁾ The City began to report accrual information when it implemented GASB Statement 34 in fiscal year 2004.

CITY OF MARCO ISLAND, FLORIDA

Changes in Net Position
(Unaudited)
Last Ten Fiscal Years
(Accrual Basis of Accounting)

Schedule 2

	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Expenses										
Governmental activities										
General government	\$ 4,947,403	4,424,936	4,109,616	3,385,646	3,749,034	4,461,910	3,576,147	4,799,310	5,226,421	3,990,986
Police services	4,727,400	4,956,746	4,596,364	4,747,915	4,688,947	4,612,996	4,224,760	3,951,306	3,910,895	3,394,126
Fire and rescue	6,606,013	6,666,126	6,888,796	6,249,716	5,624,652	5,218,196	5,147,712	4,685,618	4,377,797	3,902,445
Code compliance	413,577	253,698	276,394	361,456	290,804	308,749	269,208	1,146,597	248,818	197,316
Building services	1,724,854	1,474,441	1,307,860	1,281,963	1,183,248	828,981	875,979	821,680	923,423	1,216,644
Transportation	8,722,454	8,327,817	8,156,383	8,194,480	8,199,027	7,728,870	5,891,452	6,302,748	5,769,702	3,636,729
Disaster and recovery	1,955,216	-	-	-	-	-	-	-	-	-
Culture and recreation	1,343,864	925,684	964,037	927,793	842,869	892,691	2,135,742	2,035,189	1,095,683	2,266,414
Interest on long-term debt	205,166	328,382	331,005	456,728	366,606	413,409	509,186	517,849	590,776	647,164
Total governmental activities expenses	30,645,947	27,357,830	26,630,455	25,605,697	24,945,187	24,465,802	22,630,186	24,260,297	22,143,515	19,251,824
Business-type activities										
Water and sewer	37,217,643	37,869,303	37,714,287	36,855,596	36,078,592	31,670,493	29,828,635	28,881,053	25,993,867	21,598,968
Recreation	-	391,963	405,520	447,244	466,213	484,339	491,038	381,786	358,943	247,977
Total business-type activities expenses	37,217,643	38,261,266	38,119,807	37,302,840	36,544,805	32,154,832	30,319,673	29,262,839	26,352,810	21,846,945
Total primary government expenses	67,863,590	65,619,096	64,750,262	62,908,537	61,489,992	56,620,634	52,949,859	53,523,136	48,496,325	41,098,769
Program revenues										
Governmental activities										
Charges for services	964,375	1,243,196	1,275,340	1,127,775	984,197	983,325	819,346	143,117	94,845	809,646
General government	116,729	132,227	92,350	44,343	29,031	29,259	30,507	351,497	573,210	-
Police services	446,183	782,134	390,964	246,397	278,112	245,181	165,672	114,926	121,296	-
Fire and rescue	96,341	69,629	58,521	146,712	126,158	104,726	201,445	57,497	59,888	-
Code compliance	1,973,453	2,318,906	2,171,503	1,575,705	1,608,453	1,333,631	826,128	895,004	1,152,774	-
Building services	200,000	200,000	200,000	-	-	-	-	-	-	-
Transportation	-	-	-	-	-	-	-	-	-	-
Disaster and recovery	-	-	-	-	-	-	-	-	-	-
Culture and recreation	423,041	101,143	73,185	-	-	-	-	1,000	2,500	-
Charges for services - other activities	131,479	1,178,868	1,238,659	1,367,046	1,214,800	1,088,034	1,233,859	1,039,852	1,805,713	709,424
Operating grants and contributions	1,623,324	1,176,632	1,654,516	756,530	871,568	652,578	1,269,864	1,462,596	1,619,764	1,993,781
Total governmental activities program revenues	5,974,925	7,202,735	7,155,038	5,264,508	5,112,319	4,436,734	4,546,821	4,065,489	5,429,990	3,769,526
Business-type activities										
Charges for services, water and sewer	33,834,808	32,038,032	31,566,605	30,953,347	27,603,070	28,108,927	30,016,771	26,647,596	24,553,927	22,137,097
Charges for services, other activities	-	410,895	391,887	347,133	322,744	360,466	373,970	271,972	78,670	144,482
Operating grants and contributions	-	-	-	-	-	-	-	-	-	122,866
Capital grants and contributions	200,000	-	-	-	11,624,137	9,966,904	10,521,771	18,893,283	14,834,768	24,655,181
Total business-type activities program revenues	34,034,808	32,448,927	31,958,492	31,300,480	39,549,951	38,436,297	40,912,512	45,812,851	39,467,365	47,059,626
Net (expenses) revenues										
Governmental activities	(24,671,022)	(20,155,095)	(19,475,417)	(20,341,189)	(19,832,868)	(20,029,068)	(18,093,380)	(20,194,808)	(17,569,525)	(15,482,298)
Business-type activities	(3,182,835)	(5,812,339)	(6,161,315)	(6,002,360)	3,005,146	6,281,465	10,592,839	16,550,012	13,114,555	25,212,681
Total primary government net expense	\$ (27,853,857)	(25,967,434)	(25,636,732)	(26,343,549)	(16,827,722)	(13,747,603)	(7,500,541)	(3,644,796)	(4,454,970)	9,730,383

CITY OF MARCO ISLAND, FLORIDA

Changes in Net Position-Continued
(Unaudited)
Last Ten Fiscal Years
(Accrual Basis of Accounting)

Schedule 2 (Continued)

