

**CITY OF MARCO ISLAND, FLORIDA**  
**Comprehensive Annual Financial Report**  
**For the Fiscal Year Ended September 30, 2011**

Prepared by: *The City of Marco Island Finance Department*

**CITY OF MARCO ISLAND, FLORIDA**

**Table of Contents**

	<b><u>Page</u></b>
<b>I. INTRODUCTION SECTION</b>	
Table of Contents	I - III
Letter of Transmittal	IV - IX
Certificate of Achievement for Excellence in Financial Reporting	X
Organizational Chart	XI
Principal Officials	XII
<b>II. FINANCIAL SECTION</b>	
<b>Independent Auditors' Report</b>	1 - 2
<b>Management's Discussion and Analysis (Unaudited)</b>	3 - 22
<b>Basic Financial Statements</b>	
Government-Wide Financial Statements:	
Statement of Net Assets	23
Statement of Activities	24
Fund Financial Statements:	
Balance Sheet – Governmental Funds	25
Reconciliation of the Balance Sheet to the Statement of Net Assets – Governmental Funds	26
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds	27
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances to the Statement of Activities – Governmental Funds	28
Statement of Fund Net Assets – Proprietary Funds	29
Statement of Revenues, Expenses and Changes in Fund Net Assets – Proprietary Funds	30
Statement of Cash Flows – Proprietary Funds	31
Statement of Fiduciary Net Assets – Fiduciary Funds – Pension Trust Funds	32
Statement of Changes in Fiduciary Net Assets – Fiduciary Funds – Pension Trust Funds	33
Notes to Financial Statements	34 - 88
<b>Required Supplementary Information</b>	
Pension Trust Funds:	
Schedule of Funding Progress – Firefighters' Pension Plan	89
Schedule of Employer and State Contributions – Firefighters' Pension Plan	90
Schedule of Funding Progress – Police Officers' Pension Plan	91
Schedule of Employer and State Contributions – Police Officers' Pension Plan	92
General Fund:	
Schedule of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual – General Fund	93 - 95

**CITY OF MARCO ISLAND, FLORIDA**

**Table of Contents**  
**(Continued)**

	<b><u>Page</u></b>
<b>II. FINANCIAL SECTION (continued)</b>	
<b>Combining and Individual Nonmajor Fund Financial Statements</b>	
Combining Balance Sheet – Nonmajor Governmental Funds	97
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances – Nonmajor Governmental Funds	98
Schedule of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual – Capital Projects Fund	99
Schedule of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual – Building Services Fund	100
Schedule of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual – Debt Service Fund	101
Schedule of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual – Electric Fund	102
Combining Statement of Fiduciary Net Assets – Pension Trust Funds	104
Combining Statement of Changes in Fiduciary Net Assets – Pension Trust Funds	105
<b>III. STATISTICAL SECTION (UNAUDITED)</b>	
Net Assets by Component	107
Changes in Net Assets	108 - 109
Fund Balances of Governmental Funds	110
Changes in Fund Balances of Governmental Funds	111
Assessed Value of Taxable Property	112
Property Tax Rates for Direct and Overlapping Governments	113
Principal Property Taxpayers	114
Property Tax Levies and Collections	115
Ratios of Outstanding Debt by Type	116
Ratios of General Bonded Debt Outstanding	117
Pledged Revenue Bond Coverage – Water/Sewer Revenue Bonds and Sales Tax Revenue Bonds	118
Demographic and Economic Statistics	119
Top Ten Employers, Naples-Marco Island	120
Full Time Equivalent Employees by Department	121
Operating Indicators by Department	122
Capital Asset Statistics by Function/Program	123

CITY OF MARCO ISLAND, FLORIDA

**Table of Contents**  
**(Concluded)**

	<b><u>Page</u></b>
<b>IV. SINGLE AUDIT AND OTHER REPORTS AND LETTERS</b>	
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	124 - 125
Report on Compliance with Requirements that Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133 and Chapter 10.550, <i>Rules of the Auditor General of the State of Florida</i>	126 - 127
Schedule of Expenditures of Federal Awards	128 - 129
Schedule of Findings and Questioned Costs	130 - 131
Management Letter	132 - 136



## **INTRODUCTION SECTION**



# City of Marco Island

March 30, 2012

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 twelve months of the close of each fiscal year a complete set of financial statements presented in conformity with generally accepted accounting principles (GAAP) and audited in accordance with generally accepted auditing standards by a firm of independent licensed certified public accountants. Pursuant to that requirement, we hereby issue the comprehensive annual financial report of the City of Marco Island, Florida, for the fiscal year ended September 30, 2011.

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

The City's financial statements have been audited by Mayer Hoffman McCann P.C., 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, 2011, are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unqualified opinion that the City's financial statements for the fiscal year ended September 30, 2011, 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 government'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.

GAAP 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 of Marco Island 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 Marcos (Saint Mark's Island), modern development of the island began in the late 1960s by the Deltona Corporation. Prior to incorporation in 1997, the island was a part of unincorporated Collier County and was served by a local Fire Protection District. The City serves a permanent population of approximately 17,000, which grows to 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 upscale, gated neighborhood approved a bond issue and tax levy for re-nourishment of the beaches adjacent to the neighborhood. In 2005, \$2.9 million in bonds were issued and the project was completed under the oversight of Collier County. As part of the project, "T-groins" were constructed by the County using tourist development tax funds to stabilize the beach to prevent future erosion. The City has no other component units.

## **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 per individual occurrence during the year with a re-appropriation ordinance consolidating all budget amendments to officially amend the annual budget. Budget-to-actual comparisons are provided in this report for individual governmental funds.

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

Marco Island continues to enjoy the results of a planned, platted and deed-restricted community. A full 75% of the single-family building lots are located on man-made canals and bays affording easy boating access to the Gulf of Mexico and the 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 of Marco Island 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. Total assessed value increased from \$2.8 billion at incorporation to a high point of \$12 billion as of the assessment date of January 1, 2006 reflecting the population growth in Collier County and the scarcity of waterfront housing. 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 2010 assessed taxable valuations used for property taxes in fiscal year 2011 showed an eleven percent (11%) reduction. The 2011 assessed taxable valuations to be used for property taxes in fiscal year 2012 show a reduction of eight and one-half percent (8.5%) from 2010 assessed valuations. It is projected that the 2012 valuations used to determine property taxes for fiscal year 2013 will show continued but



smaller reductions as the real estate market is projected to reach the bottom. The reduction in valuations as a direct result of the national real estate slump is not projected to result in any significant decreases in services provided to the community. However, decreases in expenditures will result from less ad valorem tax revenue based on lower property values. Additional information is contained in the MD&A section of this report.

### **Long Term Financial Planning**

The City includes a five-year capital improvement plan for both its governmental and enterprise activities. As a result of the economic downturn and Florida property tax reform, it became evident during fiscal year 2010's budget process that the City's long-term financial plans would require adjustment. 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 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. In addition to the \$1.7 million already accumulated since 2010, the City contributed \$1.4 million in fiscal year 2011 and is budgeting an additional \$2.7 million for fiscal year 2012. Fiscal year 2012 will be the first year that the asset replacement funds will be utilized for necessary replacement of public safety vehicles and equipment totaling over \$600,000.

**Marco Island:** In July 2002, the City negotiated an interlocal 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 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. A future bond issue may be needed in the next year or two if grant funding is not approved. 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. On November 11, 2011, dedication at the Community Park of the Veteran's Memorial, which was constructed primarily by donations received from the community as well as city funds, occurred. The Community Park continues to be a major focal point for the island activities such as seasonal festivals and a weekly farmer's market and in December 2011 featured the Wall That Heals exhibit, a half-size replica of the Washington DC Vietnam Veterans Memorial Wall.

**Marco Island Utilities:** In November 2003, the City of Marco Island achieved a long-term objective with the acquisition of the local water and wastewater operations from a private provider. Prior to that date, the City's 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 required by bond covenants. During fiscal year 2011, favorable market conditions existed so that it was economically advantageous to partially refund approximately \$26 million of the original issued water and sewer revenue bonds. This report includes details of the eighth full year of municipal ownership of the water and sewer utility. More information is contained in the MD&A and notes to the financials.

## Financial Policies

As of September 30, 2011, the City implemented Governmental Accounting Standards Board (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, for its governmental fund types. GASB Statement No. 54 establishes various classifications of fund balance based on a certain hierarchy. Fund balances classified as restricted are balances with constraints placed on the use of resources by creditors, grantors, contributors, or laws or regulations of other governments. Fund balances classified as committed can only be used for specific purposes pursuant to constraints imposed by the City Council through an ordinance or a resolution. Assigned fund balances are constrained by intent to be used for specific purposes but are neither restricted nor committed. Assignments are made by City management based on City Council direction. Unassigned fund balance can be viewed as the net resources available at the end of the fiscal year.

The City's non-spendable fund balance indicates the amount relating to prepaid items. The restricted fund balances include impact fees, federal equitable sharing program and required debt service reserves. The assigned fund balances include unspent funds received from an interlocal agreement with Collier County and the asset replacement reserve. Unassigned fund balance includes the amount accumulated in the financial reserve (see below) as well as any amounts not noted above.

**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 2012 fiscal year general fund operating budget.

**Charter Spending Cap:** The City of Marco Island 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 three percent annually plus the annual change in the Federal cost of living index. The charter was amended by the voters in 2002 to remove the expenditures of self-supporting enterprise funds from the calculation of the spending cap. The City Council may approve emergency expenditures outside of the cap. Further information on the spending cap and the calculation of compliance is included in the Management Discussion and Analysis (MD&A) section of this report.

**Cash Management Policies and Practices:** Cash temporarily idle during the year is invested at favorable rates through a depository banking services agreement yielding one basis point less than the current federal funds rate. The depository account is used to hold funds needed in the short term when investment alternatives in the under six-month range are yielding less than federal funds.

In 2002, the City Council approved an investment ordinance, and 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 investment of debt service reserves, which is limited to the remaining life of the corresponding debt, and investment of pension trust funds.

**Risk Management:** Through fiscal year 2004, the City of Marco Island purchased property, liability and workers' compensation insurance from the Florida League of Cities Municipal Insurance Trust. Beginning in fiscal year 2005, the City elected to self-insure a greater degree of risk retaining the first \$100,000 per occurrence of property and liability losses and the first \$350,000 per occurrence of workers' compensation loss. This program, administered through the Public Risk Insurance Trust, reduces the fixed costs of premiums paid while limiting the financial exposure to the City with the purchase of an annual aggregate stop-loss beginning at \$500,000 in cumulative annual losses. In 2012, the stop loss will increase to \$600,000. The City is a Drug-Free Workplace and has safety programs in place to minimize risk exposures.

## Major Initiatives

Marco Island Utilities continues with a seven-year plan to provide central sewer system for the entire island. The septic tank replacement program (STRP) is expected to be completed in phases by 2013 with construction of year 6 districts substantially completed in fiscal year 2011 and the seventh and final year's district construction to begin at the end of the winter season in April 2012.

With the fiscal year 2012 budget, a scaled back capital improvement program continues the final phase of storm water drainage improvements along the main evacuation route of Collier Boulevard and the Jolley Bridge. Moreover, the City retained funding for annual neighborhood drainage improvements and bike lane widening as well as increased funding for street resurfacing as part of its Capital Improvement Plan.

## 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, 2010. This was the ninth 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 especially Donna Senica, Acting Controller/Accountant. We also thank the Chairman and City Council 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 their time and input. In addition, we wish to express our appreciation to our audit firm, Mayer Hoffman McCann, P.C., for their comprehensive and efficient examination of our accounts and suggestions for improvement.

Respectfully submitted,



Patricia Bliss  
Finance Director



Donna Senica  
Acting Controller/ Accountant

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, 2010

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



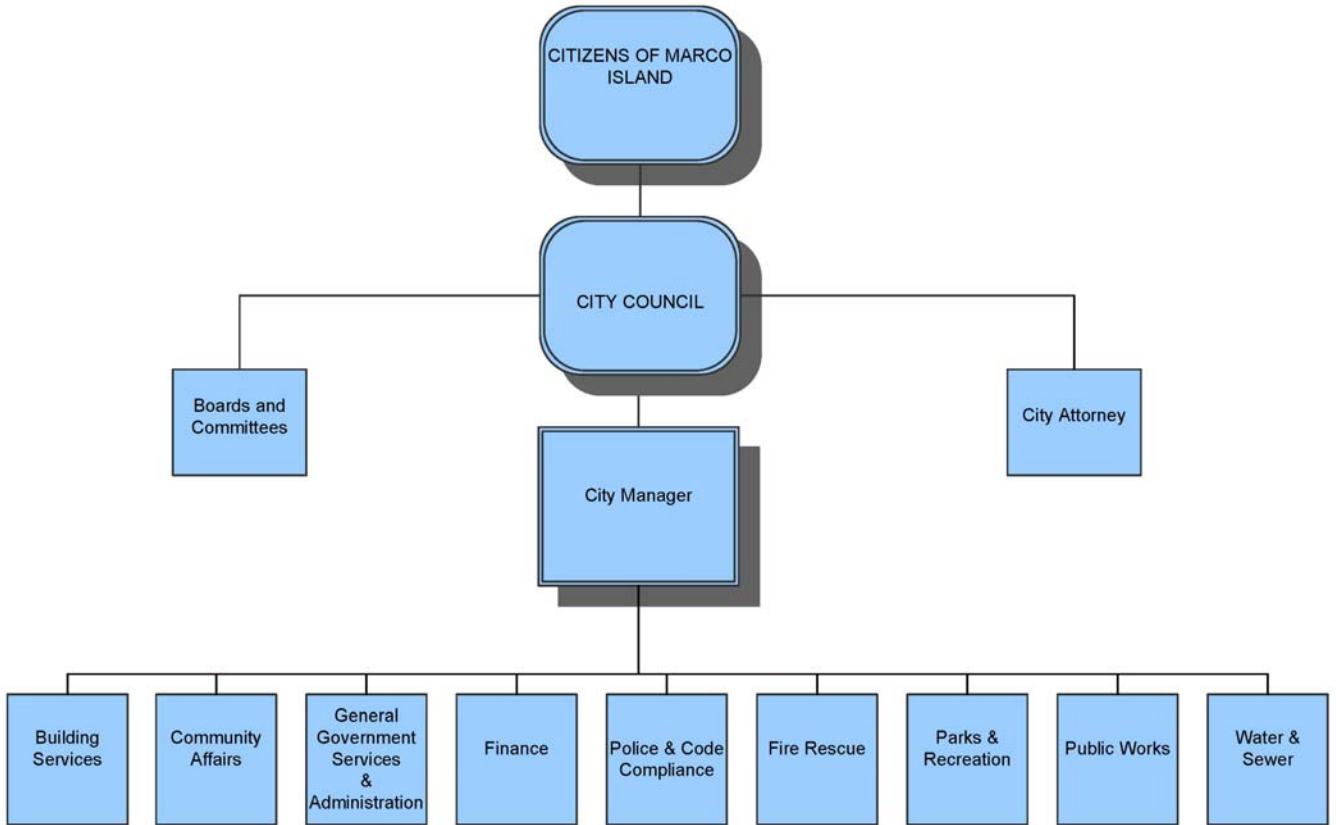
*Linda C. Danison*

President

*Jeffrey R. Enen*

Executive Director

# CITY OF MARCO ISLAND, FLORIDA



**PRINCIPAL OFFICIALS**

JERRY GIBSON, CITY COUNCIL CHAIRPERSON  
LARRY MAGEL, CITY COUNCIL VICE-CHAIRPERSON  
JOE BATTE, COUNCILOR  
CHUCK KIESTER, COUNCILOR  
DR. FRANK RECKER, COUNCILOR  
DR. WILLIAM D. TROTTER, COUNCILOR  
WAYNE WALDACK, COUNCILOR

BURT SAUNDERS, GRAY-ROBINSON, CONTRACTED CITY ATTORNEY

DR. JAMES C. RIVIERE, CITY MANAGER

PATRICIA BLISS, FINANCE DIRECTOR

DON HUNTER, POLICE CHIEF  
LAURA M. LITZAN, CITY CLERK  
BRYAN MILK, DIRECTOR OF PARKS AND RECREATION  
MICHAEL MURPHY, FIRE CHIEF  
TIMOTHY PINTER, PUBLIC WORKS DIRECTOR  
JEFFREY POTEET, ACTING WATER AND SEWER GENERAL MANAGER



**FINANCIAL SECTION**



## Mayer Hoffman McCann P.C.

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## Independent Auditors' Report

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

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, 2011, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Marco Island, Florida, as of September 30, 2011, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Notes 1.d.9 and 3.c. to the financial statements, the City adopted the provisions of GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, during the year ended September 30, 2011.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 30, 2012 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.



Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, schedule of pension funding progress and employer and state contributions, and budgetary comparison information on pages 3 through 22 and 89 through 95, respectively, be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Marco Island, Florida's basic financial statements. The introductory section, combining and individual non-major fund financial statements, budgetary comparison schedules and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. The combining and individual non-major fund financial statements 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 financial statements. The 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 financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, are information is fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section, budget comparison schedules and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

*Maya Hoffman Mc Cera P.C.*

March 30, 2012  
Clearwater, Florida

# CITY OF MARCO ISLAND, FLORIDA

## Management's Discussion and Analysis

September 30, 2011

As management of the City of Marco Island, 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, 2011. 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 of Marco Island exceeded its liabilities at the close of the most recent fiscal year by \$18.4 million (*net assets*). Of this amount, \$58.9 million (*unrestricted net assets*) may be used to meet the ongoing obligations to citizens and creditors. Governmental activities accounts for 46% of total net assets while business-type activities made up the remaining 54%.
- The City's total net assets overall increased by \$16.1 million or 9.5% during the current fiscal year. Since the purchase of the water and sewer utility in fiscal year 2004, the city's total net assets have increased over \$98.7 million.
- A significant accounting change occurred in fiscal year 2011 with the implementation of Government Accounting Standards Board Statement No. 54 (GASB 54), *Fund Balance Reporting and Governmental Fund Type Definitions*.
- As of the close of the current fiscal year as reported on the Fund Financial Statements, the City's governmental funds reported combined ending fund balances of \$17.1 million, an increase of \$1.7 million in comparison with the prior year. Approximately 37% of this total amount (\$6.4 million) is *available for spending* at the government's discretion (*unassigned fund balance*).
- At the end of the current fiscal year at the fund level, the City's general fund had a total fund balance of \$7.1 million. The \$6.4 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 assets of the water and sewer utility fund total \$43.3 million compared to \$34.6 million in the prior year.
- The financial condition of the City of Marco Island continued to be strong in 2011. Major capital investments have been made to both the utility system and the basic infrastructure of the community. Professional department heads manage their operations within budgeted appropriations and reserve levels are sufficient to respond in changing conditions.

### Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City of Marco Island 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.

## CITY OF MARCO ISLAND, FLORIDA

### Management's Discussion and Analysis

September 30, 2011

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

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

The *Statement of Activities* presents information showing how the City's net assets changed during the most recent fiscal year. All changes in net assets 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 the 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, police services, 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 Assets* and *Statement of Activities*.

The government-wide financial statements can be found on pages 23 - 24 of this report.

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

***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

## CITY OF MARCO ISLAND, FLORIDA

### Management's Discussion and Analysis

September 30, 2011

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 2011, the City has two major funds: General Fund and Capital Projects Fund.

The basic governmental fund financial statements can be found on pages 25 - 28 of this report.

***Proprietary Funds:*** The City of Marco Island 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 accumulation of reserves and payment of insurance premiums and claims.

The basic proprietary fund financial statements can be found on pages 29 - 31 of this report.

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

The basic fiduciary fund financial statements are found on pages 32 - 33 of this report.

**Notes to the Financial Statements:** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

The notes to the financial statements can be found on pages 34 - 88 of this report.

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

Required supplementary information can be found on pages 89 - 95 of this report.

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.

# CITY OF MARCO ISLAND, FLORIDA

## Management's Discussion and Analysis

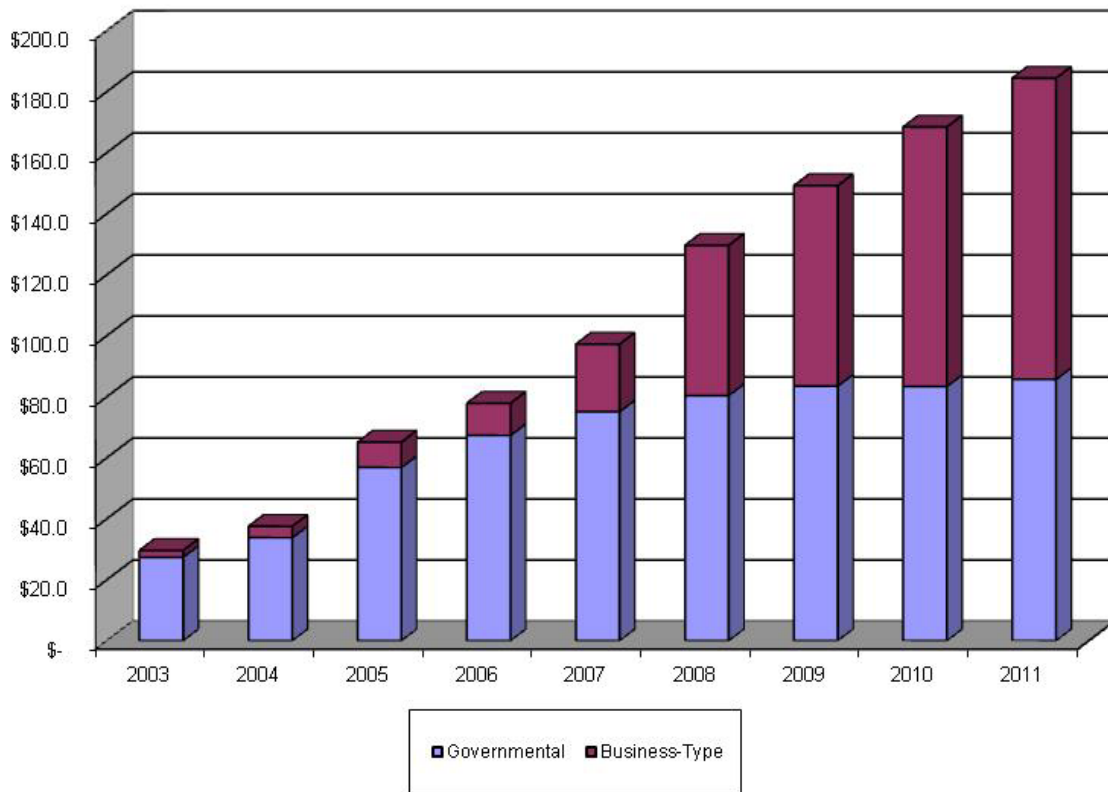
September 30, 2011

### Government-Wide Financial Analysis

Net assets may serve as a useful indicator of the City's financial position. The City of Marco Island's total net assets exceeded liabilities by \$184.4 million at the close of the fiscal year. This was an increase of approximately 9.5% compared to last year's net assets of \$168.4 million. The chart shows the steady and gradual increase over the last nine fiscal years of both the governmental and business-type activities.

The relative stability of the City's governmental performance is reflected in the \$2.4 million increase in total net assets of governmental activities. This steadiness is primarily due Council's desire to limit governmental debt and in 2011, liabilities decreased when the Factory Bay Bridge (series 2000B) bonds were paid off five years early using available resources and resulting in savings in future budget years by reduction in interest costs. In business-type activities, the \$13.7 million increase in total net assets is the result of the capital expenses related to a \$120 million project. This capital program will extend 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 during this fiscal year.

**City of Marco Island's Total Net Assets  
(in \$ Millions)**



**CITY OF MARCO ISLAND, FLORIDA**

**Management's Discussion and Analysis**

**September 30, 2011**

A substantial portion of the City's net assets (53%) reflect its investments in capital assets (e.g., land, buildings, improvements, infrastructure, and equipment), less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should still be noted that the resources needed to repay this debt must be provided from other sources since the capital assets themselves cannot be used to liquidate these liabilities.

Some assets are subject to external restrictions on how it may be used. These net assets are earmarked for completion of capital projects, debt service payments or growth-related expenses to parks, roads, police and fire rescue services. The amount totals \$28.2 million or 15% as of the end of the fiscal year.

The remaining balance of unrestricted net assets (\$58.9 million or 32%) may be used to meet the City's ongoing obligations to citizens and creditors. The amount of the City's total unrestricted assets increased by \$10.2 million compared to last fiscal year with the bulk of the increase occurring in the water and sewer utility system's capital and assessment projects.

