



City of Marco Island

CITY OF MARCO ISLAND, FLORIDA

**COMPREHENSIVE ANNUAL FINANCIAL REPORT
For the Fiscal Year Ended September 30, 2013**

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

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INTRODUCTION SECTION



City of Marco Island

April 2, 2014

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, 2013.

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

The City's financial statements have been audited by 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, 2013, 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, 2013, are fairly presented in conformity with GAAP. The independent auditor's report is presented as the first component of the financial section of this report.

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

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	Recreation Enterprise Fund
Debt Service Fund	Hideaway Beach Tax District
Building Services Fund	Self-Insurance Internal Service Fund

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 through a budget re-appropriation ordinance, consolidated all budget amendments approved during the course of the year and those recommended by the City Manager near the end of the fiscal year to officially amend 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 five-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. The Utilities Department also has a five-year capital improvements plan that is updated annually as part of the budget process.

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. In the first ten years of incorporation, 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 2012 assessed taxable valuations used for property taxes in fiscal year 2013 showed a 2.1% reduction from the prior year. The 2013 assessed taxable valuations to be used for property taxes in fiscal year 2014 reflected an increase of 1.9% from 2012 assessed valuations. It is projected that the 2014 valuations used to determine property taxes for fiscal year 2015 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 with the same level of tax revenues. A thorough review has resulted in a financial restructuring of capital projects and development of an asset replacement reserve fund 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 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 City is a true island and has embarked on a repair and replacement process of all 15 bridges within the City's limits. Engineers have estimated \$8 million will be needed for the replacement of the Smokehouse Bay Bridges. As discussed above, bond issue requirements may be reduced by funds already set aside in prior years. Moreover, the City continues to fund 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. 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. Additional funds for capital investment are provided through monthly 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 U.S. Treasury and Agency Obligations 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 the proposed fiscal year general fund operating budget.

Charter Spending Cap: The City is unique in Florida with a spending cap after the first four years of incorporation included as part of the original charter of the City. Currently, increases in annual spending are limited to 3% annually plus the annual change in the Federal cost of living index. The charter was amended by the voters in 2002 to remove the expenditures of self-supporting enterprise funds from the calculation of the spending cap. The City Council may approve emergency expenditures outside of the cap. Further information on the spending cap and the calculation of compliance is included in the Management Discussion and Analysis (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 property and liability losses and the first \$350,000 per occurrence of workers' compensation loss. This program, administered through the Public Risk Insurance Trust, reduces the fixed costs of premiums paid while limiting the financial exposure to the City with the purchase of an annual aggregate stop-loss beginning at \$600,000 in cumulative annual losses. The City is a Drug-Free Workplace and has safety programs in place to minimize risk exposures.

Major Initiatives

The City completed the final phase, Estates District, of the septic tank replacement program (STRP) which was carried out to provide a central sewer system to the entire island.

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, 2012. This was the tenth consecutive year that the government has achieved this prestigious award.

In order to be awarded a Certificate of Achievement, a government 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 Chairman, 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 Polanco, CPA
Finance Director



Government Finance Officers Association

**Certificate of
Achievement
for Excellence
in Financial
Reporting**

Presented to

**City of Marco Island
Florida**

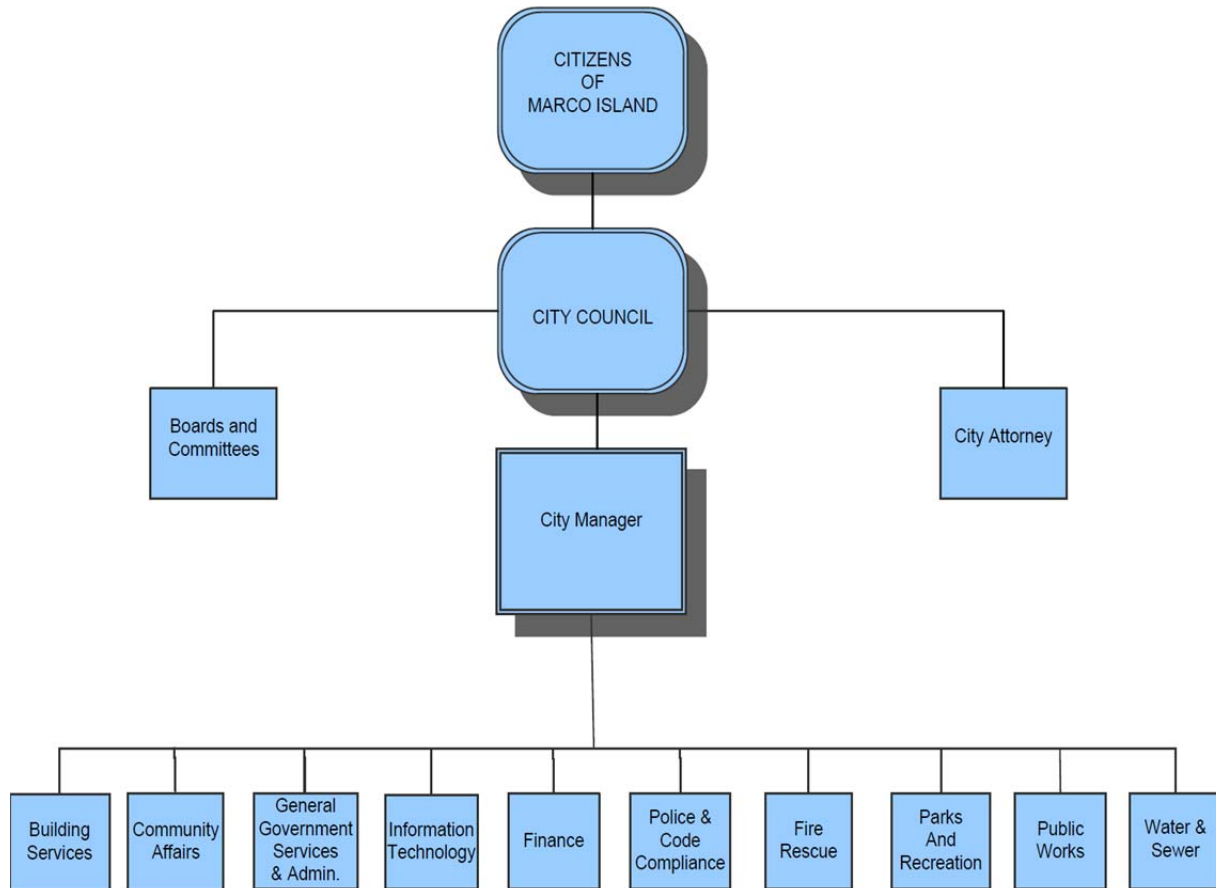
For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

September 30, 2012

Executive Director/CEO



City of Marco Island





PRINCIPAL OFFICIALS:
(As of September 30, 2013)

KENNETH E. HONECKER, CITY COUNCIL CHAIRMAN
LARRY SACHER, COUNCILOR, CITY COUNCIL VICE-CHAIRMAN
JOE BATTE, COUNCILOR
BOB BROWN, COUNCILOR
LARRY HONIG, COUNCILOR
CHUCK KIESTER, COUNCILOR
AMADEO R. PETRICCA, COUNCILOR

BURT SAUNDERS, GRAY-ROBINSON, CONTRACTED CITY ATTORNEY

DR. JAMES C. RIVIERE, CITY MANAGER

GUILLERMO POLANCO, FINANCE DIRECTOR

GRETCHEN BALDUS, IT DIRECTOR
DON HUNTER, POLICE CHIEF
LAURA M. LITZAN, CITY CLERK
BRYAN MILK, DIRECTOR OF COMMUNITY AFFAIRS
MICHAEL MURPHY, FIRE CHIEF
TIMOTHY PINTER, PUBLIC WORKS DIRECTOR
JEFFREY POTEET, UTILITIES GENERAL MANAGER

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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, 2013, 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, 2013, 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.

Emphasis of Matter

As described in Note 1 to the financial statements, the City adopted new accounting guidance and implemented the provisions of Governmental Accounting Standards Board (GASB) Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, and early implemented the provisions of GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities* as of October 1, 2012. Our opinion is not modified with respect to these matters.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and required supplementary information as listed in the table of contents 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 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 financial 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 Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements.

The combining and individual fund financial 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 financial 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 and statistical sections 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 April 2, 2014, 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.

Mauldin & Jenkins, LLC

Bradenton, Florida
April 2, 2014

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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, 2013. 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 IV of this report.

Financial Highlights

- The assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$194.3 million (*net position*). Of this amount, \$37.3 million, or 19% (*unrestricted net position*) may be used to meet the ongoing obligations to citizens and creditors. Governmental activities accounts for 44% of total net position while business-type activities made up the remaining 56%.
- The City's total net position overall increased by \$5.4 million or 2.8% during the current fiscal year.
- The City's business-type activities reported total net position of \$109.6 million, which is an increase of \$5.5 million, or 5.3%, in comparison to the prior year.
- The City's governmental activities reported total net position of \$84.7 million, which is a decrease of \$.1 million, or 0.1%, 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 \$20.7 million, an increase of \$2.1 million in comparison with the prior year. Approximately 42.0% of this total amount, \$8.7 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 \$10 million or 50% of the general fund expenditures and other financing uses. The \$8.7 million in *unassigned fund balance* includes \$4.3 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 \$21.2 million compared to \$58.4 million in the prior year.
- The financial condition of the City continued to be strong in 2013. Major capital investments were made to both the utility system and the basic infrastructure of the community. 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 2013, the City has two major governmental funds: the General Fund and Capital Projects Fund.

Proprietary Funds: The City has two proprietary funds: enterprise funds and 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, a Firefighters' defined benefit pension trust fund and a Police Officers' defined benefit pension trust fund. Fiduciary funds are accounted for in a manner similar to proprietary funds.

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.

CITY OF MARCO ISLAND, FLORIDA

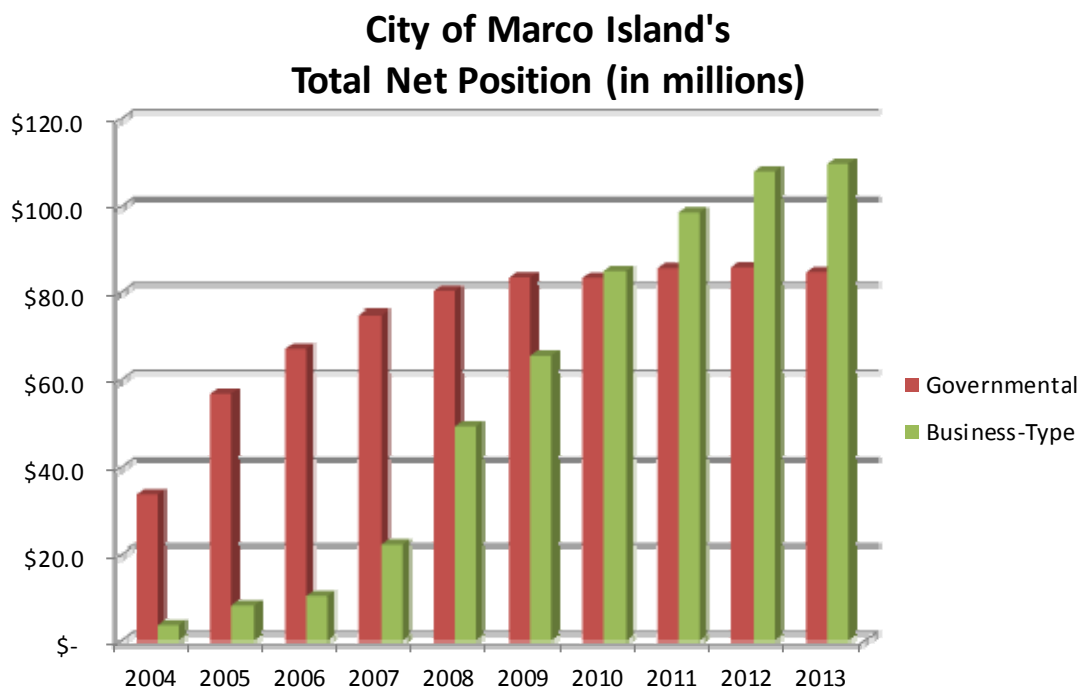
Other Information: In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information* concerning the City's defined benefit pension plans and budget-to-actual schedules for the City's General Fund.

This report contains other information including support schedules, a statistical section (unaudited) and other reports section, which includes reports and schedules related to the audit being performed under Government Auditing Standards and the results of our Single Audit.

Government-wide Financial Analysis

Net position may serve as a useful indicator of the City's financial position. The City's total assets exceeded liabilities by \$194.3 million at the close of the fiscal year. This was an increase of approximately 2.8% compared to last year's net position of \$188.9 million. The chart below shows the steady and gradual increase 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 \$.1 million, or 0.1%, decrease in total net position of governmental activities. This steadiness is primarily due to Council's desire to limit governmental debt. In business-type activities, the \$5.5 million, or 5.3%, increase in total net position is the result of additional cash collected and assessments receivable created by the assessments on the final completed district of the STRP (Septic Tank Replacement Project). This capital program extended central sewer services to approximately 5,700 single-family residential properties that were previously on septic tanks. Additional debt for this seven-year planned project was secured for the final district during this fiscal year.



CITY OF MARCO ISLAND, FLORIDA

A substantial portion of the City’s net position, 44.4%, reflect 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 \$70.8 million or 36.4% of net position as of the end of the fiscal year.

The remaining balance of unrestricted net position (\$37.3 million or 19.2%) may be used to meet the City’s ongoing obligations to citizens and creditors. The amount of the City’s total unrestricted position decreased by \$38.7 million compared to last fiscal year with the majority of the decrease occurring in the water and sewer utility system’s net position. The decrease was primarily due to the classification of assessments receivables related to the STRP districts as unrestricted net position in the prior year.

The following schedule is a summary of the fiscal 2013 Statement of Net Position with comparative information for fiscal 2012.

Summary Statement of Net Position (in \$ millions)

	Governmental Activities		Business-type Activities		Total	
	2013	2012	2013	2012	2013	2012
Current and other assets	\$ 25.0	22.80	94.10	94.10	119.10	116.90
Capital assets	74.2	77.2	234.2	237.9	308.4	315.1
Total Assets	99.2	100.0	328.3	332.0	427.5	432.0
Deferred outflows or resources	-	-	2.4	-	2.4	-
Current and other liabilities	4.8	4.1	6.1	8.7	10.9	12.8
Long-term debt	9.7	10.5	215.0	215.3	224.7	225.8
Total Liabilities	14.5	14.6	221.1	224.0	235.6	238.6
Net Position:						
Net investment in capital assets	64.6	66.7	21.6	27.0	86.2	93.7
Restricted	4.5	1.5	66.3	22.2	70.8	23.7
Unrestricted	15.6	17.2	21.7	58.8	37.3	76.0
Total Net Position	\$ 84.7	85.4	109.6	108.0	194.3	193.4

CITY OF MARCO ISLAND, FLORIDA

The table below summarizes the City's Statement of Activities as of September 30, 2013 and 2012:

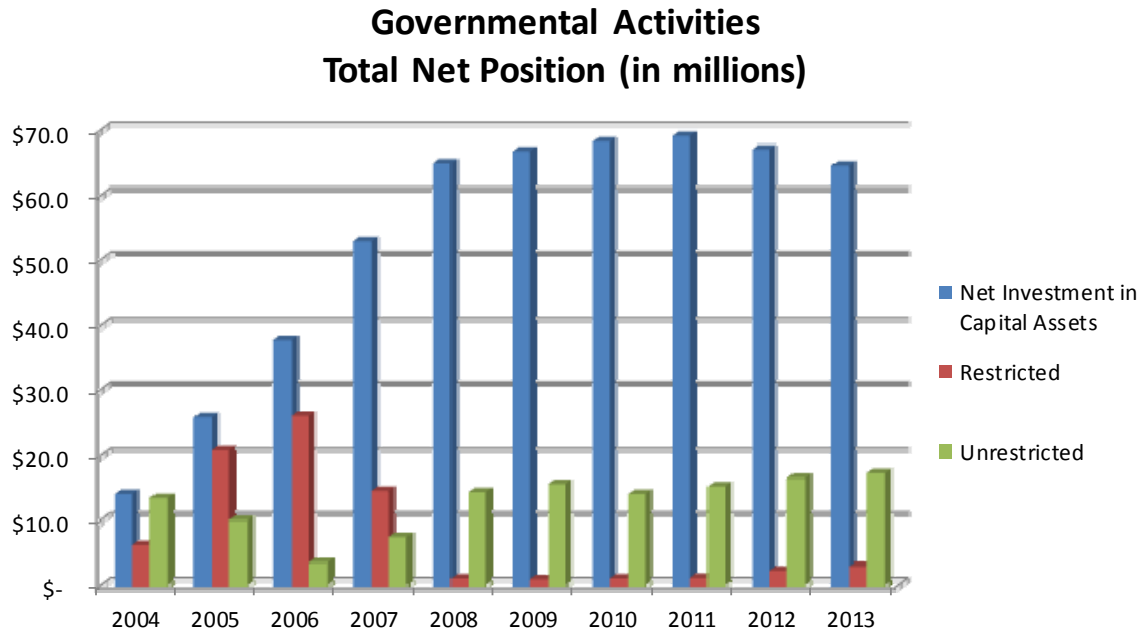
Summary Statement of Activities (in \$ millions)

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
Revenues:						
Program revenues:						
Charges for services	\$ 3.0	2.7	27.9	28.5	31.0	31.2
Operating grants and contributions	1.2	1.1	-	-	1.2	1.1
Capital grants and contributions	0.9	0.7	11.6	10.0	12.5	10.6
General revenues:						
Taxes	17.2	17.3	-	-	17.2	17.3
Other general revenues	2.4	2.4	2.6	3.0	5.0	5.4
Total Revenues	<u>24.7</u>	<u>24.2</u>	<u>42.1</u>	<u>41.5</u>	<u>66.9</u>	<u>65.6</u>
Expenses:						
Governmental activities:						
General government	4.8	4.5	-	-	4.8	4.5
Public safety	10.6	11.0	-	-	10.6	11.0
Transportation	8.2	7.7	-	-	8.2	7.7
Culture and recreation	0.8	0.9	-	-	0.8	0.9
Interest on long-term debt	0.4	0.4	-	-	0.4	0.4
Business-type activities:						
Water and sewer	0.0	0.0	36.1	31.7	36.1	31.7
Recreation	0.0	0.0	0.5	0.5	0.5	0.5
Total Expenses	<u>24.8</u>	<u>24.5</u>	<u>36.6</u>	<u>32.2</u>	<u>61.4</u>	<u>56.7</u>
Excess revenues over expenses before transfers	<u>(0.1)</u>	<u>(0.3)</u>	<u>5.5</u>	<u>9.3</u>	<u>5.4</u>	<u>9.0</u>
Change in net position	(0.1)	(0.3)	5.5	9.3	5.4	9.0
Net position, beginning as previously stated	85.4	85.7	108.0	98.7	193.4	184.4
Restatement of fund balances; See note 1.(f)	(0.6)	-	(3.9)	0.0	(4.5)	0.0
Net position, beginning as restated	<u>84.8</u>	<u>85.7</u>	<u>104.1</u>	<u>98.7</u>	<u>188.9</u>	<u>184.4</u>
Net Position, end of year	<u>\$ 84.7</u>	<u>85.4</u>	<u>109.6</u>	<u>108.0</u>	<u>194.3</u>	<u>193.4</u>

CITY OF MARCO ISLAND, FLORIDA

Government Activities:

The total net position of the City's governmental activities decreased \$.1 million from \$84.8 million last fiscal year to \$84.7 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:

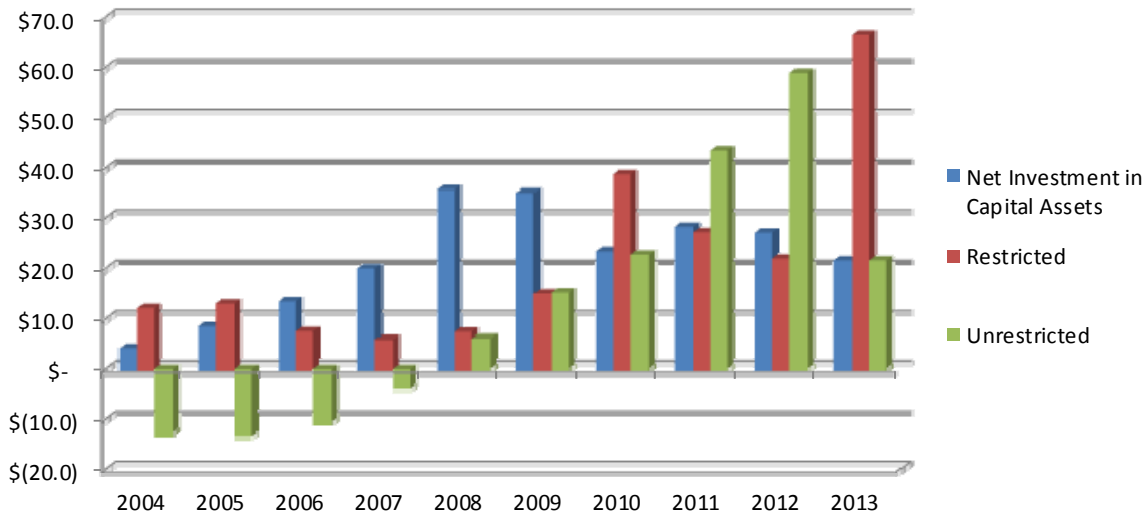


Business-type Activities:

The City's total net position of the business-type activities increased by \$5.5 million, or 5.3%, from \$104.1 million last fiscal year to \$109.6 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.