	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
General revenues and other changes in net position										
Governmental activities										
Taxes:										
Property taxes	\$ 18,808,680	\$ 17,799,045	\$ 16,562,644	\$ 15,179,396	14,908,363	15,186,850	15,882,920	15,650,276	14,903,477	14,329,937
Communication service tax	951,887	861,174	899,099	882,950	1,056,187	991,888	945,876	1,021,735	934,875	980,662
Other taxes	1,481,292	1,453,822	1,361,675	1,450,956	1,270,102	1,128,441	1,154,806	1,211,299	910,544	665,451
Franchise fees	-	-	-	-	-	-	-	-	1,610,117	1,920,620
State shared revenues	2,732,383	2,650,823	2,544,704	2,406,165	2,212,992	2,036,642	1,950,824	1,844,849	1,748,568	1,943,146
Interest	304,575	255,206	197,982	235,709	50,315	230,611	212,562	200,612	368,780	560,622
Gain on sale of capital assets	-	-	-	-	-	-	-	(6,300)	-	-
Miscellaneous	242,066	343,302	235,675	111,365	184,223	144,892	155,820	143,215	147,158	352,336
Transfers	179,006	24,594	(533,737)	(507,052)	45,481	-	145,500	-	40,000	-
Total governmental activities	24,659,889	23,387,966	21,268,042	19,759,489	19,727,663	19,719,324	20,448,308	20,065,686	20,663,519	20,752,774
Business-type activities										
Interest	1,537,973	1,822,123	1,854,232	1,882,235	2,333,088	2,455,405	2,821,122	2,619,932	3,103,387	1,476,393
Miscellaneous revenues (expenses)	136,103	36,606	(560,370)	128,442	192,955	499,433	419,073	139,540	338,558	460,470
Gain on sale of capital assets	(179,006)	(24,594)	533,737	507,052	(45,481)	-	(145,500)	(19,822)	-	-
Transfers	-	-	-	-	-	-	-	-	(40,000)	-
Total business-type activities	1,495,070	1,834,135	1,827,599	2,517,729	2,480,562	2,954,838	3,094,695	2,739,650	3,401,945	1,936,863
Total primary government	26,194,959	25,222,101	23,095,641	22,277,218	22,208,225	22,674,162	23,543,003	22,805,336	24,065,464	22,689,637
Changes in net position										
Governmental activities	(166,987)	3,232,871	1,792,265	(581,700)	(105,204)	(309,744)	2,354,928	(129,122)	3,093,994	5,270,476
Business-type activities	(1,687,765)	(3,978,204)	(4,333,716)	(3,484,631)	5,485,708	9,236,303	13,687,534	19,289,662	16,516,500	27,149,544
Total primary government	\$ (1,854,752)	(745,333)	(2,541,451)	(4,066,331)	5,380,504	8,926,559	16,042,462	19,160,540	19,610,494	32,420,020

CITY OF MARCO ISLAND, FLORIDA

Fund Balances of Governmental Funds
(Unaudited)

Last Ten Fiscal Years ⁽¹⁾
(Accrual Basis of Accounting)

Schedule 3

	2017	2016	2015	2014	2013	2012	2011 ⁽²⁾	2010	2009	2008
General fund										
Nonspendable	38,113	22,732	-	-	25	25	3,331	-	-	-
Restricted	2,308,808	1,905,845	1,774,814	1,428,954	1,286,470	958,362	722,132	-	-	-
Committed	-	-	1,609,381	1,660,834	-	-	-	-	-	-
Assigned	-	-	-	20,289	20,289	30,402	20,289	-	-	-
Reserved	6,812,590	7,397,900	4,954,528	5,383,767	8,653,648	7,003,460	6,363,876	610,908	958,601	550,899
Unassigned	-	-	-	-	-	-	-	10,847,424	10,815,926	9,656,801
Designated	-	-	-	-	-	-	-	850,672	1,451,163	2,101,476
Undesignated	-	-	-	-	-	-	-	-	-	-
Total unreserved	9,159,511	9,326,477	8,338,723	8,493,844	9,960,432	7,992,249	7,109,628	11,698,096	12,267,089	11,738,277
Total general fund	9,159,511	9,326,477	8,338,723	8,493,844	9,960,432	7,992,249	7,109,628	12,309,004	13,225,690	12,289,176
All other governmental funds										
Restricted:										
Capital projects	-	-	-	6,045,000	-	-	-	-	-	-
Debt service fund	1,534,669	1,514,072	2,088,333	1,761,965	1,670,453	545,948	549,773	-	-	-
Building Services	3,459,262	3,579,353	2,707,866	1,891,291	1,585,457	1,142,651	948,450	-	-	-
Committed:										
Asset replacement	973,817	1,492,269	5,324,772	6,501,905	-	-	-	-	-	-
Assigned:										
Transportation	-	-	-	-	-	600,000	-	-	-	-
Debt services	-	-	-	-	-	1,108,735	1,090,347	-	-	-
Grants	-	-	-	-	-	-	-	-	-	-
Capital projects	9,723,865	9,678,651	6,207,071	3,621,460	2,818,321	3,179,554	4,312,832	-	-	-
Impact and public safety programs	-	-	-	-	-	-	-	-	-	-
Asset replacement	-	-	-	-	4,713,721	4,582,796	3,116,171	-	-	-
Unassigned	(554,958)	-	-	-	-	-	-	-	-	-
Reserved:										
Debt service fund	-	-	-	-	-	-	-	1,934,854	1,895,754	1,886,087
Unreserved	-	-	-	-	-	-	-	1,202,908	1,406,108	1,551,384
Special revenue funds	-	-	-	-	-	-	-	-	-	-
Total all other governmental funds	15,136,655	16,264,345	16,328,042	19,821,621	10,787,952	11,159,684	10,017,573	3,137,762	3,301,862	3,437,471
Total governmental funds	24,296,166	25,590,822	24,666,765	28,315,465	20,748,384	19,151,933	17,127,201	15,446,766	16,527,552	15,726,647
Nonspendable	38,113	22,732	-	-	25	25	3,331	-	-	-
Restricted	7,302,739	6,999,270	6,571,013	11,127,210	4,542,380	2,646,961	2,220,355	-	-	-
Committed	973,817	1,492,269	6,934,153	8,162,739	-	-	-	-	-	-
Assigned	9,723,865	9,678,651	6,207,071	3,641,749	7,552,331	9,501,487	8,539,639	-	-	-
Unassigned	6,257,632	7,397,900	4,954,528	5,383,767	8,653,648	7,003,460	6,363,876	-	-	-
Undesignated	-	-	-	-	-	-	-	-	-	-
Reserved	-	-	-	-	-	-	-	2,545,762	2,854,355	2,436,986
Unreserved	-	-	-	-	-	-	-	12,901,004	13,673,197	13,289,661
Total governmental funds	24,296,166	25,590,822	24,666,765	28,315,465	20,748,384	19,151,933	17,127,201	15,446,766	16,527,552	15,726,647

⁽¹⁾ The City began to report accrual information when it implemented GASB Statement 34 in fiscal year 2004.

⁽²⁾ The City implemented GASB 54 in 2011.