**Summary Statement of Net Position (in \$ Millions)**

	Governmental Activities		Business-Type Activities		Total	
	2011	2010	2011	2010	2011	2010
Current and other assets	\$ 19.9	\$ 18.5	\$ 91.0	\$ 90.9	\$ 110.9	\$ 109.4
Capital assets	80.6	81.6	232.3	223.9	312.9	305.5
<b>Total Assets</b>	<b>100.5</b>	<b>100.1</b>	<b>323.3</b>	<b>314.8</b>	<b>423.8</b>	<b>414.9</b>
Current and other liabilities	1.9	2.4	5.8	6.0	7.7	8.4
Long term debt	12.8	14.3	218.8	223.8	231.6	238.1
<b>Total Liabilities</b>	<b>14.7</b>	<b>16.7</b>	<b>224.6</b>	<b>229.8</b>	<b>239.3</b>	<b>246.5</b>
Net Position:						
Investment in capital assets, net of related debt	69.1	68.2	28.2	23.5	97.3	91.7
Restricted	1.3	1.1	26.9	38.7	28.2	39.8
Unrestricted	15.3	14.1	43.6	22.8	58.9	36.9
<b>Total Net Position</b>	<b>\$ 85.7</b>	<b>\$ 83.4</b>	<b>\$ 98.7</b>	<b>\$ 85.0</b>	<b>\$ 184.4</b>	<b>\$ 168.4</b>

**CITY OF MARCO ISLAND, FLORIDA**

**Management's Discussion and Analysis**

**September 30, 2011**

**Summary Statement of Activities (in \$ Millions)**

	Governmental Activities		Business-Type Activities		Total	
	2011	2010	2011	2010	2011	2010
Revenues:						
Program revenues:						
Charges for services	\$ 2.0	\$ 1.6	\$ 30.4	\$ 26.9	\$ 32.4	\$ 28.5
Operating grants and contributions	1.2	1.0	-	-	1.2	1.0
Capital grants and contributions	1.3	1.5	10.5	18.9	11.8	20.4
General revenues:						
Taxes	18.0	17.9	-	-	18.0	17.9
Other general revenues	2.3	2.1	3.2	2.8	5.5	4.9
Total Revenues	24.8	24.1	44.1	48.6	68.9	72.7
Expenses:						
Governmental activities:						
General government	3.6	4.8	-	-	3.6	4.8
Public safety	10.5	10.6	-	-	10.5	10.6
Transportation	5.9	6.3	-	-	5.9	6.3
Culture and recreation	2.1	2.0	-	-	2.1	2.0
Interest on long-term debt	0.5	0.5	-	-	0.5	0.5
Business-type activities:						
Water and sewer	-	-	29.8	28.9	29.8	28.9
Recreation	-	-	0.5	0.4	0.5	0.4
Total Expenses	22.6	24.2	30.3	29.3	52.9	53.5
Excess revenues over expenses before transfers	2.2	(0.1)	13.8	19.3	16.0	19.2
Transfers	0.1	-	(0.1)	-	-	-
Change in net assets	2.3	(0.1)	13.7	19.3	16.0	19.2
Net Position, beginning of year	83.4	83.5	85.0	65.7	168.4	149.2
Net Position, end of year	\$ 85.7	\$ 83.4	\$ 98.7	\$ 85.0	\$ 184.4	\$ 168.4

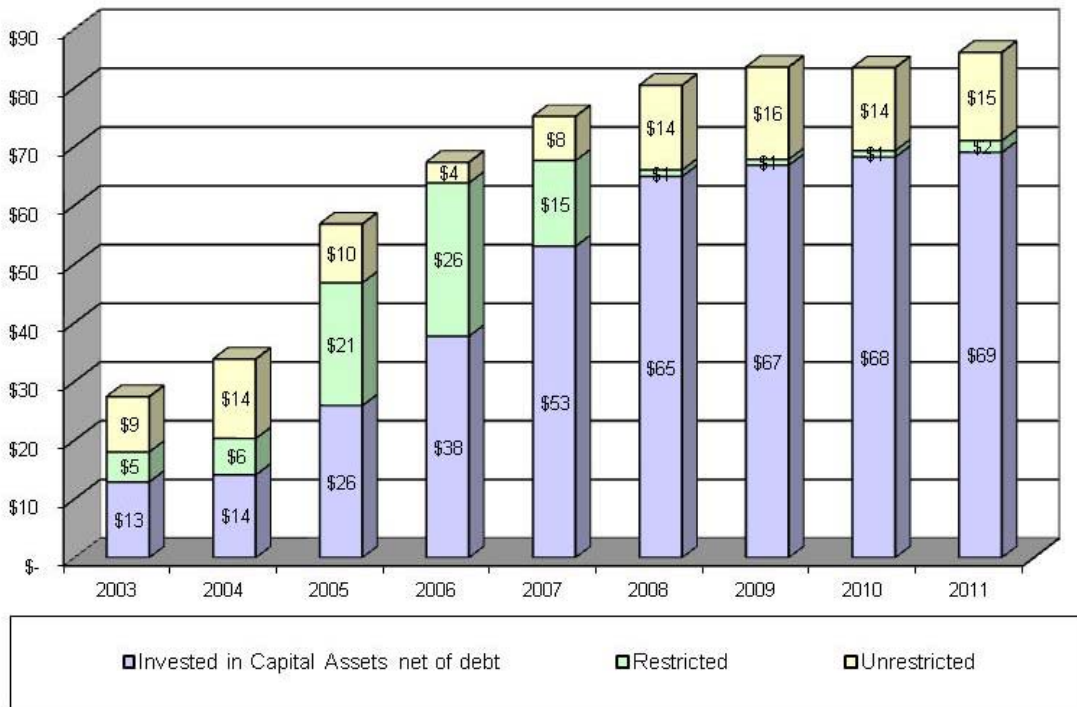
**CITY OF MARCO ISLAND, FLORIDA**

**Management’s Discussion and Analysis**

**September 30, 2011**

Governmental Activities: Total net assets of the City’s governmental activities increased by \$2.3 million from \$83.4 million in the last fiscal year compared to \$85.7 million in the current fiscal year. Overall intergovernmental and grant revenue increased and there was a slight increase in ad valorem revenue. The revenue was used to fund normal operating expenses and infrastructure projects. The City continues to benefit from a reorganization of various departments that occurred in fiscal year 2010 which reduced personnel expenses in the governmental activities. The changes in total net assets over several years is visually reflected in the below bar chart.

**Governmental Activities  
Total Net Assets in \$ Millions**



Business-type Activities: The City’s total net assets of the business-type activities increased by \$13.7 million from \$85.0 million in last fiscal year compared to \$98.7 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. In 2006, a seven-year plan to replace deteriorating septic systems and provide city-wide central sewer system was implemented.



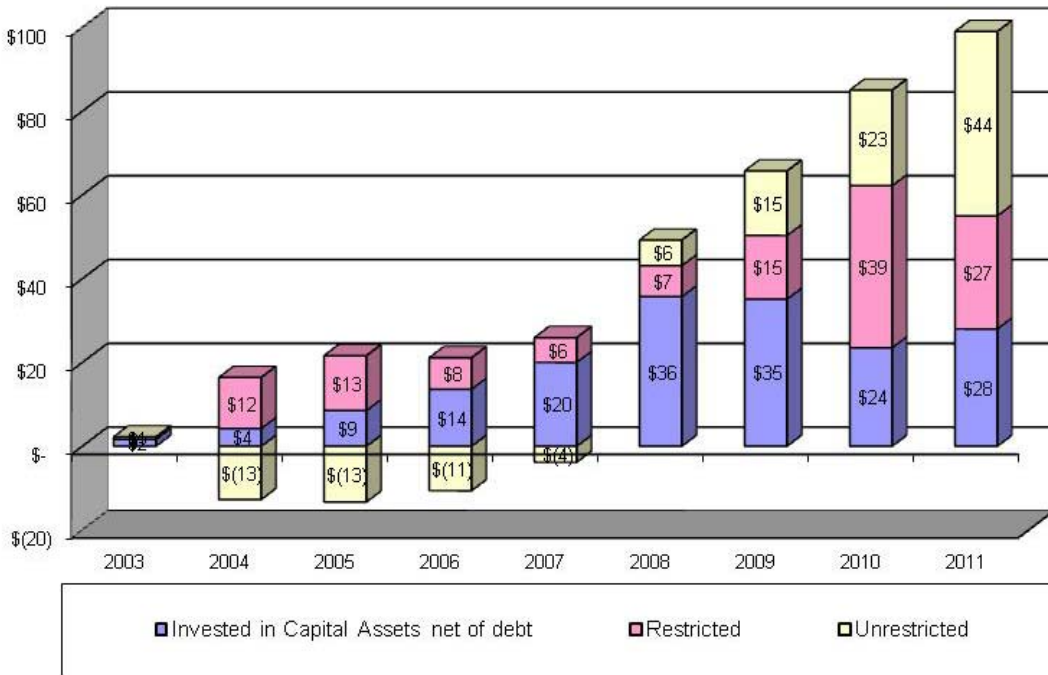
**CITY OF MARCO ISLAND, FLORIDA**

**Management’s Discussion and Analysis**

**September 30, 2011**

As the bar chart below indicates, the City’s investment in capital assets has increased substantially over the past 7 years; however, much of this is debt financed. This fiscal year, an additional \$12.9 million in permanent financing was secured in order to reimburse the system for projects already completed and to pay off temporary financing. Moreover, by executing a partial refunding totaling \$26 million of the original acquisition revenue bonds, the City reduced the interest rate and thus the annual debt service requirements by \$1 million.

**Business-Type Activities  
Total Net Assets in \$ Millions**



**Financial Analysis of the City’s Funds**

The City of Marco Island 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 Statements presentation more familiar. The focus of the Fund Financial Statement 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 (nonspendable, restricted, assigned, and unassigned) of \$17.1 million, an increase of \$1.7

**CITY OF MARCO ISLAND, FLORIDA**

**Management’s Discussion and Analysis**

**September 30, 2011**

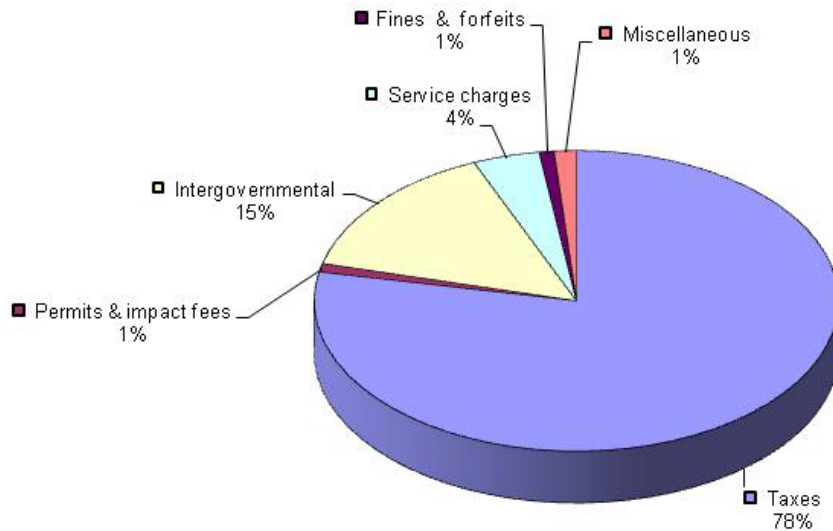
million in comparison with the prior year. This increase resulted from additional grant revenues, a reduction in general government expenses, and a decrease in debt service costs.

*Assigned and unassigned fund balance* is the portion of fund balance available for spending at the City’s discretion. This year, 93% of the fund balance (\$15.9 million) constitutes assigned and unassigned fund balance. Of this amount, the Council has assigned or indicated its intention that \$9.5 million be used for the building services department, debt related expenses, asset replacement and on-going capital improvement projects. Approximately \$6.4 million, including the City’s financial reserve of \$4.3 million, is unassigned and available for future spending or emergencies and contingencies. 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 reserved purposes.

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 expenses, fixed charges and capital improvement costs not paid through other funds are paid from this fund.

At the end of the current fiscal year, general fund’s total fund balance is \$7.1 million of which \$0.7 million is restricted by legislation or contributors for various growth-related programs. The City has a long history of planning for contingencies and has a financial reserve policy which sets aside a 25% reserve of the prior year’s budget, or approximately three months of normal general fund operating expenses to cover emergencies and other contingencies that may occur. Of the remaining \$2.1 million in unassigned fund balance, \$825,000 has been appropriated for fiscal year 2012. Net balance available for new spending would be \$1.3 million. Last year, the total fund balance was greater by \$5.2 million. The decrease was a result of a reallocation of assigned fund balance for capital projects and asset replacement reserves from the general fund into the capital projects fund when GASB 54 was implemented.

**FY 2011 General Fund Revenues**



The pie chart above shows the breakdown by percentage of general fund revenues by type.

# CITY OF MARCO ISLAND, FLORIDA

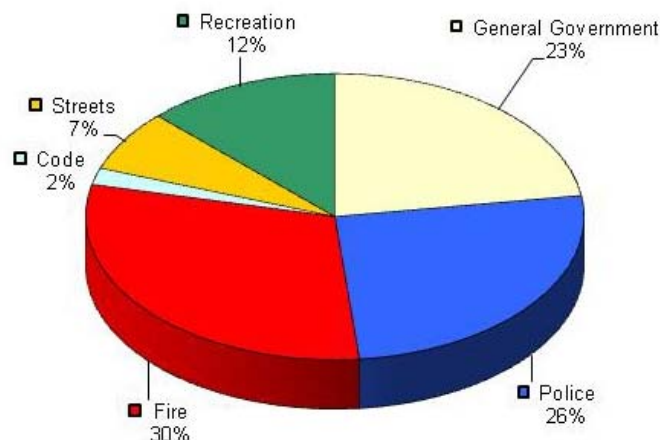
## Management's Discussion and Analysis

September 30, 2011

Total general fund revenue increased by \$1.8 million compared to the prior fiscal year. 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. Ad valorem property taxes increased by \$0.2 million compared to last year. The \$0.7 million increase in charges for service revenue was due to a change in recording internal administrative allocations. The \$1.1 million increase in intergovernmental and tax revenue was used to fund additional capital projects and asset replacement reserves as well as a required pass-through of State revenue into the pension funds. The decrease compared to last year in code compliance fines is due to a change in the timing of recorded payments. In fiscal year 2011 payments are recorded when received; in prior years the accrual method was used resulting in fines being assessed that were not collected and subsequently mitigated and written off.

The pie chart below shows the breakdown of fiscal year 2011 general fund expenses by department category.

**FY 2011 General Fund Expenses**



Total general fund operating expenditures decreased by approximately \$0.8 million as compared to prior year. Expenditures were stable due to the City Manager's continued effort in consolidating departments to operate in a more efficient manner and directives to department directors to reduce spending which generated cost reductions throughout the general fund. As stated above, a change in accounting from last fiscal year reflected an increase in administrative charges totaling \$0.7 million which was offset by administrative revenue totaling \$0.7 million.

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 replacement and repair of bridges, road surfaces, and drainage lines and maintenance of existing infrastructure and improvements to parks and open spaces for community events. The City's spending cap (discussed later) limits expenses and creates a financial environment in which the City may have adequate revenues for operations but the spending spikes created by capital needs forces a constant reevaluation of whether the City will maintain services or invest in capital improvements. A new asset replacement

## CITY OF MARCO ISLAND, FLORIDA

### Management's Discussion and Analysis

September 30, 2011

reserve in the general 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, 2011, \$4.2 million in capital projects were completed with \$1.1 million funded by federal and state grants and other intergovernmental sources. The balance was funded from impact fees, non-governmental donations and transfers from the recreation enterprise fund, and use of unassigned general fund balance. Assigned fund balance totaling \$6.7 million was transferred from the general fund into capital projects fund to reflect more properly current usage and needs of both funds at the same time that GASB 54 was implemented.

**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 assets for all enterprise funds at the end of the year were \$43.3 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 is in the best interest of the City to use the City's available resources during construction, thereby delaying the need for issuance of debt and incurring interest expenses. In addition, the City has applied for State Revolving Loans for financing of sewer assessment districts constructed during fiscal years 2007 through 2011, as well as additional temporary and permanent financing which will be paid from the various sewer assessment districts.

Overall, the water and sewer utility fund's net assets as shown on the fund financial statements increased by \$13.5 million from \$84.9 million in the prior year to \$98.3 million at the end of this fiscal year. The bulk of the increase is the \$10.5 million in capital contributions due to major infrastructure improvements. In addition to its normal debt financing process of the seven-year plan to provide a citywide sewer system, a partial advance refunding bond occurred in August 2011 which increased the system's long-term debt by \$0.5 million and provided an economic gain of over \$1 million.

Operating revenues for the system increased by \$3.2 million or 12% and operating expenses not including depreciation and amortization costs decreased by \$69,472 (less than 1%) compared to the prior year. Interest income increased by \$0.2 million; however, interest expense increased by \$0.8 million compared to the prior fiscal year. Net income before capital contributions and transfers was under \$3 million this fiscal year; however, the required sinking fund contribution due to the increasing debt service requirements increased by approximately the same amount. Additionally, the system's billing rates increased by a mandatory 10.5% rate increase to cover the series 2010 public bond offering debt service requirements which accounts for the majority of the 12% increase in revenues. Staff is closely monitoring impacts on revenues due to the weak economy in general, weather conditions, and elasticity in volumetric usage due to the system's compulsory rate increases.

## CITY OF MARCO ISLAND, FLORIDA

### Management's Discussion and Analysis

September 30, 2011

#### **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 \$1.45 million. The increase in appropriations primarily resulted from three areas: \$0.4 million for the debt payoff of the Factory Bay Bridge bond issue, \$0.4 million for carryover of capital expenditures and \$0.3 million for required fire pension contributions that were funded from pass-through State revenue.

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 \$0.7 million more than budgeted. This increase was from a conservative budget approach on sales tax revenue which resulted in an excess of \$0.2 million in revenues than expected. Likewise, impact fees exceeded budget by \$0.1 million and ad valorem property taxes exceeded budget by \$0.2 million. Overall, departmental expenditures were in line with budgeted expenditures. The fire department obtained federal grants to cover certain equipment maintenance and training over a multi-year period. Over \$0.1 million in unspent grant funds will be re-appropriated in the following year until the grant funds are used or the grant expires.

A major accounting change occurred with the reevaluation of the *assigned fund balance* presentation with the implementation of GASB Statement No. 54. The previously defined *designated fund balance* for capital projects and asset replacement totaling \$6.7 million was transferred from general fund into the capital projects fund to better reflect Council's direction and the fund's resources. In the fund financial statement, this item is included in the other financing sources/uses portion of the presentation; it is not included in the budgetary comparison schedule and a reconciliation note between the statement and the schedule is provided. The budgetary comparison schedule for the General Fund is part of the required supplementary information and can be found on pages 93 - 95 of this report.

**Charter Spending Cap:** The City of Marco Island 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.

**CITY OF MARCO ISLAND, FLORIDA**

**Management's Discussion and Analysis**

**September 30, 2011**

As of September 30, 2011 any accumulated capital funds will remain in the capital projects assigned fund balance, as defined by the implementation of GASB Statement No. 54, in order to exclude them in future years' spending cap calculation.

For the fiscal year ended September 30, 2011, the City was in compliance with the Charter Spending Cap:

Expenditures fiscal year 2011:	
General Fund	\$15,821,161
General Fund Transfer to Asset Replacement	1,427,796
General Fund Transfer to Capital Improvement Project	2,211,000
Debt Service	1,716,247
Capital Project fund	<u>4,024,386</u>
<b>TOTAL OF ALL FUNDS SUBJECT TO SPENDING CAP</b>	<b>\$25,200,589</b>
Less: Expenditures funded by grants and gifts:	(2,455,542)
Less: Expenditures funded by impact fees:	(16,000)
Less: Expenditures funded by enterprise funds:	(850,280)
Less: Expenditures funded by cash forward from fiscal year 2010 and subject to 2010 Spending Cap:	(5,522,205)
Less: City Council approved emergency Expenditures	-
Add Back: Funding for uncompleted balance of fiscal year 2011 capital projects, subject to Spending Cap in 2011; balance carried forward to 2012	<u>4,145,182</u>
<b>Fiscal Year 2011 Expenditures subject to Spending Cap:</b>	<b>\$20,501,744</b>
<b>Fiscal Year 2011 Maximum Spending Cap:</b>	<b>\$21,827,562</b>
Amount below the spending cap in 2011	(\$1,325,818)
Cumulative amount below the spending cap	(\$2,728,679)

This is the second year that the City budgeted and spent below the maximum spending cap since incorporation. In prior years, the budget re-appropriation ordinance included an increase to transfer any amount below the spending cap into the capital project fund contingency account for use in the new fiscal year. This action was not taken starting in fiscal year 2010 and the unused funds become available for use as unassigned fund balance in the general fund. During the fiscal year 2010 budget process, an asset replacement reserve fund was created. Annual contributions into this 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 2009 cost of living increase of zero percent allowed by the City Charter, the spending cap for fiscal year 2012 budget year is determined to be \$21,116,796.

# CITY OF MARCO ISLAND, FLORIDA

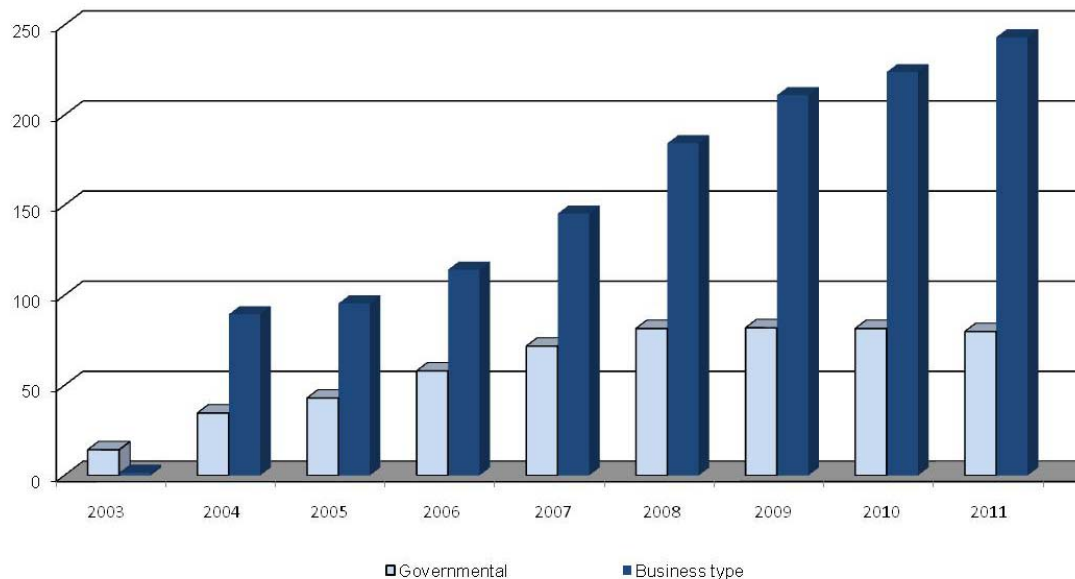
## Management's Discussion and Analysis

September 30, 2011

### 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.

**Capital Assets – Net of Depreciation**  
(in \$ Millions)



**Capital Assets:** The City's investment in capital assets for its governmental and business-type activities as of September 30, 2011 was \$312.9 million (net of accumulated depreciation). This investment in capital assets includes land, buildings, and improvements other than buildings, machinery and equipment.

The \$8.4 million net increase in business-type capital assets, net of depreciation, is due to the City's philosophy of accomplishing significant infrastructure improvements including a multi-year plan to provide a central city sewer system for all properties on the island. At the end of fiscal year 2011, construction of 16 of 17 sewer assessment districts were substantially complete or in progress.

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

**Long Term Debt:** The City continues to have strong underlying bond ratings. Standard and Poor's, Moody's and Fitch recently re-affirmed ratings of "AA", "Aaa", and "AA+" for the City's general obligation bond issue and "A", "Aa3", and "AA-" for the Water and Sewer Utility system revenue bond issues, respectively. On February 2, 2012, Fitch upgraded the water and sewer utility revenue bond rating from A+ to AA-, with stable outlook, as part of its continuous surveillance effort.

At the end of the current year, the City had a total long-term debt (excluding accrued compensated absences, OPEB liability, capital leases, and deferred assessments) outstanding of \$225.8 million. Of this amount \$11.0 million is considered governmental obligations and the remaining \$214.8 million is business-type debt which is secured solely by specified water and sewer utility fund revenue sources.

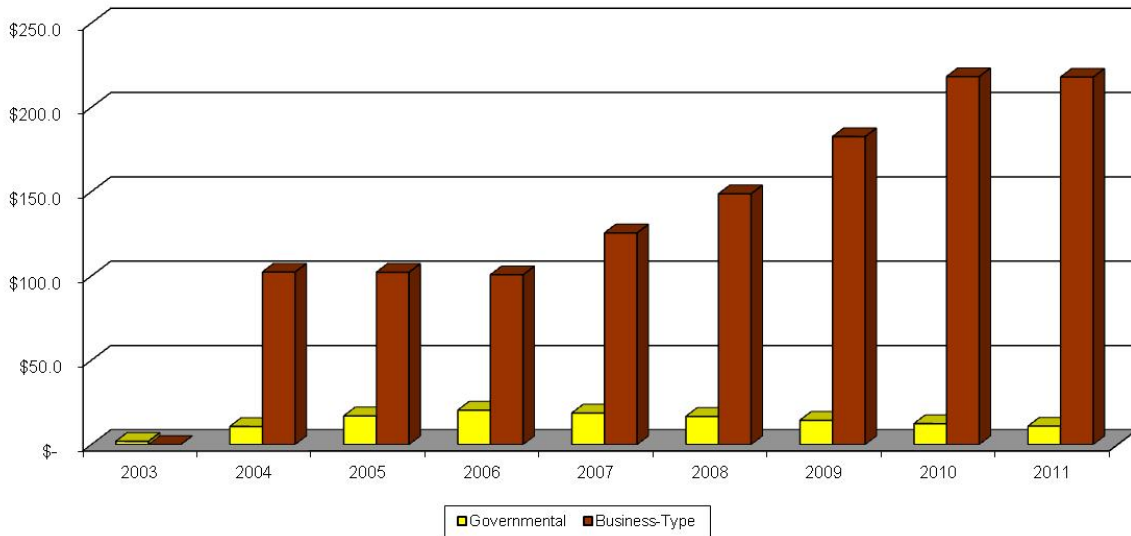
**CITY OF MARCO ISLAND, FLORIDA**

**Management’s Discussion and Analysis**

**September 30, 2011**

Of the \$11.0 million in governmental debt, \$6.4 million was approved by referendum by the City’s voters and additional ad-valorem property tax is collected to retire this debt. Sales tax revenue was pledged to cover \$4.6 million in governmental debt.

**Long Term 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 additional capital improvements to the City’s water and wastewater systems. In 2008, a temporary revenue note funded water plant improvements and this note was paid in 2011 when a state subsidized low interest rate loan was distributed. 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 currently fund a deposit to the required debt service reserve. The Series 2011 revenue bonds took advantage of favorable market conditions to partially refund the original 2003 acquisition revenue bonds. The total debt outstanding of this portion of system acquisition and improvements is \$150.2 million.