As the bar chart below indicates, the City's investment in capital assets decreased by \$5.4 million, or 20%, however, it decreased primarily due to the completion of the STRP and the additional depreciation taken on the assets that were acquired for these purposes. This fiscal year, an additional \$6.7 million in permanent financing was secured in order to reimburse the system for project costs incurred and to pay off temporary financing.

**Business-type Activities
Total Net Position (in millions)**



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 \$20.7 million, an increase of \$2.1 million in comparison with the prior year. This increase resulted from an increase in permit and impact fee revenues and a reduction in capital outlay expenditures.

Assigned and unassigned fund balance is the portion of fund balance available for spending at the City's discretion. This year 78.1% of the total governmental fund balance constitutes assigned and unassigned fund balance. Of this amount, the Council has assigned or indicated its intention that \$7.5 million be used for the building services department, asset replacement and on-going capital improvement projects. Approximately \$8.7 million, including the City's financial reserve of \$4.3 million, is unassigned and available for future spending or emergencies and contingencies. The remaining \$4.4 million in unassigned fund balance is available for new spending.

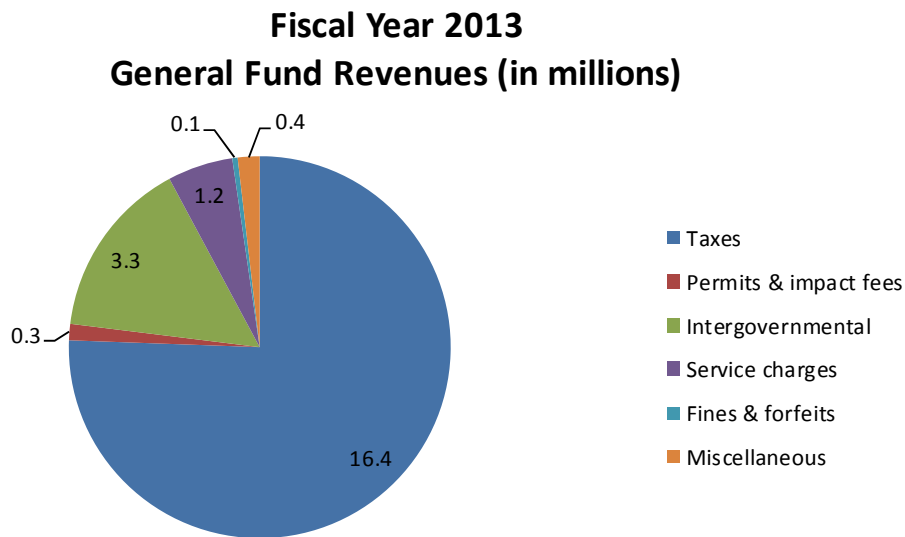
CITY OF MARCO ISLAND, FLORIDA

The remainder of fund balance is *restricted* to indicate it is not available for new spending because it has already been committed by enabling legislation for a variety of 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 \$10.0 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 four months of normal general fund operating expenditures to cover emergencies and other contingencies that may occur.

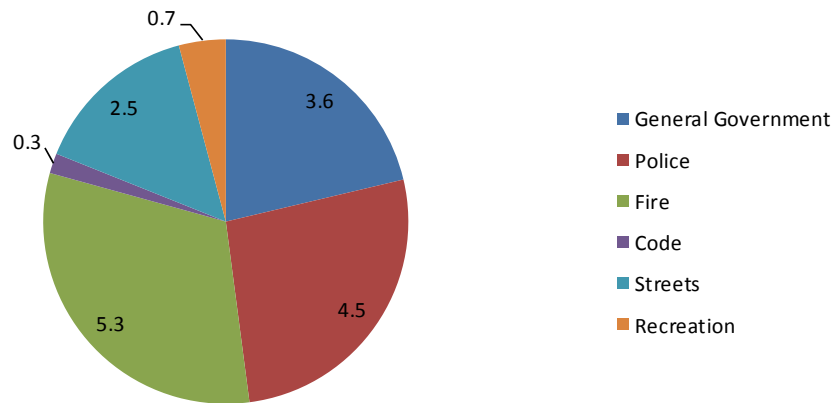
City Council has made a conscious decision to use ad valorem taxes (property taxes) as its primary revenue source for the general fund instead of diversifying its revenue base with other taxes, user fees, and charges for services. Total revenues increased \$.1 million compared to last year. The pie chart below shows the breakdown by percentage of general fund revenues by type.



Total general fund operating expenditures increased by \$.9 million. Public safety expenditures increased by \$.8 million due to increases in personnel costs including benefits. Expenditures for the other departments 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 2013 general fund expenditures by department category.

CITY OF MARCO ISLAND, FLORIDA

Fiscal Year 2013 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 repair 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, 2013, \$3.5 million in capital projects were completed with \$.6 million funded by intergovernmental sources. The balance was funded by general fund transfers of \$2.2 million to the capital projects fund during the fiscal year.

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 \$21.1 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 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 through 2013, 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 increased by \$5.5 million from \$103.6 million in the prior year to \$109.1 million at the end of this fiscal year. The majority of the increase is a result of additional cash collected and assessments receivable created by the assessments on the final completed district of the STRP infrastructure improvements.

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Operating revenues for the proprietary fund decreased by \$.4 million, or 1.4%, and operating expenses not including depreciation and amortization costs increased by \$0.6, or 4.3%, compared to the prior year. Interest income decreased by \$0.1 million, or 4.9%, however, interest expense remained consistent compared to the prior fiscal year. Operating income before non-operating revenues, capital contributions, and transfers was \$.4 million this fiscal year compared to \$6 million last fiscal year, representing a decrease of \$5.6 million primarily due to the increase in depreciation expense of \$4.9 million. 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

The difference between the original budget and the final amended budget of the City's general fund was an increase in net appropriations of \$49,987. Historically, the City develops a conservative budget based upon between 90% and 95% of the State's various state-shared revenue projections due to the uncertainty in the economy. Actual revenue received was \$1.6 million more than budgeted. This increase was from a conservative budget approach on sales tax revenue which resulted in an excess of \$0.7 million in revenues than expected. Likewise, permit and impact fees exceeded budget by \$0.3 million and intergovernmental revenues exceeded budget by \$0.3 million. Overall, departmental expenditures were in line with budgeted expenditures. Finance fell below budgeted expenditures by \$.2 million due to the financial software being contracted after the end of the fiscal year with minimal effect to fiscal 2013. Other general government expenditures were under budget by \$.4 million due to savings in contingencies, community grants, personnel wage adjustments, and personal leave buy-back. The fire and rescue expenditures were over budget by \$0.5 million due to higher than expected property insurance premium tax contribution to the retirement plan.

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. Resolution 03-03, approved by the City Council in January 2003, established legislative intent and procedures for the calculation of expenditures covered by the spending cap. Key procedures established by this resolution are:

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

As of September 30, 2013, 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

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year's spending cap calculation. For the fiscal year ended September 30, 2013, the City was in compliance with the Charter Spending Cap:

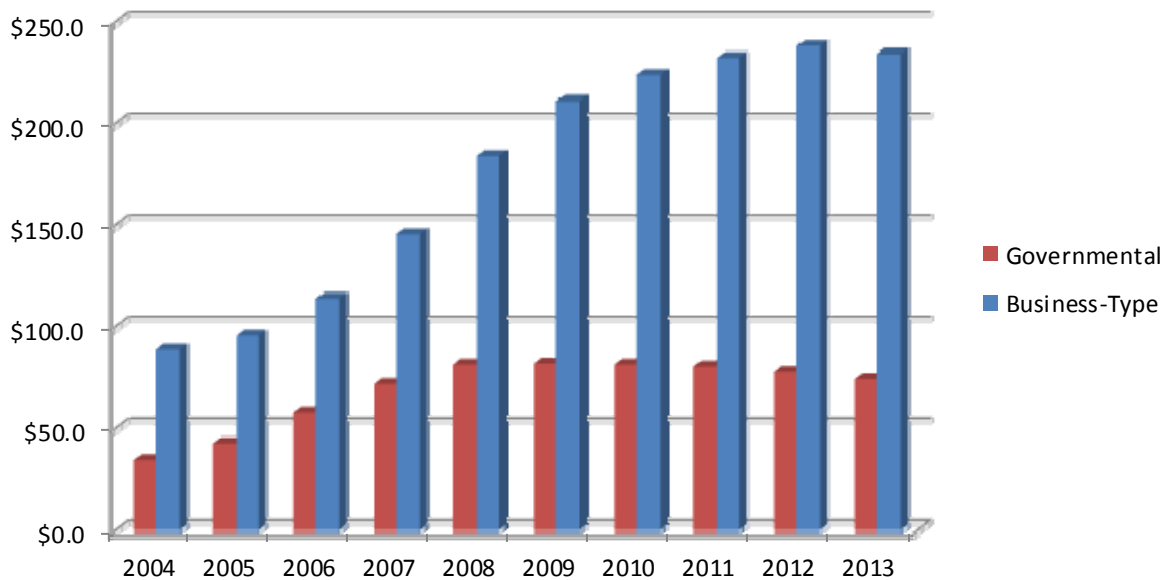
Expenditures fiscal year 2013	
General Fund	\$ 16,940,955
General Fund Transfer to Asset Replacement	-
General Fund Transfer to Capital Improvement Fund	2,193,056
Debt Service	1,482,666
TOTAL OF ALL FUNDS SUBJECT TO SPENDING CAP	20,616,677
Less expenditures funded by grants and gifts	(1,795,426)
Less expenditures funded by enterprise funds	(781,423)
Fiscal Year 2013 expenditures subject to Spending Cap	18,039,828
Fiscal Year 2013 Spending Cap	21,015,055
Amount below the Spending Cap in 2013	\$ (2,975,227)

Annual contributions into the asset replacement reserve fund are covered by the spending cap while future expenditures from the fund will be exempt from the spending cap. With the 3% annual increase and the October 2012 cost of living increase percent allowed by the City Charter, the spending cap for the fiscal year 2013 budget year is \$21,015,055.

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.

City of Marco Island's Capital Assets, Net (in Millions)



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Capital Assets: The City's investment in capital assets for its governmental and business-type activities as of September 30, 2013, was \$308.4 million (net of accumulated depreciation). This investment in capital assets includes land, buildings, and improvements other than buildings, machinery and equipment.

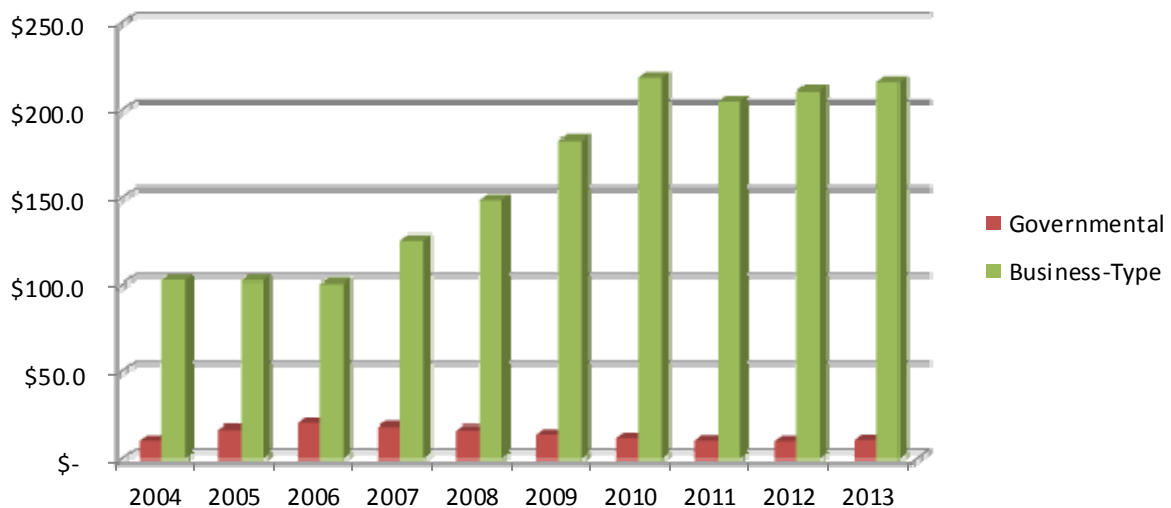
The \$3.7 million net decrease in business-type capital assets, net of depreciation, is due to depreciation expense on the City's utility infrastructure. The multi-year project to provide a central city sewer system for all properties on the island was completed during the fiscal year. Additional information on long-term debt 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 recently raised or re-affirmed 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 \$224.7 million. Of this amount \$9.7 million is considered governmental obligations and the remaining \$215 million is business-type debt which is secured solely by specified water and sewer utility fund revenue sources.

Of the \$9.7 million in governmental debt, \$5.1 million was approved by referendum by the City's voters and an additional ad-valorem property tax is collected to retire this debt. Sales tax revenue was pledged to cover \$3.8 million in governmental debt. A capital lease of \$.8 million is secured by non-ad valorem revenue.

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 were used to finance

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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 total debt outstanding of this portion of system acquisition and improvements is \$160.3 million.

The debt service of the assessment bonds and state revolving loans are secured solely by the special assessments charged to each district. At the end of fiscal year 2013, construction of all seventeen districts was complete and permanent financing totaling \$54.7 million was in place for all districts. Of the \$215.0 million in business-type debt, \$54.7 million is secured by the sewer assessment districts and the remaining \$160.3 million 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.

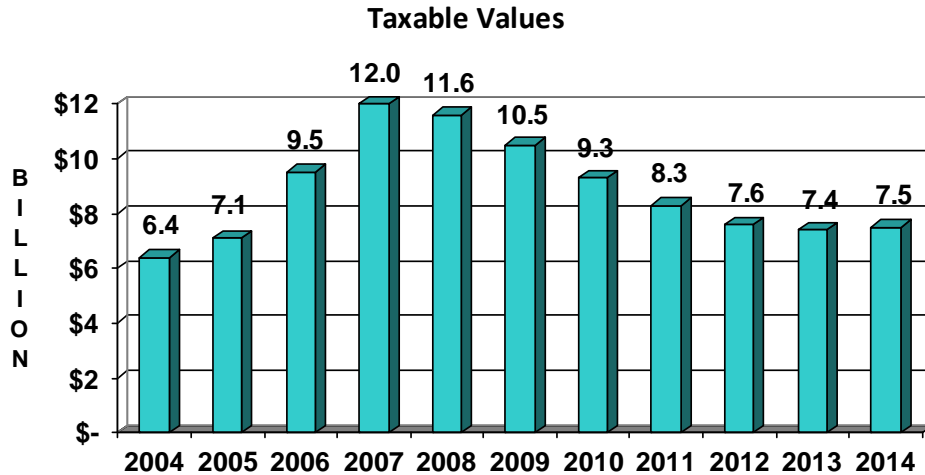
The region enjoys a climate that is classified as sub-tropical and the City has a permanent population of approximately 17,000 which grows to 45,000 in peak winter season with the influx of part-time residents and tourists. The City is the second largest municipality (after the City of Naples) located in Collier County. A study by *Forbes* found that more wealthy people moved to Collier County in 2008 than any other county in the United States. For years, a number of top-level executives from major multinational firms have maintained homes in the area, jetting in on weekends for golf and recreation.

The County's median age of 46.9 is nearly ten years older than the state's median age. More than 28% of the county's residents are 65 or older, compared with 18% statewide. Per the U.S. Department of Labor, the unemployment rate for South Florida and Collier County is currently 7.4%, down from 8.0% a year ago. The Naples/Marco Island regional unemployment rate has declined from 9.3% last year to 5.85% this year.

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 increased by 6.1% compared to 2012 with the majority being Floridians at 41.6%, out-of-state at 34.5%, and the balance from foreign counties.

Property Values and Taxes: 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 2013 taxable value was \$7,411,207,873 which reflects a reduction of 2.1% from the fiscal 2012 value. The City's fiscal 2014 taxable value is \$7,548,486,093 which reflects an increase of 1.9% from the fiscal 2013 value.

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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. The City's total current year maximum aggregate rolled-back rate based on the legislative changes is 2.1418 mils.

City residents enjoy a standard operating millage rate of 1.96 mils in fiscal year 2013 that is only .09 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

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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.

Total water and sewer utility revenue decreased \$.6 million, or .02%, compared to last year due to record weather conditions during the rainy season. 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 refinancing of those 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 life of the bonds.

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 declined by 2.9% compared to last fiscal year, and the tax levy in the Hideaway Beach District remained the same as last fiscal year at 2.6 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

CITY OF MARCO ISLAND, FLORIDA

Statement of Net Position

September 30, 2013

Assets	Primary Government			Component Unit Hideaway Beach
	Governmental Activities	Business-type Activities	Total	
Cash and investments	\$ 21,792,960	9,449,334	31,242,294	420,190
Receivables (net, where applicable, of allowance for uncollectible)				
Accounts	395,135	2,493,495	2,888,630	-
Assessments, current portion	-	1,053,415	1,053,415	-
Assessments, interest	-	3,314,072	3,314,072	-
Accrued interest	903	-	903	-
Internal balances	(460,845)	460,845	-	-
Due from other governments	1,249,223	-	1,249,223	-
Prepaid items	25	-	25	-
Restricted cash and investments	1,670,453	43,108,845	44,779,298	-
Assessments receivable	-	34,177,952	34,177,952	-
Net pension assets	356,406	-	356,406	-
Capital assets				
Land and land improvements	15,363,360	17,415,059	32,778,419	-
Buildings and utility plants	10,045,359	6,738,079	16,783,438	-
Improvements other than buildings	-	126,215,337	126,215,337	-
Infrastructure	84,995,906	78,766,166	163,762,072	-
Equipment	8,012,586	67,020,287	75,032,873	-
Accumulated depreciation	(45,282,594)	(73,309,849)	(118,592,443)	-
Construction in progress	1,107,538	11,385,223	12,492,761	-
Net capital assets	74,242,155	234,230,302	308,472,457	-
Total assets	99,246,415	328,288,260	427,534,675	420,190
Deferred Outflows of Resources				
Deferred amount on refunding debt	-	2,377,580	2,377,580	-
Total deferred outflows of resources	-	2,377,580	2,377,580	-

See accompanying notes to financial statements.

CITY OF MARCO ISLAND, FLORIDA

Statement of Net Position

September 30, 2013

Liabilities	Primary Government		Total	Component Unit Hideaway Beach
	Governmental Activities	Business-type Activities		
Accounts payable and other current liabilities	\$ 3,072,801	1,513,812	4,586,613	49,026
Due to other governments	-	-	-	500,000
Due to pension funds	-	-	-	-
Customer deposits	2,000	43,822	45,822	-
Accrued interest payable	115,086	3,879,486	3,994,572	-
Total current liabilities	3,189,887	5,437,120	8,627,007	549,026
Noncurrent liabilities				
Bonds, notes, and capital leases, net of unamortized discounts and premiums				
Due within one year	1,207,567	7,039,197	8,246,764	-
Due in more than one year	8,466,706	207,951,720	216,418,426	-
Compensated absences				
Due within one year	411,019	282,280	693,299	-
Due in more than one year	739,821	179,491	919,312	-
Other post employment benefits	497,440	203,560	701,000	-
Total noncurrent liabilities	11,322,553	215,656,248	226,978,801	-
Total liabilities	14,512,440	221,093,368	235,605,808	549,026
Net investment in capital assets	64,567,882	21,616,965	86,184,847	-
Restricted for				
Capital Outlay	-	1,808,419	1,808,419	-
Debt Service	1,670,453	60,375,929	62,046,382	-
Renewal and replacements	-	2,068,030	2,068,030	-
Impact and public safety programs	1,286,470	2,081,516	3,367,986	-
Building services	1,585,457	-	1,585,457	-
Unrestricted	15,623,713	21,621,613	37,245,326	(128,836)
Total net position	\$ 84,733,975	109,572,472	194,306,447	(128,836)

See accompanying notes to financial statements.