CITY OF MARCO ISLAND, FLORIDA

Changes in Fund Balances of Governmental Funds
(Unaudited)

Last Ten Fiscal Years⁽¹⁾

(Modified Accrual Basis of Accounting)

Schedule 4

	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Revenues										
Taxes	\$ 21,241,859	20,114,041	18,823,418	17,513,302	17,234,652	17,307,179	17,983,602	17,883,310	18,359,013	17,896,670
Licenses and permits	2,344,806	2,784,210	2,538,590	1,888,027	1,938,989	1,533,176	993,199	953,501	775,843	840,236
Intergovernmental	4,060,064	4,950,467	4,489,123	3,954,004	3,839,821	3,666,613	4,254,122	3,904,674	4,083,649	3,843,101
Charges for services	1,901,426	1,956,175	1,643,173	1,336,950	1,218,312	1,217,785	920,267	314,391	238,987	378,902
Fines and forfeitures	105,369	156,650	80,100	170,001	154,965	133,835	231,662	351,497	573,210	198,951
Interest income	293,100	255,206	197,983	235,708	50,316	182,507	210,351	200,612	368,780	560,622
Miscellaneous	523,285	349,356	1,184,427	433,770	357,448	130,680	165,845	441,478	1,165,249	589,362
Total revenues	30,469,909	30,566,105	28,956,814	25,531,762	24,794,503	24,171,775	24,759,048	24,049,463	25,574,731	24,307,844
Expenditures										
Current:										
General government	5,052,667	3,755,196	3,924,958	3,820,574	3,602,051	3,462,824	3,602,127	4,418,283	4,438,636	4,052,564
Police services	5,740,361	6,130,770	5,361,827	4,582,878	4,534,953	4,151,932	4,117,627	3,858,373	3,945,801	3,462,233
Fire and rescue	6,243,293	6,370,063	6,910,892	5,869,202	5,293,964	4,869,967	4,821,296	5,039,364	4,226,027	3,780,795
Code compliance	393,913	243,945	273,598	358,722	290,187	304,010	268,625	282,859	244,027	220,857
Building services	1,706,895	1,458,124	1,298,109	1,275,017	1,176,301	1,036,310	1,104,754	1,139,165	1,352,689	1,255,294
Transportation	2,571,329	2,366,584	2,397,638	2,387,332	2,483,555	2,524,969	1,113,799	1,358,546	1,762,405	2,201,749
Culture and recreation	1,235,917	837,184	802,469	768,273	692,649	599,266	1,980,400	1,879,614	1,948,370	1,701,382
Emergency and disaster recovery	1,955,216	837,184	802,469	768,273	692,649	599,266	1,980,400	1,879,614	1,948,370	1,701,382
Debt service:										
Principal	1,854,583	4,442,593	1,443,047	1,254,351	1,116,059	1,071,692	1,543,467	2,100,575	2,072,782	2,045,087
Interest	216,777	328,382	331,004	4,251,728	366,606	413,411	477,221	517,849	590,537	661,787
Bond issue cost										
Capital outlay	6,562,366	5,975,257	9,328,237	3,430,204	3,535,449	3,712,662	4,195,157	4,535,622	4,764,578	11,745,066
Total expenditures	33,533,317	32,745,282	32,874,248	28,766,554	23,784,423	22,746,309	25,204,873	27,009,864	27,294,222	32,828,196
Excess (deficiency) of revenues over (under) expenditures	(3,063,408)	(2,179,177)	(3,917,434)	(3,234,792)	1,010,080	1,425,466	(445,825)	(2,960,401)	(1,719,491)	(8,520,352)
Other financing sources (uses)										
Transfers in	7,184,106	5,510,704	3,766,843	7,922,583	2,875,745	5,374,449	11,388,719	7,046,586	7,142,198	12,873,112
Transfers out	(5,415,354)	(5,486,110)	(4,300,579)	(8,429,635)	(2,830,264)	(5,374,449)	(11,243,219)	(7,046,586)	(7,102,198)	(12,873,112)
Proceeds from sale of capital asset										
Capital leases		261,456		734,435	350,000				532,026	
Bonds issued		1,980,000		9,919,549						
Total other financing sources (uses)	1,768,752	2,266,050	(533,736)	10,146,932	395,481		145,500		572,026	
Net change in fund balance	\$ (1,294,656)	\$ 86,873	\$ (4,451,170)	\$ 6,912,140	\$ 1,405,561	\$ 1,425,466	\$ (300,325)	\$ (2,960,401)	\$ (1,147,465)	\$ (8,520,352)
Debt service as a percentage of non-capital expenditures	8.28%	18.40%	7.80%	22.41%	0	0	0	0	13.54%	14.85%
Capital outlay (per above)	\$ 6,562,366	\$ 5,975,257	\$ 9,328,237	\$ 3,430,204	\$ 3,535,449	\$ 3,712,662	\$ 4,195,157	\$ 4,535,622	\$ 4,764,578	\$ 11,745,066
Capital outlay included in current expenditures						87,639	316,570	855,459	906,286	1,153,197
Total capital outlay	\$ 6,562,366	\$ 5,975,257	\$ 9,328,237	\$ 3,430,204	\$ 3,535,449	\$ 3,800,301	\$ 4,511,727	\$ 5,391,081	\$ 5,670,864	\$ 12,898,263

(1) The City began to report accrual information when it implemented GASB Statement 34 in fiscal year 2004.

CITY OF MARCO ISLAND, FLORIDA

Assessed Value of Taxable Property
(Unaudited)

Last Ten Fiscal Years

Schedule 5

Fiscal Year	Tax Year	Real Property	Personal Property	Total Taxable Value ⁽²⁾	Percentage Increase (Decrease) Over Prior Year	Total Direct Tax Rate
2008	2007	11,476,813,202	93,768,111	11,570,581,313	-4.2%	1.283
2009	2008	10,401,701,636	84,592,274	10,486,293,910	-9.4%	1.477
2010	2009	9,248,174,862	78,795,703	9,326,970,565	-11.1%	1.747
2011	2010	8,191,850,914	79,404,135	8,271,255,049	-11.3%	1.998
2012	2011	7,493,705,720	74,289,395	7,567,995,115	-8.5%	2.077
2013	2012	7,342,959,034	68,248,839	7,411,207,873	-2.1%	2.080
2014	2013	7,478,069,118	70,416,975	7,548,486,093	1.9%	2.076
2015	2014	7,900,449,654	70,102,819	7,970,552,473	5.6%	2.151
2016	2015	8,550,755,951	69,208,938	8,619,964,889	8.1%	2.142
2017	2016	9,298,441,136	67,431,937	9,365,873,073	8.7%	2.084
2018 ⁽¹⁾	2017	9,900,723,843	115,347,306	10,016,071,149	6.9%	1.980

⁽¹⁾ Information only. 2017 assessed values are used for fiscal year 2018 tax revenues.