With the decision to provide central sewer to all properties on the island made in 2006, the plan calls for the creation of 17 separate sewer assessment districts over seven years. Utility revenue notes are short duration variable rate credit facilities (interim financing) issued to initially finance each annual phase of the Septic Tank Replacement Program (STRP). These are retired with a combination of proceeds from the State’s Revolving Loan Program (SRF) and 20-year assessment bonds issued for each neighborhood’s district (permanent financing). 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 2011, construction of sixteen districts was substantially complete. Permanent financing totaling \$38.8 million was in place for nine districts and interim 2009 and 2010 notes totaling \$10.4 million has been obtained for five districts for construction draws. Of these interim financings, loan applications for permanent financing with SRF were filed with the State with five districts’ almost at the point of distribution of



## CITY OF MARCO ISLAND, FLORIDA

### Management's Discussion and Analysis

September 30, 2011

funding from FDEP. Of the \$214.8 million in business-type debt, \$49.2 million is already or will be secured by the sewer assessment districts.

Moreover, a City Council directive to assist in reducing the impact to the new sewer customers for upgrades to the existing wastewater treatment plant will be covered by an 8% surcharge to all Marco Island utility rate payers. Additionally, a 6% surcharge has been assessed for road resurfacing necessitated by the STRP program. During 2010, additional debt of \$15.4 million was secured and will be paid from these two surcharge revenues. Council is in the process of "right sizing" the surcharges to accommodate the new debt service requirements.

As of the end of the fiscal year, the total debt related to the STRP (as discussed above including permanent and interim assessment district and surcharge debt) is \$64.6 million. This \$64.6 million in STRP-related debt plus the remaining \$150.2 million secured by the general rate base customer fees make up the total business-type debt outstanding of \$214.8 million. Additional information on long-term debt can be found in Note F of this report.

#### **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 of Marco Island 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 44.3 is nearly four years older than the state's median age. More than 25% of the county's residents are 65 or older, compared with 17.1% statewide. Per the U.S. Department of Labor, the unemployment rate for South Florida and Collier County is currently 10.7%, down from 12% a year ago. The Naples/Marco Island regional unemployment rate has declined from 7% last year to 6% this year. Southwest Florida has been hit especially hard from the failure of the housing market and reduced Florida tourism, and while Marco Island has not fallen as badly as other southwestern Florida cities, financially distressed properties and foreclosures have occurred on Marco Island.

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 two percent compared to 2010. A decrease of outside-of-state vacationers occurred; however, in-state residents, Northeast and Midwesterners as well as European vacationers continue to be strong major points of origin for visitors to our area. The City's beaches were not spoiled by the oil spill that occurred in 2010 and the unspent budget, earmarked for oil spill cleanup, of \$0.4 million was used to defease the remaining outstanding Factory Bay Bridge (series 2000B) bonds in September 2011.

CITY OF MARCO ISLAND, FLORIDA

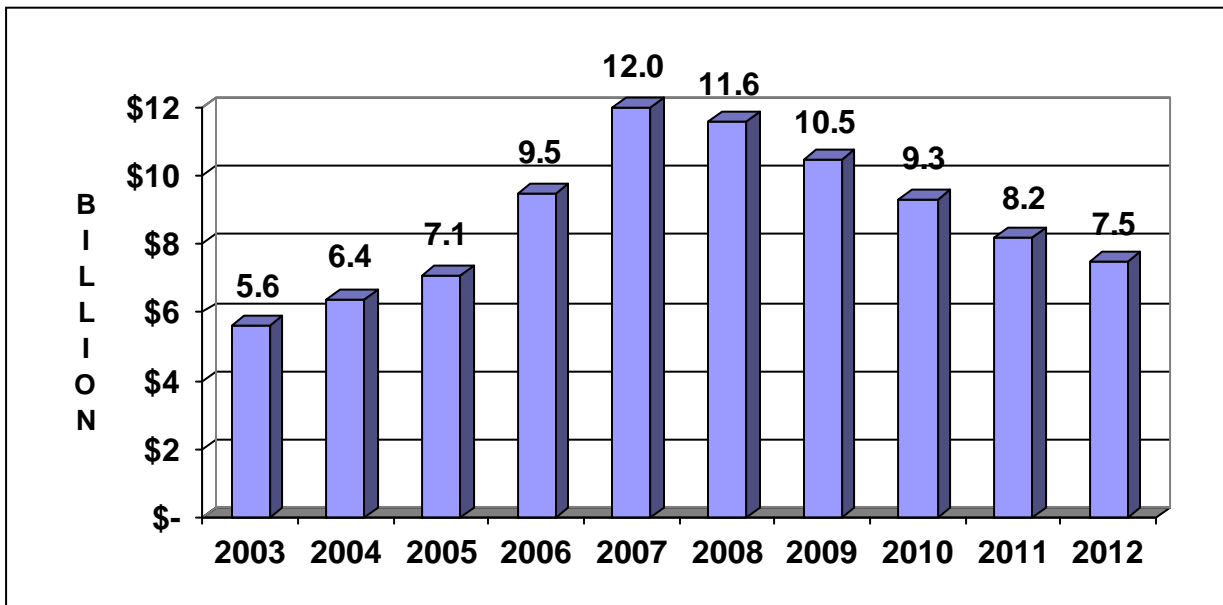
Management’s Discussion and Analysis

September 30, 2011

During the current fiscal year, assigned fund balance of the capital projects fund increased from zero to \$7.4 million including a city funded earmark of \$3.1 million to the recently created asset replacement reserve. These funds will be used in lieu of or to augment future debt financing needed for infrastructure, equipment, and facilities improvements. The funds may also be used to retire existing debt or to stabilize ad valorem tax millage rates. Expenditures from this reserve fund are exempt from the City’s spending cap. As part of the fiscal year 2012 budget process, the funds are expected to be used in the near term and the assigned fund balance in capital projects fund has been augmented to reflect properly the arrangement in the capital projects fund starting in fiscal year 2012.

**Property Values and Taxes:** Property values in Southwest Florida increased dramatically after incorporation in 1997 and prior to 2006. 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 the housing bubble burst in late 2006. The City’s assessed valuation decreased approximately to the 2005 values. The City’s 2011 taxable value was \$8.2 billion which reflects a reduction of 11% from 2010 values, and 2012 taxable value is \$7.5 billion which reflects a reduction of 8.5% from 2011.

Taxable Values



In 1995, the State of Florida limited all local governments' ability to raise property assessments of homestead property in any given year to 3% or cost of living, whichever is lower. Statutory changes to the state’s tax laws were passed by the Florida Legislature in 2007 to assist homeowners when the taxable valuations were increasing substantially each year. Implementation of a key provision of the law started for budgets beginning in fiscal year 2008 and provided maximum millage rates for all local governments. In effect, the State required all governments to decrease property taxes by rolling back the operating millage rate to fiscal year 2002 values. Further tax reform regulations allow municipalities to increase the tax rate to the point where tax revenues equal the rolled-back tax rate plus growth in Florida personal income with a simple majority vote of the City Council. The City’s total current year maximum aggregate rolled-back rate based on the legislative changes is 2.1238 mils.

## CITY OF MARCO ISLAND, FLORIDA

### Management's Discussion and Analysis

September 30, 2011

Council adopted the same operating millage rate of 1.89 mils plus 0.0692 mils to cover \$0.5 million in road resurfacing expenses while reducing the corresponding water and sewer surcharge by 2%. The City's operating tax levy for fiscal year 2011 was changed from 1.89 mils to 1.9592 mils. This increase in millage rate is not expected to continue past fiscal year 2013.

Marco Island residents enjoy a standard operating millage rate of 1.89 mils in fiscal year 2011 that is approximately the same as 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. Marco Island's charter mandated spending cap further limited increases to the City's millage rate during the years when the property values were increasing rapidly. During the housing bubble expansion, many local governments throughout the State increased services and expanded their budgets while Marco Island's spending levels remained relatively stable. Those same governments have endured severe cuts due to the unsustainable growth that the housing bubble created while Marco Island 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 only 17%. What this means to taxpayers is that 17 cents of every \$1 on the property tax bill is distributed for use within Marco Island 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 of Marco Island achieved a long-term objective with the acquisition of the local water and wastewater operations from a private provider. Prior to this date, the City's utilities fund was used to account for the wastewater distribution system serving approximately 1,200 accounts with central sewer on this island. Wastewater treatment was handled by Florida Water Services Inc under contract. The City issued \$101 million in utility revenue bonds to purchase utility operations on Marco Island and at an adjacent area on the mainland of unincorporated Collier County also known as Marco Shores. The cost of the utility acquisition was approximately \$85 million and the additional funds were used to begin the upgrading of a neglected utility infrastructure. Annual funding for capital improvements are required by bond covenants and are deposited monthly to a renewal and replacement fund and a capital reserve fund. Likewise, subsequent project funding was provided by bonds issued in 2006, 2008, and 2010.

During fiscal year 2010, an Ad Hoc Utility Advisory Committee of interested residents with knowledge in utility operations and finance was created to assist Council in reviewing the utilities capital budget, bond indebtedness and rate study. As a result of the Committee's work, Council approved a future rate resolution on March 1, 2010 which supported the Advisory Committee's recommendation of rate increases of 9.5%, 10.5%, 6.0%, 6.0%, and 1.5% over five fiscal years starting in fiscal year 2010.

In December 2010, a utility rate consultant was engaged to perform a cost of service analysis based on the M-1 model to redesign the system's water and wastewater rate structure design. The engagement was expanded to include a comparison with an M-54 design model as well as a revenue sufficiency study.

The City's current utility rate is composed of multiple parts: a base and volumetric rate and two surcharges. First, is the annual base and volumetric rates charged to customers and is also known as rate-based revenue. These rates were increased by 9.5% and 10.5% respectively for 2010 and 2011. The rate increases were necessary to provide sufficient funding to cover the bond debt for an issue sold in April

## CITY OF MARCO ISLAND, FLORIDA

### Management's Discussion and Analysis

September 30, 2011

2010 and to fund continuation of ongoing capital projects. The scheduled rate increase of 6% for fiscal year 2012 has been deferred until the rate sufficiency study has been completed.

Next, is a surcharge to fund roadway resurfacing after each neighborhood Septic Tank Replacement Program (STRP) district's sewer construction. The resurfacing surcharge of 6% was applied to the rate-base (gross water and sewer bill) rather using a special assessment charge. In November 2011, this surcharge was reduced by 2% from 6% to 4% as discussed in the millage rate section above. A second surcharge is an 8% surcharge which is used to reduce each property neighborhood STRP district owner's construction assessment when they connect to the system. Preliminary results of the consultant's revenue sufficiency study released in March 2012 and both surcharges were further reduced from a total of 12% to 6% (3% each).

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). At end of fiscal year 2011, infrastructure for 16 of the 17 sewer assessment districts have 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 the distribution system.

Total water and sewer utility revenue increased \$3.2 million or 12% compared to last year due to rate changes and increased re-use sales. The majority of the revenue increase was used to fund the debt payments of the 2010 bond issue. In the fiscal year 2012 budget process, the Utility Advisory Board, Budget Sub-Committee and City Council decided to base the fiscal year 2012 budget on the same revenue projections as received in the prior fiscal year. Moreover, the 6% base and volumetric rate increases that were scheduled to begin on October 1, 2011 were canceled until the rate consultant completes the revenue sufficiency and cost of service studies.

**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 beach re-nourishment. The taxing district subsequently raised \$2.9 million for re-nourishment and the Collier County Tourist Development Council (TDC) contributed \$2.4 million for T-groin construction. The disappearance of Coconut Island has exposed a section of the beach to rapid erosion, requiring a second phase of the re-nourishment project with additional T-groins and sand for beach protection. The taxing district previously requested and received approval for a short-term loan from the City to implement Phase II while waiting for receipt of an interlocal agreement to use County TDC funds, and that agreement was subsequently approved by all parties. Project construction was completed in February 2011. In December, 2010 the final scheduled debt service payment was made which retired the original series 2005 \$2.9 million bank loan. The remaining beach areas needing restoration will be part of Phase III which is being considered. A ballot referendum is scheduled for fall 2012.

**CITY OF MARCO ISLAND, FLORIDA**

**Management's Discussion and Analysis**

**September 30, 2011**

Property values in Hideaway Beach have declined by 4.8 % compared to last fiscal year, and the tax levy in the Hideaway Beach District is 2.6 mils.

**Requests for Information**

This financial report is designed to provide interested users with a general overview of the City of Marco Island's finances. An electronic version of this report and prior years' reports can be found on the City's website at [www.cityofmarcoisland.com](http://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.



**BASIC FINANCIAL STATEMENTS**

**CITY OF MARCO ISLAND, FLORIDA**

**Government-Wide Financial Statements**

**Statement of Net Assets**

**September 30, 2011**

	<u>Primary Government</u>			<u>Component Unit</u>
	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>	<u>Hideaway Beach District</u>
<b>Assets</b>				
Pooled cash and investments	\$ 18,375,626	8,038,349	26,413,975	-
Receivables:				
Accounts, net	170,331	2,975,375	3,145,706	-
Interest	1,773	-	1,773	-
Assessments, current portion	-	951,046	951,046	-
Assessments interest	-	2,690,161	2,690,161	-
Due from other governments	649,878	-	649,878	-
Due from component unit	22,195	-	22,195	-
Internal balances	(281,991)	281,991	-	-
Prepaid items	3,331	1,855	5,186	-
Restricted cash and investments	549,773	37,566,215	38,115,988	-
Assessments receivable	-	34,029,948	34,029,948	-
Bond issue costs, net	83,972	4,433,030	4,517,002	-
Net pension asset	267,433	-	267,433	-
Capital assets:				
Nondepreciable	19,473,109	75,192,869	94,665,978	-
Depreciable, net	61,149,287	157,129,477	218,278,764	-
<b>Total Assets</b>	<b>\$ 100,464,717</b>	<b>323,290,316</b>	<b>423,755,033</b>	<b>-</b>
<b>Liabilities</b>				
Accounts payable	\$ 835,163	1,983,800	2,818,963	84,483
Accrued liabilities	892,434	139,725	1,032,159	-
Deposits	16,526	10,000	26,526	-
Due to general government	-	-	-	22,195
Accrued interest	125,255	3,629,850	3,755,105	-
Deferred revenue	-	55,900	55,900	-
Noncurrent liabilities:				
Due within one year	1,395,198	13,534,286	14,929,484	-
Due in more than one year	11,475,850	205,211,547	216,687,397	-
<b>Total Liabilities</b>	<b>14,740,426</b>	<b>224,565,108</b>	<b>239,305,534</b>	<b>106,678</b>
<b>Net Assets</b>				
Invested in capital assets, net of related debt	69,110,370	28,184,757	97,295,127	-
Restricted for:				
Capital outlay	-	10,725,781	10,725,781	-
Debt service	549,773	13,548,982	14,098,755	-
Renewal and replacements	-	1,359,188	1,359,188	-
Impact and public safety programs	722,132	1,311,071	2,033,203	-
Unrestricted (deficit)	15,342,016	43,595,429	58,937,445	(106,678)
<b>Total Net Assets</b>	<b>\$ 85,724,291</b>	<b>98,725,208</b>	<b>184,449,499</b>	<b>(106,678)</b>

**CITY OF MARCO ISLAND, FLORIDA**

**Government-Wide Financial Statements**

**Statement of Activities**

**For the Year Ended September 30, 2011**

Function / Program Activities	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets			Component Unit Hideaway Beach District
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		Total	
					Governmental Activities	Business-Type Activities		
<b>Governmental Activities</b>								
General government	\$ 3,576,147	819,346	44,205	-	(2,712,596)	-	(2,712,596)	
Police services	4,224,760	30,507	-	14,240	(4,180,013)	-	(4,180,013)	
Fire and rescue	5,147,712	165,672	189,654	7,612	(4,784,774)	-	(4,784,774)	
Code compliance	269,208	201,455	-	-	(67,753)	-	(67,753)	
Building services	875,979	826,128	-	-	(49,851)	-	(49,851)	
Transportation	5,891,452	-	1,000,000	1,213,432	(3,678,020)	-	(3,678,020)	
Culture and recreation	2,135,742	-	-	34,580	(2,101,162)	-	(2,101,162)	
Interest on long-term debt	509,186	-	-	-	(509,186)	-	(509,186)	
<b>Total Governmental Activities</b>	<b>22,630,186</b>	<b>2,043,108</b>	<b>1,233,859</b>	<b>1,269,864</b>	<b>(18,083,355)</b>	<b>-</b>	<b>(18,083,355)</b>	
<b>Business-Type Activities</b>								
Water and sewer	29,828,635	30,016,771	-	10,521,771	-	10,709,907	10,709,907	
Recreation	491,038	373,970	-	-	-	(117,068)	(117,068)	
<b>Total Business-Type Activities</b>	<b>30,319,673</b>	<b>30,390,741</b>	<b>-</b>	<b>10,521,771</b>	<b>-</b>	<b>10,592,839</b>	<b>10,592,839</b>	
<b>Total Primary Government</b>	<b>\$ 52,949,859</b>	<b>32,433,849</b>	<b>1,233,859</b>	<b>11,791,635</b>	<b>(18,083,355)</b>	<b>10,592,839</b>	<b>(7,490,516)</b>	
<b>Component Unit - Hideaway Beach District</b>	<b>\$ 1,707,354</b>	<b>-</b>	<b>490,270</b>	<b>-</b>				<b>(1,217,084)</b>
		<b>General Revenues</b>						
		Taxes						
		Property taxes			15,882,920	-	15,882,920	1,007,960
		Communication service tax			945,876	-	945,876	-
		Other taxes			1,154,806	-	1,154,806	-
		State shared revenues-unrestricted			1,950,824	-	1,950,824	-
		Interest			212,562	2,821,122	3,033,684	70
		Miscellaneous			155,820	419,073	574,893	-
		Transfers			145,500	(145,500)	-	-
		<b>Total General Revenues</b>			<b>20,448,308</b>	<b>3,094,695</b>	<b>23,543,003</b>	<b>1,008,030</b>
		<b>Change in Net Assets</b>			<b>2,364,953</b>	<b>13,687,534</b>	<b>16,052,487</b>	<b>(209,054)</b>
		<b>Net Assets - Beginning of Year</b>			<b>83,359,338</b>	<b>85,037,674</b>	<b>168,397,012</b>	<b>102,376</b>
		<b>Net Assets - End of Year</b>			<b>\$ 85,724,291</b>	<b>98,725,208</b>	<b>184,449,499</b>	<b>(106,678)</b>

See accompanying notes to financial statements.



**CITY OF MARCO ISLAND, FLORIDA**

**Fund Financial Statements**

**Balance Sheet – Governmental Funds**

**September 30, 2011**

	<u>General</u>	<u>Capital Projects</u>	<u>Nonmajor Fund Totals</u>	<u>Total Governmental Funds</u>
<b>Assets</b>				
Pooled cash and investments	\$ 7,210,491	7,481,931	2,055,741	16,748,163
Restricted cash and investments	-	-	549,773	549,773
Receivables:				
Accounts, net	165,913	-	-	165,913
Interest	1,773	-	-	1,773
Due from component unit	22,195	-	-	22,195
Due from other governments	238,339	411,539	-	649,878
Prepaid items	3,331	-	-	3,331
<b>Total Assets</b>	<b>\$ 7,642,042</b>	<b>7,893,470</b>	<b>2,605,514</b>	<b>18,141,026</b>
<b>Liabilities and Fund Balances</b>				
<b>Liabilities</b>				
Accounts payable	\$ 348,513	464,467	4,217	817,197
Accrued liabilities	167,375	-	12,727	180,102
Deposits	16,526	-	-	16,526
<b>Total Liabilities</b>	<b>532,414</b>	<b>464,467</b>	<b>16,944</b>	<b>1,013,825</b>
<b>Fund Balances</b>				
Nonspendable:				
Prepaid items	3,331	-	-	3,331
Restricted for:				
Parks construction or operation	59,565	-	-	59,565
Road construction	370,039	-	-	370,039
Fire services	62,090	-	-	62,090
Police services	230,438	-	-	230,438
Debt service	-	-	549,773	549,773
Assigned to:				
Transportation	20,289	-	-	20,289
Building services	-	-	948,450	948,450
Debt service	-	-	1,090,347	1,090,347
Capital projects	-	4,312,832	-	4,312,832
Asset replacement	-	3,116,171	-	3,116,171
Unassigned	6,363,876	-	-	6,363,876
<b>Total Fund Balances</b>	<b>7,109,628</b>	<b>7,429,003</b>	<b>2,588,570</b>	<b>17,127,201</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 7,642,042</b>	<b>7,893,470</b>	<b>2,605,514</b>	<b>18,141,026</b>

**CITY OF MARCO ISLAND, FLORIDA**

**Fund Financial Statements**

**Reconciliation of the Balance Sheet to the Statement of Net Assets  
Governmental Funds**

**September 30, 2011**

<b>Fund Balance - Total Governmental Funds</b>			\$	17,127,201
<b>Amounts Reported for Governmental Activities in the Statement of Net Assets are Different Because:</b>				
Bond issue costs are not available to pay for current period expenditures, and therefore, are not reported in the governmental funds.				83,972
Net pension assets are not available to pay for current period expenditures, and therefore, are not reported in the governmental funds.				267,433
Capital assets used in governmental activities are not financial resources, and therefore, are not reported in the governmental funds:				
Capital assets		113,200,498		
Less: accumulated depreciation		<u>(32,578,102)</u>		80,622,396
Internal service funds are used by management to charge costs of insurance to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets.				619,592
Accrued interest is not due and payable in the current period, and therefore, is not reported in the governmental funds.				(125,255)
Long-term liabilities are not due and payable in the current period, and therefore, are not reported in the governmental funds:				
General obligation bond, series 2004		(6,415,000)		
Sales tax bond, series 2005		(4,565,000)		
Capital leases		(532,026)		
Other post - employment benefits liability		(263,413)		
Compensated absences		<u>(1,095,609)</u>		<u>(12,871,048)</u>
<b>Net Assets of Governmental Activities</b>			\$	<u><u>85,724,291</u></u>

**CITY OF MARCO ISLAND, FLORIDA**

**Fund Financial Statements**

**Statement of Revenues, Expenditures and Changes  
in Fund Balances - Governmental Funds**

**For the Year Ended September 30, 2011**

	<u>General</u>	<u>Capital Projects</u>	<u>Nonmajor Fund Totals</u>	<u>Total Governmental Funds</u>
<b>Revenues</b>				
Taxes	\$ 17,126,360	-	857,242	17,983,602
Permits and impact fees	167,071	-	826,128	993,199
Intergovernmental	3,149,969	1,104,153	-	4,254,122
Charges for services	920,267	-	-	920,267
Fines and forfeitures	231,662	-	-	231,662
Interest income	174,804	-	35,547	210,351
Miscellaneous	164,662	-	1,183	165,845
<b>Total Revenues</b>	<u>21,934,795</u>	<u>1,104,153</u>	<u>1,720,100</u>	<u>24,759,048</u>
<b>Expenditures</b>				
Current:				
General government	3,589,565	-	12,562	3,602,127
Police services	4,117,627	-	-	4,117,627
Fire and rescue	4,821,296	-	-	4,821,296
Code compliance	268,625	-	-	268,625
Building services	-	-	1,104,754	1,104,754
Transportation	1,113,799	-	-	1,113,799
Culture and recreation	1,980,040	-	-	1,980,040
Debt service:				
Principal	-	-	1,543,467	1,543,467
Interest and fiscal charges	-	-	477,221	477,221
Capital outlay	-	4,195,157	-	4,195,157
<b>Total Expenditures</b>	<u>15,890,952</u>	<u>4,195,157</u>	<u>3,138,004</u>	<u>23,224,113</u>
<b>Excess (Deficiency) of Revenues Over (Under) Expenditures</b>	<u>6,043,843</u>	<u>(3,091,004)</u>	<u>(1,417,904)</u>	<u>1,534,935</u>
<b>Other Financing Sources (Uses)</b>				
Transfers in	-	10,520,007	868,712	11,388,719
Transfers out	(11,243,219)	-	-	(11,243,219)
<b>Total Other Financing Sources (Uses)</b>	<u>(11,243,219)</u>	<u>10,520,007</u>	<u>868,712</u>	<u>145,500</u>
<b>Net Change in Fund Balance</b>	(5,199,376)	7,429,003	(549,192)	1,680,435
<b>Fund Balances - October 1, 2010</b>	<u>12,309,004</u>	<u>-</u>	<u>3,137,762</u>	<u>15,446,766</u>
<b>Fund Balances - September 30, 2011</b>	<u>\$ 7,109,628</u>	<u>7,429,003</u>	<u>2,588,570</u>	<u>17,127,201</u>

**CITY OF MARCO ISLAND, FLORIDA**

**Fund Financial Statements**

**Reconciliation of the Statement of Revenues, Expenditures and Changes  
in Fund Balances to the Statement of Activities - Governmental Funds**

**For the Year Ended September 30, 2011**

<b>Net Change in Fund Balance - Total Governmental Funds</b>	\$	1,680,435
 <b>Amounts Reported for Governmental Activities in the Statement of Activities are Different Because:</b>		
The statement of activities reports changes in the net pension asset. Conversely, governmental funds do not report any changes in the net pension asset.		
		2,211
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense:		
Expenditures for capital assets	4,511,727	
Less: current year depreciation	<u>(5,518,839)</u>	(1,007,112)
In the statement of activities, the loss on the sale of capital assets is reported. However, in the governmental funds the proceeds from the sale of capital assets increase financial resources. The change in net assets differs from the change in fund balance by the net book value of assets disposed.		
		15,849
Internal service funds are used by management to charge costs of insurance to individual funds. The net revenue of certain activities of internal service funds is reported with governmental activities.		
		324,106
Some expenses reported in the statement of activities do not require the use of current financial resources, and, therefore, are not reported as expenditures in the governmental fund:		
Changes in compensated absences		(43,293)
Accrued interest		(31,966)
Other post - employment benefits liability		(108,381)
Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets:		
Amortization of bond issue costs	(10,363)	
Principal payments on debt	<u>1,543,467</u>	<u>1,533,104</u>
<b>Changes in Net Assets of Governmental Activities</b>	\$	<u><u>2,364,953</u></u>