CITY OF MARCO ISLAND, FLORIDA

CITY OF MARCO ISLAND, FLORIDA

Statement of Activities

Year Ended September 30, 2013

Functions/programs	Program Revenues				Net (expense) revenue and change in net position			Component Unit Hideaway Beach District
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			
					Governmental Activities	Business-type Activities	Totals	
Primary government								
Governmental activities								
General government	\$ 3,749,034	984,197	126,104	-	(2,638,733)	-	(2,638,733)	-
Police Services	4,688,947	29,031	-	16,182	(4,643,734)	-	(4,643,734)	-
Fire and rescue	5,624,652	278,112	88,696	24,606	(5,233,238)	-	(5,233,238)	-
Code compliance	290,804	126,158	-	-	(164,646)	-	(164,646)	-
Building services	1,183,248	1,608,453	-	-	425,205	-	425,205	-
Transportation	8,199,027	-	1,000,000	774,293	(6,424,734)	-	(6,424,734)	-
Culture and recreation	842,869	-	-	56,487	(786,382)	-	(786,382)	-
Interest on long-term debt	366,606	-	-	-	(366,606)	-	(366,606)	-
Total governmental activities	24,945,187	3,025,951	1,214,800	871,568	(19,832,868)	-	(19,832,868)	-
Business-type activities								
Water and sewer	36,078,592	27,603,070	-	11,624,137	-	3,148,615	3,148,615	-
Recreation	466,213	322,744	-	-	-	(143,469)	(143,469)	-
Total business-type activities	36,544,805	27,925,814	-	11,624,137	-	3,005,146	3,005,146	-
Total primary government	\$ 61,489,992	30,951,765	1,214,800	12,495,705	(19,832,868)	3,005,146	(16,827,722)	-
Component unit								
Hideaway Beach District	\$ 1,829,758	-	350,000	-				(1,479,758)
		General revenues						
		Taxes						
					14,908,363	-	14,908,363	949,986
					1,056,187	-	1,056,187	-
					1,270,102	-	1,270,102	-
					2,212,992	-	2,212,992	-
					50,316	2,333,088	2,383,404	-
					184,223	192,955	377,178	9
					45,481	(45,481)	-	-
					19,727,664	2,480,562	22,208,226	949,995
					(105,204)	5,485,708	5,380,504	(529,763)
					85,414,547	107,961,511	193,376,058	
					(575,368)	(3,874,747)	(4,450,115)	
					84,839,179	104,086,764	188,925,943	400,927
					\$ 84,733,975	109,572,472	194,306,447	(128,836)

See accompanying notes to financial statements.

CITY OF MARCO ISLAND, FLORIDA

Balance Sheet
Governmental Funds
September 30, 2013

	<u>General</u>	<u>Capital Projects</u>	<u>Total Nonmajor Funds</u>	<u>Total Governmental Funds</u>
Assets				
Cash and investments	\$ 10,286,259	7,637,533	1,687,907	19,611,699
Receivables				
Accounts, net	12,458	173,736	-	186,194
Interest	903	-	-	903
Due from other governments	1,249,223	-	-	1,249,223
Prepaid items	25	-	-	25
Restricted cash and investments	-	-	1,670,453	1,670,453
Total assets	\$ 11,548,868	7,811,269	3,358,360	22,718,497
Liabilities				
Accounts payable	\$ 1,299,002	279,227	87,974	1,666,203
Accrued liabilities	287,434	-	14,476	301,910
Customer deposits	2,000	-	-	2,000
Total liabilities	1,588,436	279,227	102,450	1,970,113
Fund balances				
Nonspendable	25	-	-	25
Restricted				
Parks construction and operation	147,148	-	-	147,148
Road construction	785,902	-	-	785,902
Fire services	109,983	-	-	109,983
Police services	243,437	-	-	243,437
Debt service	-	-	1,670,453	1,670,453
Building services	-	-	1,585,457	1,585,457
Assigned				
Transportation	20,289	-	-	20,289
Capital projects	-	2,818,321	-	2,818,321
Asset replacement	-	4,713,721	-	4,713,721
Unassigned	8,653,648	-	-	8,653,648
Total fund balances	9,960,432	7,532,042	3,255,910	20,748,384
Total liabilities and fund balances	\$ 11,548,868	7,811,269	3,358,360	22,718,497

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, 2013

Total fund balances governmental funds	\$ 20,748,384
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.	74,242,155
Accrued long term debt interest expense is not a financial use and, therefore is not reported in the funds.	(115,086)
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.	(11,322,553)
Net pension assets are not available to pay for current period expenditures and, therefore are not reported in the funds.	356,406
Internal service funds are used by management to charge the costs of certain activities, such as insurance, to individual funds. The is the portion of net position included in governmental activities in the Statement of Net Position.	<u>824,669</u>
Net position of governmental activities	<u>\$ 84,733,975</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, 2013

	General	Capital Projects	Total Nonmajor Funds	Total Governmental Funds
Revenues				
Taxes	\$ 16,373,429	-	861,223	17,234,652
Permits, fees and assessments	330,536	-	1,608,453	1,938,989
Intergovernmental	3,265,528	574,293	-	3,839,821
Charges for services	1,218,312	-	-	1,218,312
Fines and forfeitures	154,965	-	-	154,965
Interest	49,842	474	-	50,316
Miscellaneous	346,790	-	10,658	357,448
Total revenues	<u>21,739,402</u>	<u>574,767</u>	<u>2,480,334</u>	<u>24,794,503</u>
Expenditures				
Current				
General government	3,602,051	-	-	3,602,051
Police services	4,534,953	-	-	4,534,953
Fire and rescue	5,293,964	-	-	5,293,964
Code compliance	290,187	-	-	290,187
Building services	-	-	1,176,301	1,176,301
Transportation	2,483,555	-	-	2,483,555
Culture and recreation	692,649	-	-	692,649
Debt service				
Principal	-	-	1,116,059	1,116,059
Interest and fiscal charges	-	-	366,606	366,606
Capital outlay	43,596	3,491,853	-	3,535,449
Total expenditures	<u>16,940,955</u>	<u>3,491,853</u>	<u>2,658,966</u>	<u>23,091,774</u>
Excess (deficiency) of revenues over (under) expenditures	<u>4,798,447</u>	<u>(2,917,086)</u>	<u>(178,632)</u>	<u>1,702,729</u>
Other financing sources (uses)				
Transfers in	-	2,238,537	637,208	2,875,745
Transfers out	(2,830,264)	-	-	(2,830,264)
Capital lease	-	350,000	-	350,000
Total other financing sources (uses)	<u>(2,830,264)</u>	<u>2,588,537</u>	<u>637,208</u>	<u>395,481</u>
Change in fund balances	<u>1,968,183</u>	<u>(328,549)</u>	<u>458,576</u>	<u>2,098,210</u>
Fund balances, beginning as previously stated	7,992,249	8,362,350	2,797,334	19,151,933
Restatement of fund balances; See note 1.(f)	-	(501,759)	-	(501,759)
Fund balances, beginning as restated	<u>7,992,249</u>	<u>7,860,591</u>	<u>2,797,334</u>	<u>18,650,174</u>
Fund balances, end of year	<u>\$ 9,960,432</u>	<u>7,532,042</u>	<u>3,255,910</u>	<u>20,748,384</u>

See accompanying notes to financial statements.

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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, 2013

Net change in fund balance - governmental funds	\$	2,098,210
Amounts reported for governmental activities in the Statement of Activities are different because:		
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation (\$6,524,605) exceeded capital outlays (\$3,599,008) in the current period.		(2,925,597)
The net effect of various miscellaneous transactions involving capital assets (i.e., sales, trade-ins, and donations) is to increase (decrease) net position.		(5,458)
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.		
Principal payments on debt		1,116,059
Debt proceeds from capital lease		(350,000)
The Statement of Activities reports changes in the net pension asset. Conversely, government funds do not report any change in the net pension assets.		56,486
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.		
Changes in compensated absences		(54,741)
Accrued interest		13,571
Other post-employment benefits		(125,070)
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.		71,336
Change in net position of governmental activities	\$	<u>(105,204)</u>

See accompanying notes to financial statements.

CITY OF MARCO ISLAND, FLORIDA

Statement of Net Position

Proprietary Funds

September 30, 2013

Assets	Business-type Activities—Enterprise Funds			Governmental Activities—
	Water and Sewer	Recreation (Nonmajor)	Total	Internal Service Fund
Current assets				
Cash and investments	\$ 9,446,864	2,470	9,449,334	2,181,261
Accounts receivable, net	2,493,495	-	2,493,495	208,941
Assessments receivable - current portion	1,053,415	-	1,053,415	-
Assessments interest receivable	3,314,072	-	3,314,072	-
Restricted cash and investments	26,899,127	-	26,899,127	-
Total current assets	43,206,973	2,470	43,209,443	2,390,202
Noncurrent assets				
Restricted cash and investments	16,209,718	-	16,209,718	-
Assessments receivable	34,177,952	-	34,177,952	-
Capital assets				
Land	17,415,059	-	17,415,059	-
Transmissions and distributions	126,215,337	-	126,215,337	-
Infrastructure	78,766,166	-	78,766,166	-
Buildings and improvements	6,674,225	63,854	6,738,079	-
Vehicles and equipment	66,944,374	75,913	67,020,287	-
Construction in progress	11,385,223	-	11,385,223	-
Accumulated depreciation	(73,238,571)	(71,278)	(73,309,849)	-
Net capital assets	234,161,813	68,489	234,230,302	-
Total noncurrent assets	284,549,483	68,489	284,617,972	-
Total assets	327,756,456	70,959	327,827,415	2,390,202
Deferred outflows of resources				
Deferred amounts on refunding debt	2,377,580	-	2,377,580	-
Total deferred inflows of resources	2,377,580	-	2,377,580	-

See accompanying notes to financial statements.

CITY OF MARCO ISLAND, FLORIDA

Statement of Net Position

Proprietary Funds

September 30, 2013

	<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	\$ 1,369,021	9,740	1,378,761	30,265
Accrued liabilities	131,844	3,207	135,051	1,074,423
Accrued interest	3,879,486	-	3,879,486	-
Customer deposits	11,000	32,822	43,822	-
Compensated absences, current portion	282,280	-	282,280	-
Bonds payable, current portion	4,376,990	-	4,376,990	-
Notes payable, current portion	2,662,207	-	2,662,207	-
Total current liabilities	<u>12,712,828</u>	<u>45,769</u>	<u>12,758,597</u>	<u>1,104,688</u>
Noncurrent liabilities				
Compensated absences	179,491	-	179,491	-
Bonds payable	151,193,324	-	151,193,324	-
Notes payable	56,758,396	-	56,758,396	-
Other post-employment benefits	203,560	-	203,560	-
Total noncurrent liabilities	<u>208,334,771</u>	<u>-</u>	<u>208,334,771</u>	<u>-</u>
Total liabilities	<u>221,047,599</u>	<u>45,769</u>	<u>221,093,368</u>	<u>1,104,688</u>
Net Position				
Net investment in capital assets	21,548,476	68,489	21,616,965	-
Restricted				
Construction	1,808,419	-	1,808,419	-
Debt service	60,375,929	-	60,375,929	-
Renewal and replacement	2,068,030	-	2,068,030	-
Impact and public safety programs	2,081,516	-	2,081,516	-
Unrestricted	<u>21,204,067</u>	<u>(43,299)</u>	<u>21,160,768</u>	<u>1,285,514</u>
Net position	\$ <u>109,086,437</u>	<u>25,190</u>	109,111,627	<u>1,285,514</u>
Adjustment to reflect internal service fund activities reflected in enterprise funds			<u>460,845</u>	
Net position, business-type activities	\$		<u>109,572,472</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, 2013

	<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>	
Operating revenues				
Charges for services				
Total operating revenues	\$ 27,603,070	322,744	27,925,814	1,663,358
Operating expenses				
Personal services	5,400,734	165,880	5,566,614	-
Insurance	662,950	-	662,950	1,522,592
Utilities	1,824,105	24,477	1,848,582	-
Contractual fees	1,133,459	25,878	1,159,337	-
Repairs and maintenance	529,767	12,866	542,633	-
Supplies	1,161,068	18,694	1,179,762	-
Rental and lease costs	20,627	1,136	21,763	-
Other expenses	707,764	203,422	911,186	-
Amortization	261,648	-	261,648	-
Depreciation	15,513,448	13,860	15,527,308	-
Total operating expenses	27,215,570	466,213	27,681,783	1,522,592
Operating income (loss)	387,500	(143,469)	244,031	140,766
Nonoperating revenues (expenses)				
Interest income	2,333,088	-	2,333,088	-
Interest expense	(8,919,076)	-	(8,919,076)	-
Miscellaneous expense	(13,376)	-	(13,376)	-
Other nonoperating income	28,957	135,473	164,430	-
Gain (loss) on sale of capital assets	28,525	-	28,525	-
Total nonoperating revenues (expenses)	(6,541,882)	135,473	(6,406,409)	-
Income (loss) before contributions and transfers	(6,154,382)	(7,996)	(6,162,378)	140,766
Capital contributions	11,624,137	-	11,624,137	-
Transfers out	(6,481)	(39,000)	(45,481)	-
Change in net position	5,463,274	(46,996)	5,416,278	140,766
Net position, beginning as previously stated	107,497,910	72,186	107,570,096	1,144,748
Restatement of net position; See note 1.(f)	(3,874,747)	-	(3,874,747)	-
Net position, beginning as restated	103,623,163	72,186	103,695,349	1,144,748
Net position, end of year	\$ 109,086,437	25,190	109,111,627	1,285,514
Adjustment to reflect the internal service fund activities related to the enterprise funds			69,430	
Change in net position, business-type activities			\$ 5,485,708	

See accompanying notes to financial statements.

CITY OF MARCO ISLAND, FLORIDA

Statement of Cash Flows
Proprietary Funds
Year Ended September 30, 2013

	Business-type Activities—Enterprise Funds			Governmental
	Water and	Recreation	Total	Activities—
	Sewer	(Nonmajor)		Internal
				Service Fund
Cash flows from operating activities				
Cash received from customers and users	\$ 34,575,590	293,895	34,869,485	1,454,417
Cash payments to suppliers	(6,887,643)	(288,704)	(7,176,347)	(1,266,871)
Cash payments to employees for services	(5,254,464)	(165,223)	(5,419,687)	-
Net cash provided (used) by operating activities	<u>22,433,483</u>	<u>(160,032)</u>	<u>22,273,451</u>	<u>187,546</u>
Cash flows from noncapital financing activities				
Transfers	(6,481)	(39,000)	(45,481)	-
Net cash provided (used) by noncapital financing activities	<u>(6,481)</u>	<u>(39,000)</u>	<u>(45,481)</u>	<u>-</u>
Cash flows from capital and related financing activities				
Proceeds from special assessments	8,723,749	-	8,723,749	-
Proceeds from issuance of debt	6,694,501	-	6,694,501	-
Proceeds from sale of capital assets	38,844	-	38,844	-
Principal paid on long-term debt	(9,617,876)	-	(9,617,876)	-
Interest paid on long-term debt	(8,959,711)	-	(8,959,711)	-
Other receipts (payments)	28,957	135,473	164,430	-
Issue costs on bonds payable	(13,376)	-	(13,376)	-
Acquisition and construction of capital assets	(11,873,964)	-	(11,873,964)	-
Net cash provided (used) by capital and related financing activities	<u>(14,978,876)</u>	<u>135,473</u>	<u>(14,843,403)</u>	<u>-</u>
Cash flows from investing activities				
Interest and investment earnings	2,333,088	-	2,333,088	-
Net cash provided (used) by investing activities	<u>2,333,088</u>	<u>-</u>	<u>2,333,088</u>	<u>-</u>
Net increase (decrease) in cash and cash equivalents	9,781,214	(63,559)	9,717,655	187,546
Cash and cash equivalents, beginning of year, restated	42,774,495	66,029	42,840,524	1,993,715
Cash and cash equivalents, end of year	\$ <u>52,555,709</u>	<u>2,470</u>	<u>52,558,179</u>	<u>2,181,261</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities				
Operating income (loss)	\$ 387,500	(143,469)	244,031	140,766
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities				
Depreciation and amortization	15,775,096	13,860	15,788,956	-
Changes in assets and liabilities:				
Accounts receivable	6,974,520	-	6,974,520	(208,941)
Prepays and other assets	-	1,855	1,855	-
Accounts payable	(847,903)	(4,086)	(851,989)	(3,492)
Accrued liabilities	20,353	(61,014)	(40,661)	259,213
Customer deposits	(2,000)	32,822	30,822	-
Compensated absences	92,490	-	92,490	-
Other post-employment benefits	33,427	-	33,427	-
Net cash provided (used) by operating activities	\$ <u>22,433,483</u>	<u>(160,032)</u>	<u>22,273,451</u>	<u>187,546</u>
Reconciliation of cash and cash equivalents				
Pooled cash and cash equivalents	\$ 9,446,864	2,470	9,449,334	2,181,261
Restricted cash and cash equivalents	43,108,845	-	43,108,845	-
	\$ <u>52,555,709</u>	<u>2,470</u>	<u>52,558,179</u>	<u>2,181,261</u>

See accompanying notes to financial statements.

CITY OF MARCO ISLAND, FLORIDA

Statement of Fiduciary Net Position
Fiduciary Funds
September 30, 2013

	<u>Pension Trust Funds</u>
Assets	
Cash and cash equivalents	\$ 800,909
Contributions receivable	606,773
Investments, at fair value	
Government bonds	5,274,623
Common stock	8,766,379
Accrued interest	<u>12,956</u>
Total investments	<u>14,053,958</u>
Total assets	<u>15,461,640</u>
Liabilities	
Accounts payable	<u>5,011</u>
Total liabilities	<u>5,011</u>
Net position	
Held in trust for pension benefits and other purposes	<u>\$ 15,456,629</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, 2013

	<u>Pension Trust Funds</u>
Additions	
Contributions	
Employer	\$ 1,244,712
Employee	128,743
State of Florida	<u>597,258</u>
Total contributions	<u>1,970,713</u>
Investment earnings	
Interest and dividend income	289,359
Net change in fair value of investments	1,041,945
Less investment expense	<u>(119,299)</u>
Net investment earnings	<u>1,212,005</u>
Total additions	<u>3,182,718</u>
Deductions	
Benefits paid	278,799
General administration	<u>71,350</u>
Total deductions	<u>350,149</u>
Change in net position	2,832,569
Net position, beginning as previously stated	12,450,019
Restatement of net position; See note 1.(f)	174,041
Net position, beginning as restated	<u>12,624,060</u>
Net position, end of year	<u><u>\$ 15,456,629</u></u>

See accompanying notes to financial statements.

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.

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

The City reports the following major proprietary fund:

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

Additionally, the City reports the following fund types:

- The *internal service fund* accounts for the collection of premiums, accumulation of reserves and payment of insurance claims for the City.
- 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) Implementation of Governmental Accounting Standards Board Statements

The City implemented the following GASB Statements 62, 63 and 65 during the fiscal year ended September 30, 2013:

(1) GASB Statement No. 62 *"Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements."*

This statement classifies all sources of generally accepted accounting principles for state and local governments so that the authoritative accounting and financial reporting literature will be together in a single source, with that guidance modified as necessary to appropriately recognize the governmental environment and the needs of governmental financial statement users. The City elected to include all pre-November 30, 1989 FASB pronouncements which are now codified in GASB 62.

(2) GASB Statement No. 63 *"Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position."*

This Statement provides guidance for deferred outflows of resources and deferred inflows of resources. It further identifies net position as the residual of all other elements presented in a statement of net position. This Statement redefines certain assets and liabilities as "deferred outflows of resources" or "deferred inflows of resources." It further requires the "capital assets, net of debt" now be titled "net

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

investment in capital assets” and that the last line of the statements, previously call “net assets” now be titled “net position.”

(3) GASB Statement No. 65 “*Items Previously Reported as Assets and Liabilities.*”

This Statement provides additional guidance for the items listed in GASB 63 and includes additional changes in accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities. This Statement specifically addresses the calculation of a deferred outflow or inflow for the refunding of debt. This Statement requires that debt issuance costs be expensed in the period in which that debt was issued. This Statement also requires that taxes and lease revenues received prior to the period to which they relate are to be classified as Unavailable Revenue (a deferred inflow). Changes to the government-wide and enterprise fund financial statements, schedules and related disclosures are included in Note 1, section (F) in the Restatement of Prior Year Balances and section (G) in the Assets, Liability and Net Position.

(F) Restatement of Prior Year Balances

The October 1, 2012, beginning net position of the governmental activities and business-type activities was restated due to the implementation of GASB Statement No. 65. Beginning net position/fund balance of the governmental activities, business-type activities, Electric Franchise Fees Capital Projects Fund, and Water and Sewer Fund were restated for a change in reporting reclassifying capital project funds for water and sewer activities. Beginning net position of the Firefighters’ Pension Fiduciary Fund was restated for a prior period adjustment for state contribution revenues not recognized in the prior period.