⁽²⁾ Actual taxable value, as reported in this schedule, are net of certain tax-exemptions.

Assessed value is not provided because it cannot be reasonably estimated based on actual values.

Source: Collier County Property Appraiser

CITY OF MARCO ISLAND, FLORIDA

Property Tax Rates for Direct and Overlapping Governments
(Per \$1,000 Assessed Values)
(Unaudited)

Last Ten Fiscal Years

Schedule 6

Fiscal Year Ended	Direct				Overlapping							Total Levy
	City Operating	City Debt Service	City Total Direct	Collier County Operating	Collier School Board	Mosquito Control	South FL Water Management	Water Pollution Control	Big Cypress Basin	Collier County Other		
2009	1.3917	0.0849	1.4766	3.2969	4.9090	0.0635	0.2549	0.0293	0.2265	0.2329	4.8028	
2010	1.6518	0.0955	1.7473	3.5645	5.2390	0.0720	0.2549	0.0293	0.2265	0.2500	5.3411	
2011	1.8900	0.1079	1.9979	3.5645	5.6990	0.0826	0.2549	0.0293	0.2265	0.2500	2.0272	
2012	1.9592	0.1177	2.0769	3.5645	5.5270	0.0934	0.1785	0.0293	0.1633	0.2500	11.8829	
2013	1.9600	0.1204	2.0804	3.5645	5.5760	0.1102	0.1757	0.0293	0.1633	0.2500	11.9494	
2014	1.9600	0.1163	2.0763	3.5645	5.6900	0.1050	0.1685	0.0293	0.1593	0.0000	11.7929	
2015	2.0466	0.1041	2.1507	3.5645	5.5800	0.1001	0.1577	0.0293	0.1520	0.0000	11.7343	
2016	2.0466	0.0953	2.1419	3.5645	5.4800	0.0940	0.1459	0.0293	0.1429	0.0000	11.5985	
2017	1.9966	0.0878	2.0844	3.5645	5.2450	0.0878	0.1359	0.0293	0.1336	0.0000	11.2805	
2018 ⁽¹⁾	1.8976	0.0821	1.9797	3.5645	5.1220	0.1832	0.1275	0.0293	0.1270	0.0000	11.1332	

(1) Information only.

Source: Collier County Property Appraiser

CITY OF MARCO ISLAND, FLORIDA

Principal Property Taxpayers (Unaudited)

For the Current Calendar Year and Nine Years Ago

Schedule 7

Taxpayer	Property by Type	January 1, 2016 Taxable Valuation	Rank	% of Total Assessed Valuation	Taxpayer	Property by Type	January 1, 2007 Taxable Valuation	Rank	% of Total Assessed Valuation
Marco Hotel Inc.	Hospitality	\$ 102,099,391	1	1.02%	City National Bank of Miami	Hospitality	\$ 89,411,237	1	0.74%
Marco Beach Hotel Inc.	Hospitality	47,904,724	2	0.48%	Marco Beach Hotel Inc.	Hospitality	51,227,975	2	0.43%
BRE Southeast Retail Holdings LLC	Hospitality	14,933,949	3	0.15%	Marriott Ownership Properties	Hospitality	46,768,277	3	0.39%
GM Esplanade LLC	Shopping Center	9,916,288	4	0.10%	Marco Town Center, Inc.	Real Estate Developer	17,540,209	4	0.15%
Venetian Investments, LLC	Single Family Residence	8,789,159	5	0.09%	A&N of Marco, Inc.	Real Estate Developer	13,887,306	5	0.12%
BR Williamson Rev Liv Trust	Shopping Center	8,617,292	6	0.09%	Bates, Wesley C.	Single Family Residence	10,076,537	6	0.08%
Island Plaza Investments LLC	Single Family Residence	8,447,297	7	0.08%	Gregg Holdings, Inc.	Real Estate Developer	9,756,721	7	0.08%
Bates, Wesley C	Shopping Center	7,897,848	8	0.08%	Island Country Club	Golf Course	9,145,819	8	0.08%
Van Cleef, Gary R & Louise	Single Family Residence	7,895,114	9	0.08%	Venetian Investments, Inc.	Real Estate Developer	8,310,637	9	0.07%
Marco River Marina, Inc	Single Family Residence	7,155,129	10	0.07%	Balsamo, Salvatore	Single Family Residence	8,170,075	10	0.07%
Total		\$ 223,596,191		2.24%			\$ 264,294,793		2.21%

Source: Collier County Property Appraiser

CITY OF MARCO ISLAND, FLORIDA

Property Tax Levies and Collections ⁽¹⁾
(Unaudited)

Last Ten Fiscal Years

Schedule 8

Fiscal Year	Tax Year	Total Tax Levy ⁽²⁾	Current Tax Collections ⁽²⁾	Percent of		Delinquent Tax Collections	Total Collections To Date	Percent of Total Collections To Date
				Current Taxes Collected	Delinquent Tax Collections			
2008	2007	15,683,488	15,124,912	96.4%	27,794	15,152,706	96.6%	
2009	2008	16,787,689	16,276,943	97.0%	50,638	16,327,581	97.3%	
2010	2009	16,177,460	15,640,516	96.7%	2,387	15,642,903	96.7%	
2011	2010	16,525,140	15,867,796	96.0%	14,310	15,882,106	96.1%	
2012	2011	15,717,969	15,180,688	96.6%	6,162	15,186,850	96.6%	
2013	2012	15,419,018	14,897,743	96.6%	10,619	14,908,362	96.7%	
2014	2013	15,672,922	15,134,335	96.6%	45,060	15,179,395	96.9%	
2015	2014	17,141,963	16,565,510	96.6%	5,135	16,570,645	96.7%	
2016	2015	18,463,103	17,796,052	96.4%	2,994	17,799,046	96.4%	
2017	2016	19,518,479	18,806,052	96.3%	2,994	18,809,046	96.4%	

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 are not significant.

(2) Total tax levy and tax collection columns are City operating and special voted debt service, and does not include Hideaway Beach Tax District.