**CITY OF MARCO ISLAND, FLORIDA**

**Fund Financial Statements**

**Statement of Fund Net Assets – Proprietary Funds**

**September 30, 2011**

	<b>Business-Type Activities - Enterprise Funds</b>			<b>Internal Service Fund</b>
	<b>Water and Sewer</b>	<b>Recreation (Nonmajor)</b>	<b>Total</b>	
<b>Assets</b>				
<b>Current Assets</b>				
Pooled cash and investments	\$ 7,972,470	65,879	8,038,349	1,627,463
Accounts receivables, net	2,975,375	-	2,975,375	4,418
Assessments receivable-current portion	951,046	-	951,046	-
Assessments interest receivable	2,690,161	-	2,690,161	-
Prepays and other current assets	-	1,855	1,855	-
Restricted cash and investments	24,017,233	-	24,017,233	-
<b>Total Current Assets</b>	<b>38,606,285</b>	<b>67,734</b>	<b>38,674,019</b>	<b>1,631,881</b>
<b>Noncurrent Assets</b>				
Restricted cash and investments	13,548,982	-	13,548,982	-
Assessments receivable	34,029,948	-	34,029,948	-
Bond issue costs, net	4,433,030	-	4,433,030	-
<b>Capital Assets</b>				
Land	17,415,059	-	17,415,059	-
Transmission and distribution	103,960,886	-	103,960,886	-
Infrastructure	33,524,615	-	33,524,615	-
Buildings and improvements	6,523,487	63,854	6,587,341	-
Vehicles and equipment	60,399,893	75,913	60,475,806	-
Construction in progress	57,777,810	-	57,777,810	-
Accumulated depreciation	(47,376,193)	(42,978)	(47,419,171)	-
<b>Total Capital Assets (Net of Accumulated Depreciation)</b>	<b>232,225,557</b>	<b>96,789</b>	<b>232,322,346</b>	<b>-</b>
<b>Total Noncurrent Assets</b>	<b>284,237,517</b>	<b>96,789</b>	<b>284,334,306</b>	<b>-</b>
<b>Total Assets</b>	<b>\$ 322,843,802</b>	<b>164,523</b>	<b>323,008,325</b>	<b>1,631,881</b>
<b>Liabilities</b>				
<b>Current Liabilities</b>				
Accounts payable	\$ 1,978,521	5,279	1,983,800	17,966
Accrued liabilities	138,119	1,606	139,725	712,332
Accrued compensated absences-current portion	218,931	-	218,931	-
Accrued interest	3,629,850	-	3,629,850	-
Deferred revenue	-	55,900	55,900	-
Deferred assessment revenue- current portion	1,699,741	-	1,699,741	-
Deferred assessment interest revenue	254,405	-	254,405	-
Bonds payable, current portion	5,405,168	-	5,405,168	-
Notes payable, current portion	5,956,042	-	5,956,042	-
Deposits	10,000	-	10,000	-
<b>Total Current Liabilities</b>	<b>19,290,777</b>	<b>62,785</b>	<b>19,353,562</b>	<b>730,298</b>
<b>Noncurrent Liabilities</b>				
Bonds payable	199,042,159	-	199,042,159	-
Notes payable	4,460,000	-	4,460,000	-
Accrued compensated absences	162,967	-	162,967	-
Deferred assessment revenue	1,426,993	-	1,426,993	-
Other post - employment benefits liability	119,427	-	119,427	-
<b>Total Noncurrent Liabilities</b>	<b>205,211,546</b>	<b>-</b>	<b>205,211,546</b>	<b>-</b>
<b>Total Liabilities</b>	<b>224,502,323</b>	<b>62,785</b>	<b>224,565,108</b>	<b>730,298</b>
<b>Net Assets</b>				
Invested in capital assets, net of related debt	28,087,968	96,789	28,184,757	-
Restricted for:				
Construction	10,725,781	-	10,725,781	-
Debt service	13,548,982	-	13,548,982	-
Renewal and replacement	1,359,188	-	1,359,188	-
Impact and public safety programs	1,311,071	-	1,311,071	-
Unrestricted	43,308,489	4,949	43,313,438	901,583
<b>Total Net Assets</b>	<b>\$ 98,341,479</b>	<b>101,738</b>	<b>98,443,217</b>	<b>901,583</b>
Net assets-above			98,443,217	
Adjustments to reflect internal service fund activities reflected in the enterprise funds			281,991	
Net assets of business-type activities			\$ 98,725,208	

**CITY OF MARCO ISLAND, FLORIDA**

**Fund Financial Statements**

**Statement of Revenues, Expenses and Changes in Fund Net Assets  
Proprietary Funds**

**For the Year Ended September 30, 2011**

	<u>Business-Type Activities - Enterprise Funds</u>			
	<u>Water and Sewer</u>	<u>Recreation (Nonmajor)</u>	<u>Total</u>	<u>Internal Service Fund</u>
<b>Operating Revenues</b>				
Charges for services	\$ 29,777,956	373,970	30,151,926	1,420,730
<b>Operating Expenses</b>				
Personal services	5,305,665	154,744	5,460,409	-
Insurance	662,952	-	662,952	927,085
Utilities	1,772,202	22,325	1,794,527	-
Contractual fees	996,749	123,442	1,120,191	-
Repairs and maintenance	652,425	24,505	676,930	-
Supplies	1,480,339	20,030	1,500,369	-
Rental and lease costs	44,726	1,537	46,263	-
Other expenses	559,426	130,014	689,440	-
Amortization	236,566	-	236,566	-
Depreciation	9,239,451	14,441	9,253,892	-
<b>Total Operating Expenses</b>	<u>20,950,501</u>	<u>491,038</u>	<u>21,441,539</u>	<u>927,085</u>
<b>Operating Income (Loss)</b>	<u>8,827,455</u>	<u>(117,068)</u>	<u>8,710,387</u>	<u>493,645</u>
<b>Non-Operating Income (Expense)</b>				
Interest earnings	2,821,122	-	2,821,122	37,051
Interest expense	(8,875,804)	-	(8,875,804)	-
Miscellaneous expense	(2,330)	-	(2,330)	-
Other non-operating income	197,400	221,673	419,073	-
<b>Total Non-Operating Income (Expense)</b>	<u>(5,859,612)</u>	<u>221,673</u>	<u>(5,637,939)</u>	<u>37,051</u>
<b>Income Before Capital Contributions and Transfers</b>	2,967,843	104,605	3,072,448	530,696
<b>Capital Contributions</b>	<u>10,521,771</u>	<u>-</u>	<u>10,521,771</u>	<u>-</u>
<b>Transfers to Other funds</b>	<u>-</u>	<u>(145,500)</u>	<u>(145,500)</u>	<u>-</u>
<b>Changes in Net Assets</b>	13,489,614	(40,895)	13,448,719	530,696
<b>Net Assets - October 1, 2010</b>	<u>84,851,865</u>	<u>142,633</u>		<u>370,887</u>
<b>Net Assets - September 30, 2011</b>	<u>\$ 98,341,479</u>	<u>101,738</u>		<u>901,583</u>
Adjustment to reflect the internal service fund activities related to the enterprise funds			<u>238,815</u>	
Changes in net assets of business-type activities			<u>\$ 13,687,534</u>	

**CITY OF MARCO ISLAND, FLORIDA**

**Fund Financial Statements**

**Statement of Cash Flows – Proprietary Funds**

**For the Year Ended September 30, 2011**

	<u>Business-Type Activities - Enterprise Funds</u>			
	<u>Water and Sewer</u>	<u>Recreation (Nonmajor)</u>	<u>Total</u>	<u>Internal Service Fund</u>
<b>Cash Flows from Operating Activities</b>				
Cash received from customers and users	\$ 29,688,537	593,788	30,282,325	-
Cash received from interfund services provided	-	-	-	1,419,823
Cash payments to vendors for goods and services	(5,714,637)	(323,047)	(6,037,684)	(450,104)
Cash payments to employees for services	(5,346,027)	(199,530)	(5,545,557)	-
<b>Net Cash Provided by Operating Activities</b>	<u>18,627,873</u>	<u>71,211</u>	<u>18,699,084</u>	<u>969,719</u>
<b>Cash Flows from Noncapital Financing Activities</b>				
Repayments to Capital Projects Fund	-	(145,500)	(145,500)	-
<b>Net Cash used in Noncapital Financing Activities</b>	<u>-</u>	<u>(145,500)</u>	<u>(145,500)</u>	<u>-</u>
<b>Cash Flows from Capital and Related Financing Activities</b>				
Proceeds from issuance of debt	36,186,688	-	36,186,688	-
Utility improvements projects from other sources	979,154	-	979,154	-
Proceeds from special assessments	7,183,432	-	7,183,432	-
Proceeds for deferred revenue	-	55,900	55,900	-
Acquisition of property, plant and equipment	(17,654,410)	-	(17,654,410)	-
Loss from sale of property, plant and equipment	(2,330)	-	(2,330)	-
Principal paid on long-term debt	(39,527,707)	-	(39,527,707)	-
Issue costs paid on notes payable	(815,203)	-	(815,203)	-
Payment of interest	(9,430,872)	-	(9,430,872)	-
<b>Net Cash Provided By Capital and Related Financing Activities</b>	<u>(23,081,248)</u>	<u>55,900</u>	<u>(23,025,348)</u>	<u>-</u>
<b>Cash Flows from Investing Activities</b>				
Interest received on investments	2,820,995	-	2,820,995	37,051
<b>Net Increase (decrease) in Cash and Cash Equivalents</b>	<u>(1,632,380)</u>	<u>(18,389)</u>	<u>(1,650,769)</u>	<u>1,006,770</u>
<b>Cash and Cash Equivalents - October 1, 2010</b>	<u>47,171,065</u>	<u>84,268</u>	<u>47,255,333</u>	<u>620,693</u>
<b>Cash and Cash Equivalents - September 30, 2011</b>	<u>\$ 45,538,685</u>	<u>65,879</u>	<u>45,604,564</u>	<u>1,627,463</u>
<b>Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities</b>				
Operating income (loss)	\$ 8,827,455	(117,068)	8,710,387	493,645
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:				
Depreciation	9,239,451	14,441	9,253,892	-
Amortization	236,566	-	236,566	-
Other non-operating income, net	214,613	221,673	436,286	-
Changes in assets and liabilities				
Accounts receivable	(310,526)	-	(310,526)	(910)
Prepays and other assets	100	(1,855)	(1,755)	622,079
Accounts payable and accrued liabilities	407,387	(45,980)	361,407	(145,095)
Deposits	6,494	-	6,494	-
Accrued compensation	6,333	-	6,333	-
<b>Net Cash Provided by Operating Activities</b>	<u>\$ 18,627,873</u>	<u>71,211</u>	<u>18,699,084</u>	<u>969,719</u>
<b>Reconciliation of Cash and Cash Equivalents</b>				
Pooled cash and investments	\$ 7,972,470	65,879	8,038,349	1,627,463
Restricted cash and investments	37,566,215	-	37,566,215	-
<b>Cash and Cash Equivalents - September 30, 2011</b>	<u>\$ 45,538,685</u>	<u>65,879</u>	<u>45,604,564</u>	<u>1,627,463</u>
<b>Noncash Financing Activities</b>				
Capital contributions				
Assessments receivable	1,662,725	-	1,662,725	-
Assessments interest receivable	120,616	-	120,616	-

**CITY OF MARCO ISLAND, FLORIDA**

**Fund Financial Statements**

**Statement of Fiduciary Net Assets – Fiduciary Funds  
Pension Trust Funds**

**September 30, 2011**

<b>Assets</b>	
Cash and cash equivalents	\$ 1,061,941
Accounts receivable	
Unsettled sales	12,451
Investments, at fair value	
Common stock	4,758,808
Government bonds	3,608,114
Accrued interest	<u>14,883</u>
<b>Total Assets</b>	<u>9,456,197</u>
<b>Liabilities</b>	
Accounts payable	<u>12,027</u>
<b>Total Liabilities</b>	<u>12,027</u>
<b>Net Assets</b>	
Held in trust for pension benefits and other purposes	\$ <u><u>9,444,170</u></u>



**CITY OF MARCO ISLAND, FLORIDA**

**Fund Financial Statements**

**Statement of Changes in Fiduciary Net Assets – Fiduciary Funds  
Pension Trust Funds**

**For the Year Ended September 30, 2011**

**Additions**

Contributions	
Employer	\$ 1,013,081
Employee	122,141
State of Florida insurance funds	<u>471,981</u>

Total contributions 1,607,203

Investment earnings	
Investment interest and dividends	264,765
Investment appreciation	(259,889)
Investment expenses	<u>(88,468)</u>

Net investment earnings (83,592)

**Total Additions** 1,523,611

**Deductions**

Legal	40,096
Actuary	22,474
Administrative	4,347
Refunds to contributors	<u>122,586</u>

**Total Deductions** 189,503

**Change in Net Assets** 1,334,108

**Fund Balances - October 1, 2010** 8,110,062

**Fund Balances - September 30, 2011** \$ 9,444,170

**CITY OF MARCO ISLAND, FLORIDA**

**Notes to Financial Statements**

**September 30, 2011**

**Index to Notes**

	<b><u>Page</u></b>
1. Summary of Significant Accounting Policies	
(a) Reporting Entity	34
(b) Government-Wide and Fund Financial Statements	34
(c) Measurement Focus, Basis of Accounting and Financial Statement Presentation	35
(d) Assets, Liabilities and Net Assets or Equity	
1. Deposits and Investments	37
2. Receivables and Payables	38
3. Prepaid Items	38
4. Restricted Assets	38
5. Capital Assets	38
6. Compensated Absences	39
7. Long Term Obligations	39
8. Deferred Gain/Loss from Current Refunding or Advance Refunding of Debt	40
9. Nature and Purpose of Classifications of Fund Equity	40
10. Financial Reserve Policy	41
11. Net Assets	41
12. Property Tax Calendar	41
2. Stewardship, Compliance and Accountability	
(a) Budgetary Information	42
3. Detailed Notes on All Funds	
(a) Deposits and Investments	43
(b) Receivables	45
(c) Inter-Fund Receivables, Payables and Transfers	46
(d) Capital Assets	47
(e) Leases	48
(f) Long Term Liabilities	50
(g) Wastewater Pollution Control Facility Assessment	72
(h) Discretely Presented Component Unit	70
4. Other Information	
(a) Risk Management	72
(b) Contingent Liabilities	73
(c) Implementation of New GASB Pronouncements	73
(d) Commitments	74
(e) Employee Retirement Systems and Pensions Plans	75
(f) City Employee Pension Plan	84
(g) Other Post Employment Benefits	85
(h) Subsequent Events	88

# CITY OF MARCO ISLAND, FLORIDA

## Notes to Financial Statements

September 30, 2011

### (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.

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

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

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

#### (b) Government-Wide and Fund Financial Statements

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

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

## CITY OF MARCO ISLAND, FLORIDA

### Notes to Financial Statements - Continued

#### (1) Summary of Significant Accounting Policies - Continued

##### (b) Government-Wide and Fund Financial Statements - Continued

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

##### (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. 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.

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

## CITY OF MARCO ISLAND, FLORIDA

### Notes to Financial Statements - Continued

#### (1) Summary of Significant Accounting Policies - Continued

##### (c) Measurement Focus, Basis of Accounting and Financial Statement Presentation - Continued

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.

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

As a general rule the effect of inter-fund activity has been eliminated from the government-wide financial statements. In the fund financial statements, the City charged the building services fund \$235,725 for indirect services provided by general fund departments which have been eliminated in the government-wide statement of activities in accordance with this policy.

**CITY OF MARCO ISLAND, FLORIDA**

**Notes to Financial Statements - Continued**

**(1) Summary of Significant Accounting Policies - Continued**

**(c) Measurement Focus, Basis of Accounting and Financial Statement Presentation - Continued**

Amounts reported as program revenues include: (1) charges to customers or applicants for goods, services, or privileges provided, (2) operating grants and contributions, and (3) capital grants and contributions, including special assessments. Taxes and other items not properly included among program revenues are reported instead as general revenues.

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 in proprietary funds, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed but reserves the right to selectively defer the use of these funds.

**(d) Assets, Liabilities and Net Assets or Equity**

**1. Deposits and Investments**

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

The City's investment practices are governed by Chapter 280, Florida Statutes, and the City's investment policy Ordinance No. 02-19. These allow the City to invest in certificates of deposit; money market investments; obligations of and securities backed by the U. S. Treasury, its agencies and instrumentalities; repurchase agreements; bankers' 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.

# CITY OF MARCO ISLAND, FLORIDA

## Notes to Financial Statements - Continued

### (1) Summary of Significant Accounting Policies - Continued

#### (d) Assets, Liabilities and Net Assets or Equity - Continued

##### 2. Receivables and Payables

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

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

##### 3. Prepaid Items

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

##### 4. Restricted Assets

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

**CITY OF MARCO ISLAND, FLORIDA**

**Notes to Financial Statements - Continued**

**(1) Summary of Significant Accounting Policies - Continued**

**(d) Assets, Liabilities and Net Assets or Equity - Continued**

**5. Capital Assets - Continued**

In the case of the initial capitalization of general infrastructure, the City was able to estimate the historical cost through back trending (i.e., estimating the current replacement cost of the infrastructure to be capitalized and using an appropriate price-level index to deflate the cost to the acquisition year or estimated acquisition year). As the City constructs or acquires additional capital assets each period, including infrastructure, they are capitalized and reported at historical cost. The reported value excludes normal maintenance and repairs which are essentially amounts spent in relation to the capital assets that do not increase the capacity or efficiency of the item or extend its useful life beyond the original estimate. 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. Compensated Absences**

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

Full-time City employees earn from 160 to 224 hours annually, based upon years of service, and can accrue up to 720 hours. Sworn Police Officers under a collective bargaining agreement earn from 160 to 200 hours annually, based upon years of service, and can accrue up to 720 hours. City Firefighters under union contract earn from 216 to 336 hours annually, based upon years of service, and can accrue up to 936 hours. Upon termination, these employees are entitled to all accumulated earned leave hours paid out at the hourly rate.

**7. Long Term Obligations**

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



## CITY OF MARCO ISLAND, FLORIDA

### Notes to Financial Statements - Continued

#### (1) Summary of Significant Accounting Policies - Continued

##### (d) Assets, Liabilities and Net Assets or Equity – Continued

###### **7. Long Term Obligations - Continued**

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

###### **8. Deferred Gain/Loss from Current Refunding or Advance Refunding of Debt**

In the government-wide financial statements and enterprise funds, the difference between the re-acquisition price (new debt) and the net carrying value of the old debt on refunded debt transactions is deferred and amortized as a component of interest expense using the straight-line method over the shorter of the remaining life of the old debt or the life of the new debt. The deferred amount is offset against the new liability.

###### **9. Nature and Purpose of Classifications of Fund Equity**

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 purpose 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.
- 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.
- 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.
- Amounts that are constrained by 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 City management based on Council direction.
- 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 - Continued**

**(1) Summary of Significant Accounting Policies - Continued**

**(d) Assets, Liabilities and Net Assets or Equity – Continued**

**9. Nature and Purpose of Classifications of Fund Equity - Continued**

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.

Implementation of GASB Statement No. 54 is further explained in Note (4) section (c) Implementation of new GASB Pronouncement.

**10. Financial Reserve Policy**

The City's policy is to maintain 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 \$4,257,285 of the \$6,363,876 General Fund unassigned fund balance as of September 30, 2011.

**11. Net Assets**

In the government-wide financial statements, invested in capital assets, net of related debt for the governmental activities and business-type activities reflect capital assets with underlying debt. Debt relating to capital assets is issued subsequent 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.

**12. Property Tax Calendar**

The City levies property taxes each November 1, which become a lien on real and personal property located in the City. The assessment of all properties and the collection of all property taxes are made through the Property Appraiser and Tax Collector of Collier County, Florida. The tax levy is based on taxable assessed real and personal property values totaling \$8.3 billion for fiscal year 2011 and \$7.6 billion for fiscal year 2012.

**CITY OF MARCO ISLAND, FLORIDA**

**Notes to Financial Statements - Continued**

**(1) Summary of Significant Accounting Policies - Continued**

**(d) Assets, Liabilities and Net Assets or Equity – Continued**

**12. Property Tax Calendar - Continued**

Details of the tax calendar are presented below:

Lien Date	January 1, 2010
Levy Date	November 1, 2010
Installment Payments	
First Installment	No Later Than June 30, 2010
Second Installment	No Later Than September 30, 2010
Third Installment	No Later Than December 31, 2010
Fourth Installment	No Later Than March 31, 2011
Regular Payments	
Discount Periods	November 2010 through February 2011
No Discount Period	After March 1, 2011
Delinquent Date	April 1, 2011

**(2) Stewardship, Compliance and Accountability**

**(a) Budgetary Information**

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 individual occurrence during the 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 governmental funds. Encumbrances (i.e., purchase orders, contracts) outstanding at year end lapse and do not constitute expenditures or liabilities because the commitments will be re-appropriated and honored during the subsequent year.

**CITY OF MARCO ISLAND, FLORIDA**

**Notes to Financial Statements - Continued**

**(2) Stewardship, Compliance and Accountability - Continued**

**(a) Budgetary Information - Continued**

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

The spending cap for the 2011 fiscal year, as adopted by City Council, was \$21,827,562. The final actual amount for the 2011 fiscal year was \$20,501,744, which was in accordance with the spending cap limit.

**(3) Detailed Notes on All Funds**

**(a) Deposits and Investments**

As of September 30, 2011, the City had the following deposits and investments:

<u>Deposit and Investment Type</u>	<u>No Specific Maturity</u>	<u>Matures in Less Than 1 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	\$ 11,370,674	-	-	-	-	11,370,674
Money market funds	17,841,308	159,058	-	-	-	18,000,366
U.S. Government securities	-	638,359	2,492,517	661,733	7,032,204	10,824,813
FMIvT	-	-	29,016,615	-	-	29,016,615
Common stock	4,758,809	-	-	-	-	4,758,809
Total deposits and investments	\$ <u>33,970,791</u>	<u>797,417</u>	<u>31,509,132</u>	<u>661,733</u>	<u>7,032,204</u>	<u>73,971,277</u>

**Statement of Net Assets**

Primary Government:

Cash and investments	\$ 25,406,761
Restricted (current and long term) cash and investments	39,123,202

Fiduciary Funds:

Cash and investments – pension funds	<u>9,442,314</u>
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Total cash and investments per CAFR	<u>\$ 73,972,277</u>
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Cash held on deposit with banks for the discretely presented component unit as of September 30, 2011 is zero.

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.

**CITY OF MARCO ISLAND, FLORIDA**

**Notes to Financial Statements - Continued**

**(3) Detailed Notes on All Funds- Continued**

**(a) Deposits and Investments – Continued**

Credit Risk: While authorized by policy, the City has no investments in commercial paper, bankers’ acceptances, corporate bonds, or mutual funds except for those investments by pension funds. 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, as allowed under the investment policy, in the Federal Home Loan Bank (FHLB), the Federal National Mortgage Association (FNMA) and the Federal Home Loan Mortgage Corporation (FHLMC), all of which carry a AAA rating.

The City also 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 a AAA Standard & Poor’s rating. External financial statements are available at [www.floridaleagueofcites.com/finance](http://www.floridaleagueofcites.com/finance).

In its investment policy, the City specifies that in satisfying the investment objectives of safety of capital, liquidity of funds and investments 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

The pension trust fund investments are determined by the Board of Directors of each pension trust plan. The portfolios of the pension trust funds are geared for long-term growth 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.

**CITY OF MARCO ISLAND, FLORIDA**

**Notes to Financial Statements - Continued**

**(3) Detailed Notes on All Funds- Continued**

**(a) Deposits and Investments – Continued**

Custodial Credit Risk: All of the City’s public deposits are held in qualified public depositories pursuant to Florida Statutes, Chapter 280. Under the Act, all qualified public depositories are required to pledge eligible collateral having a market value equal to or greater than the average daily or monthly balance of all public deposits, times the depository's collateral pledging level.

The pledging level may range from 50% to 125% depending upon the depository's financial condition and establishment period. All collateral must be deposited with an approved financial institution. Any losses to public depositors are covered by applicable deposit insurance, sale of securities pledged as collateral, and, if necessary, assessments against other qualified public depositories of the same type as the depository in default.

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

**(b) Receivables**

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

	<u>General</u>	<u>Capital Projects</u>	<u>Water and Sewer</u>	<u>Internal Service</u>
Receivables:				
Accounts	\$ 165,913	-	3,007,452	4,418
Assessments	-	-	34,980,994	-
Due from other governments	238,339	411,539	-	-
Interest	1,773	-	2,690,161	-
	<hr/>	<hr/>	<hr/>	<hr/>
Gross receivables	406,025	411,539	40,678,607	4,418
Less: allowance for uncollectibles	-	-	32,077	-
	<hr/>	<hr/>	<hr/>	<hr/>
Net total receivables	\$ <u>406,025</u>	<u>411,539</u>	<u>40,646,530</u>	<u>4,418</u>

During fiscal year 2010, the City developed a mitigation plan for receivables accumulated due to code compliance activity that substantially reduced the receivable balance in the general fund.

CITY OF MARCO ISLAND, FLORIDA

Notes to Financial Statements - Continued

(3) **Detailed Notes on All Funds- Continued**

(b) **Receivables - Continued**

During the 2010 budget process, the City authorized an amount not to exceed \$1.6 million to Hideaway Beach District, a component unit of the primary government, in order to complete construction projects while Hideaway Beach District was waiting for government funds and property taxes. As of September 30, 2011, the actual amount needed was \$22,195 and will be repaid by the district in November 2011 when ad valorem property tax revenue is received.

Governmental funds report *deferred revenue* in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. As of September 30, 2011 there is no deferred revenue reported in the governmental funds.