Governmental Activities

Net position, October 1, 2012, previously stated	\$ 85,414,547
Restatement of net position due to implementation of GASB 65	(73,609)
Restatement of net position due to change in reporting	<u>(501,759)</u>
Net position, October 1, 2012, restated	<u><u>\$ 84,839,179</u></u>

Business-type Activities

Net position, October 1, 2012, previously stated	107,961,509
Restatement of net position due to implementation of GASB 65	(4,376,504)
Restatement of net position due to change in reporting	<u>501,759</u>
Net position, October 1, 2012, restated	<u><u>\$ 104,086,764</u></u>

Capital Projects Fund

Fund balance, October 1, 2012, previously stated	\$ 8,362,350
Restatement of net position due to change in reporting	<u>(501,759)</u>
Fund balance, October 1, 2012, restated	<u><u>\$ 7,860,591</u></u>

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

Water and Sewer Fund

Net position, October 1, 2012, previously stated	\$ 107,497,908
Restatement of net position due to implementation of GASB 65	(4,376,504)
Restatement of net position due to change in reporting	501,759
Net position, October 1, 2012, restated	\$ 103,623,163

Firefighters' Pension Fund

Net position, October 1, 2012, previously stated	\$ 7,563,837
Prior period adjustment	174,041
Net position, October 1, 2012, restated	\$ 7,737,878

The October 1, 2012, beginning balances on the long-term debt schedules for business-type activities disclosed in Note 7, Long-term Debt section of the notes to the financial statements were restated and increased \$2,674,777 for the implementation of GASB Statements No. 65. These amounts are now reported as deferred outflows of resources.

Beginning cash in the statement of cash flows for the Water and Sewer Fund has been restated and increased \$501,759 due to the reclassification of the Electric Franchise Fee Capital Projects Fund.

(G) 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 fund 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.

(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).

CITY OF MARCO ISLAND, FLORIDA
NOTES TO FINANCIAL STATEMENTS

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.

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

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

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

Property, plant and equipment of the primary government 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. Currently, the only item in this category is deferred charges on refunding debt reported in the Government-wide Statement of Net Position. A deferred charge 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 life of the refunded or the refunding debt.

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.

(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

CITY OF MARCO ISLAND, FLORIDA
NOTES TO FINANCIAL STATEMENTS

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, 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 balances 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 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.

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

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 \$4,303,475 of the \$8,653,648 unassigned fund balance at September 30, 2013.

(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.

(H) 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 \$7.4 billion for fiscal year 2013 and \$7.5 billion for fiscal year 2014. Details of the tax calendar are presented below:

Lien Date	January 1, 2012
Levy Date	November 1, 2012
Installment Payments	
First Installment	No Later Than June 30, 2012
Second Installment	No Later Than September 30, 2012
Third Installment	No Later Than December 31, 2012
Fourth Installment	No Later Than March 31, 2013
Regular Payments	
Discount Periods	November 2012 through February 2013
No Discount Period	After March 1, 2013
Delinquent Date	April 1, 2013

CITY OF MARCO ISLAND, FLORIDA
NOTES TO FINANCIAL STATEMENTS

(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, 2013, was 1.96. Current tax collections for the City were approximately 97% 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.

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.

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 2003, by Council Resolution. The spending cap for the 2013 fiscal year, as adopted by City Council, was \$21,015,055. The final actual amount for the 2013 fiscal year was \$ 18,039,828, which was in accordance with the spending cap limit.

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

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 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. The Municipal Trust is not a registrant with the Securities and Exchange Commission (SEC); however, the Board has adopted operating policies consistent with the requirements for a "2a-7 like" pool.

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. In Florida, they are the largest independent trust company, and the fifth largest overall.

As of September 30, 2013, 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	\$ 13,462,842	-	-	-	-	13,462,842
Money Market Funds	12,368,088	-	-	-	-	12,368,088
U.S. Government Securities	-	-	57,461	-	4,230,920	4,288,381
FMIvT	-	-	46,322,471	-	-	46,322,471
Total Deposits and Investments	<u>\$ 25,830,930</u>	<u>-</u>	<u>46,379,932</u>	<u>-</u>	<u>4,230,920</u>	<u>76,441,782</u>

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

Investments and cash held on deposit with banks for the discretely presented component unit as of September 30, 2013 is \$420,190.

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 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 has investments of \$57,461, as allowed under the investment policy, in the Federal National Mortgage Association (FNMA), and the Federal Home Loan Mortgage Corporation (FHLMC), both of which carry an AAA rating. The City also has investments of \$4,230,920 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.

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

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

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 a 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. The only fixed income mutual fund held, Delaware Bond Fund, has minimum quality rating requirement of AAA for each of the securities held in the Fund.

As of September 30, 2013, 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	\$ 161,627	-	-	-	-	161,627
Money Market Funds	31,562	-	-	-	-	31,562
Fixed Income Mutual Funds	-	-	5,535,333	-	-	5,535,333
Equity Mutual Funds	9,126,345	-	-	-	-	9,126,345
Total Deposits and Investments	\$ <u>9,319,534</u>	-	<u>5,535,333</u>	-	-	<u>14,854,867</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>Capital Projects</u>	<u>Internal Service</u>	<u>Water and Sewer</u>	
Receivables					
Accounts	\$ 246,804	173,736	208,941	2,525,572	3,155,053
Assessments	-	-	-	35,231,367	35,231,367
Due from other governments	1,249,223	-	-	-	1,249,223
Interest	903	-	-	-	903
Assessments, interest	-	-	-	3,314,072	3,314,072
Gross receivables	1,496,930	173,736	208,941	41,071,011	42,950,618
Less allowance for uncollectibles	(234,346)	-	-	(32,077)	(266,423)
Net total receivables	<u>\$ 1,262,584</u>	<u>173,736</u>	<u>208,941</u>	<u>41,038,934</u>	<u>42,684,195</u>

5. Inter-fund Receivables, Payables and Transfers

For the year ended September 30, 2013, the inter-fund transfers were as follows:

<u>Transfer Out</u>	<u>Transfer In</u>		<u>Total</u>
	<u>Debt Service</u>	<u>Capital Projects</u>	
General	\$ 637,208	2,193,056	2,830,264
Water and Sewer	-	6,481	6,481
Recreation	-	39,000	39,000
Total	<u>\$ 637,208</u>	<u>2,238,537</u>	<u>2,875,745</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

The City has the following investment in capital assets activity for the year ended September 30, 2013:

	<u>Beginning</u>	<u>Increases</u>	<u>(Decreases)</u>	<u>Ending</u>
Governmental Activities				
Capital assets not being depreciated:				
Land	\$ 15,319,763	43,597	-	15,363,360
Construction in progress	4,867,060	888,756	(4,648,278)	1,107,538
Total capital assets not being depreciated	<u>20,186,823</u>	<u>932,353</u>	<u>(4,648,278)</u>	<u>16,470,898</u>
Capital assets being depreciated:				
Buildings and improvements	9,824,959	220,400	-	10,045,359
Vehicles and equipment	7,269,272	880,894	(137,580)	8,012,586
Road network	42,855,636	943,473	-	43,799,109
Storm water	12,951,155	2,463,352	-	15,414,507
Pathway	3,137,643	-	-	3,137,643
Parks	5,105,929	364,743	-	5,470,672
Bridge network	14,288,976	2,442,071	-	16,731,047
Beach and waterway	442,928	-	-	442,928
Total capital assets being depreciated	<u>95,876,498</u>	<u>7,314,933</u>	<u>(137,580)</u>	<u>103,053,851</u>
Accumulated depreciation for:				
Buildings and improvements	(2,978,946)	(460,892)	-	(3,439,838)
Vehicles and equipment	(5,232,856)	(713,004)	132,122	(5,813,738)
Road network	(19,274,462)	(3,705,926)	-	(22,980,388)
Storm water	(5,305,352)	(530,455)	-	(5,835,807)
Pathway	(1,648,409)	(126,512)	-	(1,774,921)
Parks	(692,324)	(267,344)	-	(959,668)
Bridge network	(3,596,790)	(678,241)	-	(4,275,031)
Beach and waterway	(160,972)	(42,231)	-	(203,203)
Total accumulated depreciation	<u>(38,890,111)</u>	<u>(6,524,605)</u>	<u>132,122</u>	<u>(45,282,594)</u>
Total capital activities being depreciated, net	<u>56,986,387</u>	<u>790,328</u>	<u>(5,458)</u>	<u>57,771,257</u>
Total governmental activities capital assets, net	<u>\$ 77,173,210</u>	<u>1,722,681</u>	<u>(4,653,736)</u>	<u>74,242,155</u>
Business-type Activities				
Capital assets not being depreciated:				
Land	\$ 17,415,059	-	-	17,415,059
Construction in progress	28,414,593	3,101,017	(20,130,387)	11,385,223
Total capital assets not being depreciated	<u>45,829,652</u>	<u>3,101,017</u>	<u>(20,130,387)</u>	<u>28,800,282</u>
Capital assets being depreciated:				
Transmission and distribution	109,414,278	16,801,059	-	126,215,337
Infrastructure	69,488,914	9,277,252	-	78,766,166
Buildings and improvements	6,587,341	150,738	-	6,738,079
Vehicles and equipment	64,500,801	2,674,279	(154,793)	67,020,287
Total capital assets being depreciated	<u>249,991,334</u>	<u>28,903,328</u>	<u>(154,793)</u>	<u>278,739,869</u>
Accumulated depreciation for:				
Transmission and distribution	(23,873,268)	(4,460,274)	-	(28,333,542)
Infrastructure	(3,803,076)	(6,208,584)	-	(10,011,660)
Buildings and improvements	(1,876,228)	(230,505)	-	(2,106,733)
Vehicles and equipment	(28,374,443)	(4,627,945)	144,474	(32,857,914)
Total accumulated depreciation	<u>(57,927,015)</u>	<u>(15,527,308)</u>	<u>144,474</u>	<u>(73,309,849)</u>
Total capital assets being depreciated, net	<u>192,064,319</u>	<u>13,376,020</u>	<u>(10,319)</u>	<u>205,430,020</u>
Total business-type activities capital assets, net	<u>\$ 237,893,971</u>	<u>16,477,037</u>	<u>(20,140,706)</u>	<u>234,230,302</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	\$ 166,668
Police Services	153,994
Fire and rescue	330,688
Code compliance	617
Building Services	6,947
Transportation	5,715,472
Culture and recreation	<u>150,219</u>
Total depreciation expense, governmental activities	6,524,605
Business-type Activities	
Water and sewer	15,513,448
Recreation	<u>13,860</u>
Total depreciation expense, business-type activities	<u>15,527,308</u>
Total depreciation expense	<u>\$ 22,051,913</u>

7. Leases

During fiscal year 2009, the City entered into a lease agreement as a lessee for financing the acquisition of a fire truck received by the City during fiscal year 2010. The lease agreement qualifies as a capital lease for accounting purposes and, therefore, has been recorded at the present value of the future minimum lease payments as of the inception date.

The assets acquired through capital lease, as reported in the governmental activities, are as follows:

Vehicles and Equipment	\$ 544,026
Less accumulated depreciation	<u>(294,681)</u>
Total	<u>\$ 249,345</u>

During fiscal year 2013, the City entered into another lease agreement as a lessee for financing a fire rescue vessel that is being built and will be delivered to the City during fiscal year 2014. 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 of \$350,000 upon delivery. 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, 2013, are as follows:

2014	\$ 152,799
2015	152,799
2016	152,799
2017	152,799
2018	152,799
2019	62,103
Total minimum lease payments	826,098
Less amount representing interest	<u>(71,825)</u>
Present value of minimum lease payments	<u>\$ 754,273</u>

CITY OF MARCO ISLAND, FLORIDA
NOTES TO FINANCIAL STATEMENTS

8. Long-term Liabilities

Primary Government

Long-term liability activity for the year ended September 30, 2013, 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	\$ 5,790,000	-	(645,000)	5,145,000	665,000
Sales tax revenue bonds	4,175,000	-	(400,000)	3,775,000	415,000
Capital leases	475,332	350,000	(71,059)	754,273	127,567
Other post-employment benefit liability	372,370	125,070	-	497,440	-
Compensated absences	1,096,099	914,516	(859,775)	1,150,840	411,019
Total governmental activity					
long-term liabilities	<u>\$ 11,908,801</u>	<u>1,389,586</u>	<u>(1,975,834)</u>	<u>11,322,553</u>	<u>1,618,586</u>
Business Activities					
Revenue bonds, 2003:					
Principal	\$ \$ 63,220,000	-	(2,275,000)	60,945,000	2,360,000
Premium	858,184	-	(40,705)	817,479	40,704
Revenue bonds, 2006	4,411,782	-	(297,655)	4,114,127	309,239
State revolving loan, 2007	1,426,321	-	(69,941)	1,356,380	71,806
Revenue bond, 2008	6,781,516	-	(368,462)	6,413,054	384,198
Revenue bond, 2010A:					
Principal	49,520,000	-	(980,000)	48,540,000	1,000,000
Discount	(139,106)	-	5,152	(133,954)	(5,152)
Revenue bond, 2010B	7,190,000	-	(180,000)	7,010,000	185,000
Revenue note, 2010	3,090,000	65,000	(3,155,000)	-	-
State revolving loan, 2011	5,158,912	-	(211,641)	4,947,271	217,333
Revenue bond, 2011	26,253,513	-	-	26,253,513	103,000
Deferred assessments	1,668,238	-	(1,668,238)	-	-
Deferred assessment interest	257,811	-	(257,811)	-	-
Other post-employment benefit liability	170,133	33,427	-	203,560	-
Compensated absences	369,281	385,695	(293,205)	461,771	282,280
Total Water and Sewer	<u>170,236,585</u>	<u>484,122</u>	<u>(9,792,506)</u>	<u>160,928,201</u>	<u>4,948,408</u>
Assessment Districts					
Assessment revenue bond, 2008	1,981,697	-	(90,146)	1,891,551	94,032
Assessment revenue bond, 2008	625,074	-	(28,434)	596,640	29,660
State revolving loan, 2009-2012	36,839,628	4,804,501	(1,546,071)	40,098,058	1,752,592
Assessment revenue bond, 2009	743,651	-	(27,176)	716,475	28,814
Assessment revenue bond, 2009	1,571,406	-	(57,420)	1,513,986	60,887
Assessment revenue bond, 2009	2,168,983	-	(79,256)	2,089,727	84,042
Assessment revenue bond, 2009	232,412	-	(6,802)	225,610	7,403
Assessment revenue bond, 2010	1,299,145	-	(49,517)	1,249,628	52,245
Assessment revenue bond, 2010	1,716,727	-	(65,433)	1,651,294	69,039
Assessment revenue bond, 2012	1,450,000	-	(62,796)	1,387,204	57,688
Assessment revenue bond, 2012	1,550,000	-	(67,126)	1,482,874	61,667
Assessment revenue bond, 2013	-	395,000	-	395,000	10,000
Assessment revenue bond, 2013	-	1,430,000	-	1,430,000	65,000
Total Assessment Districts	<u>50,178,723</u>	<u>6,629,501</u>	<u>(2,080,177)</u>	<u>54,728,047</u>	<u>2,373,069</u>
Total business activity					
long-term liabilities	<u>\$ 220,415,308</u>	<u>7,113,623</u>	<u>(11,872,683)</u>	<u>215,656,248</u>	<u>7,321,477</u>

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

Governmental Activities

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 full faith and credit of the City. The original amount of the general obligation bonds was \$9,860,000. The bonds are issued as 15-year serial bonds with varying amounts of principal each year from \$665,000 to \$815,000. Interest rates on the bonds vary from 3.125% to 3.8%. As of September 30, 2013, \$5,145,000 of the principal was outstanding. Annual debt service requirements to maturity for the general obligation bonds are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>
2014	\$ 665,000	180,834
2015	685,000	160,053
2016	705,000	137,790
2017	730,000	113,115
2018	760,000	87,565
2019-2020	<u>1,600,000</u>	<u>90,983</u>
Total	<u>\$ 5,145,000</u>	<u>770,340</u>

On August 3, 2005, the City issued sales tax revenue bonds for governmental activities for various capital improvements including transportation improvements and a new police station. The original amount of the sales tax revenue bonds was \$6,000,000. The bonds are secured by proceeds of the half-cent sales tax and monies on deposit.

The bonds are issued as 15-year serial bonds with varying amounts of principal maturing each year from \$415,000 to \$535,000. Interest rates vary from 3.5% to 3.9%. As of September 30, 2013, \$ 3,775,000 of the principal was outstanding. Annual debt service requirements for the sales tax revenue bonds are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>
2014	\$ 415,000	131,685
2015	430,000	116,898
2016	445,000	101,474
2017	460,000	85,295
2018	480,000	68,135
2019-2020	<u>1,545,000</u>	<u>91,185</u>
Total	<u>\$ 3,775,000</u>	<u>594,672</u>

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

Water and Sewer

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 bonds are issued as 30-year serial bonds with varying amounts of principal maturing each year from between \$2,360,000 to \$6,280,000. Interest rates on the bonds vary from 3.8% to 5.25%.

On August 23, 2011, the City advance refunded \$23,605,000 of the outstanding bonds from the proceeds of the 2011 Refunding Revenue Bond (discussed later). The City partially defeased the series 2003 revenue bonds by placing the proceeds of the new bonds in an irrevocable trust to provide for that portion of the future debt service payments of old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the City's financial statements. The difference between cash flows of the old and new debt is \$1,052,173. The economic gain from this refunding is \$1,034,028. As of September 30, 2013, \$23,605,000 is outstanding and will be refunded on October 1, 2013.

As of September 30, 2013, \$ 60,945,000 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>
2014	\$ 2,360,000	2,948,803
2015	-	2,903,963
2016	-	2,903,963
2017	-	2,903,963
2018	-	2,903,963
2019-2023	3,690,000	14,427,563
2024-2028	21,400,000	11,026,312
2029-2033	27,215,000	5,076,294
2034	<u>6,280,000</u>	<u>157,000</u>
Total	\$ <u>60,945,000</u>	<u>45,251,824</u>

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.

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

The bonds are issued as 15-year serial bonds with varying amounts of principal maturing each year from \$309,239 to \$446,412. The interest rate on bonds is fixed at 3.74%. As of September 30, 2013, \$4,114,127 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>
2014	\$ 309,239	150,158
2015	320,805	138,214
2016	332,803	126,149
2017	344,927	112,973
2018	358,150	99,644
2019-2023	2,001,791	280,256
2024	<u>446,412</u>	<u>8,487</u>
Total	\$ <u>4,114,127</u>	<u>915,881</u>

On August 10, 2007, the City received funding under the State of Florida Department of Environmental Protection Revolving Loan Program in the amount of \$1,626,427 to assist in funding the planning design of wastewater pollution control facilities. As of September 30, 2013, the City had \$1,356,380 outstanding. This debt is secured by a junior lien pledge of utility system revenues and impact fees. The interest rate is fixed at 2.65%. The amount due within one year as of September 30, 2013, is \$71,806. Annual debt service requirements to maturity for the state revolving loan are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>
2014	\$ 71,806	35,472
2015	73,722	33,556
2016	75,688	31,589
2017	77,707	29,570
2018	79,780	27,498
2019-2023	431,982	104,407
2024-2028	492,756	43,633
2029	<u>52,939</u>	<u>701</u>
Total	\$ <u>1,356,380</u>	<u>306,426</u>

CITY OF MARCO ISLAND, FLORIDA
NOTES TO FINANCIAL STATEMENTS

On March 7, 2008, the City issued revenue bonds to pay the costs of the subordinate wastewater improvement project. The original amount of the revenue bonds was not to exceed \$7,477,241, and is secured by a senior lien pledge on net revenues of the water and sewer fund. The bonds have varying amounts of principal maturing each year ranging from \$384,184 to \$619,737. The interest rate on the bonds is fixed at 4.01%. As of September 30, 2013, \$6,413,054 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>
2014	\$ 384,198	252,946
2015	399,819	237,009
2016	416,074	221,005
2017	432,410	203,177
2018	450,571	185,228
2019-2023	2,542,587	630,535
2024-2026	1,787,395	111,170
Total	\$ <u>6,413,054</u>	<u>1,841,070</u>

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 \$1,000,000 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.

As of September 30, 2013, \$48,540,000 of the principal was outstanding. Annual debt service requirements for the revenue bonds are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>
2014	\$ 1,000,000	2,229,925
2015	1,050,000	2,189,175
2016	1,085,000	2,146,300
2017	1,135,000	2,102,150
2018	1,175,000	2,066,031
2019-2023	6,580,000	9,581,500
2024-2028	7,385,000	8,103,431
2029-2033	9,095,000	6,180,825
2034-2038	11,600,000	3,615,000
2039-2044	8,435,000	646,375
Total	\$ <u>48,540,000</u>	<u>38,860,712</u>

**CITY OF MARCO ISLAND, FLORIDA
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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 \$185,000 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.