CITY OF MARCO ISLAND, FLORIDA

Ratios of Outstanding Debt by type
(Unaudited)

Last Ten Fiscal Years ⁽¹⁾
(Modified Accrual Basis of Accounting)

Schedule 9

Fiscal Year	Governmental Activities				Business-Type Activities				Total Primary Government	Percentage ⁽³⁾ of Personal Income	Per ⁽³⁾ Capita
	General Obligation Bonds	Non Ad Valorem	Revenue Bonds	Capital Leases	Water/Sewer ⁽¹⁾		STRP ⁽²⁾ Assessment Bonds & Notes				
					Bonds	Revenue Bonds & Loans					
2008	8,195,000	2,605,000	5,655,000	241,825	134,522,769	13,168,740	164,388,334	22.81%	9,753		
2009	7,615,000	1,540,000	5,305,000	696,069	154,313,401	27,284,013	196,753,483	27.91%	11,700		
2010	7,025,000	475,000	4,940,000	615,494	186,218,288	31,986,098	231,259,880	31.22%	14,090		
2011	6,415,000	-	4,565,000	532,026	176,042,107	38,821,263	226,375,396	29.59%	13,767		
2012	5,790,000	-	4,175,000	475,332	165,096,346	50,178,723	225,715,401	29.20%	13,662		
2013	5,145,000	-	3,775,000	754,273	161,262,870	54,728,048	225,665,191	27.41%	13,426		
2014	4,480,000	6,045,000	3,360,000	1,314,357	153,725,200	52,311,347	221,235,904	27.27%	13,322		
2015	3,825,000	6,045,000	2,930,000	1,036,671	147,321,156	49,790,459	210,948,286	24.81%	12,610		
2016	3,080,000	5,705,000	1,980,000	870,173	143,535,311	47,180,293	202,301,936	22.46%	11,949		
2017	2,325,000	5,360,000	1,595,000	500,590	135,691,633	44,483,941	189,956,164	19.27%	11,150		

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

⁽²⁾ Septic Tank Replacement Program: includes permanent financing and state revolving loans. All of this debt is secured by special assessment districts. Includes \$34,527,852 of State Loan financing for the Septic Tank Replacement Program.

⁽³⁾ See Schedule 13 of Demographic and Economic Statistics for personal income and population data.

Source: City of Marco Island Finance Department.

CITY OF MARCO ISLAND, FLORIDA

**Ratios of General Bonded Debt Outstanding
(Unaudited)**

Last Ten Fiscal Years

Schedule 10

Fiscal Year	General Obligation	Restricted Debt Service	Net Bonded Debt		Percentage of Net Assessed Property Value ⁽¹⁾		Per Capita ⁽²⁾
2008	8,195,000	-	8,195,000		0.071%		486
2009	7,615,000	-	7,615,000		0.073%		453
2010	7,025,000	-	7,025,000		0.075%		428
2011	6,415,000	-	6,415,000		0.078%		390
2012	5,790,000	-	5,790,000		0.077%		350
2013	5,145,000	-	5,145,000		0.069%		311
2014	4,480,000	1,761,965	2,718,035		0.036%		164
2015	3,825,000	2,088,333	1,736,667		0.022%		104
2016	3,080,000	1,514,072	1,565,928		0.018%		92
2017	2,325,000	1,534,669	790,331		0.008%		47

⁽¹⁾ See Schedule 6, Assessed Value of Taxable Property, for net assessed property value data.

⁽²⁾ See Schedule 13, Demographic and Economic Statistics, for population data.

Source: City of Marco Island Finance Department.

**Direct and Overlapping Governmental Activities Debt
(Unaudited)**

As of September 30, 2017

Schedule 11

	<u>Debt Outstanding</u>	<u>Estimated Percentage Applicable</u>	<u>Estimated Share of Direct and Overlapping Debt</u>
City of Marco Island Direct Debt			
Non Ad Valorem Capital Improvement Revenue Note	\$ 5,360,000	100.00%	5,360,000
General obligation bonds	2,325,000	100.00%	2,325,000
Sales tax revenue bonds	1,595,000	100.00%	1,595,000
Capital leases	500,590	100.00%	500,590
Total direct debt			<u>9,780,590</u>
Overlapping debt			
Collier County	314,189,294	11 %	3 , ,
Collier County School Board	300,741,512	1 %	3 , ,
Total overlapping debt			<u>74,652,600</u>
Total direct and overlapping debt			<u>\$ 84,433,190</u>

Sources: Debt outstanding data was provided by each governmental unit.

Notes: Overlapping governments are those that coincide, at least in part with the geographic boundaries of the City. This schedule estimates the portion of the outstanding debt of those overlapping governments that is borne by the residents and businesses of Marco Island. This process recognizes that, when considering the City's ability to issue and repay long-term debt, the entire debt burden borne by the residents and businesses should be taken into account. However, this does not imply that every taxpayer is a resident and, therefore, responsible for repaying the debt of each overlapping government.

CITY OF MARCO ISLAND, FLORIDA

Pledged Revenue Bond Coverage
Water/Sewer Revenue Bonds and Sales Tax Revenue Bonds ⁽¹⁾
(Unaudited)

Last Ten Fiscal Years

Schedule 12

Fiscal Year	Water/Sewer Enterprise Fund				Coverage ⁽³⁾		Coverage ⁽⁴⁾		General Fund		
	Water/Sewer Revenue	Water/Sewer Impact Fees	Less Operating Expenses	Net Revenues With Impact Fees	Net Revenues Without Impact Fees	Debt ⁽²⁾ Service	With Impact Fees	Without Impact Fees	Sales Tax Revenues	Debt Service	Coverage
2008	22,137,097	426,496	11,047,517	11,516,076	11,089,580	6,955,086	1.66	1.59	1,503,093	553,135	2.72
2009	24,617,791	112,248	12,046,263	12,587,628	12,475,380	7,354,783	1.71	1.70	1,327,921	547,273	2.43
2010	26,332,177	351,581	11,405,012	15,278,746	14,927,165	7,585,672	2.01	1.97	1,385,346	550,654	2.52
2011	29,872,159	218,068	10,474,484	19,615,743	19,397,675	8,608,479	2.28	2.25	1,492,056	548,160	2.72
2012	28,353,936	155,906	11,171,326	17,338,516	17,182,610	8,793,539	1.97	1.95	1,576,141	549,775	2.87
2013	26,917,858	852,255	11,440,465	16,329,648	15,477,393	8,919,076	1.83	1.74	1,695,866	545,948	3.11
2014	30,466,941	658,941	12,009,412	19,116,470	18,457,529	9,236,659	2.07	2.00	1,860,287	546,685	3.40
2015	30,293,064	1,273,541	12,712,074	18,854,531	17,580,990	10,491,176	1.80	1.68	1,985,969	546,897	3.63
2016	29,948,235	2,089,797	12,602,669	19,435,363	17,345,566	10,473,653	1.86	1.66	2,078,572	512,367	4.06
2017	32,362,964	1,471,844	12,546,931	21,287,877	19,816,033	9,347,412	2.28	2.12	2,108,110	408,416	5.16

(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. Sales tax revenue bonds were issued in August 2005.