(c) **Inter-Fund Receivables, Payables and Transfers**

For the year ended September 30, 2011, the inter-fund transfers were as follows:

**Transfer In:**

<b><u>Transfers Out</u></b>	<b><u>Debt Service</u></b>	<b><u>Capital Projects</u></b>	<b><u>Total</u></b>
General	\$ 868,712	10,374,507	11,243,219
Recreation Ent.	-	145,500	145,500
Total	\$ <u>868,712</u>	<u>10,520,007</u>	<u>11,388,719</u>

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

As part of the implementation of Governmental Accounting Standards Board (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, the City reviewed its previous policy of transferring capital projects fund balance into the general fund each year and determined that capital projects fund balance is more appropriately reported within capital projects fund at year end. As of October 1, 2010 \$5,047,336 designated fund balance for capital projects and \$1,688,375 designated fund balance for asset replacement fund has been transferred from the general fund into the capital projects fund. The remaining \$3,638,796 transfer between the two funds is the current year budgeted contribution amount.

**CITY OF MARCO ISLAND, FLORIDA**

**Notes to Financial Statements - Continued**

**(3) Detailed Notes on All Funds- Continued**

**(d) Capital Assets**

The City has the following investment in capital assets activity for the year ended September 30, 2011:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>(Decreases)</u>	<u>Ending Balances</u>
<b>Governmental Activities</b>				
Capital assets not being depreciated:				
Land	\$ 15,033,137	121,222	-	15,154,359
Construction in progress	17,967,730	4,390,505	(18,039,485)	4,318,750
Total capital assets not being depreciated	<u>33,000,867</u>	<u>4,511,727</u>	<u>(18,039,485)</u>	<u>19,473,109</u>
Capital assets being depreciated:				
Buildings and improvements	3,881,931	5,910,862	-	9,792,793
Vehicles and equipment	6,812,493	217,535	(318,140)	6,711,888
Road network	37,731,307	3,865,257	-	41,596,564
Storm water	10,415,227	2,321,361	-	12,736,588
Pathway	2,790,160	347,483	-	3,137,643
Parks	1,145,764	3,957,260	-	5,103,024
Bridge network	12,786,234	1,419,727	-	14,205,961
Beach and waterway	442,928	-	-	442,928
Total capital assets being depreciated	<u>76,006,044</u>	<u>18,039,485</u>	<u>(318,140)</u>	<u>93,727,389</u>
Accumulated depreciation for:				
Buildings and improvements	(2,361,222)	(165,663)	-	(2,526,885)
Vehicles and equipment	(4,333,171)	(652,115)	302,291	(4,682,995)
Road network	(12,081,119)	(3,203,700)	-	(15,284,819)
Storm water	(4,368,747)	(987,923)	-	(5,356,670)
Pathway	(1,408,679)	(10,942)	-	(1,419,621)
Parks	(320,966)	(99,135)	-	(420,101)
Bridge network	(2,411,141)	(353,944)	-	(2,765,085)
Beach and waterway	(76,509)	(45,417)	-	(121,926)
Total accumulated depreciation	<u>(27,361,554)</u>	<u>(5,518,839)</u>	<u>302,291</u>	<u>(32,578,102)</u>
Total capital assets being depreciated, net	<u>48,644,490</u>	<u>12,520,646</u>	<u>(15,849)</u>	<u>61,149,287</u>
<b>Total governmental activities capital assets, net</b>	<b>\$ <u>81,645,357</u></b>	<b><u>17,032,373</u></b>	<b><u>(18,055,334)</u></b>	<b><u>80,622,396</u></b>
<b>Business-Type Activities</b>				
Capital assets not being depreciated:				
Land	\$ 17,415,059	-	-	17,415,059
Construction in progress	71,735,120	17,639,529	(31,596,839)	57,777,810
Total capital assets not being depreciated	<u>89,150,179</u>	<u>17,639,529</u>	<u>(31,596,839)</u>	<u>75,192,869</u>
Capital assets being depreciated:				
Transmission and distribution	97,168,107	6,792,779	-	103,960,886
Infrastructure	8,903,273	24,621,342	-	33,524,615
Buildings and improvements	6,587,341	-	-	6,587,341
Vehicles and equipment	60,302,916	182,718	(9,828)	60,475,806
Total capital assets being depreciated	<u>172,961,637</u>	<u>31,596,839</u>	<u>(9,828)</u>	<u>204,548,648</u>
Accumulated depreciation for:				
Transmission and distribution	(13,351,679)	(3,546,185)	-	(16,897,864)
Infrastructure	(639,694)	(744,759)	-	(1,384,453)
Buildings and improvements	(4,001,520)	(778,831)	-	(4,780,351)
Vehicles and equipment	(20,179,881)	(4,184,117)	7,495	(24,356,503)
Total accumulated depreciation	<u>(38,172,774)</u>	<u>(9,253,892)</u>	<u>7,495</u>	<u>(47,419,171)</u>
Total capital assets being depreciated, net	<u>134,788,863</u>	<u>22,342,947</u>	<u>(2,333)</u>	<u>157,129,477</u>
<b>Total business-type activities capital assets, net</b>	<b>\$ <u>223,939,042</u></b>	<b><u>39,982,476</u></b>	<b><u>(31,599,172)</u></b>	<b><u>232,322,346</u></b>



**CITY OF MARCO ISLAND, FLORIDA**

**Notes to Financial Statements - Continued**

**(3) Detailed Notes on All Funds- Continued**

**(d) Capital Assets - Continued**

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

Governmental Activities:	
General government	\$ 144,402
Police services	107,133
Fire and rescue	326,416
Code compliance	583
Building services	6,950
Transportation	4,777,653
Culture and recreation	<u>155,702</u>
Total depreciation expense, governmental activities	<u>5,518,839</u>
Business-Type Activities:	
Water and sewer	9,239,451
Recreation	<u>14,441</u>
Total depreciation expense, business-type activities	<u>9,253,892</u>
Total depreciation expense	<u>\$ 14,772,731</u>

**(e) 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 asset acquired through capital lease, as reported in the governmental activities, is as follows:

Asset:	
Vehicles and equipment	\$ 544,026
Less: accumulated depreciation	<u>(113,339)</u>
Total	<u>\$ 430,687</u>

CITY OF MARCO ISLAND, FLORIDA

Notes to Financial Statements - Continued

(3) Detailed Notes on All Funds - Continued

(e) Leases- Continued

The future minimum lease obligations and the net present value of these minimum lease payments, as reported in the governmental activities, as of September 30, 2011, are as follows:

2012	\$	90,697
2013		90,697
2014		90,697
2015		90,697
2016		90,697
2017 - 2018		<u>181,393</u>
Total minimum lease payments		634,878
Less: amount representing interest		<u>102,852</u>
Present value of minimum lease payments	\$	<u><u>532,026</u></u>

**CITY OF MARCO ISLAND, FLORIDA**

**Notes to Financial Statements - Continued**

**(3) Detailed Notes on All Funds - Continued**

**(f) Long Term Liabilities**

**Primary Government**

Long-term liability activity for the year ended September 30, 2011, was as follows:

	<b>Beginning Balance</b>	<b>Additions</b>	<b>(Reductions)</b>	<b>Ending Balance</b>	<b>Due Within One Year</b>
<b>Governmental Activities</b>					
Revenue bonds	\$ 475,000	-	(475,000)	-	-
General obligation bonds	7,025,000	-	(610,000)	6,415,000	625,000
Sales tax revenue bonds	4,940,000	-	(375,000)	4,565,000	390,000
Capital leases	615,494	-	(83,468)	532,026	56,694
Other post-employment benefit liability	155,032	108,381	-	263,413	-
Compensated absences	1,052,316	775,807	(732,514)	1,095,609	323,504
Total governmental activity long-term liabilities	\$ 14,262,842	884,188	(2,275,982)	12,871,048	1,395,198
<b>Business Activities</b>					
Revenue bonds, 2003:					
Principal	\$ 91,160,000	-	(25,740,000)	65,420,000	2,200,000
Premium	939,594	-	(40,706)	898,888	40,704
Revenue bonds, 2006	4,976,142	-	(277,000)	4,699,142	287,360
State revolving loan, 2007	1,560,798	-	(66,354)	1,494,444	68,122
Revenue bond, 2008	7,477,241	-	(340,932)	7,136,309	354,793
Revenue note, 2008	4,000,000	-	(4,000,000)	-	-
Revenue note, 2009	13,953,923	-	(7,997,881)	5,956,042	5,956,042
Revenue bond, 2010A:					
Principal	50,475,000	-	-	50,475,000	955,000
Discount	(149,410)	-	5,152	(144,258)	(5,152)
Revenue bond, 2010B	7,365,000	-	-	7,365,000	175,000
Revenue note, 2010	4,460,000	-	-	4,460,000	-
State revolving loan, 2011	-	5,000,000	-	5,000,000	196,288
Revenue bond 2011:					
Principal	-	26,253,513	-	26,253,513	-
Deferred amount on refunding	-	(2,996,740)	24,766	(2,971,974)	(297,197)
Deferred assessments	4,789,459	-	(1,662,726)	3,126,733	1,699,740
Deferred assessment interest	375,021	-	(120,616)	254,405	254,405
Other post-employment benefit liability	72,648	46,779	-	119,427	-
Compensated absences	375,565	289,569	(283,235)	381,899	218,931
Total Water & Sewer	191,830,981	28,593,121	(40,499,532)	179,924,570	12,104,036
<b>Assessment Districts</b>					
Assessment revenue bond, 2008	2,151,976	-	(83,444)	2,068,532	86,836
Assessment revenue bond, 2008	678,784	-	(26,320)	652,464	27,390
State revolving loan, 2009-2011	20,873,381	7,900,000	(677,304)	28,096,077	1,044,158
Assessment revenue bond, 2009	793,951	-	(24,463)	769,488	25,837
Assessment revenue bond, 2009	1,677,694	-	(51,692)	1,626,002	54,596
Assessment revenue bond, 2009	2,315,690	-	(71,350)	2,244,340	75,357
Assessment revenue bond, 2009	244,622	-	(5,868)	238,754	6,342
Assessment revenue bond, 2010	1,400,000	-	(53,585)	1,346,415	47,270
Assessment revenue bond, 2010	1,850,000	-	(70,809)	1,779,191	62,464
Total Assessment Districts	31,986,098	7,900,000	(1,064,835)	38,821,263	1,430,250
Total business-type activity long-term liabilities	\$ 223,817,079	36,493,121	(41,564,367)	218,745,833	13,534,286

**CITY OF MARCO ISLAND, FLORIDA**

**Notes to Financial Statements - Continued**

**(3) Detailed Notes on All Funds - Continued**

**(f) Long Term Liabilities – Continued**

**Governmental Activities**

On November 15, 2000, the City issued revenue bonds for governmental activities for the repair of the Factory Bay Bridge, secured by non-ad valorem revenue. The original amount of the revenue bonds was \$985,000. The bonds are issued as 15-year serial bonds with varying amounts of principal maturing each year from \$55,000 to \$90,000. Interest rates on the bonds vary from 4.25 percent to 5.75 percent. The City legally defeased this obligation by placing excess legally available resources from the General Fund in an irrevocable trust to provide for all future debt service payments of the old bonds. Accordingly the trust account assets and the liability for the defeased bonds are not included in the City's general purpose financial statements. As of September 30, 2011, \$405,000 of general bonds outstanding is considered defeased.

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

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 maturing each year from \$545,000 to \$815,000. Interest rates on the bonds vary from 2 percent to 3.8 percent. As of September 30, 2011, \$6,415,000 of the principal was outstanding. Annual debt service requirements for the general obligation bonds are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>
2012	\$ 625,000	218,934
2013	645,000	200,184
2014	665,000	180,834
2015	685,000	160,053
2016	705,000	137,790
2017-2020	<u>3,090,000</u>	<u>291,664</u>
Total	<u>\$ 6,415,000</u>	<u>1,189,459</u>

**CITY OF MARCO ISLAND, FLORIDA**

**Notes to Financial Statements - Continued**

**(3) Detailed Notes on All Funds - Continued**

**(f) Long Term Liabilities – Continued**

On August 3, 2005, the City issued sales tax revenue bonds for governmental activities for various capital improvements to be owned by and located within the City, including transportation improvements and a new police station. The original amount of the sales tax revenue bonds was \$6,000,000. The bonds are secured by proceeds of 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 \$345,000 to \$535,000. Interest rates vary from 3 percent to 3.9 percent. As of September 30, 2011, \$4,565,000 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>
2012	\$ 390,000	159,773
2013	400,000	145,948
2014	415,000	131,685
2015	430,000	116,898
2016	445,000	101,474
2017-2020	<u>2,485,000</u>	<u>244,613</u>
Total	<u>\$ 4,565,000</u>	<u>900,391</u>

**CITY OF MARCO ISLAND, FLORIDA**

**Notes to Financial Statements - Continued**

**(3) Detailed Notes on All Funds - Continued**

**(f) Long Term Liabilities – Continued**

**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 \$1,183,818. 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 \$1,910,000 to \$6,280,000. Interest rates on the bonds vary from 2 percent to 5.25 percent.

The City advance refunded a portion totaling \$23,605,000 on August 23, 2011 using proceeds from 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. At September 30, 2011, \$22,605,000 of bonds are considered defeased. 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, 2011, \$65,420,000 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>
2012	\$ 2,200,000	3,114,080
2013	2,275,000	3,035,161
2014	2,360,000	2,948,803
2015	-	2,903,963
2016	-	2,903,963
2017-2021	-	14,519,812
2022-2026	15,900,000	12,978,062
2027-2031	24,730,000	7,621,344
2032-2034	17,955,000	1,375,875
Total	\$ <u>65,420,000</u>	<u>51,401,063</u>

**CITY OF MARCO ISLAND, FLORIDA**

**Notes to Financial Statements - Continued**

**(3) Detailed Notes on All Funds - Continued**

**(f) Long Term Liabilities – Continued**

On December 5, 2006, the City issued revenue bonds for business-type activities to pay the costs of constructing certain additions, extensions, supplements and replacements to the City's water and wastewater utility system. The original amount of the revenue bonds was \$5,500,000, secured by a senior lien pledge on net revenues of the water and sewer fund. The bonds are issued as 15-year serial bonds with varying amounts of principal maturing each year from \$256,844 to \$446,412. The interest rate on the bonds is fixed at 3.74 percent. As of September 30, 2011, \$4,699,142 was outstanding. Annual debt service requirements for the revenue bonds are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>
2012	\$ 287,360	173,214
2013	297,655	161,664
2014	309,239	150,158
2015	320,805	138,214
2016	332,803	126,149
2017-2021	1,859,746	426,632
2022-2024	<u>1,291,534</u>	<u>74,727</u>
Total	\$ <u>4,699,142</u>	<u>1,250,758</u>

**CITY OF MARCO ISLAND, FLORIDA**

**Notes to Financial Statements - Continued**

**(3) Detailed Notes on All Funds - Continued**

**(f) Long Term Liabilities – Continued**

On August 10, 2007, the City received funding under the State of Florida Department of Environmental Protection Revolving Loan Program in the amount of \$1,626,230 to assist in funding the planning design of wastewater pollution control facilities. As of September 30, 2011, the City had \$1,494,444 outstanding. Funds used for pre-construction planning design are secured by utility system revenues and impact fees. Pledged revenue is a junior lien pledge of system revenue. The amount due within one year as of September 30, 2011, of \$68,122 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>
2012	\$ 68,122	39,154
2013	69,941	37,337
2014	71,806	35,472
2015	73,722	33,556
2016	75,688	31,589
2017-2021	409,826	126,563
2022-2026	467,483	68,906
2027-2029	257,856	10,340
Total	\$ <u>1,494,444</u>	<u>382,917</u>



**CITY OF MARCO ISLAND, FLORIDA**

**Notes to Financial Statements - Continued**

**(3) Detailed Notes on All Funds - Continued**

**(f) Long Term Liabilities – Continued**

On March 7, 2008, the City issued revenue bonds for business-type activities 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 \$340,932 to \$619,737. The interest rate on the bonds is fixed at 4.01 percent. As of September 30, 2011, \$7,136,309 was outstanding. Annual debt service requirements for the revenue bonds are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>
2012	\$ 354,793	283,703
2013	368,462	268,246
2014	384,198	252,946
2015	399,819	237,009
2016	416,074	221,005
2017-2021	2,347,240	829,262
2022-2026	<u>2,865,723</u>	<u>300,848</u>
Total	<u>\$ 7,136,309</u>	<u>2,393,019</u>

On August 5, 2008, the City issued a revenue note for business-type activities to pay the costs of the subordinate water improvement project. The original amount of the revenue note was not to exceed \$4,000,000, and is secured by a second lien pledge on net revenues and capital facility fees of the water and sewer fund. The note requires principal payment in full on August 5, 2011; the City obtained an allonge which extended the maturity date. The interest rate on the note is variable equal to the sum of 63.7% of the 30-day London Interbank Offered Rate (“LIBOR Rate”) as evidenced in The Wall Street Journal, plus 68 basis points (0.68%) the interest on the note as of September 2011, was .801%. The City repaid the revenue note in full on September 23, 2011.

**CITY OF MARCO ISLAND, FLORIDA**

**Notes to Financial Statements - Continued**

**(3) Detailed Notes on All Funds - Continued**

**(f) Long Term Liabilities – Continued**

On March 3, 2009, the City issued a revenue note for business-type activities to pay the costs of the subordinate wastewater improvement project (year 4). The original amount of the revenue note was not to exceed \$14,155,000, and is secured by a second lien pledge on net revenues and capital facility fees of the water and sewer fund with a back-up covenant to budget and appropriate. The note requires principal payment in full on March 3, 2012. The interest rate on the note is variable equal to the sum of 63.7% of the 30-day London Interbank Offered Rate (“LIBOR Rate”) as evidenced in The Wall Street Journal, plus 235 basis points (2.35%) and the interest on the note on September 30, 2011, was 2.57%. The City made payments on the note of \$3,823,191 on September 16, 2011 and \$4,174,690 on September 22, 2011. As of September 30, 2011, \$5,956,042 was outstanding. Annual debt service requirements for the revenue note are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>
2012	\$ <u>5,956,042</u>	<u>145,935</u>
Total	\$ <u><u>5,956,042</u></u>	<u><u>145,935</u></u>

**CITY OF MARCO ISLAND, FLORIDA**

**Notes to Financial Statements - Continued**

**(3) Detailed Notes on All Funds - Continued**

**(f) Long Term Liabilities – Continued**

On April 1, 2010, the City issued 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 percent interest, \$10,020,000 is a term bond due October 1, 2034 yielding 5.03 percent interest, and \$15,730,000 is a term bond due October 1, 2040 yielding 5.10 percent interest. The 15-year serial bonds are issued with varying amounts of principal maturing each year from \$955,000 to \$1,440,000. Interest rates on the bonds vary from 2.5 percent to 5 percent. 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, 2011, \$50,475,000 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>
2012	\$ 955,000	2,291,363
2013	980,000	2,267,175
2014	1,000,000	2,229,925
2015	1,050,000	2,189,175
2016	1,085,000	2,146,300
2017-2021	6,095,000	10,082,256
2022-2026	7,100,000	8,726,794
2027-2031	8,270,000	7,023,762
2032-2036	10,525,000	4,720,625
2037-2041	<u>13,415,000</u>	<u>1,741,875</u>
Total	<u>\$ 50,475,000</u>	<u>43,419,250</u>

**CITY OF MARCO ISLAND, FLORIDA**

**Notes to Financial Statements - Continued**

**(3) Detailed Notes on All Funds - Continued**

**(f) Long Term Liabilities – Continued**

On April 1, 2010, the City issued taxable 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 percent interest. The 10-year serial bonds are issued with varying amounts of principal maturing each year from \$175,000 to \$250,000. Interest rates on the bonds vary from 2.05 percent to 5.35 percent. 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, 2011, \$7,365,000 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>
2012	\$ 175,000	445,367
2013	180,000	441,179
2014	185,000	435,766
2015	190,000	429,136
2016	200,000	421,384
2017-2021	1,145,000	1,951,312
2022-2026	1,525,000	1,551,580
2027-2031	2,115,000	938,421
2032-2034	1,650,000	172,907
Total	\$ <u>7,365,000</u>	<u>6,787,052</u>

**CITY OF MARCO ISLAND, FLORIDA**

**Notes to Financial Statements - Continued**

**(3) Detailed Notes on All Funds - Continued**

**(f) Long Term Liabilities – Continued**

In April 6, 2010, the City issued a revenue note for business-type activities to pay the costs of the subordinate wastewater improvement project (year 5). The original amount of the revenue note was not to exceed \$5,955,000, and is secured by a second lien pledge on net revenues and capital facility fees of the water and sewer fund with a back-up covenant to budget and appropriate. The note requires principal payment in full on April 6, 2013. The interest rate on the note is variable equal to the sum of 63.7% of the 30-day London Interbank Offered Rate (“LIBOR Rate”) as evidenced in The Wall Street Journal, plus 235 basis points (2.35%) and the interest on the note on September 30, 2011, was 2.40%. As of September 30, 2011, \$4,460,000 was outstanding. Annual debt service requirements for the revenue bonds are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>
2012	\$ -	107,040
2013	4,460,000	53,520
Total	\$ 4,460,000	160,560

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 assist in funding the construction of a high service pump station, a 4 MG water tank, and an operations building all associated with drinking water. Funds used for engineering through construction are secured by utility system revenues and impact fees. Pledged revenue is a junior lien pledge of system revenue. As of September 30, 2011, the City had \$5,000,000 outstanding. The amount due within one year as of September 30, 2011, of \$196,288 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>
2012	\$ 196,288	134,490
2013	201,544	129,234
2014	206,941	123,838
2015	212,482	118,297
2016	218,172	112,607
2017-2021	1,181,681	472,213
2022-2026	1,348,592	305,302
2027-2031	1,434,300	114,814
Total	\$ 5,000,000	1,510,795

**CITY OF MARCO ISLAND, FLORIDA**

**Notes to Financial Statements - Continued**

**(3) Detailed Notes on All Funds – Continued**

**(f) Long Term Liabilities – Continued**

On August 23, 2011, the city issued Series 2011 \$26.3 million in refunding revenue bonds with an average interest rate of 2.769 percent to advance refund a portion of the outstanding City of Marco Island, Florida Utility System Revenue Bonds, Series 2003 with an average interest rate of 5.25 percent. 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 revenue bonds are comprised of term bonds yielding 2.769 percent interest. The bonds are secured and payable solely from the net revenues of the water and sewer system. As of September 30, 2011, \$26,253,513 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>
2012	\$ -	440,215
2013	-	726,960
2014	103,000	725,534
2015	2,965,060	683,056
2016	3,048,538	599,798
2017-2021	16,547,392	1,667,473
2022-2026	3,589,523	49,697
Total	\$ <u>26,253,513</u>	<u>4,892,733</u>

**CITY OF MARCO ISLAND, FLORIDA**

**Notes to Financial Statements - Continued**

**(3) Detailed Notes on All Funds – Continued**

**(f) Long Term Liabilities – Continued**

**Assessments**

In order to fund construction of the City’s 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 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 for business-type activities to pay the costs of the subordinate wastewater improvement project for the Tigertail District. The original amount of the revenue bonds was not to exceed \$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 \$80,184 to \$164,258. The interest rate on the bonds is fixed at 4.01 percent. As of September 30, 2011, \$2,068,532 was outstanding. Annual debt service requirements for the revenue bonds are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>
2012	\$ 86,836	82,570
2013	90,146	78,752
2014	94,032	75,009
2015	97,855	71,109
2016	101,833	67,228
2017-2021	574,405	268,519
2022-2026	701,326	139,217
2027-2028	322,099	13,280
Total	\$ <u>2,068,532</u>	<u>795,684</u>

**CITY OF MARCO ISLAND, FLORIDA**

**Notes to Financial Statements - Continued**

**(3) Detailed Notes on All Funds - Continued**

**(f) Long Term Liabilities – Continued**

On March 7, 2008, the City issued special assessment revenue bonds for business-type activities to pay the costs of the subordinate wastewater improvement project for the South Barfield District. The original amount of the revenue bonds was not to exceed \$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 \$25,292 to \$51,811. The interest rate on the bonds is fixed at 4.01 percent. As of September 30, 2011, \$652,464 was outstanding. Annual debt service requirements for the revenue bonds are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>
2012	\$ 27,390	26,045
2013	28,434	24,840
2014	29,660	23,660
2015	30,866	22,429
2016	32,120	21,205
2017-2021	181,181	84,697
2022-2026	221,215	43,912
2027-2028	101,598	4,189
Total	\$ <u>652,464</u>	<u>250,977</u>



**CITY OF MARCO ISLAND, FLORIDA**

**Notes to Financial Statements - Continued**

**(3) Detailed Notes on All Funds - Continued**

**(f) Long Term Liabilities – Continued**

The City received additional funding under the State of Florida Department of Environmental Protection Revolving Loan Program in 2007 through 2011. As of September 30, 2011, the City has drawn down loan funds totaling \$28,096,077 including accrued interest of \$171,034. Funds utilized for neighborhood construction of the Septic Tank Replacement Program are secured by construction 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%.