As of September 30, 2013, \$7,010,000 of the principal was outstanding. Annual debt service requirements for the revenue bonds are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>
2014	\$ 185,000	435,766
2015	190,000	429,136
2016	200,000	421,384
2017	210,000	412,426
2018	215,000	402,418
2019-2023	1,270,000	1,818,585
2024-2028	1,740,000	1,329,925
2029-2033	2,415,000	630,993
2034	585,000	19,872
Total	\$ <u>7,010,000</u>	<u>5,900,505</u>

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, 2013, the City had \$ 4,947,271 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>
2014	\$ 217,333	130,592
2015	223,173	124,754
2016	229,167	118,758
2017	235,324	112,602
2018	241,646	106,280
2019-2023	1,309,170	430,459
2024-2028	1,494,739	244,890
2029-2031	996,719	47,066
Total	\$ <u>4,947,271</u>	<u>1,315,401</u>

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On August 23, 2011, the City issued Series 2011 \$26.3 million to partially refund the City’s Utility System Revenue Bonds, Series 2003. The fixed interest rate of Series 2011 is 2.769% compared to the Series 2003 with an average interest rate of 5.25%. 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, 2013, \$26,253,513 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>
2014	\$ 103,000	725,534
2015	2,965,060	683,056
2016	3,048,538	599,798
2017	3,132,502	514,222
2018	3,216,703	426,317
2019-2022	<u>13,787,710</u>	<u>776,632</u>
Total	<u>\$ 26,253,513</u>	<u>3,725,559</u>

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 \$94,032 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, 2013, \$1,891,551 was outstanding. Annual debt service requirements for the revenue bonds are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>
2014	\$ 94,032	75,009
2015	97,855	71,109
2016	101,833	67,228
2017	105,796	62,830
2018	110,275	58,438
2019-2023	622,247	219,891
2024-2028	<u>759,513</u>	<u>79,857</u>
Total	<u>\$ 1,891,551</u>	<u>634,362</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 \$29,670 to \$51,811. The interest rate on the bonds is fixed at 4.01%.

As of September 30, 2013, \$596,640 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>
2014	\$ 29,660	23,660
2015	30,866	22,429
2016	32,120	21,205
2017	33,370	19,818
2018	34,783	18,433
2019-2023	196,271	69,359
2024-2028	<u>239,570</u>	<u>25,189</u>
Total	<u>\$ 596,640</u>	<u>200,093</u>

The City received additional funding under the State of Florida Department of Environmental Protection Revolving Loan Program in 2007 through 2013. As of September 30, 2013, the City has a balance on funds drawn down totaling \$40,098,058. 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%.

CITY OF MARCO ISLAND, FLORIDA
NOTES TO FINANCIAL STATEMENTS

Annual estimated installments for the fiscal years ending after September 30 are based only on the amount drawn down on the loans, and the payment amounts as stated in the loan agreements. The amount due within one year as of September 30, 2013, of \$1,752,592 is based on these estimated installments.

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

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>
2014	\$ 1,752,592	1,282,814
2015	1,998,274	1,228,040
2016	2,058,487	1,167,826
2017	2,120,527	1,105,783
2018	2,184,449	1,041,864
2019-2023	11,951,544	4,180,477
2024-2028	13,334,085	2,099,877
2029-2032	<u>4,698,100</u>	<u>243,105</u>
Total	\$ <u>40,098,058</u>	<u>12,349,786</u>

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 \$28,814 to \$65,376. The interest rate on the bonds is fixed at 5.545. As of September 30, 2013, \$716,478 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>
2014	\$ 28,814	39,442
2015	30,433	37,778
2016	32,142	36,117
2017	33,851	34,168
2018	35,849	32,211
2019-2023	211,726	127,668
2024-2028	278,284	59,266
2029	<u>65,376</u>	<u>1,851</u>
Total	\$ <u>716,475</u>	<u>368,501</u>

CITY OF MARCO ISLAND, FLORIDA
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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 \$60,887 to \$138,147. The interest rate on the bonds is fixed at 5.54%.

As of September 30, 2013, \$1,513,986 was outstanding. Annual debt service requirements for the revenue bonds are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>
2014	\$ 60,887	83,334
2015	64,307	79,829
2016	67,920	76,319
2017	71,531	72,200
2018	75,752	68,065
2019-2023	447,400	269,775
2024-2028	588,042	125,246
2029	<u>138,147</u>	<u>3,912</u>
Total	<u>\$ 1,513,986</u>	<u>778,680</u>

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 \$84,042 to \$190,681. The interest rate on the bonds is fixed at 5.54%.

As of September 30, 2013, \$2,089,727 was outstanding. Annual debt service requirements for the revenue bonds are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>
2014	\$ 84,042	115,038
2015	88,762	110,186
2016	93,748	105,342
2017	98,733	99,657
2018	104,560	93,949
2019-2023	617,537	372,365
2024-2028	811,664	172,861
2029	<u>190,681</u>	<u>5,399</u>
Total	<u>\$ 2,089,727</u>	<u>1,074,797</u>

CITY OF MARCO ISLAND, FLORIDA
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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 \$7,403 to \$23,693. The interest rate on the bonds is fixed at 7.96%.

As of September 30, 2013, \$225,610 was outstanding. Annual debt service requirements for the revenue bonds are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>
2014	\$ 7,403	17,912
2015	8,000	17,290
2016	8,646	16,663
2017	9,299	15,895
2018	10,094	15,113
2019-2023	64,047	61,444
2024-2028	94,427	29,853
2029	23,694	964
Total	\$ <u>225,610</u>	<u>175,134</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 \$52,245 to \$110,772. The interest rate on the bonds is fixed at 5.07%.

As of September 30, 2013, \$1,249,628 was outstanding. Annual debt service requirements for the revenue bonds are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>
2014	\$ 52,245	62,904
2015	54,931	60,150
2016	57,755	57,407
2017	60,571	54,214
2018	63,837	51,017
2019-2023	371,786	201,144
2024-2028	477,731	92,514
2029	110,772	2,870
Total	\$ <u>1,249,628</u>	<u>582,220</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 \$69,039 to \$146,377. The interest rate on the bonds is fixed at 5.07%.

As of September 30, 2013, \$1,651,294 was outstanding. Annual debt service requirements for the revenue bonds are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>
2014	\$ 69,039	83,124
2015	72,587	79,484
2016	76,319	75,860
2017	80,040	71,640
2018	84,356	67,415
2019-2023	491,289	265,797
2024-2028	631,287	122,251
2029	146,377	3,793
Total	\$ <u>1,651,294</u>	<u>769,364</u>

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 \$61,667 to \$232,372. The interest rate on the bonds is fixed at 4.17%.

As of September 30, 2013, \$1,482,874 was outstanding. Annual debt service requirements for the revenue bonds are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>
2014	\$ 61,667	60,550
2015	64,238	57,925
2016	66,917	55,190
2017	69,707	52,342
2018	72,614	49,374
2019-2023	411,096	197,845
2024-2028	504,263	102,736
2029-2030	232,372	9,789
Total	\$ <u>1,482,874</u>	<u>585,751</u>

CITY OF MARCO ISLAND, FLORIDA
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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 \$57,688 to \$217,379. The interest rate on the bonds is fixed at 4.17%.

As of September 30, 2013, \$1,387,204 was outstanding. Annual debt service requirements for the revenue bonds are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>
2014	\$ 57,688	56,644
2015	60,094	54,188
2016	62,600	51,630
2017	65,210	48,965
2018	67,929	46,189
2019-2023	384,574	185,081
2024-2028	471,730	96,108
2029	<u>217,379</u>	<u>9,157</u>
Total	\$ <u>1,387,204</u>	<u>547,962</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 \$65,000 to \$115,000. The interest rate on the bonds is fixed at 3.6%.

As of September 30, 2013, \$1,430,000 was outstanding. Annual debt service requirements for the revenue bonds are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>
2014	\$ 65,000	47,307
2015	70,000	47,880
2016	75,000	45,270
2017	75,000	42,570
2018	80,000	39,780
2019-2023	435,000	153,810
2024-2028	515,000	68,310
2029	<u>115,000</u>	<u>2,070</u>
Total	\$ <u>1,430,000</u>	<u>446,997</u>

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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 \$10,000 to \$35,000. The interest rate on the bonds is fixed at 3.6%. As of September 30, 2013, \$395,000 was outstanding.

Fiscal Year	Principal	Interest
2014	\$ 10,000	14,082
2015	20,000	13,500
2016	20,000	12,780
2017	20,000	12,060
2018	20,000	11,340
2019-2023	125,000	43,650
2024-2028	145,000	19,710
2029	35,000	630
Total	\$ 395,000	127,752

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.

CITY OF MARCO ISLAND, FLORIDA
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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 2014 fiscal year.

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

In addition to the assessments noted above, each property owner is responsible for the actual cost of connecting to the sewer line and abandoning their septic tank. The property owner is responsible for selecting the contractor who will perform the work on the property.

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 \$600,000. 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.

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

Estimated unpaid claims, October 1, 2011	\$	712,332
Incurred claims (including IBNRs)		2,251,297
Claim payments		<u>(2,148,419)</u>
Estimated unpaid claims, September 30, 2012		815,210
Incurred claims (including IBNRs)		3,187,351
Claim payments		<u>(2,928,138)</u>
Estimated unpaid claims, September 30, 2013	\$	<u><u>1,074,423</u></u>

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.

The City is a defendant in various lawsuits. All claims have been settled subsequent to year end and as such further details have been included in the subsequent event note. The resolution of these matters did not have a material adverse effect on the financial condition of the City.

11. Commitments

The City has numerous active construction projects. As of September 30, 2013, the City's commitments with contractors are as follows:

Project	Contractor	Contract Amount	Completed to Date	Balance
N Collier Blvd Phase IV Drainage	Quality Enterprises USA Inc.	\$ 442,688	428,914	13,774
Design Fire Station 50	American Engineering Consultants	126,800	109,695	17,105
Marine FS30 Fire Rescue Vessel	Metalcraft Marine, Inc.	399,684	313,811	85,873
Safe Routes to School Sidewalk Project	Eli Contracting	<u>349,496</u>	<u>338,057</u>	<u>11,439</u>
Total Governmental Projects		\$ <u>1,318,668</u>	<u>1,190,477</u>	<u>116,752</u>
NWTP Improvements and MFS Install	Cardinal Contractors	\$ 3,751,467	3,655,511	95,956
NWTP MF Structure	Beach Construction Co, Inc.	1,235,968	1,048,037	187,931
RWPF Phase IV Improvements	Beach Construction Co, Inc.	3,446,341	3,436,625	9,716
Install ASR Feed Pumps	Enviro-Tech Systems	518,928	75,708	443,220
	Carter/Verplanck, Inc.	<u>391,215</u>	<u>64,561</u>	<u>326,654</u>
Total Business-type Projects		\$ <u>9,343,919</u>	<u>8,280,442</u>	<u>1,063,477</u>

**CITY OF MARCO ISLAND, FLORIDA
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12. Employee Retirement Systems and Pensions Plans

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

The City maintains a single-employer, defined benefit pension plan (the "Plan") that covers all fulltime firefighters hired after January 1, 1996. 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.

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

As of October 1, 2012, (date of the latest annual actuarial valuation), employee membership data related to the Plan were:

Retirees and beneficiaries currently receiving benefits	1
Terminated employees entitled to benefits, but not receiving them	-
Retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits, but not yet receiving them	1
Active plan participants	
Vested	10
Non-vested	14
Total active plan participants	24
Vested terminated members	-

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.

CITY OF MARCO ISLAND, FLORIDA
NOTES TO FINANCIAL STATEMENTS

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.

Summary of Significant Accounting Policies – Basis of Accounting and Valuation of Investments: The financial statements of the Plan are prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. The City's contributions are recognized when due and a formal commitment to provide contributions has been made. Benefits and refunds are recognized when due and payable in accordance with the terms of the Plan. All plan investments are reported at fair value. Securities traded on a national exchange are valued at the last reported sales price on the City's balance sheet date.

Funding Policy: Participants in the Plan are required to pay 1% of their compensation to the Plan; however, the City has been funding this on the participant's behalf, for members of the collective bargaining agreement.

The State of Florida contributes casualty insurance premium taxes pursuant to Chapter 175, Florida Statutes, and the City contributes the required remaining balance, as determined by the actuary. The City 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, 2013, were based on actuarial computations performed for 2013, in the actuarial report dated October 1, 2011.

For the year ended September 30, 2013, the total annually required contribution amount was \$550,390 with the anticipated state contribution totaling \$73,936. Accordingly, the total required employer contribution made during 2013 was \$507,098.

Annual Pension Cost and Net Pension Obligations: The required contribution was determined as part of the October 1, 2011, actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included: (a) 7.5% investment rate of return (net of administrative expenses); (b) projected salary increases of 7.5% to 13%, based on service; and (c) 3% rate of inflation. Additionally, the assumptions included postretirement benefit cost of living adjustment increases of 3% per year. Market value was used to determine the actuarial value of assets. The unfunded actuarial accrued liability is being amortized as a level dollar amount over thirty years. The remaining amortization period at October 1, 2013, was thirty years (closed basis).

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

In 2011, the Pension Board authorized a revision to the actuarial assumptions and lowered the investment return assumption by 0.25% each year until 7% is attained.

Three Year Trend Information

<u>Fiscal Year Ended September 30,</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
2011	\$ 436,241	101.2%	(249,317)
2012	450,137	107.4%	(282,577)
2013	551,717	105.3%	(311,894)

Changes in the Fire Pension Plan for fiscal 2013 are as follows:

Annual required contribution	\$ 550,390
Interest on net pension asset/obligation	(20,487)
Adjustment to annual required contribution	<u>21,814</u>
Annual pension cost	551,717
Contributions made	<u>581,034</u>
(Increase)/Decrease in net pension asset	(29,317)
Net pension asset at beginning of the year	<u>(282,577)</u>
Net pension asset at end of year	<u><u>\$ (311,894)</u></u>

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, 2012:

SCHEDULE OF FUNDING PROGRESS
FIREFIGHTERS' PENSION PLAN

Actuarial Valuation Date	Actuarial Value of (a)	Actuarial Accrued Liability (AAL) Entry (b)	Unfunded (Overfunded) (b-a)	Funded (a/b)	Covered (c)	UAAL as a Percentage of Covered ((b-a)/c)
10/1/2012	\$ 4,122,634	4,794,681	672,047	86.0%	1,526,426	44.0%

The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing relative to the actuarial accrued liability for benefits.

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

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

In 2005, the City established and currently maintains a single-employer, defined benefit pension plan (the Plan) that covers all full-time sworn police officers. The Plan does not prepare separate financial statements and is included as part of the pension trust fund in the City's financial reporting entity since it is not legally separate.

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

As of October 1, 2012, (date of the annual actuarial valuation), employee membership data related to the Plan was as follows:

Retirees and beneficiaries currently receiving benefits	5
Terminated employees entitled to benefits, but not receiving them	3
Retirees and beneficiaries currently receiving benefits employees entitled to benefits, but not yet receiving them	8
Active plan participants	
Vested	11
Non-vested	21
Total active plan participants	32
Vested (full or partial) terminated members	3

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 8 years of credited service). Pension provisions also include death benefits, whereby the surviving spouse is entitled to receive the vested pension benefit over ten years. Plan amendments are initiated by the Pension Board, and adopted by City Ordinance, after the required public hearings. The cost of administering the Plan is financed by contributions made to the Plan.

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

Summary of Significant Accounting Policies—Basis of Accounting and Valuation of Investments: The financial statements of the Plan are prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. The City's contributions are recognized when due and a formal commitment to provide contributions has been made. Benefits and refunds are recognized when due and payable in accordance with the terms of the Plan. All plan investments are reported at fair value. Securities traded on a national exchange are valued at the last reported sales price on the City's balance sheet date.

Funding Policy: Participants in the Plan were required to pay 5% of their compensation to the Plan; however, the City started funding 1% on the participant's behalf as of fiscal 2013. 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, 2013, were based on actuarial computations performed for 2013, in the actuarial report dated October 1, 2011.

For the year ended September 30, 2013, the annually required contribution amount was \$847,011 with the anticipated state contribution of \$133,464. Accordingly, the required employer contribution for 2013 was \$737,614.

Annual Pension Cost and Net Pension Obligations: The required contribution was determined as part of the October 1, 2011, actuarial impact statement using the entry age normal actuarial cost method. The actuarial assumptions included: (a) 7.50% investment rate of return (net of administrative expenses); (b) projected salary increases of 6% per year and 3% rate of inflation. Additionally, the assumptions included postretirement benefit cost of living adjustment increases of 3% per year. Market value was used to determine the actuarial value of assets. The unfunded actuarial accrued liability is being amortized as a level dollar amount over forty years. The remaining amortization period at October 1, 2013, was thirty-two years (closed basis).

Three Year Trend Information

<u>Fiscal Year Ended September 30,</u>	<u>Annual Pension Cost</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
2011	\$ 754,496	99.8%	(18,116)
2012	726,720	99.9%	(17,343)
2013	847,797	103.2%	(44,512)

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

Changes in the Police Pension Plan for fiscal 2013 are as follows:

Annual required contribution	\$	847,011
Interest on net pension asset/obligation		(1,301)
Adjustment to annual required contribution		2,087
Annual pension cost		847,797
Contributions made		874,966
(Increase)/Decrease in net pension asset		(27,169)
Net pension asset at beginning of the year, as restated		(17,343)
Net pension asset at end of year	\$	(44,512)

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, 2012:

SCHEDULE OF FUNDING PROGRESS
POLICE OFFICERS' PENSION PLAN

Actuarial Valuation Date	Actuarial Value of (a)	Actuarial Accrued Liability (AAL) Entry (b)	Unfunded (Overfunded) (b-a)	Funded (a/b)	Covered (c)	UAAL as a Percentage of Covered ((b-a)/c)
10/1/2012	\$ 4,522,707	7,946,977	3,424,270	56.9%	2,030,227	168.7%

The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing relative to the actuarial accrued liability for benefits.

(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, 2013, is as follows:

	Fire Pension	Police Pension	Total Pension Trust Funds
Assets			
Cash and cash equivalents	\$ 366,070	434,839	800,909
Accounts Receivable	458,016	148,757	606,773
Investments, at fair value:			
Common stock	5,375,055	3,391,324	8,766,379
Government bonds	3,075,395	2,199,228	5,274,623
Accrued interest	7,498	5,458	12,956
Total Assets	9,282,034	6,179,606	15,461,640
Liabilities			
Accounts payable	300	4,711	5,011
Total Liabilities	300	4,711	5,011
Net Position			
Held in trust for pension benefits	\$ 9,281,734	6,174,895	15,456,629

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

(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, 2013, is as follows:

	<u>Fire Pension</u>	<u>Police Pension</u>	<u>Total Pension Trust Funds</u>
Additions			
Contributions			
Employer	\$ 507,098	737,614	1,244,712
Employee	15,541	113,202	128,743
State of Florida	459,906	137,352	597,258
Total contributions	<u>982,545</u>	<u>988,168</u>	<u>1,970,713</u>
Investment earnings			
Investment interest and dividends	171,123	118,236	289,359
Net change in fair value of investments	619,405	422,540	1,041,945
Less: Investment expenses	(67,842)	(51,457)	(119,299)
Net investment earnings	<u>722,686</u>	<u>489,319</u>	<u>1,212,005</u>
Total Additions	<u>1,705,231</u>	<u>1,477,487</u>	<u>3,182,718</u>
Deductions			
Legal	17,243	19,160	36,403
Actuary	10,016	17,382	27,398
Administrative	5,088	2,461	7,549
Benefits paid	129,028	149,771	278,799
Total Deductions	<u>161,375</u>	<u>188,774</u>	<u>350,149</u>
Change in Net Position	1,543,856	1,288,713	2,832,569
Net Position, October 1, 2012, as previously stated	7,563,837	4,886,182	12,450,019
Restatement of net position; See note 1.(f)	174,041	-	174,041
Net Position, October 1, 2012, as restated	<u>7,737,878</u>	<u>4,886,182</u>	<u>12,624,060</u>
Net Position, September 30, 2013	<u>\$ 9,281,734</u>	<u>6,174,895</u>	<u>15,456,629</u>

(e) The Florida Retirement System Plan, Firefighters

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

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

CITY OF MARCO ISLAND, FLORIDA
NOTES TO FINANCIAL STATEMENTS

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

Funding Policy: The contribution requirements of the system members and the City are established and amended as necessary by the State. Effective July 1, 2011, employees are required to make contributions of 3%; Effective July 1, 2013, the City's contribution is 19.06%, for a total contribution of 22.06% of eligible wages. The City's contributions to the System for the years ended September 30, 2013, 2012 and 2011, were \$74,892, \$90,324 and \$144,800, respectively; and were equal to the required contributions for each year. The employee's contributions to the system for the same years were \$53,801, \$53,867 and, \$72,316.

(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, 2013, 2012, and 2011 were \$356,530, \$365,607, and \$387,099 respectively. Employee contributions for fiscal years ended September 30, 2013, 2012, and 2011 were \$114,863, \$111,391, and \$121,174 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, 2012, the City has an actuarially determined liability of \$2,048,291. Accordingly, for financial reporting purposes, this liability for the postemployment health care benefits liability is not reported in the financial statements for the City. The Plan does not prepare separate financial statements.

**CITY OF MARCO ISLAND, FLORIDA
NOTES TO 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 6 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 8 years of service.