(2) Excluded sewer assessment long-term debt.

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

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

Source: City of Marco Island Finance Department

CITY OF MARCO ISLAND, FLORIDA

Demographic and Economic Statistics
(Unaudited)

Last Ten Fiscal Years

Schedule 13

Fiscal Year	Population		State of Florida ⁽²⁾	Florida Personal Income (in millions of dollars) ⁽³⁾	Income		Florida Unemployment Rate ⁽⁴⁾
	City of Marco Island ⁽²⁾	Collier County ⁽²⁾			Naples-Marco Island Per Capita Personal Income ⁽³⁾	Florida Per Capita Personal Income ⁽³⁾	
2008	16,856	332,854	18,807,219	720,618	62,559	38,316	7.2
2009	16,816	333,032	18,750,483	704,854	61,807	37,591	11.0
2010	16,413 ⁽¹⁾	333,554 ⁽¹⁾	18,773,356 ⁽¹⁾	740,651	61,308	37,854	10.9
2011	16,443	321,520	18,801,310	764,917	59,985	40,427	9.5
2012	16,521	328,134	19,057,542	773,062	59,264	40,565	8.1
2013	16,556	333,663	19,259,543	810,887	60,391	42,103	6.7
2014	16,607	336,783	19,507,369	811,377	64,872	41,497	5.8
2015	16,728	343,802	19,815,183	850,178	73,869	42,737	5.2
2016	16,930	350,202	20,148,654	900,636	78,473	44,429	4.7
2017	17,036	357,470	20,484,142	985,795	84,101	46,876	3.8

(1) Source: U.S. Census Bureau

(2) Source: University of Florida Bureau of Economic and Business Research

(3) Source: U.S. Department of Commerce Bureau of Economic Analysis

(4) Source: U.S. Department of Labor Bureau of Labor Statistics

CITY OF MARCO ISLAND, FLORIDA

Top Ten Employers, Naples-Marco Island
(Unaudited)

Fiscal Year 2017 and Nine Years Ago

Schedule 14

Fiscal Year 2016 ⁽¹⁾				Fiscal Year 2007 ⁽²⁾			
Employer	Business Type	Employees	Rank	Employer	Business Type	Employees	Rank
Collier County Public Schools	Public Education	5,019	1	Collier County Public Schools	Public Education	6,685	1
NCH Healthcare System	Health Care	4,000	2	NCH Healthcare System	Health Care	3,007	2
Collier County Government (non-Sheriff)	Government	1,904	3	Publix Supermarkets	Supermarket	2,214	3
Publix	Supermarket	1,245	4	Collier County Government (non-Sheriff)	Government	2,021	4
Collier County Sheriff	Government	1,029	5	Walmart	Supermarket	1,547	5
Ritz Carlton, Naples	Hospitality	1,110	6	Collier County Sheriff	Government	1,369	6
Gargiulo, Inc.	Food Safety	1,110	7	Marriott Corporation	Hospitality	743	7
Arthrex, Inc.	Health Care	1,056	8	Fifth Third Bank	Hospitality	733	8
Hometown Inspection Svc.	Home Safety	900	9	Naples Grande Resort and Club	Hospitality	605	9
Naples Grande Beach Resort	Hospitality	760	10	Baron Collier Partnership	Hospitality	600	10
Total		<u>18,133</u>		Total		<u>19,524</u>	

(1) Source: Collier County Clerk of Courts Fiscal Year 2018 Budget

(2) Source: Collier County Fiscal Year 2008 CAFR

CITY OF MARCO ISLAND, FLORIDA

Full-time Equivalent Employees
by Department as of September 30, 2017
(Unaudited)

Last Ten Fiscal Years

Schedule 15

Department	2017 ⁽²⁾	2016	2015	2014	2013	2012	2011	2010 ⁽¹⁾	2009	2008
General Fund:										
Executive Administrative	7	6	7	7	7	8.5	6	8	8	8
Information Technology	4	1	1	3	3					
Finance	5.5	7	7	7	6	7	7	7	14	14
Community Development	5	4	4	5	5	4	6	6	8	8
Fire / Rescue	43	42	41.5	38	38	38	38	38	38	35
Code Compliance	7.5	9.25	2.5	3	3	3	3	3	-	-
Police	37.5	35	39	41.5	41.5	35.5	35.5	35.5	36	36
Public Works	11	9	12	11	13	5.5	6	10	11	11
Parks and Recreation	12.5	10	9	10	9	15	15	20	15	15
Total General Fund	133	123.25	123	125.5	125.5	116.5	116.5	127.5	130	127
Water / Sewer Enterprise Fund	65	64	67	69	69	78	77	74	63	61
Building Services Fund	16	11.25	12	10.5	8.5	8	8	10	10	10
Recreation Enterprise Fund	0	3	3	3	3	3.5	3.5	4.5	3	3
Total	214	201.5	205	208	206	206	205	216	206	201

(1) A reorganization of departments occurred after the fiscal year 2010 budget was adopted. Authorized positions listed are the positions approved on adoption of the fiscal year budget.

(2) Information Technology included in Executive Administration for prior years.