During the fiscal year ending September 30, 2011, loan payments were made in the amount of \$677,305. 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, 2011, of \$1,044,158 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>
2012	\$ 1,044,158	830,491
2013	1,200,352	866,854
2014	1,237,963	796,242
2015	1,276,759	757,446
2016	1,316,777	717,428
2017-2021	7,229,707	2,941,287
2022-2026	8,437,692	1,733,790
2027-2031	<u>6,352,664</u>	<u>428,068</u>
Total	<u>\$ 28,096,072</u>	<u>9,071,606</u>

CITY OF MARCO ISLAND, FLORIDA

Notes to Financial Statements - Continued

(3) Detailed Notes on All Funds - Continued

(f) Long Term Liabilities – Continued

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 North Marco District. The original amount of the revenue bonds was not to exceed \$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 \$24,463 to \$65,376. The interest rate on the bonds is fixed at 5.54 percent. As of September 30, 2011, \$769,488 was outstanding. Annual debt service requirements for the revenue bonds are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>
2012	\$ 25,837	42,617
2013	27,174	41,014
2014	28,814	39,442
2015	30,433	37,778
2016	32,142	36,117
2017-2021	189,715	150,197
2022-2026	249,472	88,872
2027-2029	185,901	16,095
Total	\$ <u>769,488</u>	<u>452,132</u>

**CITY OF MARCO ISLAND, FLORIDA**

**Notes to Financial Statements - Continued**

**(3) Detailed Notes on All Funds - Continued**

**(f) Long Term Liabilities – Continued**

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 North Barfield District. The original amount of the revenue bonds was not to exceed \$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 \$51,692 to \$138,146. The interest rate on the bonds is fixed at 5.54 percent. As of September 30, 2011, \$1,626,002 was outstanding. Annual debt service requirements for the revenue bonds are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>
2012	\$ 54,596	90,053
2013	57,420	86,666
2014	60,887	83,334
2015	64,307	79,829
2016	67,920	76,319
2017-2021	400,885	317,381
2022-2026	527,158	187,804
2027-2029	392,829	34,011
Total	\$ <u>1,626,002</u>	<u>955,397</u>

**CITY OF MARCO ISLAND, FLORIDA**

**Notes to Financial Statements - Continued**

**(3) Detailed Notes on All Funds – Continued**

**(f) Long Term Liabilities – Continued**

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 \$71,350 to \$190,681. The interest rate on the bonds is fixed at 5.54 percent. As of September 30, 2011, \$2,244,340 was outstanding. Annual debt service requirements for the revenue bonds are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>
2012	\$ 75,357	124,298
2013	79,256	119,623
2014	84,042	115,038
2015	88,762	110,186
2016	93,748	105,342
2017-2021	553,334	438,076
2022-2026	727,627	259,209
2027-2029	542,214	46,945
Total	\$ <u>2,244,340</u>	<u>1,318,717</u>

**CITY OF MARCO ISLAND, FLORIDA**

**Notes to Financial Statements - Continued**

**(3) Detailed Notes on All Funds – Continued**

**(f) Long Term Liabilities – Continued**

On July 21, 2009, the City issued taxable special assessment revenue bonds for business-type activities to pay the costs of the subordinate wastewater improvement project for the Old Marco District. The original amount of the revenue bonds was not to exceed \$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 \$3,868 to \$23,693. The interest rate on the bonds is fixed at 7.96 percent. As of September 30, 2011, \$238,754 was outstanding. Annual debt service requirements for the revenue bonds are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>
2012	\$ 6,342	19,066
2013	6,802	18,485
2014	7,403	17,912
2015	8,000	17,290
2016	8,646	16,663
2017-2021	54,797	71,019
2022-2026	80,850	43,968
2027-2029	65,914	8,281
Total	\$ <u>238,754</u>	<u>212,684</u>

**CITY OF MARCO ISLAND, FLORIDA**

**Notes to Financial Statements - Continued**

**(3) Detailed Notes on All Funds - Continued**

**(f) Long Term Liabilities – Continued**

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 \$53,585 to \$110,772. The interest rate on the bonds is fixed at 5.07 percent. As of September 30, 2011, \$1,346,415 was outstanding. Annual debt service requirements for the revenue bonds are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>
2012	\$ 47,270	68,189
2013	49,517	65,519
2014	52,245	62,904
2015	54,931	60,150
2016	57,755	57,407
2017-2021	336,175	237,509
2022-2026	432,159	139,232
2027-2029	316,363	25,018
Total	\$ <u>1,346,415</u>	<u>715,928</u>

**CITY OF MARCO ISLAND, FLORIDA**

**Notes to Financial Statements - Continued**

**(3) Detailed Notes on All Funds - Continued**

**(f) Long Term Liabilities – Continued**

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 \$70,809 to \$146,377. The interest rate on the bonds is fixed at 5.07 percent. As of September 30, 2011, \$1,779,191 was outstanding. Annual debt service requirements for the revenue bonds are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>
2012	\$ 62,464	90,107
2013	65,433	86,579
2014	69,039	83,124
2015	72,587	79,484
2016	76,319	75,860
2017-2021	444,232	313,852
2022-2026	571,068	183,984
2027-2029	418,049	33,060
Total	\$ <u>1,779,191</u>	<u>946,050</u>

**(g) Wastewater Pollution Control Facility Assessment**

During 2006, the City of Marco Island began a project to plan, design, and construct major renovations to its wastewater plant. The renovation project was divided into 17 different assessment districts. Each property owner of each district will be assessed both a capacity charge to cover 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 (E.R.C.) 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 and construction commenced for the Copperfield and Goldenrod districts. The final and largest district, Estates, will begin construction in April 2012 and is scheduled for completion in late 2013, completing the work of the Septic Tank Replacement Program (STRP).

**CITY OF MARCO ISLAND, FLORIDA**

**Notes to Financial Statements - Continued**

**(3) Detailed Notes on All Funds - Continued**

**(g) Wastewater Pollution Control Facility Assessment - Continued**

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

Property owners have three distinct payment options:

- (1) Payment of cash;
- (2) Pay over 20 years on their 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 assets.

Cash collected in advance of project completion is recognized as deferred assessment revenue and deferred assessment interest revenue on the water and sewer fund's statement of net assets.

Assessments receivable and assessments interest receivable have been recognized in the water and sewer fund's statement of net assets in relation to property owners paying on the payment terms outlined above. The current portion of the assessment receivable relates to the portion of payment option 2 above which will be received in the 2012 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. After October 1, 2010, the City no longer provides an option to utilize the City's contractor for connections and abandonment on private property. Prior to October 1, 2010, if the City contractor was used, then each property owner was charged the actual cost of construction and abandonment. This charge appeared on the property owners' utility bill and was approximately \$2,000. This fee was paid directly to the contractors who provided the service after collection was made. The fees collected by the City were reported net of payments to contractors as miscellaneous expense on the water and sewer fund's statement of revenues, expenses, and changes in fund net assets.



## CITY OF MARCO ISLAND, FLORIDA

### Notes to Financial Statements - Continued

#### (3) Detailed Notes on All Funds - Continued

##### (h) Discretely Presented Component Unit

In February 2005, Hideaway issued general obligation bonds for the re-nourishment of Hideaway Beach. The original amount of the general obligation bonds was \$2,900,000 and is secured by ad valorem tax revenue assessed to Hideaway Beach Tax District. The bonds are issued as 7-year serial bonds with varying amounts of principal maturing each year from \$240,000 to \$520,000. The interest rate on the bonds is 2.89 percent. The City repaid the bonds in full on December 29, 2010.

#### (4) Other Information

##### (a) Risk Management

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

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

Prior to October 1, 2004, the City was insured against these losses with a commercial insurance agreement with the Florida League of Cities, Inc, under a retrospectively rated policy. Premiums were accrued based upon the ultimate cost-to-date of the City's experience for each type of risk. The City entered into an agreement with an insurance administrator to reduce the potential for significant risk. The agreement has a deductible per claim of \$350,000 for workers' compensation, \$10,000 for crime and theft liability, and \$100,000 for the other risk types. Additionally, the agreement has a stop-loss policy which caps the aggregate annual loss for the City at \$500,000. Effective October 1, 2011, the aggregate annual loss is capped 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 four years. The City does not calculate the non-discounted carrying amount of non-incremental claims adjustment expenses as part of their liability for claims adjustments.

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.

**CITY OF MARCO ISLAND, FLORIDA**

**Notes to Financial Statements - Continued**

**(4) Other Information – Continued**

**(a) Risk Management - Continued**

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

Estimated unpaid claims, October 1, 2009	\$ 655,281
Incurred claims (including IBNRs)	1,512,029
Claim payments	<u>(1,326,917)</u>
Estimated unpaid claims, September 30, 2010	840,393
Incurred claims (including IBNRs)	1,537,072
Claim payments	<u>(1,665,133)</u>
Estimated unpaid claims, September 30, 2011	<u>\$ 712,332</u>

**(b) Contingent Liabilities**

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

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

**(c) Implementation of New GASB Pronouncement**

Governmental Accounting Standards Board (GASB) Statement 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, 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. The city implemented this standard in fiscal year 2011. Changes to the government fund type fund balance reporting is reflected in the financial statements and schedules and related disclosures are included in Note 1 (d) under section 9 Nature and Purpose of Classifications of Fund Equity.

**CITY OF MARCO ISLAND, FLORIDA**

**Notes to Financial Statements - Continued**

**(4) Other Information – Continued**

**(d) Commitments**

The City has credit available as of September 30, 2011 on the revenue notes entered into during the fiscal years 2009 and 2010. The City has numerous active construction projects. As of September 30, 2011, the City's commitments with contractors are as follows:

<u>Project</u>	<u>Expended as of 9/30/2011</u>	<u>Remaining Commitment</u>
N Collier Blvd SWD #2	\$ 836,412	326,485
Smokehouse Bay Bridge Repairs	678,691	641,257
Bald Eagle Streetlights	286,850	162,500
N Plant Water Pressure Filters	503,026	448,300
<b>Total Governmental Projects</b>	<b>\$ 2,304,979</b>	<b>1,578,542</b>
Renewal & Replacement - Water	\$ 284,090	271,688
Surface Water UV Cont	439,029	960,971
RO Membrane Replacement	839,633	284,480
Finished Water Storage	7,012,386	117,685
N Plant Treatment Expansion	278,854	3,139,133
Emergency Gen - N Plant	1,205,305	283,906
S Plant Water Storage	1,993,037	233,579
Water Pipe Upgrade	587,545	113,110
N Plant Water Pressure Filters	-	1,484,000
Emergency Repairs	3,901,567	543,912
Wastewater Treatment Plant	475,649	3,339,561
Upgrade Gravity Sewer	1,332,139	141,099
<b>Total Water/Sewer Projects</b>	<b>18,349,234</b>	<b>10,913,124</b>
Estates Sewer District	1,704,598	247,635
Goldenrod Sewer District	3,673,141	824,285
Copperfield Sewer District	1,252,050	1,455,580
<b>Total STRP Projects</b>	<b>6,629,789</b>	<b>2,527,500</b>
<b>Total Business Type Projects</b>	<b>\$ 24,979,023</b>	<b>13,440,624</b>

**CITY OF MARCO ISLAND, FLORIDA**

**Notes to Financial Statements - Continued**

**(4) Other Information – Continued**

**(e) Employee Retirement Systems and Pensions Plans**

**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, 2011, (date of the latest annual actuarial valuation), employee membership data related to the Plan were:

Retirees and beneficiaries currently receiving benefits	-
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	-
Active plan participants:	
Vested	8
Non-vested	14
Total active plan participants	22
Vested terminated members	1

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.

**CITY OF MARCO ISLAND, FLORIDA**

**Notes to Financial Statements - Continued**

**(4) Other Information – Continued**

**(e) Employee Retirement Systems and Pensions Plans - Continued**

Participants are not vested until they reach six years of service, at which time they become 100% vested. Terminated non-vested employees receive refunds of their accumulated member contribution only. Terminated vested employees receive their vested accrued benefit payable at 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, amended by City Council 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. Securities without an established market are reported at estimated fair value.

Funding Policy: Participants in the Plan, are required to pay 1% of their compensation to the Plan, 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 funding policy was established and may be amended by the City Council and adopted by City Ordinance.

The City makes periodic contributions totaling 100% of the actuarially determined amount (after state contributions) annually to the Plan. Florida Statutes Section 175 requires that an actuarial valuation of the Plan be completed at least once every three years. Since Plan establishment, the Pension Board has had actuarial valuations completed on an annual basis. Contributions for the fiscal year ended September 30, 2011, were based on actuarial computations performed for 2010, in the actuarial report dated October 1, 2009.

For the year ended September 30, 2011, the total annually required contribution amount was \$435,235 with the anticipated state contribution of \$73,936. Accordingly, the total required employer contribution made during 2011 was \$441,634.

**CITY OF MARCO ISLAND, FLORIDA**

**Notes to Financial Statements - Continued**

**(4) Other Information – Continued**

**(e) Employee Retirement Systems and Pensions Plans - Continued**

Annual Pension Cost and Net Pension Obligations: The required contribution was determined as part of the October 1, 2009 actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included: (a) 8% investment rate of return (net of administrative expenses); (b) projected salary increases of 7.5% to 13%, based on service; and (c) 4% rate of inflation. Additionally, the assumptions included postretirement benefit increases of 3% per year. Market value was used to determine the actuarial value of assets. The unfunded actuarial accrued liability from implementation is being amortized as a level dollar amount over thirty years. The remaining amortization period at October 1, 2011, was thirty years (closed basis).

In 2011, Pension Board authorized a revision to the actuarial assumptions and lowered the investment return assumption by 0.25% each year until 7.0% is attained and lowered the rate of inflation to 3%.

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 (Asset)</u>
2009	\$ 303,687	99.7%	(244,869)
2010	428,755	99.8%	(243,924)
2011	436,241	101.2%	(249,317)

Changes in the Fire Pension Plan for fiscal 2011 are as follows:

Annual required contribution	\$	435,235
Interest on net pension asset/obligation		(18,904)
Adjustment to annual required contribution		19,910
		<hr/>
Annual pension cost		436,241
Contributions made		441,634
		<hr/>
Increase in net pension asset		(5,393)
Net pension asset at beginning of the year		(243,924)
		<hr/>
Net pension asset at end of year	\$	<u>(249,317)</u>

**CITY OF MARCO ISLAND, FLORIDA**

**Notes to Financial Statements - Continued**

**(4) Other Information – Continued**

**(e) Employee Retirement Systems and Pensions Plans - Continued**

Funded Status and Funding Progress: The following is the funded status information as of September 30, 2011, the most recent actuarial valuation date:

<u>Actuarial Valuation Date</u>	<u>(a) Actuarial Value of Assets</u>	<u>(b) Actuarial Accrued Liability (AAL) Entry Age</u>	<u>(b-a) Unfunded (Overfunded) AAL (UAAL)</u>	<u>(A/B) Funded Ratio</u>	<u>(c) Covered Payroll</u>	<u>(b-a)/(c) UAAL as a Percentage of Covered Payroll</u>
10/1/2011	3,071,853	3,573,520	501,667	86.0%	1,404,142	35.7%

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

**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, 2011, (date of the 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	2
Retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits, but not yet receiving them	3
Active plan participants:	
Vested	-
Non-vested	30
Total active plan participants	30
Vested (full or partial) terminated members	2

**CITY OF MARCO ISLAND, FLORIDA**

**Notes to Financial Statements - Continued**

**(4) Other Information – Continued**

**(e) Employee Retirement Systems and Pensions Plans - Continued**

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

Compensation includes overtime 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, amended by City Council 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. Securities without an established market are reported at estimated fair value.

Funding Policy: Participants in the Plan are required to pay 5% of their compensation to the Plan. The State of Florida contributes casualty insurance premium taxes pursuant to Chapter 185, Florida Statutes, and the City contributes the required remaining balance, as determined by the actuary. The City recognized these on-behalf payments from the State as revenues and expenditures in the governmental fund financial statements. The funding policy was established and may be amended by the City Council and adopted by City Ordinance.



**CITY OF MARCO ISLAND, FLORIDA**

**Notes to Financial Statements - Continued**

**(4) Other Information – Continued**

**(e) Employee Retirement Systems and Pensions Plans - Continued**

The City makes periodic contributions totaling 100% of the actuarially determined amount (after state contributions) annually to the Plan. Florida Statutes Section 185 requires that an actuarial valuation of the Plan be completed at least once every three years. Since Plan establishment, the Pension Board has had actuarial valuations completed on an annual basis. Contributions for the fiscal year ended September 30, 2011, were based on actuarial computations determined as of October 1, 2009.

For the year ended September 30, 2011, the annually required contribution amount was \$862,045 with the anticipated state contribution of \$96,375 and member contributions of \$109,203. Accordingly, the required employer contribution for 2011 was \$752,842.

Annual Pension Cost and Net Pension Obligations: The required contribution was determined as part of the October 1, 2009, actuarial impact statement using the entry age normal actuarial cost method. The actuarial assumptions included: (a) 8% investment rate of return (net of administrative expenses); (b) projected salary increases of 6% per year and 3% rate of inflation. Additionally, the assumptions included postretirement benefit increases of 4% 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, 2011, was thirty-four years (closed basis).

In 2011, the investment return assumption has been lowered from 8.0% to 7.5% per year compounded annually, net of investment related expenses.

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 (Asset)</u>
2009	\$ 551,059	99.7%	(21,298)
2010	645,001	99.8%	(19,770)
2011	754,496	99.8%	(18,116)

**CITY OF MARCO ISLAND, FLORIDA**

**Notes to Financial Statements - Continued**

**(4) Other Information – Continued**

**(e) Employee Retirement Systems and Pensions Plans - Continued**

Changes in the Police Pension Plan for fiscal 2011 are as follows:

Annual required contribution	\$	752,842
Interest on net pension asset/obligation		(1,582)
Adjustment to annual required contribution		3,236
		754,496
Annual pension cost		754,496
Contributions made		752,842
Decrease in net pension asset		1,654
Net pension asset at beginning of the year		(19,770)
Net pension asset at end of year	\$	(18,116)

Funded Status and Funding Progress: The following is the funded status information as of September 30, 2011, the most recent actuarial valuation date:

Actuarial Valuation Date	(a) Actuarial Value of Assets	(b) Actuarial Accrued Liability (AAL) Entry Age	(b-a) Unfunded (Overfunded) AAL (UAAL)	(A/B) Funded Ratio	( c) Covered Payroll	(b-a)/( c) UAAL as a Percentage of Covered Payroll
10/1/2011	\$ 3,591,071	7,423,811	3,832,740	48.4%	\$ 1,916,201	200.0%

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

**CITY OF MARCO ISLAND, FLORIDA**

**Notes to Financial Statements - Continued**

**(4) Other Information – Continued**

**(e) Employee Retirement Systems and Pensions Plans - Continued**

The combining statement of fiduciary net assets for the pension trust funds as of September 30, 2011 is as follows:

	<u>Fire Pension</u>	<u>Police Pension</u>	<u>Total Pension Trust Funds</u>
<b>Assets</b>			
Cash and cash equivalents	\$ 553,302	508,639	1,061,941
Accounts receivable:			
Unsettled sales	3,232	9,219	12,451
Investments, at fair value:			
Common stock	3,080,070	1,678,738	4,758,808
Government bonds	2,205,196	1,402,918	3,608,114
Accrued interest	9,097	5,786	14,883
<b>Total Assets</b>	<u>5,850,897</u>	<u>3,605,300</u>	<u>9,456,197</u>
<b>Liabilities</b>			
Accounts payable	10,362	1,665	12,027
<b>Total Liabilities</b>	<u>10,362</u>	<u>1,665</u>	<u>12,027</u>
<b>Net Assets</b>			
Held in trust for pension benefits	\$ <u>5,840,535</u>	<u>3,603,635</u>	<u>9,444,170</u>

**CITY OF MARCO ISLAND, FLORIDA**

**Notes to Financial Statements - Continued**

**(4) Other Information - Continued**

**(e) Employee Retirement Systems and Pensions Plans - Continued**

The combining statement of changes in fiduciary net assets for the pension trust funds as of September 30, 2011 is as follows:

	<u>Fire Pension</u>	<u>Police Pension</u>	<u>Total Pension Trust Funds</u>
<b>Additions</b>			
Contributions:			
Employer	\$ 367,698	645,383	1,013,081
Employee	12,938	109,203	122,141
State of Florida insurance funds	<u>375,606</u>	<u>96,375</u>	<u>471,981</u>
Total contributions	<u>756,242</u>	<u>850,961</u>	<u>1,607,203</u>
Investment earnings:			
Investment interest and dividends	163,520	101,245	264,765
Investment loss	(122,453)	(137,436)	(259,889)
Investment expenses	<u>(56,764)</u>	<u>(31,704)</u>	<u>(88,468)</u>
Net investment earnings	<u>(15,697)</u>	<u>(67,895)</u>	<u>(83,592)</u>
<b>Total Additions</b>	<u>740,545</u>	<u>783,066</u>	<u>1,523,611</u>
<b>Deductions</b>			
Legal	20,468	19,628	40,096
Actuary	13,817	8,657	22,474
Administrative	2,061	2,286	4,347
Refunds to contributors	<u>96,543</u>	<u>26,043</u>	<u>122,586</u>
<b>Total Deductions</b>	<u>132,889</u>	<u>56,614</u>	<u>189,503</u>
<b>Change in Net Assets</b>	607,656	726,452	1,334,108
<b>Fund Balances - October 1, 2010</b>	<u>5,232,879</u>	<u>2,877,183</u>	<u>8,110,062</u>
<b>Fund Balances - September 30, 2011</b>	<u>\$ 5,840,535</u>	<u>3,603,635</u>	<u>9,444,170</u>

**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).

## CITY OF MARCO ISLAND, FLORIDA

### Notes to Financial Statements - Continued

#### (4) **Other Information - Continued**

##### (e) **Employee Retirement Systems and Pensions Plans - Continued**

**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 or online at [www.myfrs.com](http://www.myfrs.com).

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 plan provision and contribution requirements of the system members and the City are established and may be amended by the State of Florida. Effective July 1, 2011 employees are required to make contributions of 3%; the City's contribution is 14.1%, for a total contribution of 17.1% of eligible wages. The City's contributions to the System for the years ended September 30, 2011, 2010 and 2009, were \$219,788, \$237,639 and \$245,512, respectively; and were equal to the required contributions for each year. The employee's contributions to the system for the same years were \$3,894, \$0 and \$0.

##### (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 Plan is available to all employees not covered under the Firefighters' or Police Officers' Pension Plans or the Firefighters' Florida Retirement System. Employees have the option of using 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, 2011, 2010 and 2009 were \$359,159, \$374,337 and \$367,103, respectively. Plan provision and contribution requirements are established and may be amended by the City Manager.

**CITY OF MARCO ISLAND, FLORIDA**

**Notes to Financial Statements - Continued**

**(4) Other Information - Continued**

**(g) 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, 2010 the City has an actuarially determined unfunded accrued liability of \$907,647. 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.

Plan Description: The City administers a single-employer defined benefit healthcare plan that provides medical and dental 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 62 and with five or more years of service. Firefighters and sworn police officers may retire at age 55 and 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	7
Eligible Spouses	<u>3</u>
Total	<u><u>206</u></u>

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 postretirement 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.

Annual OPEB Cost and Net OPEB Obligation: The City's annual other postemployment 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.

**CITY OF MARCO ISLAND, FLORIDA**

**Notes to Financial Statements - Continued**

**(4) Other Information - Continued**

**(g) Other Post Employment Benefits - Continued**

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:

Valuation Date Applicable for Fiscal Year Ending	<u>Utilities</u>	<u>All Other Employees</u>
	<u>10/1/2010</u>	<u>10/1/2010</u>
	<u>9/30/2011</u>	<u>9/30/2011</u>
Annual Required Contribution	\$ 48,510	139,253
Interest on Net OPEB Obligation	3,632	7,752
Adjustment to Annual Required Contribution	<u>(4,501)</u>	<u>(9,605)</u>
Annual OPEB Cost/(Expense)	47,641	137,400
Net Contributions Made	<u>(862)</u>	<u>(29,019)</u>
Increase/(Decrease) in Net OPEB Obligation	46,779	108,381
Net OPEB Obligation - Beginning of Year	<u>72,648</u>	<u>155,032</u>
Net OPEB Obligation - End of Year	\$ <u><u>119,427</u></u>	\$ <u><u>263,413</u></u>

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal years 2011, 2010 and 2009 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>
9/30/2011	\$ 47,641	1.8%	\$ 119,427
9/30/2010	37,371	2.6%	72,648
9/30/2009	39,395	8.9%	35,889

All Other Employees:

<u>Year Ending</u>	<u>Annual OPEB Cost</u>	<u>Percentage of OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
9/30/2011	\$ 137,400	21.1%	\$ 263,413
9/30/2010	99,727	22.9%	155,032
9/30/2009	89,830	13.0%	78,121

**CITY OF MARCO ISLAND, FLORIDA**

**Notes to Financial Statements - Continued**

**(4) Other Information - Continued**

**(g) Other Post-Employment Benefits - Continued**

Funded Status and Funding Progress: The schedule below shows the balance of the actuarial accrued liability (AAL), all of which was unfunded as of September 30, 2011:

Utilities Employees:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Accrued Liability (AAL) Unit Credit (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as % of Covered Payroll ((b-a)/c)
10/1/2010	\$ -	163,152	163,152	0.0%	\$ 3,599,606	4.5%
10/1/2009	-	110,912	110,912	0.0%	3,645,502	3.0%
10/1/2008	-	89,259	89,259	0.0%	3,513,719	2.5%

All Other Employees:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Accrued Liability (AAL) Unit Credit (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as % of Covered Payroll ((b-a)/c)
10/1/2010	\$ -	744,522	744,522	0.0%	\$ 7,418,933	10.0%
10/1/2009	-	481,311	481,311	0.0%	7,618,478	6.3%
10/1/2008	-	417,628	417,628	0.0%	7,398,878	5.6%

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 assumptions included: (a) 5% funding interest rate; (b) pre-Medicaid healthcare inflation of 9% (grading down to 5% in 2015); (c) post-Medicaid healthcare inflation of 9% (grading down to 5% in 2015). The actuarial accrued liability is being amortized as a level percentage of payroll over thirty years (closed basis).

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

The actuarial cost method used in the valuation to determine the Actuarial Accrued Liability (AAL) and the Actuarial Required Contribution (ARC) was the entry age normal method (level percentage of pay).

The use of this method involves the systematic funding of the normal costs and the unfunded accrued past service liability (UAAL). There is also a new UAAL created each year equal to the actuarial gain or loss for that year.



**CITY OF MARCO ISLAND, FLORIDA**

**Notes to Financial Statements - Continued**

**(4) Other Information - Continued**

**(h) Subsequent Events**

During fiscal year 2006, the City started a major program titled the Septic Tank Replacement Program (STRP) to bring central sewer to approximately 5,700 single-family residential parcels currently using septic tanks. The program has been divided into seventeen neighborhoods, to be constructed over seven years. Interim financing for the program to date has been provided through bank loans at interest rates tied to LIBOR. Permanent financing, secured by assessments on properties being improved with central sewer, is obtained after each neighborhood has been constructed and actual costs are known. Permanent financing is obtained through a combination of subsidized interest rate financing from the State of Florida Revolving Loan Fund Program (SRF) and fixed rate bank loans. On March 1, 2012, the City closed on two loans totaling \$3 million secured by assessment capacity revenues and retired the 2009 interim water and sewer revenue note of \$5,956,042.