Number of Covered Participants:

Actives	196
Retirees	11
Eligible spouses	5
 Total	 212

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:

	Utilities	All Other Employees
Valuation Date	10/1/2012	10/1/2012
Applicable for Fiscal Year Ending	9/30/2013	9/30/2013
 Annual Required Contribution	\$ 81,507	247,539
Interest on Net OPEB Obligation	8,507	18,619
Adjustment to Annual Required Contribution	(11,275)	(24,617)
 Annual OPEB Cost/(Expense)	78,739	241,541
Net Contributions Made	(45,312)	(116,471)
 Increase/(Decrease) in Net OPEB Obligation	33,427	125,070
Net OPEB Obligation, Beginning of Year	170,133	372,370
 Net OPEB Obligation, End of Year	\$ 203,560	497,440

**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 2013, 2012, and 2011 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>
9/30/2013	\$ 78,739	57.5%	203,560
9/30/2012	51,583	1.7%	170,133
9/30/2011	47,641	1.8%	119,427

All Other Employees:

<u>Year Ending</u>	<u>Annual OPEB Cost</u>	<u>Percentage of OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
9/30/2013	\$ 241,541	48.2%	497,440
9/30/2012	130,704	16.6%	372,370
9/30/2011	137,400	21.1%	263,413

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, 2013:

Schedule of Funding Progress

Utilities Employees:

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Accrued Liability (AAL) (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>
10/1/2012	0	423,549	423,549	0.0%	3,788,822	11.2%

All Other Employees:

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Accrued Liability (AAL) (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>
10/1/2012	0	1,624,742	1,624,742	0.0%	7,264,008	22.4%

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) 5% funding interest rate; (b) pre-Medicaid and post-Medicaid healthcare inflation of 8.5%; (decreasing 1% each year until the ultimate rate of 4.5% in fiscal 2017); (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).

CITY OF MARCO ISLAND, FLORIDA
NOTES TO FINANCIAL STATEMENTS

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.

14. Subsequent Events

Subsequent to September 30, 2013, the City has had changes with regards to its long term debt. On October 1, 2013, the City refinanced the Series 2003 Utility System Revenue Bonds and the Series 2008 Utility System Revenue Bonds to take advantage of favorable market conditions by issuing Series 2013 Water and Sewer Revenue Bonds at par in the amount of \$61,995,000 with a net issue premium of \$2,956,496.

A lawsuit filed by Cardinal Contractors, Inc. claiming a total of \$1,996,454 due to them for breach of contract, unjust enrichment, and breach of implied covenant of good faith and fair dealing was settled for \$900,000 in January 2014. A total of \$585,889 was funded by amounts withheld from Cardinal and the other contractor involved in the delay of the project. The \$585,889 was comprised of both liquidated damages in the amount of \$283,888 and retainage payable in the amount of \$302,001. The remaining balance of \$314,111 was paid from the City's Self-Insurance Internal Service Fund. The amount of liquidated damages and the payment from the self-insurance fund were recorded as contingent liabilities as of September 30, 2013.

A Public Records Lawsuit filed by Mr. and Mrs. Dayton against the City was settled for \$15,000 on January 21, 2014. The \$15,000 is recoverable from the insurance carrier under the public officials and employment practices policy and therefore not recorded as a liability as of year-end. In addition, a threatened litigation contained in a demand letter dated September 6, 2013, by Mr. and Mrs. Dayton against the City, specifically the Building Department along with an ancillary complaint with the Department of Business and Professional Regulation was settled for \$135,000 in February 2014. Due to the item not being filed as a lawsuit it does not qualify for reimbursement and therefore accrued as a liability as of year-end.

With regards to the case filed by Apothecary Development Corporation doing business as Island Drugs, in which the complaint against the City alleges the denial of substantive due process rights, on January 22, 2014, the US District Court Middle District of Florida granted the Defendant's motion for final summary judgment and denied all pending motions as moot.

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CITY OF MARCO ISLAND, FLORIDA

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF MARCO ISLAND, FLORIDA

PENSION TRUST FUNDS

SCHEDULE OF FUNDING PROGRESS
FIREFIGHTERS' PENSION PLAN

Actuarial Valuation Date	Actuarial Value of (a)	Actuarial Accrued Liability (AAL) Entry (b)	Unfunded (Overfunded) (b-a)	Funded (a/b)	Covered (c)	UAAAL as a Percentage of Covered ((b-a)/c)
10/1/2012	\$ 4,122,634	4,794,681	672,047	86.0%	1,526,426	44.0%
10/1/2011	3,071,853	3,573,520	501,667	86.0%	1,404,142	35.7%
10/1/2010	2,662,517	3,005,433	342,916	88.6%	1,309,352	26.2%
10/1/2009	1,914,130	2,335,981	421,851	81.9%	1,336,355	31.6%
10/1/2008	1,386,519	1,917,711	531,192	72.3%	1,154,776	46.0%
10/1/2007	1,629,498	1,448,921	(180,577)	112.5%	977,418	-18.5%

CITY OF MARCO ISLAND, FLORIDA

PENSION TRUST FUNDS

SCHEDULE OF EMPLOYER AND STATE CONTRIBUTIONS
FIREFIGHTERS' PENSION PLAN

Fiscal Year Ended	Annual Required Contribution	City Contribution	State Contribution	Percentage Contributed
9/30/2013	\$ 550,390	507,098	73,936	105.6%
9/30/2012	449,040	409,461	73,936	107.7%
9/30/2011	435,235	367,698	73,936	101.5%
9/30/2010	427,810	353,874	73,936	100.0%
9/30/2009	302,738	228,802	73,936	100.0%
9/30/2008	207,699	133,763	73,936	100.0%

CITY OF MARCO ISLAND, FLORIDA

PENSION TRUST FUNDS

SCHEDULE OF FUNDING PROGRESS
POLICE OFFICERS' PENSION PLAN

Actuarial Valuation Date	Actuarial Value of (a)	Actuarial Accrued Liability (AAL) Entry (b)	Unfunded (Overfunded) (b-a)	Funded (a/b)	Covered (c)	UAAL as a Percentage of Covered ((b-a)/c)
10/1/2012	\$ 4,522,707	7,946,977	3,424,270	56.9%	2,030,227	168.7%
10/1/2011	3,591,071	7,423,811	3,832,740	48.4%	1,916,201	200.0%
10/1/2010	2,827,399	6,480,618	3,653,219	43.6%	1,976,687	184.8%
10/1/2009	2,077,907	6,078,152	4,000,245	34.2%	2,024,908	197.6%
10/1/2008	1,363,977	4,977,447	3,613,470	27.4%	2,010,512	179.7%
10/1/2007	792,685	3,686,865	2,894,180	21.5%	1,844,318	156.9%

CITY OF MARCO ISLAND, FLORIDA

PENSION TRUST FUNDS

SCHEDULE OF EMPLOYER AND STATE CONTRIBUTIONS
POLICE OFFICERS' PENSION PLAN

Fiscal Year Ended	Annual Required Contribution	City Contribution	State Contribution	Percentage Contributed
9/30/2013	\$ 847,011	737,614	137,352	103%
9/30/2012	725,947	592,483	133,464	100%
9/30/2011	752,842	656,467	96,375	100%
9/30/2010	655,983	560,225	95,758	100%
9/30/2009	549,632	450,064	99,568	100%
9/30/2008	447,402	374,369	95,758	105%

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)
10/1/2012	0	423,549	423,549	0.0%	3,788,822	11.2%
10/1/2011	0	N/A	N/A	N/A	N/A	N/A
10/1/2010	0	163,152	163,152	0.0%	3,599,606	4.5%

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)
10/1/2012	0	1,624,742	1,624,742	0.0%	7,264,008	22.4%
10/1/2011	0	N/A	N/A	N/A	N/A	N/A
10/1/2010	0	744,522	744,522	0.0%	7,418,933	10.0%

CITY OF MARCO ISLAND, FLORIDA

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

General Fund

Year Ended September 30, 2013

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
Revenues				
Taxes	\$ 15,656,080	15,656,080	16,373,429	717,349
Permits, fees, and assessments	6,500	6,500	330,536	324,036
Intergovernmental	2,971,000	2,971,000	3,265,528	294,528
Charges for services	1,053,425	1,053,425	1,218,312	164,887
Fines and forfeitures	90,000	90,000	154,965	64,965
Interest	235,000	235,000	49,842	(185,158)
Miscellaneous	123,000	172,987	346,790	173,803
Total revenues	<u>20,135,005</u>	<u>20,184,992</u>	<u>21,739,402</u>	<u>1,554,410</u>
Expenditures				
Current				
General government				
Legislative	72,990	84,490	84,361	129
Executive	594,230	601,840	610,715	(8,875)
Finance	948,715	960,370	740,735	219,635
Legal	300,000	300,000	325,079	(25,079)
Information technology	502,665	508,769	471,721	37,048
Community affairs	454,185	454,675	446,069	8,606
Other general government	1,500,780	1,343,640	923,371	420,269
Total general government	<u>4,373,565</u>	<u>4,253,784</u>	<u>3,602,051</u>	<u>651,733</u>
Public safety				
Police	4,685,430	4,704,684	4,534,953	169,731
Fire and rescue	4,678,455	4,756,840	5,293,964	(537,124)
Code compliance	313,540	314,510	290,187	24,323
Total public safety	<u>9,677,425</u>	<u>9,776,034</u>	<u>10,119,104</u>	<u>(343,070)</u>
Transportation	2,628,855	2,669,844	2,483,555	186,289
Culture and recreation	654,790	678,400	692,649	(14,249)
Capital outlay	-	-	43,596	(43,596)
Total expenditures	<u>17,334,635</u>	<u>17,378,062</u>	<u>16,940,955</u>	<u>437,107</u>
Excess of revenues over expenditures	<u>2,800,370</u>	<u>2,806,930</u>	<u>4,798,447</u>	<u>1,991,517</u>
Other financing uses				
Transfers out	(2,800,370)	(2,806,930)	(2,830,264)	(23,334)
Total other financing uses	<u>(2,800,370)</u>	<u>(2,806,930)</u>	<u>(2,830,264)</u>	<u>(23,334)</u>
Change in fund balance	-	-	1,968,183	1,968,183
Fund balance, beginning of year	7,992,249	7,992,249	7,992,249	-
Fund balance, end of year	\$ <u>7,992,249</u>	<u>7,992,249</u>	<u>9,960,432</u>	<u>1,968,183</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 \$49,987 of supplemental appropriations in the general fund during the year end September 30, 2013.
7. Encumbrance accounting is used in governmental funds. Encumbered purchase orders outstanding lapse at year-end.

NOTE 2 EXCESS EXPENDITURES OVER APPROPRIATION

For the fiscal year ended September 30, 2013, general government did not have expenditures exceeding fund level appropriations. Historically, the City develops a conservative budget based upon between 90% and 95% of the State's various shared revenue projections due to the uncertainty in the economy. Actual revenue received was \$1.6 million more than budgeted. Overall, departmental expenditures were in line with budgeted expenditures. General government expenditures were below budget by \$0.7 million. Finance fell below budgeted expenditures by \$.2 million due to the financial software being contracted after the end of the fiscal year with minimal effect to fiscal 2013. Other general government expenditures were under budget by \$.4 million due to savings in contingencies, community grants, personnel wage adjustments, and personal leave buy-back. The fire and rescue expenditures were over budget by \$0.5 million due to higher than expected property insurance premium tax contribution to the retirement plan.

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.

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

Debt Service Fund

The Debt Service Fund accounts for the resources accumulated and payments made for principal and interest on long-term debt of the governmental funds.

CITY OF MARCO ISLAND, FLORIDA

Combining Balance Sheet
 Nonmajor Governmental Funds
 September 30, 2013

	<u>Special Revenue</u>	<u>Debt Service</u>	
	<u>Building</u>	<u>Debt</u>	
	<u>Services</u>	<u>Service</u>	<u>Total</u>
Assets			
Cash and investments	\$ 1,687,907	-	1,687,907
Restricted cash and investments	-	1,670,453	1,670,453
Total assets	\$ 1,687,907	1,670,453	3,358,360
Liabilities			
Accounts payable	\$ 87,974	-	87,974
Accrued liabilities	14,476	-	14,476
Total liabilities	102,450	-	102,450
Fund balances			
Nonspendable	-	-	-
Restricted			
Debt service	-	1,670,453	1,670,453
Building services	1,585,457	-	1,585,457
Total fund balances	1,585,457	1,670,453	3,255,910
Total liabilities and fund balances	\$ 1,687,907	1,670,453	3,358,360

CITY OF MARCO ISLAND, FLORIDA

Combining Statement of Revenues, Expenditures and Changes in Fund Balances

Nonmajor Governmental Funds

Year Ended September 30, 2013

	<u>Special Revenue</u>	<u>Debt Service</u>	
	<u>Building Services</u>	<u>Debt Service</u>	<u>Total</u>
Revenues			
Taxes	\$ -	861,223	861,223
Permits, fees and assessments	1,608,453	-	1,608,453
Miscellaneous	10,654	4	10,658
Total revenues	<u>1,619,107</u>	<u>861,227</u>	<u>2,480,334</u>
Expenditures			
Current			
Building Services	1,176,301	-	1,176,301
Debt service			
Principal	-	1,116,059	1,116,059
Interest	-	366,606	366,606
Total expenditures	<u>1,176,301</u>	<u>1,482,665</u>	<u>2,658,966</u>
Excess (deficiency) of revenues over (under) expenditures	<u>442,806</u>	<u>(621,438)</u>	<u>(178,632)</u>
Other financing sources			
Transfers in	-	637,208	637,208
Total other financing sources	<u>-</u>	<u>637,208</u>	<u>637,208</u>
Change in fund balances	442,806	15,770	458,576
Fund balances, beginning of year	<u>1,142,651</u>	<u>1,654,683</u>	<u>2,797,334</u>
Fund balances, end of year	<u>\$ 1,585,457</u>	<u>1,670,453</u>	<u>3,255,910</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, 2013

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
Revenues				
Intergovernmental	\$ 757,855	757,855	574,293	(183,562)
Interest	-	-	474	474
Total revenues	<u>757,855</u>	<u>757,855</u>	<u>574,767</u>	<u>(183,088)</u>
Expenditures				
Capital outlay	3,764,265	5,496,178	3,491,853	2,004,325
Total expenditures	<u>3,764,265</u>	<u>5,496,178</u>	<u>3,491,853</u>	<u>2,004,325</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(3,006,410)</u>	<u>(4,738,323)</u>	<u>(2,917,086)</u>	<u>1,821,237</u>
Other financing sources (uses)				
Transfers in	2,632,235	2,787,216	2,238,537	(548,679)
Transfers out	(469,075)	(516,075)	-	516,075
Capital leases	-	350,000	350,000	-
Total other financing sources (uses)	<u>2,163,160</u>	<u>2,621,141</u>	<u>2,588,537</u>	<u>(32,604)</u>
Change in fund balance	(843,250)	(2,117,182)	(328,549)	1,788,633
Fund balances, beginning as previously stated	8,362,350	8,362,350	8,362,350	-
Restatement of fund balances; See note 1.(f)	<u>(501,759)</u>	<u>(501,759)</u>	<u>(501,759)</u>	-
Fund balance, beginning as restated	<u>7,860,591</u>	<u>7,860,591</u>	<u>7,860,591</u>	-
Fund balance, end of year	<u>\$ 7,017,341</u>	<u>5,743,409</u>	<u>7,532,042</u>	<u>1,788,633</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, 2013

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
Revenues				
Permits, fees and assessments	\$ 1,035,025	1,105,025	1,608,453	503,428
Interest	30,000	30,000	-	(30,000)
Miscellaneous	-	-	10,654	10,654
Total revenues	<u>1,065,025</u>	<u>1,135,025</u>	<u>1,619,107</u>	<u>484,082</u>
Expenditures				
Current				
Building services	1,065,025	1,139,221	1,176,301	(37,080)
Operating expenses				
Capital outlay	-	1,768	-	1,768
Total expenditures	<u>1,065,025</u>	<u>1,140,989</u>	<u>1,176,301</u>	<u>(35,312)</u>
Excess (deficiency) of revenues over (under) expenditures	<u>-</u>	<u>(5,964)</u>	<u>442,806</u>	<u>448,770</u>
Fund balance, beginning of year	<u>1,142,651</u>	<u>1,142,651</u>	<u>1,142,651</u>	<u>-</u>
Fund balance, end of year	<u>\$ 1,142,651</u>	<u>1,136,687</u>	<u>1,585,457</u>	<u>448,770</u>

CITY OF MARCO ISLAND, FLORIDA

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

Debt Service Fund

Year Ended September 30, 2013

	<u>Original budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
Revenues				
Taxes	\$ 847,470	847,470	861,223	13,753
Miscellaneous	-	-	4	4
Total revenues	<u>847,470</u>	<u>847,470</u>	<u>861,227</u>	<u>13,757</u>
Expenditures				
Debt service				
Principal	1,116,060	1,116,060	1,116,059	1
Interest and fiscal charges	<u>368,620</u>	<u>368,620</u>	<u>366,606</u>	<u>2,014</u>
Total expenditures	<u>1,484,680</u>	<u>1,484,680</u>	<u>1,482,665</u>	<u>2,015</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(637,210)</u>	<u>(637,210)</u>	<u>(621,438)</u>	<u>15,772</u>
Other financing sources				
Transfers in	<u>637,210</u>	<u>637,210</u>	<u>637,208</u>	<u>(2)</u>
Total other financing sources	<u>637,210</u>	<u>637,210</u>	<u>637,208</u>	<u>(2)</u>
Change in fund balance	-	-	15,770	15,770
Fund balance, beginning of year	<u>1,654,683</u>	<u>1,654,683</u>	<u>1,654,683</u>	-
Fund balance, end of year	<u>\$ 1,654,683</u>	<u>1,654,683</u>	<u>1,670,453</u>	<u>15,770</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.

CITY OF MARCO ISLAND, FLORIDA

Combining Statement of Fiduciary Net Position

Fiduciary Funds

September 30, 2013

	Pension Trust		
	Fire	Police	
	Pension	Pension	Total
Assets			
Cash and cash equivalents	\$ 366,070	434,839	800,909
Contributions receivable	458,016	148,757	606,773
Investments, at fair value			
Government bonds	3,075,395	2,199,228	5,274,623
Common stock	5,375,055	3,391,324	8,766,379
Accrued interest	7,498	5,458	12,956
Total investments	<u>8,457,948</u>	<u>5,596,010</u>	<u>14,053,958</u>
Total assets	<u>9,282,034</u>	<u>6,179,606</u>	<u>15,461,640</u>
Liabilities			
Accounts payable	<u>300</u>	<u>4,711</u>	<u>5,011</u>
Total liabilities	<u>300</u>	<u>4,711</u>	<u>5,011</u>
Net position			
Held in trust for pension benefits	<u>\$ 9,281,734</u>	<u>6,174,895</u>	<u>15,456,629</u>

CITY OF MARCO ISLAND, FLORIDA

Combining Statement of Changes in Fiduciary Net Position

Fiduciary Funds

Year Ended September 30, 2013

	Pension Trust		Total
	Firefighters' Pension	Police Officers' Pension	
Additions			
Contributions			
Employer	\$ 507,098	737,614	1,244,712
Employee	15,541	113,202	128,743
State of Florida	459,906	137,352	597,258
Total contributions	<u>982,545</u>	<u>988,168</u>	<u>1,970,713</u>
Investment earnings			
Interest and dividend income	171,123	118,236	289,359
Net change in fair value of investments	619,405	422,540	1,041,945
Less investment expense	<u>(67,842)</u>	<u>(51,457)</u>	<u>(119,299)</u>
Net investment earnings	<u>722,686</u>	<u>489,319</u>	<u>1,212,005</u>
Total additions	<u>1,705,231</u>	<u>1,477,487</u>	<u>3,182,718</u>
Deductions			
Benefits paid	129,028	149,771	278,799
General administration	<u>32,347</u>	<u>39,003</u>	<u>71,350</u>
Total deductions	<u>161,375</u>	<u>188,774</u>	<u>350,149</u>
Changes in net position	1,543,856	1,288,713	2,832,569
Net position, beginning as previously stated	7,563,837	4,886,182	12,450,019
Restatement of net position; See note 1.(f)	174,041	-	174,041
Net position, beginning as restated	<u>7,737,878</u>	<u>4,886,182</u>	<u>12,624,060</u>
Net position, end of year	\$ <u><u>9,281,734</u></u>	<u><u>6,174,895</u></u>	<u><u>15,456,629</u></u>

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CITY OF MARCO ISLAND, FLORIDA

STATISTICAL SECTION

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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