(3) Recreation Enterprise functions were transferred to Park and Recreation in the General Fund

CITY OF MARCO ISLAND, FLORIDA

Operating Indicators by Department
(Unaudited)

Last Ten Fiscal Years

Schedule 16

Department	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Police Department										
Calls for Service	45,426	41,116	41,798	42,600	58,855	58,014	70,740	77,628	68,215	61,430
Fire Department										
Calls for Service	3,872	3,571	3,423	3,413	3,202	2,897	2,688	2,802	2,430	2,448
Building Department										
New Single-Family Homes	99	101	114	105	92	74	25	33	16	28
New Multi-Family Units	-	-	-	-	-	-	-	-	-	7
Total Permits Issued	7,203	5,841	6,482	5,883	5,647	5,369	5,149	5,381	4,800	5,194
Water Production										
Number of Customers	9,881	10,437	10,340	9,554	9,847	9,583	9,756	9,623	9,428	9,496
Raw Flow into Water Plants: (Surface and Ground)										
Average Daily Treatment (Millions of gallons)	7.94	7.30	7.58	7.40	7.02	7.97	7.89	7.80	6.37	8.88
Maximum Daily Treatment (Millions of gallons)	11.05	10.89	10.77	10.63	13.99	16.25	16.25	16.01	13.05	14.27
Wastewater Treatment										
Number of Customers	9,424	9,550	9,426	9,136	8,652	8,424	8,375	7,044	6,412	5,669
Flow into Wastewater Plants:										
Average Daily Treatment (Millions of gallons)	2.04	2.09	2.04	2.00	2.03	1.96	1.94	1.92	1.91	1.88
Maximum Daily Treatment (Millions of gallons)	5.11	4.80	3.25	3.54	3.20	3.76	3.72	3.67	3.44	4.65

Source: City of Marco Island

CITY OF MARCO ISLAND, FLORIDA

Capital Asset Statistics by Function/Program
(Unaudited)

Last Ten Fiscal Years

Schedule 17

Function/Program	Fiscal Year									
	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Police Department										
Number of Stations	1	1	1	1	1	1	1	1	1	1
Number of Patrol Units	12	12	12	12	12	12	11	11	12	12
Fire Department										
Number of Stations	2	2	2	2	2	2	2	2	2	2
Parks and Recreation										
Number of Parks	10	10	10	10	10	10	10	10	10	8
Park Acreage	60.0	60.0	60.0	60.0	60.0	60.0	60.0	60.0	60.0	53.8
Tennis Courts	8	8	8	10	10	10	10	10	10	10
Bocce Ball Courts	3	3	3	3	3	3	3	3	3	3
Shuffleboard Courts	7	7	7	7	7	7	7	7	7	4
Racquetball Courts	2	2	2	2	2	2	2	2	2	2
Basketball Courts	1	1	1	1	1	1	1	1	1	1
Baseball/Softball Diamonds	3	3	3	3	3	3	3	3	3	2
Teen Center	1	1	1	1	1	1	1	1	1	1
Public Beach Access	2	2	2	2	2	2	2	2	2	1
Public River Access	1	1	1	1	1	1	1	1	1	1
Public Works										
Streets (Centerline Miles)	127	127	127	127	127	127	127	127	127	127
Signalized intersections	10	10	10	10	10	10	10	10	10	10
Bridges	15	15	15	15	15	15	15	15	15	15
Utilities										
Number of Water Plants	3	3	3	3	3	3	3	3	3	3
Number of Waste Water Plants	2	2	2	2	2	2	2	2	2	2
Water Lines (Miles)	155	155	155	155	155	155	155	140	140	140
Sewer Lines (Miles)	202	202	202	202	202	191	175	160	145	132

Source: City of Marco Island

CITY OF MARCO ISLAND, FLORIDA

SINGLE AUDIT AND OTHER REPORTS AND LETTERS

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

City Council and City Manager
City of Marco Island, Florida

We have audited, in accordance with the 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, the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Marco Island, Florida (the “City”), as of and for the year ended September 30, 2017, and the related notes to the financial statements, which collectively comprise the City’s basic financial statements and have issued our report thereon dated May 29, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City’s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City’s internal control. Accordingly, we do not express an opinion on the effectiveness of the City’s internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity’s financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Mauldin & Jenkins, LLC". The signature is written in a cursive, flowing style.

Bradenton, Florida
May 29, 2018



**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR
FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE
REQUIRED BY THE UNIFORM GUIDANCE**

City Council and City Manager
City of Marco Island, Florida

Report on Compliance for Each Major Federal Program

We have audited the City of Marco Island, Florida's (the "City") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended September 30, 2017. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the City's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). The Uniform Guidance requires that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program, however, our audit does not provide a legal determination of the City's compliance.

Opinion on Each Major Federal Program

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2017.

Report on Internal Control Over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

A *deficiency in internal control* over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness* in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Bradenton, Florida
May 29, 2018

Mauldin & Jenkins, LLC

CITY OF MARCO ISLAND, FLORIDA

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR YEAR ENDED SEPTEMBER 30, 2017**

<u>Federal/State Agency, Pass-through Entity Federal Program/State Project</u>	<u>CFDA/ CFA No.</u>	<u>Grantors Number</u>	<u>Expenditures</u>
Federal Awards			
Indirect Federal Awards			
US Department of Transportation			
Passed through Florida Department of Transportation			
Local Agency Program (LAP) - Landmark Bike Lanes	20.205	430876-1-58-01	\$ 20,414
Local Agency Program (LAP) - Sidewalks S Barfield-Inlet	20.205	430878-1-58-01	122,604
Local Agency Program (LAP) - Sidewalks N Barfield Dr.	20.205	433187-1-58-01	276,562
Local Agency Program (LAP) - Linear Park Trail - Phase 2	20.205	431295-1-58-01	381,283
			<u>\$ 800,863</u>
US Department of Homeland Security			
Passed through Florida Department of Financial Services			
Division of Emergency Management			
Fire Hazardous Material - 2016	97.067	16-DS-T9-09-21-02-309	\$ 24,096
			<u>24,096</u>
Total Expenditures of Federal Awards			<u><u>\$ 824,959</u></u>

CITY OF MARCO ISLAND, FLORIDA

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the City, and is presented using the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

De Minimis Indirect Cost Rate

The City chose not to use the ten percent de minimis cost rate for the year ended September 30, 2017.

Non-cash Awards

The City did not receive non-cash federal awards during the year ended September 30, 2017.