Based on preliminary results of a water and sewer rate consultant's revenue sufficiency and cost of service studies, the City reduced the STRP road resurfacing surcharge by 1% from 4% to 3% and the STRP ERC buy down surcharge by 5% from 8% to 3% effective March 20, 2012. This is in addition to the previous adopted budget recommended reduction effective November 14, 2011 of the STRP road resurfacing surcharge by 2% from 6% to 4%.

**REQUIRED SUPPLEMENTARY  
INFORMATION**

**CITY OF MARCO ISLAND, FLORIDA**

**Pension Trust Funds**

**Schedule of Funding Progress  
Firefighters' Pension Plan**

<b>Actuarial Valuation Date</b>	<b>(a) Actuarial Value of Assets</b>	<b>(b) Actuarial Accrued Liability (AAL) Entry Age</b>	<b>(b-a) Unfunded (Overfunded) AAL (UAAL)</b>	<b>(A/B) Funded Ratio</b>	<b>(c) Covered Payroll</b>	<b>(b-a)/(c) UAAL as a Percentage of Covered Payroll</b>
10/1/2006	\$ 1,142,686	998,736	(143,950)	114.4%	812,703	-17.7%
10/1/2007	1,629,498	1,448,921	(180,577)	112.5%	977,418	-18.5%
10/1/2008	1,386,519	1,917,711	531,192	72.3%	1,154,776	46.0%
10/1/2009	1,914,130	2,335,981	421,851	81.9%	1,336,355	31.6%
10/1/2010	2,662,517	3,005,433	342,916	88.6%	1,309,352	26.2%
10/1/2011	3,071,853	3,573,520	501,667	86.0%	1,404,142	35.7%

**CITY OF MARCO ISLAND, FLORIDA**

**Pension Trust Funds**

**Schedule of Employer and State Contributions  
Firefighters' Pension Plan**

<b>Fiscal Year Ended</b>	<b>Annual Required Contribution</b>	<b>City Contribution</b>	<b>State Contribution</b>	<b>Percentage Contributed</b>
9/30/2006	\$ 126,510	52,574	73,936	100.0%
9/30/2007	195,928	151,300	73,936	115.0%
9/30/2008	207,699	133,763	73,936	100.0%
9/30/2009	302,738	228,802	73,936	100.0%
9/30/2010	427,810	353,874	73,936	100.0%
9/30/2011	435,235	367,698	73,936	101.5%

**CITY OF MARCO ISLAND, FLORIDA**

**Pension Trust Funds**

**Schedule of Funding Progress  
Police Officers' Pension Plan**

<b>Actuarial Valuation Date</b>	<b>(a) Actuarial Value of Assets</b>	<b>(b) Actuarial Accrued Liability (AAL) Entry Age</b>	<b>(b-a) Unfunded (Overfunded) AAL (UAAL)</b>	<b>(A/B) Funded Ratio</b>	<b>(c) Covered Payroll</b>	<b>(b-a)/(c) UAAL as a Percentage of Covered Payroll</b>
10/1/2006	\$ 375,400	2,799,941	2,424,541	13.4%	\$ 1,702,158	142.4%
10/1/2007	792,685	3,686,865	2,894,180	21.5%	1,844,318	156.9%
10/1/2008	1,363,977	4,977,447	3,613,470	27.4%	2,010,512	179.7%
10/1/2009	2,077,907	6,078,152	4,000,245	34.2%	2,024,908	197.6%
10/1/2010	2,827,399	6,480,618	3,653,219	43.6%	1,976,687	184.8%
10/1/2011	3,591,071	7,423,811	3,832,740	48.4%	1,916,201	200.0%

**CITY OF MARCO ISLAND, FLORIDA**

**Pension Trust Funds**

**Schedule of Employer and State Contributions  
Police Officers' Pension Plan**

<b>Fiscal Year Ended</b>	<b>Annual Required Contribution</b>	<b>City Contribution</b>	<b>State Contribution</b>	<b>Percentage Contributed</b>
9/30/2006	\$ 312,780	257,999	54,781	100.0%
9/30/2007	322,163	229,970	92,193	100.0%
9/30/2008	447,402	374,369	95,758	105.1%
9/30/2009	549,632	450,064	99,568	100.0%
9/30/2010	643,473	540,651	102,822	100.0%
9/30/2011	752,842	656,467	96,375	100.0%

**CITY OF MARCO ISLAND, FLORIDA**

**General Fund**

**Schedule of Revenues, Expenditures and Changes in Fund Balances  
Budget and Actual (Budgetary Basis) - General Fund**

**For the Year Ended September 30, 2011**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
<b>Revenues</b>				
Taxes:				
Ad valorem taxes	\$ 14,857,050	14,857,050	15,011,368	154,318
Other taxes	1,728,430	2,030,105	2,114,992	84,887
Permits and impact fees	16,500	16,500	167,071	150,571
Intergovernmental	2,852,670	3,020,108	3,149,969	129,861
Charges for services	207,000	911,780	920,267	8,487
Fines and forfeitures	193,000	208,000	231,662	23,662
Interest income	150,000	150,000	174,804	24,804
Miscellaneous	5,000	47,553	164,662	117,109
<b>Total Revenues</b>	<u>20,009,650</u>	<u>21,241,096</u>	<u>21,934,795</u>	<u>693,699</u>
<b>Expenditures</b>				
Current:				
General government:				
Legislative	58,190	58,990	56,084	2,906
Executive	552,735	553,935	547,075	6,860
Finance	737,505	747,505	711,798	35,707
Legal	400,000	425,000	438,035	(13,035)
Community affairs	531,325	531,325	444,036	87,289
General government	<u>1,285,340</u>	<u>1,673,724</u>	<u>1,392,537</u>	<u>281,187</u>
Total general government	<u>3,565,095</u>	<u>3,990,479</u>	<u>3,589,565</u>	<u>400,914</u>
Public safety:				
Police services	4,142,560	4,142,560	4,117,627	24,933
Fire and rescue	4,530,615	4,999,728	4,821,296	178,432
Code compliance	<u>276,740</u>	<u>291,740</u>	<u>268,625</u>	<u>23,115</u>
Total public safety	<u>8,949,915</u>	<u>9,434,028</u>	<u>9,207,548</u>	<u>226,480</u>
Highways and streets	<u>1,223,890</u>	<u>1,223,890</u>	<u>1,113,799</u>	<u>110,091</u>
Culture and recreation:				
Parks maintenance	587,130	599,280	637,786	(38,506)
Recreation administration	776,505	790,433	767,758	22,675
Beautification	<u>570,050</u>	<u>593,850</u>	<u>574,496</u>	<u>19,354</u>
Total culture and recreation	<u>1,933,685</u>	<u>1,983,563</u>	<u>1,980,040</u>	<u>3,523</u>
<b>Total Expenditures</b>	<u>15,672,585</u>	<u>16,631,960</u>	<u>15,890,952</u>	<u>741,008</u>
<b>Excess of Revenues Over Expenditures</b>	<u>4,337,065</u>	<u>4,609,136</u>	<u>6,043,843</u>	<u>1,434,707</u>
<b>Other Financing Sources (Uses)</b>				
Transfers in	-	223,154	-	(223,154)
Transfers out	<u>(4,337,065)</u>	<u>(4,832,290)</u>	<u>(4,507,508)</u>	<u>324,782</u>
<b>Total Other Financing Sources (Uses)</b>	<u>(4,337,065)</u>	<u>(4,609,136)</u>	<u>(4,507,508)</u>	<u>101,628</u>
<b>Net Change in Fund Balance</b>	-	-	1,536,335	1,536,335
<b>Fund Balances - October 1, 2010</b>	<u>12,309,004</u>	<u>12,309,004</u>	<u>12,309,004</u>	-
<b>Fund Balances - September 30, 2011</b>	<u>\$ 12,309,004</u>	<u>12,309,004</u>	<u>13,845,339</u>	<u>1,536,335</u>

## **NOTES TO BUDGETARY COMPARISON SCHEDULE**

### **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 per individual occurrence during the year. 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 \$1,454,600 of supplemental appropriations in the general fund during the year end September 30, 2011.
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, 2011, general government did not have expenditures exceeding fund level appropriations.



## NOTES TO BUDGETARY COMPARISON SCHEDULE

### NOTE 3. BUDGET/GAAP RECONCILIATION

The following schedule reconciles the amounts on the budgetary comparison schedule to the amounts on the statement of revenues, expenditures and changes in fund balances-governmental funds:

#### General Fund

Net change in fund balance - actual amounts - budgetary basis - as reported on the budgetary comparison schedule (Page 93)	\$ 1,536,335
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#### Differences – Budget to GAAP

Uses/outflows of resources:

Transfer of designated fund balance out of the general fund into capital projects fund are not reported in the year for budgetary purposes, but are reported in the year for GAAP financial reporting purposes	<u>(6,735,711)</u>
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Net change in fund balance - General Fund - GAAP basis - as reported on the statement of revenues, expenditures and changes in fund balances governmental funds (Page 27)	<u>\$ (5,199,376)</u>
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**COMBINING AND INDIVIDUAL NONMAJOR FUND FINANCIAL STATEMENTS**

## **Nonmajor Governmental Funds**

### **Special Revenue Funds**

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

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

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

### **Debt Service Fund**

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

**CITY OF MARCO ISLAND, FLORIDA**

**Combining Balance Sheet**

**Nonmajor Governmental Funds**

**September 30, 2011**

	<u>Special Revenue Funds</u>			<u>Nonmajor Fund Totals</u>
	<u>Emergency Relief</u>	<u>Building Services</u>	<u>Debt Service</u>	
<b>Assets</b>				
Pooled cash and investments	\$ -	965,394	1,090,347	2,055,741
Restricted cash and investments	-	-	549,773	549,773
<b>Total Assets</b>	<u>\$ -</u>	<u>965,394</u>	<u>1,640,120</u>	<u>2,605,514</u>
<b>Liabilities and Fund Balances</b>				
<b>Liabilities</b>				
Accounts payable	\$ -	4,217	-	4,217
Accrued liabilities	-	12,727	-	12,727
<b>Total Liabilities</b>	<u>-</u>	<u>16,944</u>	<u>-</u>	<u>16,944</u>
<b>Fund Balances</b>				
Restricted for:				
Debt service	-	-	549,773	549,773
Assigned to:				
Building services	-	948,450	-	948,450
Debt service	-	-	1,090,347	1,090,347
<b>Total Fund Balances</b>	<u>-</u>	<u>948,450</u>	<u>1,640,120</u>	<u>2,588,570</u>
<b>Total Liabilities and Fund Balances</b>	<u>\$ -</u>	<u>965,394</u>	<u>1,640,120</u>	<u>2,605,514</u>

**CITY OF MARCO ISLAND, FLORIDA**

**Combining Statement of Revenues, Expenditures  
and Changes in Fund Balances**

**Nonmajor Governmental Funds**

**For the Year Ended September 30, 2011**

	<u>Special Revenue Funds</u>		<u>Debt Service</u>	<u>Nonmajor Fund Totals</u>
	<u>Emergency Relief</u>	<u>Building Services</u>		
<b>Revenues</b>				
Taxes	\$ -	-	857,242	857,242
Permits and impact fees	-	826,128	-	826,128
Interest	-	35,547	-	35,547
Miscellaneous	-	1,183	-	1,183
<b>Total Revenues</b>	<u>-</u>	<u>862,858</u>	<u>857,242</u>	<u>1,720,100</u>
<b>Expenditures</b>				
Current:				
General government	12,562	-	-	12,562
Building services	-	1,104,754	-	1,104,754
Debt Service:				
Principal	-	-	1,543,467	1,543,467
Interest and fiscal charges	-	-	477,221	477,221
<b>Total Expenditures</b>	<u>12,562</u>	<u>1,104,754</u>	<u>2,020,688</u>	<u>3,138,004</u>
<b>Excess (Deficiency) of Revenues Over (Under)Expenditures</b>	<u>(12,562)</u>	<u>(241,896)</u>	<u>(1,163,446)</u>	<u>(1,417,904)</u>
<b>Other Financing Sources</b>				
Transfers in	-	-	868,712	868,712
<b>Total Other Financing Sources (Uses)</b>	<u>-</u>	<u>-</u>	<u>868,712</u>	<u>868,712</u>
<b>Net Change in Fund Balances</b>	<u>(12,562)</u>	<u>(241,896)</u>	<u>(294,734)</u>	<u>(549,192)</u>
<b>Fund Balances - October 1, 2010</b>	<u>12,562</u>	<u>1,190,346</u>	<u>1,934,854</u>	<u>3,137,762</u>
<b>Fund Balances - September 30, 2011</b>	<u>\$ -</u>	<u>948,450</u>	<u>1,640,120</u>	<u>2,588,570</u>

**CITY OF MARCO ISLAND, FLORIDA**

**Schedule of Revenues, Expenditures  
and Changes in Fund Balances - Budget and Actual  
Capital Projects Fund**

**For the Year Ended September 30, 2011**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Intergovernmental	\$ 400,000	1,099,411	1,104,153	4,742
<b>Total Revenues</b>	<u>400,000</u>	<u>1,099,411</u>	<u>1,104,153</u>	<u>4,742</u>
<b>Expenditures</b>				
Capital outlay	<u>2,535,000</u>	<u>8,218,989</u>	<u>4,195,157</u>	<u>4,023,832</u>
<b>Total Expenditures</b>	<u>2,535,000</u>	<u>8,218,989</u>	<u>4,195,157</u>	<u>4,023,832</u>
<b>Excess (Deficiency) of Revenues Over (Under)Expenditures</b>	<u>(2,135,000)</u>	<u>(7,119,578)</u>	<u>(3,091,004)</u>	<u>4,028,574</u>
<b>Other Financing Sources (Uses)</b>				
Transfers in	<u>2,135,000</u>	<u>7,119,578</u>	<u>10,520,007</u>	<u>3,400,429</u>
<b>Total Other Financing Sources (Uses)</b>	<u>2,135,000</u>	<u>7,119,578</u>	<u>10,520,007</u>	<u>3,400,429</u>
<b>Net Change in Fund Balances</b>	-	-	7,429,003	<u><u>7,429,003</u></u>
<b>Fund Balances - October 1, 2010</b>	<u>-</u>	<u>-</u>	<u>-</u>	
<b>Fund Balances - September 30, 2011</b>	<u><u>\$ -</u></u>	<u><u>-</u></u>	<u><u>7,429,003</u></u>	

**CITY OF MARCO ISLAND, FLORIDA**

**Schedule of Revenues, Expenditures  
and Changes in Fund Balances - Budget and Actual  
Building Services Fund**

**For the Year Ended September 30, 2011**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Permits and impact fees	\$ 800,000	800,000	826,128	26,128
Interest	30,000	30,000	35,547	5,547
Miscellaneous	-	-	1,183	1,183
<b>Total Revenues</b>	<u>830,000</u>	<u>830,000</u>	<u>862,858</u>	<u>32,858</u>
<b>Expenditures</b>				
Current:				
Building services:				
Personal services	652,655	652,655	702,237	(49,582)
Operating expenses	398,985	403,985	382,729	21,256
Capital Outlay	-	51,353	19,788	31,565
<b>Total Expenditures</b>	<u>1,051,640</u>	<u>1,107,993</u>	<u>1,104,754</u>	<u>3,239</u>
<b>Excess (Deficiency) of Revenues Over (Under)Expenditures</b>	<u>(221,640)</u>	<u>(277,993)</u>	<u>(241,896)</u>	<u>29,619</u>
<b>Other Financing Sources (Uses)</b>				
Use of reserves	<u>221,640</u>	<u>277,993</u>	<u>-</u>	<u>(277,993)</u>
<b>Total Other Financing Sources (Uses)</b>	<u>221,640</u>	<u>277,993</u>	<u>-</u>	<u>(277,993)</u>
<b>Net Change in Fund Balances</b>	<u>-</u>	<u>-</u>	<u>(241,896)</u>	<u>(241,896)</u>
<b>Fund Balances - October 1, 2010</b>	<u>1,190,346</u>	<u>1,190,346</u>	<u>1,190,346</u>	
<b>Fund Balances - September 30, 2011</b>	<u>\$ 1,190,346</u>	<u>1,190,346</u>	<u>948,450</u>	

**CITY OF MARCO ISLAND, FLORIDA**

**Schedule of Revenues, Expenditures  
and Changes in Fund Balances - Budget and Actual  
Debt Service Fund**

**For the Year Ended September 30, 2011**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Taxes	\$ 847,850	847,850	857,242	9,392
<b>Total Revenues</b>	<u>847,850</u>	<u>847,850</u>	<u>857,242</u>	<u>9,392</u>
<b>Expenditures</b>				
Debt service:				
Principal	1,160,750	1,565,750	1,543,467	22,283
Interest and fiscal charges	<u>461,365</u>	<u>475,590</u>	<u>477,221</u>	<u>(1,631)</u>
<b>Total Expenditures</b>	<u>1,622,115</u>	<u>2,041,340</u>	<u>2,020,688</u>	<u>20,652</u>
<b>Excess (Deficiency) of Revenues Over (Under)Expenditures</b>	<u>(774,265)</u>	<u>(1,193,490)</u>	<u>(1,163,446)</u>	<u>30,044</u>
<b>Other Financing Sources (Uses)</b>				
Transfers in	<u>774,265</u>	<u>1,193,490</u>	<u>868,712</u>	<u>(324,778)</u>
<b>Total Other Financing Sources (Uses)</b>	<u>774,265</u>	<u>1,193,490</u>	<u>868,712</u>	<u>(324,778)</u>
<b>Net Change in Fund Balances</b>	-	-	(294,734)	<u>(294,734)</u>
<b>Fund Balances - October 1, 2010</b>	<u>1,934,854</u>	<u>1,934,854</u>	<u>1,934,854</u>	
<b>Fund Balances - September 30, 2011</b>	<u>\$ 1,934,854</u>	<u>1,934,854</u>	<u>1,640,120</u>	



**CITY OF MARCO ISLAND, FLORIDA**

**Schedule of Revenues, Expenditures  
and Changes in Fund Balances - Budget and Actual  
Emergency Relief Fund**

**For the Year Ended September 30, 2011**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Intergovernmental	\$ -	12,562	-	(12,562)
<b>Total Revenues</b>	-	12,562	-	(12,562)
<b>Expenditures</b>				
Personnel services	-	-	-	-
Operating expenses	-	12,562	12,562	-
Miscellaneous	-	-	-	-
<b>Total Expenditures</b>	-	12,562	12,562	-
<b>Excess (Deficiency) of Revenues Over (Under)Expenditures</b>	-	-	(12,562)	(12,562)
<b>Other Financing Sources (Uses)</b>				
Transfers in	-	-	-	-
<b>Total Other Financing Sources (Uses)</b>	-	-	-	-
<b>Net Change in Fund Balances</b>	-	-	(12,562)	<u>(12,562)</u>
<b>Fund Balances - October 1, 2010</b>	-	-	12,562	
<b>Fund Balances - September 30, 2011</b>	<u>\$ -</u>	<u>-</u>	<u>-</u>	

## **Fiduciary Funds**

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

**CITY OF MARCO ISLAND, FLORIDA**

**Combining Statement of Fiduciary Net Assets  
Pension Trust Funds**

**September 30, 2011**

	<u>Fire Pension</u>	<u>Police Pension</u>	<u>Total Pension Trust Funds</u>
<b>Assets</b>			
Cash and cash equivalents	\$ 553,302	508,639	1,061,941
Accounts receivable:			
Unsettled sales	3,232	9,219	12,451
Investments, at fair value:			
Common stock	3,080,070	1,678,738	4,758,808
Government bonds	2,205,196	1,402,918	3,608,114
Accrued interest	<u>9,097</u>	<u>5,786</u>	<u>14,883</u>
<b>Total Assets</b>	<u>5,850,897</u>	<u>3,605,300</u>	<u>9,456,197</u>
<b>Liabilities</b>			
Accounts payable	<u>10,362</u>	<u>1,665</u>	<u>12,027</u>
<b>Total Liabilities</b>	<u>10,362</u>	<u>1,665</u>	<u>12,027</u>
<b>Net Assets</b>			
Held in trust for pension benefits	<u>\$ 5,840,535</u>	<u>3,603,635</u>	<u>9,444,170</u>

**CITY OF MARCO ISLAND, FLORIDA**

**Combining Statement of Changes in Fiduciary Net Assets  
Pension Trust Funds**

**For the Year Ended September 30, 2011**

	<u>Fire Pension</u>	<u>Police Pension</u>	<u>Total Pension Trust Funds</u>
<b>Additions</b>			
Contributions:			
Employer	\$ 367,698	645,383	1,013,081
Employee	12,938	109,203	122,141
State of Florida insurance funds	<u>375,606</u>	<u>96,375</u>	<u>471,981</u>
Total contributions	<u>756,242</u>	<u>850,961</u>	<u>1,607,203</u>
Investment earnings:			
Investment interest and dividends	163,520	101,245	264,765
Investment loss	(122,453)	(137,436)	(259,889)
Investment expenses	<u>(56,764)</u>	<u>(31,704)</u>	<u>(88,468)</u>
Net investment earnings	<u>(15,697)</u>	<u>(67,895)</u>	<u>(83,592)</u>
<b>Total Additions</b>	<u>740,545</u>	<u>783,066</u>	<u>1,523,611</u>
<b>Deductions</b>			
Legal	20,468	19,628	40,096
Actuary	13,817	8,657	22,474
Administrative	2,061	2,286	4,347
Refunds to contributors	<u>96,543</u>	<u>26,043</u>	<u>122,586</u>
<b>Total Deductions</b>	<u>132,889</u>	<u>56,614</u>	<u>189,503</u>
<b>Change in Net Assets</b>	607,656	726,452	1,334,108
<b>Fund Balances - October 1, 2010</b>	<u>5,232,879</u>	<u>2,877,183</u>	<u>8,110,062</u>
<b>Fund Balances - September 30, 2011</b>	<u>\$ 5,840,535</u>	<u>3,603,635</u>	<u>9,444,170</u>



**STATISTICAL SECTION  
(UNAUDITED)**

## **STATISTICAL SECTION (Unaudited)**

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

### **Financial Trends**

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

### **Revenue Capacity**

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

### **Debt Capacity**

These schedules contain information to assist the reader in assessing the City's ability to afford its current levels of outstanding debt and in assessing the City's ability to issue additional debt in the future. The City has no overlapping debt or legal debt margin.

### **Demographic and Economic Information**

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

### **Operating Information**

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

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

**CITY OF MARCO ISLAND, FLORIDA**

**Net Assets by Component  
(Unaudited)**

**Last Eight Fiscal Years <sup>(1)</sup>  
(Accrual Basis of Accounting)**

	<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:								
Invested in capital assets, net of related debt	\$ 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	1,271,905	1,158,168	971,144	6,856,789	14,549,105	23,500,743	18,455,208	3,969,046
Unrestricted	<u>15,342,016</u>	<u>14,052,309</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 assets	85,724,291	83,359,338	83,488,460	80,394,466	75,123,990	67,274,256	56,848,394	33,831,004
Business-type activities:								
Invested in capital assets, net of related debt	28,184,757	19,655,427	35,132,580	35,680,521	19,956,161	13,601,948	8,520,919	4,187,756
Restricted	26,945,022	30,738,217	15,227,514	7,454,188	5,878,767	7,510,845	13,044,910	12,198,489
Unrestricted	<u>43,595,429</u>	<u>34,644,030</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 assets	98,725,208	85,037,674	65,748,012	49,231,512	22,081,968	10,540,691	8,280,114	3,665,672
Primary government:								
Invested in capital assets, net of related debt	97,295,127	87,804,288	101,952,547	100,538,187	72,995,034	51,272,793	34,435,409	18,327,904
Restricted	28,216,927	31,896,385	16,198,658	14,310,977	20,427,872	31,011,588	31,500,118	16,167,535
Unrestricted	<u>58,937,445</u>	<u>48,696,339</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 assets	\$ <u>184,449,499</u>	<u>168,397,012</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. Ultimately, this schedule will contain information for the last ten years.