	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>
Governmental activities										
Net investment in capital assets	\$ 64,567,882	66,732,879	69,110,370	68,148,861	66,819,967	64,857,666	53,038,873	37,670,845	25,914,490	14,140,148
Restricted	4,542,380	1,504,310	1,271,905	1,161,008	971,144	6,856,789	14,549,105	23,500,743	18,455,208	3,969,046
Unrestricted	<u>15,623,713</u>	<u>17,177,360</u>	<u>15,342,016</u>	<u>13,613,946</u>	<u>15,697,349</u>	<u>8,680,011</u>	<u>7,536,012</u>	<u>6,102,668</u>	<u>12,478,696</u>	<u>15,721,810</u>
Total governmental activities net position	84,733,975	85,414,549	85,724,291	82,923,815	83,488,460	80,394,466	75,123,990	67,274,256	56,848,394	33,831,004
Business-type activities										
Net investment in capital assets	21,616,965	26,962,499	28,184,757	16,170,181	35,132,580	35,680,521	19,956,161	13,601,948	8,520,919	4,187,756
Restricted	66,333,894	22,184,698	26,945,022	13,404,422	15,227,514	7,454,188	5,878,767	7,510,845	13,044,910	12,198,489
Unrestricted	<u>21,621,613</u>	<u>58,814,314</u>	<u>43,595,429</u>	<u>53,463,071</u>	<u>15,387,918</u>	<u>6,096,803</u>	<u>(3,752,960)</u>	<u>(10,572,102)</u>	<u>(13,285,715)</u>	<u>(12,720,573)</u>
Total business-type activities net position	109,572,472	107,961,511	98,725,208	83,037,674	65,748,012	49,231,512	22,081,968	10,540,691	8,280,114	3,665,672
Primary government										
Net investment in capital assets	86,184,847	93,695,378	97,295,127	84,319,042	101,952,547	100,538,187	72,995,034	51,272,793	34,435,409	18,327,904
Restricted	70,876,274	23,689,008	28,216,927	17,331,189	16,198,658	14,310,977	20,427,872	31,011,588	31,500,118	16,167,535
Unrestricted	<u>37,245,326</u>	<u>75,991,674</u>	<u>58,937,445</u>	<u>67,077,017</u>	<u>31,085,267</u>	<u>14,776,814</u>	<u>3,783,052</u>	<u>(4,469,434)</u>	<u>(807,019)</u>	<u>3,001,237</u>
Total primary government net position	\$ <u>194,306,447</u>	<u>193,376,060</u>	<u>184,449,499</u>	<u>168,727,248</u>	<u>149,236,472</u>	<u>129,625,978</u>	<u>97,205,958</u>	<u>77,814,947</u>	<u>65,128,508</u>	<u>37,496,676</u>

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

CITY OF MARCO ISLAND, FLORIDA

Changes in Net Position (Unaudited)

Last Ten Fiscal Years (Accrual Basis of Accounting)

Schedule 2

	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>
Expenses										
Governmental activities										
General government	\$ 3,749,034	4,461,910	3,576,147	4,799,310	5,226,421	3,990,986	3,769,788	4,799,331	3,187,492	2,883,757
Police services	4,688,947	4,612,996	4,224,760	3,951,306	3,910,895	3,394,126	3,570,381	3,024,973	2,690,359	2,606,276
Fire and rescue	5,624,652	5,218,196	5,147,712	4,685,618	4,377,797	3,902,445	3,633,748	3,156,845	2,547,211	2,768,306
Code compliance	290,804	308,749	269,208	1,146,597	248,818	197,316	179,376	148,161	116,787	199,036
Building services	1,183,248	828,981	875,979	821,680	923,423	1,216,644	1,350,070	1,128,468	680,662	1,020,790
Transportation	8,199,027	7,728,870	5,891,452	6,302,748	5,769,702	3,636,729	3,008,553	2,726,090	373,196	1,310,664
Culture and recreation	842,869	892,691	2,135,742	2,035,189	1,095,683	2,266,414	1,922,094	1,574,669	911,520	3,334,436
Interest on long-term debt	366,606	413,409	509,186	517,849	590,776	647,164	713,034	628,218	499,811	139,825
Total governmental activities expenses	24,945,187	24,465,802	22,630,186	24,260,297	22,143,515	19,251,824	18,147,044	17,186,755	11,007,038	14,263,090
Business-type activities										
Water and sewer	36,078,592	31,670,493	29,828,635	28,881,053	25,993,867	21,598,968	19,576,391	17,736,604	16,796,415	15,454,681
Recreation	466,213	484,339	491,038	381,786	358,943	247,977	148,389	118,309	107,047	90,020
Total business-type activities expenses	36,544,805	32,154,832	30,319,673	29,262,839	26,352,810	21,846,945	19,724,780	17,854,913	16,903,462	15,544,701
Total primary government expenses	61,489,992	56,620,634	52,949,859	53,523,136	48,496,325	41,098,769	37,871,824	35,041,668	27,910,500	29,807,791
Program revenues										
Governmental activities										
Charges for services										
General government	984,197	983,325	819,346	143,117	94,845	809,646	972,129	1,162,729	1,191,347	2,095,309
Police services	29,031	29,259	30,507	351,497	573,210					
Fire and rescue	278,112	245,181	165,672	114,926	121,296					
Code compliance	126,158	104,726	201,445	57,497	59,888					
Building services	1,608,453	1,333,631	826,128	895,004	1,152,774					
Transportation	-	-	-	-	-					
Culture and recreation	-	-	-	1,000	2,500					
Charges for services - other activities	-	-	-			709,424	527,208	454,273	493,709	333,296
Operating grants and contributions	1,214,800	1,088,034	1,233,859	1,039,852	1,805,713	199,781	321,497	2,259,878	1,115,222	1,721,352
Capital grants and contributions	871,568	652,578	1,269,864	1,462,596	1,619,764	2,050,675	2,423,999	2,481,096	4,831,353	2,485,005
Total governmental activities program services	5,112,319	4,436,734	4,546,821	4,065,489	5,429,990	3,769,526	4,244,833	6,357,976	7,631,631	6,634,962
Business-type activities										
Charges for services, water and sewer	27,603,070	28,108,927	30,016,771	26,647,596	24,553,927	22,137,097	20,635,378	19,050,271	17,584,305	16,509,717
Charges for services, other activities	322,744	360,466	373,970	271,972	78,670	144,482	116,095	105,011	1,635,934	98,547
Operating grants and contributions	-	-	-	-	-	122,866	55,127	45,003	42,389	37,810
Capital grants and contributions	11,624,137	9,966,904	10,521,771	18,893,283	14,834,768	24,655,181	6,925,418	1,450,000	504,360	-
Total business-type activities program revenues	39,549,951	38,436,297	40,912,512	45,812,851	39,467,365	47,059,626	27,732,018	20,650,285	19,766,988	16,646,074
Net (expenses) revenues										
Governmental activities	(19,832,868)	(20,029,068)	(18,093,380)	(20,194,808)	(17,569,525)	(15,482,298)	(13,902,211)	(10,828,779)	(3,375,407)	(7,628,128)
Business-type activities	3,005,146	6,281,465	10,592,839	16,550,012	13,114,555	25,212,681	8,007,238	2,795,372	2,863,526	1,101,373
Total primary government net expense	\$ (16,827,722)	(13,747,603)	(7,500,541)	(3,644,796)	(4,454,970)	9,730,383	(5,894,973)	(8,033,407)	(511,881)	(6,526,755)

CITY OF MARCO ISLAND, FLORIDA

**Changes in Net Position-Continued
(Unaudited)**

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

Schedule 2 (Continued)

	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>
General revenues and other changes in net position										
Governmental activities										
Taxes:										
Property taxes	\$ 14,908,363	15,186,850	15,882,920	15,650,276	14,903,477	14,329,937	15,315,942	11,852,368	10,554,795	9,933,131
Communication service tax	1,056,187	991,888	945,876	1,021,735	934,875	980,662	914,729	997,457	967,296	1,056,959
Other taxes	1,270,102	1,128,441	1,154,806	1,211,299	910,544	665,451	676,038	870,728	315,630	-
Franchise fees	-	-	-	-	1,610,117	1,920,620	1,913,134	1,882,013	-	-
State shared revenues	2,212,992	2,036,642	1,950,824	1,844,849	1,748,568	1,943,146	1,952,268	2,393,388	2,270,293	1,750,719
Interest	50,316	230,611	212,562	200,612	368,780	560,622	919,185	1,279,907	621,291	347,976
Gain on sale of capital assets	-	-	-	(6,300)	-	-	20,000	-	250,000	-
Miscellaneous	184,223	144,892	155,820	143,215	147,158	352,336	40,649	446,924	2,048,983	984,134
Transfers	45,481	-	145,500	-	40,000	-	-	-	108,759	-
Total governmental activities	<u>19,727,664</u>	<u>19,719,324</u>	<u>20,448,308</u>	<u>20,065,686</u>	<u>20,663,519</u>	<u>20,752,774</u>	<u>21,751,945</u>	<u>19,722,785</u>	<u>17,137,047</u>	<u>14,072,919</u>
Business-type activities										
Interest	2,333,088	2,455,405	2,821,122	2,619,932	3,103,387	1,476,393	797,892	518,451	306,738	256,333
Miscellaneous	192,955	499,433	419,073	139,540	338,558	460,470	2,736,147	478,610	1,552,937	73,989
Gain on sale of capital assets	-	-	(145,500)	(19,822)	-	-	-	-	-	-
Transfers	(45,481)	-	-	-	(40,000)	-	-	-	(108,759)	-
Total business-type activities	<u>2,480,562</u>	<u>2,954,838</u>	<u>3,094,695</u>	<u>2,739,650</u>	<u>3,401,945</u>	<u>1,936,863</u>	<u>3,534,039</u>	<u>997,061</u>	<u>1,750,916</u>	<u>330,322</u>
Total primary government	<u>22,208,226</u>	<u>22,674,162</u>	<u>23,543,003</u>	<u>22,805,336</u>	<u>24,065,464</u>	<u>22,689,637</u>	<u>25,285,984</u>	<u>20,719,846</u>	<u>18,887,963</u>	<u>14,403,241</u>
Changes in net position										
Governmental activities	(105,204)	(309,744)	2,354,928	(129,122)	3,093,994	5,270,476	7,849,734	8,894,006	13,761,640	6,444,791
Business-type activities	5,485,708	9,236,303	13,687,534	19,289,662	16,516,500	27,149,544	11,541,277	3,792,433	4,614,442	1,431,695
Total primary government	<u>\$ 5,380,504</u>	<u>8,926,559</u>	<u>16,042,462</u>	<u>19,160,540</u>	<u>19,610,494</u>	<u>32,420,020</u>	<u>19,391,011</u>	<u>12,686,439</u>	<u>18,376,082</u>	<u>7,876,486</u>

CITY OF MARCO ISLAND, FLORIDA

**Fund Balances of Governmental Funds
(Unaudited)**

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

Schedule 3

	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>
General fund										
Nonspendable	\$ 25	25	3,331	-	-	-	-	-	-	-
Restricted	1,286,470	958,362	722,132	-	-	-	-	-	-	-
Assigned	20,289	30,402	20,289	-	-	-	-	-	-	-
Reserved	-	-	-	610,908	958,601	550,899	1,139,950	908,293	4,355,795	3,979,961
Unassigned	8,653,648	7,003,460	6,363,876	-	-	-	-	-	-	-
Designated	-	-	-	10,847,424	10,815,926	9,636,801	17,146,589	26,222,575	17,395,304	10,206,736
Undesignated	-	-	-	850,672	1,451,163	2,101,476	2,497,833	2,027,228	6,354,549	3,221,265
Total unreserved	9,960,432	7,992,249	7,109,628	11,698,096	12,267,089	11,738,277	19,644,422	28,249,803	23,749,853	13,428,001
Total general fund	9,960,432	7,992,249	7,109,628	12,309,004	13,225,690	12,289,176	20,784,372	29,158,096	28,105,648	17,407,962
All other governmental funds										
Restricted:										
Debt service fund	1,670,453	545,948	549,773	-	-	-	-	-	-	-
Building Services	1,585,457	1,142,651	948,450	-	-	-	-	-	-	-
Assigned:										
Transportation	-	600,000	-	-	-	-	-	-	-	-
Debt services	-	1,108,735	1,090,347	-	-	-	-	-	-	-
Grants	-	-	-	-	-	-	-	-	-	-
Capital projects	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	-	-	-	-	-	-	-	-	-	-
Reserved:										
Debt service fund	-	-	-	1,934,854	1,895,754	1,886,087	767,380	447,019	508,100	-
Unreserved	-	-	-	-	-	-	-	-	-	-
Special revenue funds	-	-	-	1,202,908	1,406,108	1,551,384	993,865	374,843	2,431,981	2,201,959
Total all other governmental funds	10,787,952	11,159,684	10,017,573	3,137,762	3,301,862	3,437,471	1,761,245	821,862	2,940,081	2,201,959
Total governmental funds										
Nonspendable	25	25	3,331	-	-	-	-	-	-	-
Restricted	4,542,380	2,646,961	2,220,355	-	-	-	-	-	-	-
Assigned	7,552,331	9,501,487	8,539,639	-	-	-	-	-	-	-
Unassigned	8,653,648	7,003,460	6,363,876	-	-	-	-	-	-	-
Undesignated	-	-	-	-	-	-	-	-	-	-
Reserved	-	-	-	2,545,762	2,854,355	2,436,986	1,907,330	1,355,312	4,863,895	3,979,961
Unreserved	-	-	-	12,901,004	13,673,197	13,289,661	20,638,287	28,624,646	26,181,834	15,629,960
Total governmental funds	\$ 20,748,384	19,151,933	17,127,201	15,446,766	16,527,552	15,726,647	22,545,617	29,979,958	31,045,729	19,609,921

(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 Fund Balances of Governmental Funds (Unaudited)

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

Schedule 4

	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
Revenues										
Taxes	\$ 17,234,652	17,307,179	17,983,602	17,883,310	18,359,013	17,896,670	18,819,843	16,341,065	12,585,979	11,870,991
Licenses and permits	1,938,989	1,533,176	993,199	953,501	775,843	840,236	1,008,708	1,199,975	1,229,030	2,130,035
Intergovernmental	3,839,821	3,666,613	4,254,122	3,904,674	4,093,649	3,843,101	4,271,471	6,451,616	8,842,937	5,278,142
Charges for services	1,218,312	1,217,785	920,267	314,391	238,987	378,902	435,456	302,343	355,670	522,944
Fines and forfeitures	154,965	133,835	231,662	351,497	573,210	198,951	82,001	37,047	252,832	91,794
Interest income	50,316	182,507	210,351	200,612	368,780	560,622	919,185	1,279,907	621,291	347,976
Miscellaneous	357,448	130,680	165,845	441,478	1,165,249	589,362	355,365	344,177	528,190	1,102,955
Total revenues	24,794,503	24,171,775	24,759,048	24,049,463	25,574,731	24,307,844	25,892,029	25,956,130	24,415,929	21,344,837
Expenditures										
Current:										
General government	\$ 3,602,051	3,462,824	3,602,127	4,418,283	4,438,636	4,052,564	3,602,926	3,905,826	2,868,842	2,246,456
Police services	4,534,953	4,151,932	4,117,627	3,858,373	3,945,801	3,462,233	3,468,913	3,282,913	2,593,972	2,594,499
Fire and rescue	5,293,964	4,869,967	4,821,296	5,039,364	4,226,027	3,780,795	3,553,821	3,140,112	3,371,921	2,663,257
Code compliance	290,187	304,010	268,625	282,859	244,027	220,857	177,469	177,085	112,562	195,834
Building services	1,176,301	1,036,310	1,104,754	1,139,165	1,352,689	1,255,294	1,323,773	1,105,985	1,011,005	1,012,830
Transportation	2,483,555	2,524,969	1,113,799	1,358,546	1,762,405	2,201,749	2,181,730	951,800	1,106,152	1,179,243
Culture and recreation	692,649	599,266	1,980,400	1,879,614	1,948,370	1,701,382	1,712,998	1,413,631	1,244,657	1,545,047
Debt service:										
Principal	1,116,059	1,071,692	1,543,467	2,100,575	2,072,782	2,045,087	1,687,485	669,973	131,922	491,264
Interest	366,606	413,411	477,221	517,849	590,537	661,787	728,053	568,046	349,192	139,825
Bond issue cost	-	-	-	-	-	-	-	33,810	71,228	84,209
Capital outlay	3,535,449	3,712,662	4,195,157	4,535,622	4,764,578	11,745,066	14,906,202	15,680,011	6,690,666	13,780,786
Total expenditures	23,091,774	22,147,043	23,224,473	25,130,250	25,345,852	31,126,814	33,343,370	30,929,192	19,552,119	25,933,250
Excess (deficiency) of revenues over (under) expenditures	1,702,729	2,024,732	1,534,575	(1,080,787)	228,879	(6,818,970)	(7,451,341)	(4,973,062)	4,863,810	(4,588,413)
Other financing sources (uses)										
Transfers in	2,875,745	5,374,449	11,388,719	7,046,586	7,142,198	12,873,112	14,617,571	5,648,748	6,572,583	1,932,385
Transfers out	(2,830,264)	(5,374,449)	(11,243,219)	(7,046,586)	(7,102,198)	(12,873,112)	(14,617,571)	(5,648,748)	(6,786,877)	(1,932,385)
Proceeds from sale of capital asset	-	-	-	-	-	-	20,000	-	-	-
Capital leases	350,000	-	-	-	532,026	-	-	-	786,292	-
Bonds issued	-	-	-	-	-	-	-	4,000,000	6,000,000	9,860,000
Total other financing sources (uses)	395,481	-	145,500	-	572,026	-	20,000	4,000,000	6,571,998	9,860,000
Net change in fund balance	\$ 2,098,210	2,024,732	1,680,075	(1,080,787)	800,905	(6,818,970)	(7,431,341)	(973,062)	11,435,808	5,271,587
Debt service as a percentage of non-capital expenditures	7.58%	8.06%	10.80%	13.27%	13.54%	14.85%	14.13%	8.56%	5.35%	6.16%
Capital outlay (per above)	3,535,449	3,712,662	4,195,157	4,535,622	4,764,578	11,745,066	14,906,202	15,680,011	6,690,666	13,780,786
Capital outlay included in current expenditures	-	87,639	316,570	855,459	906,286	1,153,197	1,340,988	396,895	2,546,777	539,886
Total capital outlay	\$ 3,535,449	3,800,301	4,511,727	5,391,081	5,670,864	12,898,263	16,247,190	16,076,906	9,237,443	14,320,672

(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

<u>Fiscal Year</u>	<u>Assessed</u>	<u>Real Property</u>	<u>Personal Property</u>	<u>Total Assessed</u>	<u>Percentage</u>	<u>Total Direct</u>
2005	2004	7,034,182,252	82,851,261	7,117,033,513	12.0%	1.586
2006 ⁽¹⁾	2005	9,416,315,319	83,290,481	9,499,605,800	33.5%	1.388
2007	2006	11,982,430,855	94,191,494	12,076,622,349	27.1%	1.318
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 ⁽²⁾	2013	7,478,069,118	70,416,975	7,548,486,093	1.9%	2.076

⁽¹⁾ Includes annexation of Key Marco, approximately 4% of the annual growth.