**CITY OF MARCO ISLAND, FLORIDA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED SEPTEMBER 30, 2017**

**SECTION I
SUMMARY OF AUDIT RESULTS**

Financial Statements

Type of auditor's report issued Unmodified

Internal control over financial reporting:
Material weaknesses identified? ___ yes X no

Significant deficiencies identified not considered
to be material weaknesses? ___ yes X none reported

Noncompliance material to financial statements noted? ___ yes X no

Federal Programs

Internal Control over major federal or state programs:
Material weaknesses identified? ___ yes X no

Significant deficiencies identified not considered
to be material weaknesses? ___ yes X none reported

Type of auditor's report issued on compliance for
major Federal programs: Unmodified

Any audit findings disclosed that are required to
be reported in accordance with the Uniform Guidance? ___ yes X no

Identification of major federal program:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
20.205	U.S. Department of Transportation – Local Agency Program

Dollar threshold used to distinguish between
Type A and Type B programs: \$750,000

Auditee qualified as low-risk auditee? ___ yes X no

**SECTION II
FINANCIAL STATEMENT FINDINGS AND RESPONSES**

No current year findings noted

**SECTION III
FEDERAL AWARD AND STATE FINANCIAL ASSISTANCE PROJECT
FINDINGS AND QUESTIONED COSTS**

None noted.

**SECTION IV
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**

No prior year findings noted



INDEPENDENT AUDITOR'S MANAGEMENT LETTER

City Council and City Manager
City of Marco Island, Florida

Report on the Financial Statements

We have audited the financial statements of the City of Marco Island, Florida (the "City"), as of and for the fiscal year ended September 30, 2017, and have issued our report thereon dated May 29, 2018.

Auditor's Responsibility

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements of Federal Awards* (Uniform Guidance); and Chapter 10.550, Rules of the Auditor General.

Other Reports and Schedule

We have issued our Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*; Independent Auditor's Report on Compliance for Each Major Federal Program and Report on Internal Control over Compliance Required by the Uniform Guidance; Schedule of Findings and Questioned Costs; and Independent Accountant's Report on an examination conducted in accordance with *AICPA Professional Standards*, AT-C Section 315, regarding compliance requirements in accordance with Chapter 10.550, Rules of the Auditor General. Disclosures in those reports and schedule, which are dated May 29, 2018, should be considered in conjunction with this management letter.

Prior Audit Findings

Section 10.554(1)(i)1., Rules of the Auditor General, requires that we determine whether or not corrective actions have been taken to address findings and recommendations made in the preceding annual financial audit report. There were no findings or recommendations in the preceding annual financial audit report requiring correction.

Official Title and Legal Authority

Section 10.554(1)(i)4., Rules of the Auditor General, requires that the name or official title and legal authority for the primary government and each component unit of the reporting entity be disclosed in this management letter, unless disclosed in the notes to the financial statements. The City of Marco Island, Florida was incorporated in 1897. Additional information on the City's creation and the City's component unit are disclosed within the City's footnotes.

Financial Condition and Management

Section 10.554(1)(i)5.a. and 10.556(7), Rules of the Auditor General, require us to apply appropriate procedures and communicate the results of our determination as to whether or not the City has met one or more of the conditions described in Section 218.503(1), Florida Statutes, and to identify the specific condition(s) met. In connection with our audit, we determined that the City did not meet any of the conditions described in Section 218.503(1), Florida Statutes.

Pursuant to Sections 10.554(1)(i)5.c. and 10.556(8), Rules of the Auditor General, we applied financial condition assessment procedures. It is management's responsibility to monitor the City's financial condition, and our financial condition assessment was based in part on representations made by management and review of financial information provided by same.

Section 10.554(1)(i)2., Rules of the Auditor General, requires that we communicate any recommendations to improve financial management. In connection with our audit, we did not have any such recommendations.

Annual Financial Report

Section 10.554(1)(i)5.b. and 10.556(7), Rules of the Auditor General, require us to apply appropriate procedures and communicate the results of our determination as to whether the annual financial report for the City for the fiscal year ended September 30, 2017, filed with the Florida Department of Financial Services pursuant to Section 218.32(1)(a), Florida Statutes, is in agreement with the annual financial audit report for the fiscal year ended September 30, 2017. In connection with our audit, we determined that these two reports were in agreement.

Special District Component Units

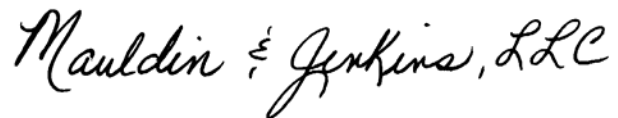
Section 10.554(1)(i)5.d, Rules of the Auditor General, requires, if appropriate, that we communicate the failure of a special district that is a component unit of a county, municipality, or special district, to provide the financial information necessary for proper reporting of the component unit, within the audited financial statements of the county, municipality, or special district in accordance with Section 218.39(3)(b), Florida Statutes. In connection with our audit, we did not note any special district component units that failed to provide the necessary information for proper reporting in accordance with Section 218.39(3)(b), Florida Statutes.

Additional Matters

Section 10.554(1)(i)3., Rules of the Auditor General, requires us to communicate noncompliance with provisions of contracts or grant agreements, or abuse, that have occurred, or are likely to have occurred, that have an effect on the financial statements that is less than material but which warrants the attention of those charged with governance. In connection with our audit, we did not have any such findings.

Purpose of this Letter

Our management letter is intended solely for the information and use of the Legislative Auditing Committee, members of the Florida Senate and the Florida House of Representatives, the Florida Auditor General, Federal and other granting agencies, the Mayor and Members of the City Council, and applicable management, and is not intended to be and should not be used by anyone other than these specified parties.



Bradenton, Florida
May 29, 2018



INDEPENDENT AUDITOR'S REPORT

City Council and City Manager
City of Marco Island, Florida

We have examined the City of Marco Island, Florida's (the "City") compliance with Section 218.415, Florida Statutes, regarding the investment of public funds during the year ended September 30, 2017. Management is responsible for the City's compliance with those requirements. Our responsibility is to express an opinion on the City's compliance based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. Those standards require that we plan and perform the examination to obtain reasonable assurance about whether the City complied, in all material respects, with the specified requirements referenced above. An examination involves performing procedures to obtain evidence about whether the City complied with the specified requirements. The nature, timing and extent of the procedures selected depend on our judgement, including an assessment of the risks of material noncompliance, whether due to fraud or error. We believe that the evidence we obtained is sufficient and appropriate to provide a reasonable basis for our opinion.

Our examination does not provide a legal determination on the City's compliance with specified requirements.

In our opinion, the City complied, in all material respects, with the aforementioned requirements for the year ended September 30, 2017.

This report is intended solely for the information and use of the City and the Auditor General, State of Florida, and is not intended to be and should not be used by anyone other than these specified parties.

Bradenton, Florida
March 29, 2018

A handwritten signature in cursive script that reads "Mauldin & Jenkins, LLC".