⁽²⁾ Information only. 2013 assessed values are used for fiscal year 2014 tax revenues

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	Collier County Operating	Collier School Board	Mosquito Control	South FL Water Management	Water Pollution Control	Big Cypress Basin	Collier County Other	
2005	1.5400	0.0460	3.8772	6.2200	0.0962	0.2840	0.0347	0.2425	0.2500	12.5906
2006	1.2925	0.0950	3.8772	5.9730	0.0830	0.2840	0.0347	0.2425	0.2500	12.1319
2007	1.2445	0.0736	3.7290	5.5250	0.0680	0.2840	0.0320	0.2425	0.2500	11.4486
2008	1.2048	0.0785	3.1469	5.3510	0.0635	0.2549	0.0280	0.2265	0.3742	10.7283
2009	1.3917	0.0849	3.2969	4.9090	0.0635	0.2549	0.0293	0.2265	0.2329	10.4896
2010	1.6518	0.0955	3.5645	5.2390	0.0720	0.2549	0.0293	0.2265	0.2500	11.3835
2011	1.8900	0.1079	3.5645	5.6990	0.0826	0.2549	0.0293	0.2265	0.2500	12.1047
2012	1.9592	0.1177	3.5645	5.5270	0.0934	0.1785	0.0293	0.1633	0.2500	11.8829
2013	1.9600	0.1204	3.5645	5.5760	0.1102	0.1757	0.0293	0.1633	0.2500	11.9494
2014 ⁽¹⁾	1.9600	0.1163	3.5645	5.6900	0.1050	0.1685	0.0293	0.1593	0.0000	11.7929

(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

<u>Taxpayer</u>	<u>Property by Type</u>	<u>January 1, 2013 Taxable Valuation</u>	<u>Rank</u>	<u>% of Total Assessed Valuation</u>	<u>Taxpayer</u>	<u>Property by Type</u>	<u>January 1, 2004 Taxable Valuation</u>	<u>Rank</u>	<u>% of Total Assessed Valuation</u>
City National Bank of Miami Tr	Banking	\$ 79,258,106	1	1.05%	City National Bank of Miami Tr	Banking	93,310,481	1	1.31%
Marco Beach Hotel Inc.	Hospitality	34,056,262	2	0.45%	Marco Beach Hotel Inc.	Hospitality	35,022,396	2	0.49%
Marriott Ownership Resorts Inc.	Hospitality	18,407,519	3	0.24%	Boykin Marco LLC	Hospitality	24,136,104	3	0.34%
BRE Southeast Retail Holdings LLC	Shopping Center	11,361,167	4	0.15%	Marco Town Center, Inc.	Shopping Center	14,613,435	4	0.21%
GM Esplanade LLC	Shopping Center	8,397,022	5	0.11%	Marco Island Condo LLC	Real Estate Developer	11,338,338	5	0.16%
Gregg Holdings, Inc.	Single Family Residence	7,520,221	6	0.10%	A&N of Marco Inc.	Real Estate Developer	10,021,838	6	0.14%
Wesley C. & Ann S. Bates	Single Family Residence	7,479,883	7	0.10%	Gregg Holdings, Inc.	Real Estate Developer	7,335,545	7	0.10%
Venetian Investments, LLC	Shopping Center	6,983,202	8	0.09%	Island Country Club, Inc.	Golf Course	7,188,740	8	0.10%
Brian R Williamson Trust	Single Family Residence	6,571,123	9	0.09%	Venetian Investments, LLC	Real Estate Developer	7,080,448	9	0.10%
Jack C. & Dorothy J. Skoog Trust	Single Family Residence	5,593,604	10	0.07%	Jack C. & Dorothy J. Skoog	Single Family Residence	6,573,487	10	0.09%
Total		\$ 185,628,109		2.46%			216,620,812		3.04%

Source: Collier County Property Appraiser

CITY OF MARCO ISLAND, FLORIDA

**Property Tax Levies and Collections ⁽¹⁾
(Unaudited)**

Last Ten Fiscal Years

Schedule 8

<u>Fiscal Year</u>	<u>Taxes Assessed January 1st</u>	<u>Total Tax Levy ⁽²⁾</u>	<u>Current Tax Collections ⁽²⁾</u>	<u>Percent of Current Taxes Collected</u>	<u>Delinquent Tax Collections</u>	<u>Total Collections To Date</u>	<u>Percent of Total Collections To Date</u>
2004	2003	10,291,715	9,919,609	96.4%	13,523	N/A	N/A
2005	2004	11,287,615	10,866,603	96.3%	3,823	N/A	N/A
2006	2005	13,163,819	12,713,792	96.6%	9,304	N/A	N/A
2007	2006	16,857,132	16,212,857	96.2%	11,693	N/A	N/A
2008	2007	15,683,488	15,124,912	96.4%	27,794	N/A	N/A
2009	2008	16,787,689	16,276,943	97.0%	50,638	N/A	N/A
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%

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 debt, 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	Sales Tax Revenue Bonds	Capital Leases	Water/Sewer ⁽¹⁾ Revenue Bonds & Loans	STRP ⁽²⁾ Assessment Bonds & Notes			
2004	9,860,000	835,000	-	396,664	101,115,000	-	112,206,664	19.01%	7,204
2005	9,860,000	780,000	6,000,000	459,370	101,115,000	-	118,214,370	18.42%	7,549
2006	9,315,000	4,725,000	6,000,000	389,397	99,205,000	-	119,634,397	17.48%	7,600
2007	8,760,000	3,665,000	6,000,000	316,912	124,377,508	-	143,119,420	19.81%	9,044
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	157,885,285	54,728,048	222,287,606	27.41%	13,426

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

⁽²⁾ Septic Tank Replacement Program: includes permanent financing and state revolving loans. All of this debt is secured by special assessment districts. Includes \$40,098,058 of State Loan financing for the Septic Tank Replacement Program.

⁽³⁾ See Table 13 Schedule 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

<u>Fiscal Year</u>	<u>General Obligation</u>	<u>Percentage of Net</u>	<u>Per Capita ⁽²⁾</u>
2004	9,860,000	0.155%	633
2005	9,860,000	0.139%	630
2006	9,315,000	0.098%	592
2007	8,760,000	0.073%	554
2008	8,195,000	0.071%	486
2009	7,615,000	0.073%	453
2010	7,025,000	0.075%	428
2011	6,415,000	0.078%	390
2012	5,790,000	0.077%	350
2013	5,145,000	0.069%	311

⁽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.

CITY OF MARCO ISLAND, FLORIDA

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

As of September 30, 2013

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			
General obligation bonds	\$ 5,145,000	100.00%	5,145,000
Sales tax revenue bonds	13,165,000	100.00%	13,165,000
Capital leases	754,273	100.00%	754,273
Total direct debt			<u>13,165,000</u>
Overlapping debt			
Collier County	386,281,000	12.67%	48,941,803
Collier County School Board	453,462,105	12.67%	57,453,649
Total overlapping debt			<u>106,395,451</u>
Total direct and overlapping debt			<u>\$ <u>119,560,451</u></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							General Fund			
	Water/Sewer Revenue	Water/Sewer Impact Fees	Less Operating Expenses	Net Revenues With Impact Fees	Net Revenues Without Impact Fees	Debt Service ⁽²⁾	Coverage With Impact Fees ⁽³⁾	Coverage Without Impact Fees ⁽⁴⁾	Sales Tax Revenues	Debt Service	Coverage
2004 ⁽⁵⁾	15,396,743	1,443,296	7,753,809	9,086,230	7,642,934	4,226,703	2.15	1.81	N/A	N/A	N/A
2005	18,069,517	1,374,463	8,314,877	11,129,103	9,754,640	6,597,764	1.69	1.48	1,814,116	0	0.00
2006	19,640,936	406,396	8,928,958	11,118,374	10,711,978	6,578,700	1.69	1.63	1,852,602	214,342	8.64
2007	20,635,378	254,524	9,813,521	11,076,381	10,821,857	6,574,398	1.68	1.65	1,530,520	213,310	7.18
2008	22,137,097	426,496	11,047,517	11,516,076	11,089,580	6,955,086	1.74	1.68	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	861,622	1.97

(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.

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

Source: City of Marco Island Finance Department

CITY OF MARCO ISLAND, FLORIDA

Demographic and Economic Statistics (Unaudited)

Last Ten Fiscal Years

Schedule 13

Fiscal Year	Population			Income			Florida Unemployment Rate ⁽⁴⁾
	City of Marco Island ⁽³⁾	Collier County ⁽³⁾	State of Florida ⁽³⁾	Florida Personal Income (in millions of dollars) ⁽²⁾	Naples-Marco Island Per Capita Personal Income ⁽³⁾	Florida Per Capita Personal Income	
2004	15,576	306,186	17,516,732	590,405	NA	31,476	4.4
2005	15,659	319,905	17,872,295	641,866	53,867	33,377	3.5
2006	15,742	326,881	18,276,331	684,382	59,895	34,919	3.3
2007	15,825	333,858	18,680,367	722,631	63,276	36,273	4.3
2008	16,856	332,854	18,807,219	720,618	62,559	38,316	8.2
2009	16,816	333,032	18,750,483	704,854	61,807	37,591	11.7
2010	16,413 (1)	333,554 (1)	18,773,356 (1)	740,651	61,308	37,854	12.0
2011	16,443	321,520	18,801,310	764,917	59,985	40,427	10.7
2012	16,521	328,134	19,057,542	773,062	59,264	40,565	8.7
2013	16,556	333,663	19,259,543	810,887	60,391	42,103	7.1

(1) Source: U.S. Census Bureau

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

(3) Source: Florida Office of Research and Economic Information

(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 2013 and Nine Years Ago

Schedule 14

Fiscal Year 2013				Fiscal Year 2004			
Employer	Business Type	Employees	Rank	Employer	Business Type	Employees	Rank
Collier County Public Schools	Public Education	5,365	1	Collier County Public Schools	Public Education	4,400	1
NCH Healthcare System	Health Care	3,007	2	Collier County Government (non-Sheriff)	Government	2,161	2
Publix Supermarket	Supermarket	2,214	3	NCH Healthcare System	Health Care	2,080	3
Collier County Government (non-Sheriff)	Government	1,946	4	Publix Supermarket	Supermarket	2,021	4
Wal-Mart	Supermarket	1,574	5	Employee Professionals	Human Resources	1,700	5
Collier County Sheriff	Government	1,367	6	Ritz Carlton, Naples	Hospitality	1,150	6
Winn-Dixie Stores, Inc.	Supermarket	760	7	Collier County Sheriff	Government	1,000	7
Ritz Carlton, Naples	Hospitality	758	8	Marriott Corporation	Hospitality	943	8
Marriott Corporation	Hospitality	743	9	Winn-Dixie Stores, Inc.	Supermarket	918	9
Fifth Third bank	Banking	733	10	Registry Resort	Hospitality	750	10
Total		<u>18,467</u>		Total		<u>17,123</u>	

Source: www.eflorida.com
 Note: Naples-Marco Island

CITY OF MARCO ISLAND, FLORIDA

**Full-time Equivalent Employees
by Department as of September 30, 2013
(Unaudited)**

Last Ten Fiscal Years

Schedule 15

Department	2013⁽²⁾	2012	2011	2010⁽¹⁾	2009	2008	2007	2006	2005	2004
General Fund:										
Executive Administrative	7	8.5	6	8	8	8	6	5	5	5
Information Technology	3									
Finance	6	7	7	7	14	14	15	15	14	14
Community Development	5	4	6	6	8	8	8	8	8	8
Fire / Rescue	38	38	38	38	38	35	35	32	32	31
Code Compliance	3	3	3	3	-	-	-	-	-	-
Police	41.5	35.5	35.5	35.5	36	36	36	33	33	31
Public Works	13	5.5	6	10	11	11	11	9	8	8
Parks and Recreation	<u>9</u>	<u>15</u>	<u>15</u>	<u>20</u>	<u>15</u>	<u>15</u>	<u>15</u>	<u>14</u>	<u>12</u>	<u>12</u>
Total General Fund	125.5	116.5	116.5	127.5	130	127	126	116	112	109
Water / Sewer Enterprise Fund	69	78	77	74	63	61	58	51	49	49
Building Services Fund	8.5	8	8	10	10	10	10	8	8	7
Recreation Enterprise Fund	<u>3</u>	<u>3.5</u>	<u>3.5</u>	<u>4.5</u>	<u>3</u>	<u>3</u>	<u>1</u>	<u>1</u>	<u>1</u>	-
Total	206	206	205	216	206	201	195	176	170	165

(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.

Source: City of Marco Island, Human Resources Department.

CITY OF MARCO ISLAND, FLORIDA

**Operating Indicators by Department
(Unaudited)**

Last Ten Fiscal Years

Schedule 16

Department	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
Police Department										
Calls for Service	58,855	58,014	70,740	77,628	68,215	61,430	52,273	29,291	33,480	41,527
Fire Department										
Calls for Service	3,202	2,897	2,688	2,802	2,430	2,448	2,911	2,467	2,481	2,358
Building Department										
New Single-Family Homes	92	74	25	33	16	28	43	72	136	233
New Multi-Family Units	-	-	-	-	-	7	0	0	33	123
Total Permits Issued	5,647	5,369	5,149	5,381	4,800	5,194	5,456	7,121	4,917	4,836
Water Production										
Number of Customers	9,847	9,583	9,756	9,623	9,428	9,496	9,517	8,929	8,784	8,329
Raw Flow into Water Plants: (Surface and Ground)										
Average Daily Treatment (Millions of gallons)	7.02	7.97	7.89	7.80	6.37	8.88	10.25	10.19	10.13	NA
Maximum Daily Treatment (Millions of gallons)	13.99	16.25	16.25	16.01	13.05	14.27	16.22	17.86	15.36	NA
Wastewater Treatment										
Number of Customers	8,652	8,424	8,375	7,044	6,412	5,669	5,032	4,120	4,061	4,020
Flow into Wastewater Plants:										
Average Daily Treatment (Millions of gallons)	2.03	1.96	1.94	1.92	1.91	1.88	1.87	1.87	1.70	1.91
Maximum Daily Treatment (Millions of gallons)	3.20	3.76	3.72	3.67	3.44	4.65	3.00	3.00	2.83	3.93

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								
	2013	2012	2011	2010	2009	2008	2007	2006	2005
Police Department									
Number of Stations	1	1	1	1	1	1	1	1	1
Number of Patrol Units	12	12	11	11	12	12	12	12	12
Fire Department									
Number of Stations	2	2	2	2	2	2	2	2	2
Parks and Recreation									
Number of Parks	10	10	10	10	10	8	8	8	8
Park Acreage	60.0	60.0	60.0	60.0	60.0	53.8	53.8	53.8	53.8
Tennis Courts	10	10	10	10	10	10	10	10	10
Bocce Ball Courts	3	3	3	3	3	3	2	2	2
Shuffleboard Courts	7	7	7	7	7	4	4	4	4
Racquetball Courts	2	2	2	2	2	2	2	2	2
Basketball Courts	1	1	1	1	1	1	1	1	1
Baseball/Softball Diamonds	3	3	3	3	3	2	2	2	2
Teen Center	1	1	1	1	1	1	0	0	0
Public Beach Access	2	2	2	2	2	1	1	0	0
Public River Access	1	1	1	1	1	1	1	1	0
Public Works									
Streets (Centerline Miles)	127	127	127	127	127	127	127	127	127
Signalized intersections	10	10	10	10	10	10	8	8	7
Bridges	15	15	15	15	15	15	12	12	12
Utilities									
Number of Water Plants	3	3	3	3	3	3	3	3	3
Number of Waste Water Plants	2	2	2	2	2	2	2	2	2
Water Lines (Miles)	155	155	155	140	140	140	140	140	140
Sewer Lines (Miles)	202	191	175	160	145	132	86	82	82

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, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated April 2, 2014. As referenced in our report, the City adopted new accounting guidance and implemented the provisions of Governmental Accounting Standards Board (GASB) Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, and early implemented the provisions of GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities* as of October 1, 2012.

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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified a certain deficiency in internal control that we consider to be a material weakness.

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. We consider the deficiency described in the accompanying Schedule of Findings and Questioned Costs as Finding 2013-01 to be a material weakness.

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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free from 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*.

City's Response to Findings

The City's response to the finding identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. The City's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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.

Mauldin & Jenkins, LLC

Bradenton, Florida
April 2, 2014

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH
MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE
REQUIRED BY OMB CIRCULAR A-133**

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 Circular A-133 *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, 2013. 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 the requirements of laws, regulations, contracts, and grants 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; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major Federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion 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, 2013.

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 an opinion on compliance for each major Federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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 OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Mauldin & Jenkins, LLC

Bradenton, Florida
April 2, 2014

CITY OF MARCO ISLAND, FLORIDA

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR YEAR ENDED SEPTEMBER 30, 2013**

<u>Federal Agency, Pass-through Entity, Federal Program</u>	<u>CFDA No.</u>	<u>Grantors Number</u>	<u>Expenditures</u>
Federal Awards			
Indirect Federal Awards			
US Department of Transportation			
Passed through Florida Department of Transportation			
Highway Planning and Construction (Safe Routes to School)	20.205	425558-1-58-01	\$ 3,166
Highway Planning and Construction (Safe Routes to School)	20.205	429200-1-58-01	263,988
			<u>267,154</u>
US Environmental Protection Agency			
Passed through Florida Department of Environmental Protection			
Capitalization Grants for Clean Water			
State Revolving Funds, Estates	66.458	CWSRF 110770	3,696,339
			<u>3,696,339</u>
US Department of Homeland Security			
Passed through Florida Department of Financial Services			
Division of Emergency Management			
Homeland Security Grant Program, 2011	97.067	12-DS-20-13-00-16-501	18,174
Homeland Security Grant Program, 2010	97.067	11-DS-9Z-13-00-16-436	2,181
			<u>20,355</u>
US Department of Justice			
Passed through Florida Department of Law Enforcement			
Edward Byrne Memorial Justice Assistance Grant Program	16.738	2013-JAGD-COLL-2-D8-152	1,240
			<u>1,240</u>
Total Expenditures of Federal Awards			<u>\$ 3,985,088</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 OMB Circular A-133, Audits of State, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

Loan Outstanding

The City had \$46,401,709 in State Revolving Funds loan balance outstanding at September 30, 2013.

CITY OF MARCO ISLAND, FLORIDA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended September 30, 2013

Section I – Summary of Auditor’s Results

Basic Financial Statements

Type of auditor’s report issued	Unmodified Opinion		
Internal control over financial reporting			
Material weaknesses identified?	<u> X </u> yes	<u> </u> no	
Significant deficiency(ies) identified?	<u> </u> yes	<u> X </u> none reported	
Noncompliance material to financial statements noted?	<u> </u> yes	<u> X </u> no	

Federal Awards

Type of auditor's report issued on compliance for major programs	Unmodified Opinion		
Internal control over major programs			
Material weaknesses identified?	<u> </u> yes	<u> X </u> no	
Significant deficiency(ies) identified?	<u> </u> yes	<u> X </u> none reported	
Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133?	<u> </u> yes	<u> X </u> no	

Identification of major programs

CFDA Number	Name of Federal Program or Cluster
66.458	Capitalization Grants for Clean Water State Revolving Funds

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

Auditee qualified as low-risk auditee?	<u> </u> yes	<u> X </u> no
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CITY OF MARCO ISLAND, FLORIDA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended September 30, 2013

Section II – Financial Statement Findings

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

2013-01 Year-end Close and Reconciliations

Criteria: Internal controls should be in place to ensure that financial statements properly present the financial position and results of operations of the City in accordance with generally accepted accounting principles (GAAP) and that all of the City's transactions are properly reported, including recognition in the proper period.

Condition: Misstatements were detected in our audit of the City's financial statements for the year ended September 30, 2013, including a restatement of the City's net position for the year ended September 30, 2012.

Context/Cause: During our audit for the year ended September 30, 2013, a misstatement was identified that required a prior period adjustment to restate opening equity for the year ended September 30, 2012, surrounding the City's Fire Pension Plan which related to the timing of contribution revenue recognized from the State of Florida. Additionally, there were other material audit adjustments made during the year as a result of our audit procedures which included adjustments to compensated absences and capitalized interest on long-term debt.

Effect: Audit adjustments to increase beginning net position of the City's Fire Pension Plan in the amount of \$174,041; increase in expenditures and related compensated absence liability for governmental activities in the amount of \$306,289; business-type activities/water and sewer fund for \$203,614; and an increase in capital assets and long-term debt of \$80,374.

Recommendation: We recommend the City carefully review the financial statements and applicable reporting requirements to ensure that all information and financial data is being properly reported.

Management Response: *We concur with the finding and recommendation. We have made adjustments to our system to ensure that the transactions are properly recorded as of year-end. We also have procedures in place to prepare and review the City's financial statements to ensure proper reporting.*

Section III – Federal Awards Findings and Questioned Costs

This section identifies the significant deficiencies, material weaknesses and material instances of noncompliance, including questioned costs as well as any abuse findings involving Federal awards that are material to a major program, as required by Circular A-133 Section 510(a).

No current year findings reported.

CITY OF MARCO ISLAND, FLORIDA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended September 30, 2013

Section IV – Summary Schedule of Prior Audit Findings

2012-01 Year-end Close and Reconciliation

There was a significant reduction in the number of proposed audit adjustments from the previous year; however, we did note some significant audit adjustments in the current year that were material to the financial statements. See current year Finding 2013-01.

2012-02 Information Technology, Terminated Employees

Corrected. There were no current year findings or issues noted.

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INDEPENDENT AUDITOR'S MANAGEMENT LETTER

City Council and City Manager
City of Marco Island, Florida

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, 2013, and have issued our report thereon dated April 2, 2014.

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; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. We have issued our Independent Auditor's Report on Internal Control Over Financial Reporting and 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 on Internal Control Over Compliance Required by OMB Circular A-133, and Schedule of Findings and Questioned Costs. Disclosures in those reports and schedule, which are dated April 2, 2014, should be considered in conjunction with this management letter.

Additionally, our audit was conducted in accordance with the provisions of Chapter 10.550, *Rules of the Auditor General*, which governs the conduct of local government entity audits performed in the State of Florida. This letter includes the following information, which is not included in the aforementioned auditor's reports or schedule:

- 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. The status of prior year findings is reported in the Schedule of Findings and Questioned Costs.
- Section 10.554(1)(i)2., Rules of the Auditor General, requires our audit to include a review of the provisions of Section 218.415, Florida Statutes regarding the investment of public funds. In connection with our audit, we determined that the City complied with Section 218.415, Florida Statutes.
- Section 10.554(1)(i)3., Rules of the Auditor General, requires that we address in the management letter any recommendations to improve financial management. Matters required to be disclosed are reported in the Schedule of Findings and Questioned Costs
- Section 10.554(1)(i)4., Rules of the Auditor General, requires that we address noncompliance with provisions of contract 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.

- Section 10.554(1)(i)5., 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 information has been disclosed in the notes to the financial statements.
- Section 10.554(1)(i)6.a., Rules of the Auditor General, requires a statement be included as to whether or not the local government entity has met one or more of the conditions described in Section 218.503(1), Florida Statutes, and identification of the specific condition(s) met. In connection with our audit, we determined that the City did not meet any of the conditions described in Section 218.503(1), Florida Statutes.
- Section 10.554(1)(i)6.b., Rules of the Auditor General, requires that we determine whether the annual financial report for the City for the fiscal year ended September 30, 2013, 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, 2013. In connection with our audit, we determined that these two reports were in agreement.
- Pursuant to Section 10.554(1)(i)6.c. and 10.556(7), 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 the financial information provided by same.

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, and applicable management and is not intended to be and should not be used by anyone other than these specified parties.

Mauldin & Jenkins, LLC

Bradenton, Florida
April 2, 2014