**CITY OF MARCO ISLAND, FLORIDA**

**Changes in Net Assets  
(Unaudited)**

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

	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>
<b>Expenses</b>								
<b>Governmental activities:</b>								
General government	\$ 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	4,224,760	3,951,306	3,910,895	3,394,126	3,570,381	3,024,973	2,690,359	2,606,276
Fire and rescue	5,147,712	4,685,618	4,377,797	3,902,445	3,633,748	3,156,845	2,547,211	2,768,306
Code compliance	269,208	1,146,597	248,818	197,316	179,376	148,161	116,787	199,036
Building services	875,979	821,680	923,423	1,216,644	1,350,070	1,128,468	680,662	1,020,790
Transportation	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	2,135,742	2,035,189	1,951,683	2,266,414	1,922,094	1,574,669	911,520	3,334,436
Interest on long-term debt	509,186	517,849	590,776	647,164	713,034	628,218	499,811	139,825
<b>Total governmental activities expenses</b>	<b>22,630,186</b>	<b>24,260,297</b>	<b>22,999,515</b>	<b>19,251,824</b>	<b>18,147,044</b>	<b>17,186,755</b>	<b>11,007,038</b>	<b>14,263,090</b>
<b>Business-type activities:</b>								
Water and sewer	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	491,038	381,786	358,943	247,977	148,389	118,309	107,047	90,020
<b>Total business-type activities expenses</b>	<b>30,319,673</b>	<b>29,262,839</b>	<b>26,352,810</b>	<b>21,846,945</b>	<b>19,724,780</b>	<b>17,854,913</b>	<b>16,903,462</b>	<b>15,544,701</b>
<b>Total primary government expenses</b>	<b>52,949,859</b>	<b>53,523,136</b>	<b>49,352,325</b>	<b>41,098,769</b>	<b>37,871,824</b>	<b>35,041,668</b>	<b>27,910,500</b>	<b>29,807,791</b>
<b>Program revenues</b>								
<b>Governmental activities:</b>								
<b>Charges for services</b>								
General government	819,346	143,117	94,845	73,132	135,892	60,778	61,240	63,039
Police services	30,507	351,497	573,210	198,951	82,001	37,047	252,832	91,794
Fire and rescue	165,672	114,926	121,296	103,240	102,715	102,415	58,364	57,364
Code compliance	201,455	57,497	59,888	244,221	121,028	161,876	35,808	33,850
Building services	826,128	895,004	1,152,774	809,646	972,129	1,162,729	1,191,347	2,095,309
Culture and recreation	-	1,000	2,500	89,880	85,572	92,157	85,465	87,249
Operating grants and contributions	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	1,269,864	1,462,596	1,619,764	2,050,675	2,423,999	2,481,096	4,831,353	2,485,005
<b>Total governmental activities program services</b>	<b>4,546,831</b>	<b>4,065,489</b>	<b>5,429,990</b>	<b>3,769,526</b>	<b>4,244,833</b>	<b>6,357,976</b>	<b>7,631,631</b>	<b>6,634,962</b>
<b>Business-type activities:</b>								
Charges for services - water and sewer	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	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	10,521,771	18,893,283	14,834,768	24,655,181	6,925,418	1,450,000	504,360	-
<b>Total business-type activities program revenues</b>	<b>40,912,512</b>	<b>45,812,851</b>	<b>39,467,365</b>	<b>47,059,626</b>	<b>27,732,018</b>	<b>20,650,285</b>	<b>19,766,988</b>	<b>16,646,074</b>
<b>Net (expenses) revenues:</b>								
Governmental activities	(18,083,355)	(20,194,808)	(17,569,525)	(15,482,298)	(13,902,211)	(10,828,779)	(3,375,407)	(7,628,128)
Business-type activities	10,592,839	16,550,012	13,114,555	25,212,681	8,007,238	2,795,372	2,863,526	1,101,373
<b>Total primary government net expense</b>	<b>\$ (7,490,516)</b>	<b>(3,644,796)</b>	<b>(4,454,970)</b>	<b>9,730,383</b>	<b>(5,894,973)</b>	<b>(8,033,407)</b>	<b>(511,881)</b>	<b>(6,526,755)</b>

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



**CITY OF MARCO ISLAND, FLORIDA**

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

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

	<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 assets								
Governmental activities:								
Taxes:								
Property taxes	\$ 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	945,876	1,021,735	934,875	980,662	914,729	997,457	967,296	1,056,959
Other taxes	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	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	212,562	200,612	368,780	560,622	919,185	1,279,907	621,291	347,976
Gain (loss) on sale of capital assets	-	(6,300)	-	-	20,000	-	250,000	-
Miscellaneous	155,820	143,215	147,158	352,336	40,649	446,924	2,048,983	984,134
Transfers	145,500	-	40,000	-	-	-	108,759	-
Total governmental activities	<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	2,821,122	2,619,932	3,103,387	1,476,393	797,892	518,451	306,738	256,333
Miscellaneous	419,073	139,540	338,558	460,470	2,736,147	478,610	1,552,937	73,989
Gain (loss) on sale of capital assets	-	(19,822)	-	-	-	-	-	-
Transfers	(145,500)	-	(40,000)	-	-	-	(108,759)	-
Total business-type activities	<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>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 assets:								
Governmental activities	2,364,953	(129,122)	3,093,994	5,270,476	7,849,734	8,894,006	13,761,640	6,444,791
Business-type activities	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>16,052,487</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>

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

**CITY OF MARCO ISLAND, FLORIDA**

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

**Last Eight Fiscal Years <sup>(1)</sup>  
(Modified Accrual Basis of Accounting)**

	<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	\$ 3,331	-	-	-	-	-	-	-
Restricted	722,132	-	-	-	-	-	-	-
Assigned	20,289	-	-	-	-	-	-	-
Reserved	-	610,908	958,601	550,899	1,139,950	908,293	4,355,795	3,979,961
Unassigned	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	<u>7,109,628</u>	<u>12,309,004</u>	<u>13,225,690</u>	<u>11,738,277</u>	<u>19,644,422</u>	<u>28,249,803</u>	<u>28,105,648</u>	<u>17,407,962</u>
Total general fund	<u>\$ 7,106,297</u>	<u>12,309,004</u>	<u>13,225,690</u>	<u>12,289,176</u>	<u>20,784,372</u>	<u>29,158,096</u>	<u>28,105,648</u>	<u>17,407,962</u>
All other governmental funds:								
Restricted:								
Debt service fund	\$ 549,773	-	-	-	-	-	-	-
Assigned:								
Capital projects	4,312,832	-	-	-	-	-	-	-
Debt service	1,090,347	-	-	-	-	-	-	-
Building services	948,450	-	-	-	-	-	-	-
Asset replacement	3,116,171	-	-	-	-	-	-	-
Reserved:								
Debt service	-	1,934,854	1,895,754	1,886,087	767,380	447,019	508,100	-
Unreserved:								
Special revenue	-	1,202,908	1,406,108	1,551,384	993,865	374,843	2,431,981	2,201,959
Total all other governmental funds	<u>\$ 10,017,573</u>	<u>3,137,762</u>	<u>3,301,862</u>	<u>3,437,471</u>	<u>1,761,245</u>	<u>821,862</u>	<u>2,940,081</u>	<u>2,201,959</u>
Total governmental funds:								
Nonspendable	\$ 3,331	-	-	-	-	-	-	-
Restricted	1,271,905	-	-	-	-	-	-	-
Assigned	8,397,742	-	-	-	-	-	-	-
Unassigned	6,363,876	-	-	-	-	-	-	-
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	<u>\$ 16,036,854</u>	<u>15,446,766</u>	<u>16,527,552</u>	<u>15,726,647</u>	<u>22,545,617</u>	<u>29,979,958</u>	<u>31,045,729</u>	<u>19,609,921</u>

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

**CITY OF MARCO ISLAND, FLORIDA**

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

**Last Eight Fiscal Years (1)  
(Modified Accrual Basis of Accounting)**

	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>
<b>Revenues</b>								
Taxes	\$ 17,983,602	17,883,310	18,359,013	17,896,670	18,819,843	16,341,065	12,585,979	11,870,991
Permits and Impact Fees	993,199	953,501	775,843	840,236	1,008,708	1,199,975	1,229,030	2,130,035
Intergovernmental	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	920,267	314,391	238,987	378,902	435,456	302,343	355,670	522,944
Fines and forfeitures	231,662	351,497	573,210	198,951	82,001	37,047	252,832	91,794
Interest income	210,351	200,612	368,780	560,622	919,185	1,279,907	621,291	347,976
Miscellaneous	165,845	441,478	1,165,249	589,362	355,365	344,177	528,190	1,102,955
<b>Total revenues</b>	<b>24,759,048</b>	<b>24,049,463</b>	<b>25,574,731</b>	<b>24,307,844</b>	<b>25,892,029</b>	<b>25,956,130</b>	<b>24,415,929</b>	<b>21,344,837</b>
<b>Expenditures</b>								
Current:								
General government	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	4,117,627	3,858,373	3,945,801	3,462,233	3,468,913	3,282,913	2,593,972	2,594,499
Fire and rescue	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	268,625	282,859	244,027	220,857	177,469	177,085	112,562	195,834
Building services	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	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	1,980,040	1,879,614	1,948,370	1,701,382	1,712,998	1,413,631	1,244,657	1,545,047
Debt service:								
Principal	1,543,467	2,100,575	2,072,782	2,045,087	1,687,485	669,973	131,922	491,264
Interest	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	4,195,157	4,535,622	4,764,578	11,745,066	14,906,202	15,680,011	6,690,666	13,780,786
<b>Total expenditures</b>	<b>23,224,113</b>	<b>25,130,250</b>	<b>25,345,852</b>	<b>31,126,814</b>	<b>33,343,370</b>	<b>30,929,192</b>	<b>19,552,119</b>	<b>25,933,250</b>
Excess (deficiency) of revenues over (under) expenditures	1,534,935	(1,080,787)	228,879	(6,818,970)	(7,451,341)	(4,973,062)	4,863,810	(4,588,413)
<b>Other financing sources (uses)</b>								
Transfers in	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	(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	-	-	532,026	-	-	-	786,292	-
Bonds issued	-	-	-	-	-	4,000,000	6,000,000	9,860,000
<b>Total other financing sources (uses)</b>	<b>145,500</b>	<b>-</b>	<b>572,026</b>	<b>-</b>	<b>20,000</b>	<b>4,000,000</b>	<b>6,571,998</b>	<b>9,860,000</b>
<b>Net change in fund balance</b>	<b>\$ 1,680,435</b>	<b>(1,080,787)</b>	<b>800,905</b>	<b>(6,818,970)</b>	<b>(7,431,341)</b>	<b>(973,062)</b>	<b>11,435,808</b>	<b>5,271,587</b>
Debt service as a percentage of non-capital expenditures	10.80%	13.27%	13.54%	14.85%	14.13%	8.56%	5.35%	6.16%
Capital outlay (per above)	\$ 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	316,570	855,459	906,286	1,153,197	1,340,988	396,895	2,546,777	539,886
<b>Total capital outlay</b>	<b>\$ 4,511,727</b>	<b>5,391,081</b>	<b>5,670,864</b>	<b>12,898,263</b>	<b>16,247,190</b>	<b>16,076,906</b>	<b>9,237,443</b>	<b>14,320,672</b>

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

**CITY OF MARCO ISLAND, FLORIDA**

**Assessed Value of Taxable Property  
(Unaudited)**

**Last Ten Fiscal Years**

<u>Fiscal Year</u>	<u>Assessed January 1st</u>	<u>Real Property <sup>(1)</sup></u>	<u>Personal Property <sup>(1)</sup></u>	<u>Total Assessed Taxable Value</u>	<u>Percentage Increase (Decrease) Over Prior Year</u>	<u>Total Direct Tax Rate</u>
2002	2001			4,691,374,309	21.1%	1.744
2003	2002			5,609,081,378	19.6%	1.690
2004	2003			6,352,910,401	13.3%	1.620
2005	2004	7,034,182,252	82,851,261	7,117,033,513	12.0%	1.586
2006 <sup>(2)</sup>	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 <sup>(3)</sup>	2011	7,493,705,720	74,289,395	7,567,995,115	-8.5%	2.077

<sup>(1)</sup> Breakdown of Total Assessed Taxable Value prior to 2004 not readily available.

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

<sup>(3)</sup> Information only. 2011 assessed values are used for fiscal year 2012 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**

Fiscal Year Ended	Direct		Overlapping								Total Levy
	City Operating	City Debt Service	Collier County Parks and Rec MSTU	Collier County Operating	Collier School Board	Mosquito Control	South FL Water Management	Water Pollution Control	Big Cypress Basin	Collier County Other	
2002	1.7437	-	0.0318	3.8772	7.2310	0.1465	0.2840	0.0420	0.2425	-	13.5987
2003	1.6900	-	0.0268	3.8772	6.9110	0.1167	0.2840	0.0347	0.2425	-	13.1829
2004	1.6200	-	-	3.8772	6.5240	0.1051	0.2840	0.0347	0.2425	0.2500	12.9375
2005	1.5400	0.0460	-	3.8772	6.2200	0.0962	0.2840	0.0347	0.2425	0.2500	12.5906
2006	1.2925	0.0950	-	3.8772	5.9730	0.0830	0.2840	0.0347	0.2425	0.2500	12.1319
2007	1.2445	0.0736	-	3.729	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 <sup>(1)</sup>	1.9592	0.1177	-	3.5645	5.5270	0.0934	0.1785	0.0293	0.1633	0.2500	11.8829

(1) Information only.

Source: Collier County Property Appraiser

**CITY OF MARCO ISLAND, FLORIDA**

**Principal Property Taxpayers  
(Unaudited)**

**Fiscal Year 2011** <sup>(1)</sup>

<u>Taxpayer</u>	<u>Property by Type</u>	<u>January 1, 2011 Taxable Valuation</u>	<u>Rank</u>	<u>% of Total Assessed Valuation</u>
City National Bank of Miami Marriott Marco Island Resort	Hospitality	\$ 65,449,147	1	0.79%
Marco Beach Hotel, Inc.	Hospitality	32,584,669	2	0.39%
Marriott Ownership Properties	Hospitality	18,404,502	3	0.22%
Marco Town Center, Inc.	Shopping Center	11,500,699	4	0.14%
A & N of Marco, Inc.	Shopping Center	8,575,362	5	0.10%
Bates, Wesley C.	Single Family Residence	6,600,629	6	0.08%
Gregg Holdings, Inc.	Single Family Residence	6,311,799	7	0.08%
Salvatore & Yvonne Balsamo	Condominium	6,302,600	8	0.08%
Venetian Investments, LLC	Shopping Center	6,031,486	9	0.07%
Jack C. & Dorothy J. Skoog Trust	Single Family Residence	5,387,637	10	0.07%
<b>Total</b>		<b>\$ 167,148,530</b>		<b>2.02%</b>

**Source: Collier County Property Appraiser**

(1) Information is not available for year 2002 comparison

**CITY OF MARCO ISLAND, FLORIDA**

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

**Last Ten Fiscal Years**

<b>Fiscal Year</b>	<b>Taxes Assessed January 1st</b>	<b>Total Tax Levy (2)</b>	<b>Current Tax Collections (2)</b>	<b>Percent of Current Taxes Collected</b>	<b>Delinquent Tax Collections</b>	<b>Total Collections To Date</b>	<b>Percent of Total Collections To Date</b>
2002	2001	8,180,349	7,904,281	96.7%	4,094	N/A	N/A
2003	2002	9,480,531	9,150,389	96.5%	5,659	N/A	N/A
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%

Source: Collier County Tax Collector

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

(2) Total tax levy & tax collection columns are City operating and debt, no Hideaway Beach Tax District

**CITY OF MARCO ISLAND, FLORIDA**

**Ratios of Outstanding Debt by Type  
(Unaudited)**

**Last Ten Fiscal Years**

Fiscal Year	Governmental Activities				Business-Type Activities		Total Primary Government	Percentage of Personal Income <sup>(3)</sup>	Per Capita <sup>(3)</sup>
	General Obligation Bonds	Non Ad Valorem	Sales Tax Revenue Bonds	Capital Leases	Water/Sewer Revenue Bonds (1)	STRP <sup>(2)</sup> Assessment Bonds & Notes			
2002	-	935,000	-	664,826	-	-	1,599,826	0.32%	105
2003	-	885,000	-	535,743	-	-	1,420,743	0.27%	93
2004	9,860,000	835,000	-	396,664	101,115,000	-	112,206,664	19.74%	7,204
2005	9,860,000	780,000	6,000,000	459,370	101,115,000	-	118,214,370	19.02%	7,549
2006	9,315,000	4,725,000	6,000,000	389,397	99,205,000	-	119,634,397	17.67%	7,600
2007	8,760,000	3,665,000	6,000,000	316,912	122,751,278	1,626,230	143,119,420	20.17%	9,044
2008	8,195,000	2,605,000	5,655,000	241,825	132,896,539	14,794,970	164,388,334	22.81%	9,753
2009	7,615,000	1,540,000	5,305,000	696,069	152,687,974	28,909,440	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%	13,902
2011	6,415,000	-	4,565,000	532,026	176,042,106	38,821,263	226,375,395	29.59%	13,792

<sup>(1)</sup> Water and wastewater operations on Marco Island and at Marco Shores acquired from Florida Water Services in November 2003. Includes \$10,416,042 of temporary financing for the Septic Tank Replacement Program for 2011.

<sup>(2)</sup> Septic Tank Replacement Program: includes permanent financing and state revolving loans. All of this debt is secured by special assessment districts.

<sup>(3)</sup> See the Schedule of Demographic and Economic Statistics on page 104 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**

<b>Fiscal Year</b>	<b>General Obligation Bonds</b>	<b>Less Amount in Debt Service</b>	<b>Net Amount</b>	<b>Percentage of Net Assessed Property Value <sup>(1)</sup></b>	<b>Per Capita <sup>(2)</sup></b>
2002	-	-	-	0.000%	-
2003	-	-	-	0.000%	-
2004	9,860,000	-	9,860,000	0.155%	633
2005	9,860,000	-	9,860,000	0.139%	630
2006	9,315,000	-	9,315,000	0.098%	592
2007	8,760,000	-	8,760,000	0.073%	554
2008	8,195,000	-	8,195,000	0.071%	486
2009	7,615,000	-	7,615,000	0.073%	453
2010	7,025,000	-	7,025,000	0.075%	422
2011	6,415,000	-	6,415,000	0.076%	391

<sup>(1)</sup> See the Schedule of Net Assessed Value of Taxable Property on Page 97 for net assessed property value data.

<sup>(2)</sup> See the Schedule of Demographic and Economic Statistics on Page 104 for population data.

Source: City of Marco Island Finance Department.

**CITY OF MARCO ISLAND, FLORIDA**

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

**Last Ten Fiscal Years (1)**

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	Coverage With Impact Fees (3)	Coverage Without Impact Fees (4)	Sales Tax Revenues	Debt Service	Coverage
2002	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
2003	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
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	24,521,643	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	26,194,153	350,659	11,778,669	14,766,143	14,415,484	7,585,672	1.95	1.90	1,385,346	550,654	2.52
2011	26,618,025	128,562	10,779,972	15,966,615	15,838,053	8,608,479	1.85	1.84	1,492,056	548,160	2.72

(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 Calendar Years**

<b>Fiscal Year</b>	<b>Population</b>			<b>Income</b>			<b>Florida Unemployment Rate</b> (2)
	<b>City of Marco Island</b> (1)	<b>Collier County</b> (1)	<b>State of Florida</b> (1)	<b>Florida Personal Income</b> (in millions of dollars) (2)	<b>Naples-Marco Island Per Capita Personal Income</b> (3)	<b>Florida Per Capita Personal Income</b> (2)	
2002	15,206	277,457	16,674,608	503,348	NA	29,451	5.5
2003	15,346	286,634	17,019,068	537,536	NA	29,803	4.9
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	16,635	333,600	18,801,310	740,651	61,308	37,854	12.0
2011	16,413	321,420	18,673,368	764,917	59,985	40,427	10.7

(1) Source: Bureau of Economic Research, University of Florida

(2) Source: Florida Tax Watch

(3) Source: Florida Office of Economic & Demographic Research

**CITY OF MARCO ISLAND, FLORIDA**

**Top Ten Employers, Naples - Marco Island  
(Unaudited)**

**Fiscal Year 2011 <sup>(1)</sup>**

<b>Employer</b>	<b>Business Type</b>	<b>Employees</b>	<b>Rank</b>
Naples Community Hospital	Healthcare	3,007	1
Publix Supermarket	Supermarket	2,214	2
Wal-mart	Discount & Variety Store	1,547	3
Marriott	Hotel	743	4
Fifth Third Bank	Banking	733	5
Naples Grande Resort	Hotel	605	6
Barron Collier Partnership	Real Estate & Land Development	600	7
Physicians Regional Medical Center	Healthcare	551	8
Robert Forbis, Inc.	Electrical Contractor	543	9
Home Depot	Home Improvement Store	542	10
Total		<u>11,085</u>	

Source: Enterprise Florida Inc.

Note: Data is for Naples-Marco Island regional area - data not updated since 2010.

(1) Information not available for 2002 comparison.

**CITY OF MARCO ISLAND, FLORIDA**

**Full Time Equivalent Employees  
by Department as of September 30  
(Unaudited)**

**Last Ten Fiscal Years**

Department	Fiscal Year									
	2011	2010 (2)	2009	2008	2007	2006	2005	2004 (1)	2003	2002
General Fund:										
Executive Administrative	6	8	8	8	6	5	5	5	5	5
Finance	7	16	14	14	15	15	14	14	4	4
Community Development	6	9	8	8	8	8	8	8	8	8
Fire / Rescue	38	38	38	35	35	32	32	31	31	31
Police	38.5	36	36	36	36	33	33	31	30	29
Public Works	6	10	11	11	11	9	8	8	8	8
Parks and Recreation	15	15	15	15	15	14	12	12	8	3
Total General Fund	116.5	132	130	127	126	116	112	109	94	88
Water / Sewer Enterprise Fund	77	66	63	61	58	51	49	49	1	1
Building Services Fund	8	10	10	10	10	8	8	7	7	7
Recreation Enterprise Fund	3.5	3	3	3	1	1	1	-	-	-
Total	205	211	206	201	195	176	170	165	102	96

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

(2) 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.

Source: City of Marco Island annual budgets.

**CITY OF MARCO ISLAND, FLORIDA**

**Operating Indicators by Department  
(Unaudited)**

**Last Ten Fiscal Years**

Department	Fiscal Year									
	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002
Police Department:										
Calls for Service	70,740	77,628	68,215	61,430	52,273	29,291	33,480	41,527	32,290	27,920
Fire Department:										
Calls for Service	2,688	2,802	2,430	2,448	2,911	2,467	2,481	2,358	2,095	2,329
Building Department:										
New Single-Family Homes	25	33	16	28	43	72	136	233	211	202
New Multi-Family Units	-	-	-	7	0	0	33	123	172	254
Total Permits Issued	5,149	5,381	4,800	5,194	5,456	7,121	4,917	4,836	4,981	4,304
Water Production (1):										
Number of Customers	9,756	9,623	9,428	9,496	9,517	8,929	8,784	8,329	NA	NA
Raw Flow into Water Plants: (Surface & Ground)										
Average Daily Treatment (Millions of gallons)	7.89	7.80	6.37	8.88	10.25	10.19	10.13	NA	NA	NA
Maximum Daily Treatment (Millions of gallons)	16.25	16.01	13.05	14.27	16.22	17.86	15.36	NA	NA	NA
WasteWater Treatment (1):										
Number of Customers	7,676	7,044	6,412	5,669	5,032	4,120	4,061	4,020	NA	NA
Flow into Wastewater Plants:										
Average Daily Treatment (Millions of gallons)	1.94	1.92	1.91	1.88	1.87	1.87	1.70	1.91	NA	NA
Maximum Daily Treatment (Millions of gallons)	3.72	3.67	3.44	4.65	3.00	3.00	2.83	3.93	NA	NA

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

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

Source: City of Marco Island

**CITY OF MARCO ISLAND, FLORIDA**

**Capital Asset Statistics by Function/Program  
(Unaudited)**

**Last Ten Fiscal Years**

Function/Program	Fiscal Year									
	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002
Police Department:										
Number of Stations	1	1	1	1	1	1	1	1	1	1
Number of Patrol Units	11	11	12	12	12	12	12	11	11	10
Fire Department:										
Number of Stations	2	2	2	2	2	2	2	2	2	2
Parks and Recreation:										
Number of Parks	10	10	10	8	8	8	8	8	8	7
Park Acreage	60.0	60.0	60.0	53.8	53.8	53.8	53.8	53.8	53.8	47.0
Tennis Courts	10	10	10	10	10	10	10	10	10	10
Bocce Ball Courts	3	3	3	3	2	2	2	2	2	0
Shuffleboard Courts	7	7	7	4	4	4	4	4	4	4
Racquetball Courts	2	2	2	2	2	2	2	2	2	2
Basketball Courts	1	1	1	1	1	1	1	1	1	1
Baseball/Softball Diamonds	3	3	3	2	2	2	2	2	2	2
Teen Center	1	1	1	1	0	0	0	0	0	0
Public Beach Access	2	2	2	1	1	0	0	0	0	0
Public River Access	1	1	1	1	1	1	0	0	0	0
Public Works:										
Streets (Centerline Miles)	127	127	127	127	127	127	127	127	127	127
Signalized intersections	10	10	10	10	8	8	7	7	7	7
Bridges	15	15	15	15	12	12	12	12	12	12
Utilities (1):										
Number of Water Plants	3	3	3	3	3	3	3	3	NA	NA
Number of WasteWater Plants	2	2	2	2	2	2	2	2	NA	NA
Water Lines (Miles)	155	140	140	140	140	140	140	140	NA	NA
Sewer Lines (Miles)	175	160	145	132	86	82	82	82	NA	NA

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

Source: City of Marco Island



**SINGLE AUDIT AND OTHER REPORTS AND LETTERS**





**Mayer Hoffman McCann P.C.**

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**Report on Internal Control Over Financial Reporting and on Compliance and  
Other Matters Based on an Audit of Financial Statements Performed  
in Accordance with *Government Auditing Standards***

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

We have audited 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, 2011, which collectively comprise the City of Marco Island, Florida’s basic financial statements and have issued our report thereon dated March 30, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

Management of the City is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the City’s internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City’s internal control over financial reporting.

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.

Our consideration of internal control over financial reporting 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 financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

### **Compliance and Other Matters**

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

We noted certain matters that we reported to management of the City, in a separate letter dated March 30, 2012.

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



March 30, 2012  
Clearwater, Florida



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**Report on Compliance with Requirements that Could Have a Direct and Material Effect  
on Each Major Program and on Internal Control Over Compliance  
in Accordance with OMB Circular A-133 and Chapter 10.550,  
*Rules of the Auditor General of the State of Florida***

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

**Compliance**

We have audited the City of Marco Island, Florida's (the "City") compliance with the types of compliance requirements described in the *U. S. Office of Management and Budget (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, 2011. The City's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and Chapter 10.550, *Rules of the Auditor General – Local Governmental Entity Audits*. Those standards, and OMB Circular A-133, and Chapter 10.550, *Rules of the Auditor General – Local Governmental Entity Audits*, require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the City's compliance with those requirements.

In our opinion, the City complied, in all material respects, with the 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, 2011.

## Internal Control Over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133 and Chapter 10.550, *Rules of the Auditor General – Local Governmental Entity Audits*, 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.

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 deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

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

*Maya Hoffman Mc Carr P.C.*

Clearwater, Florida  
March 30, 2012

**CITY OF MARCO ISLAND, FLORIDA**

**Schedule of Expenditures of Federal Awards**

**For the Year Ended September 30, 2011**

<b>Federal Agency, Pass-Through Entity Federal Program</b>	<b>CFDA</b>	<b>Grantors Number</b>	<b>Expenditures</b>
<b>Federal Awards</b>			
<b>Indirect Federal Awards</b>			
US Department of Transportation			
Passed through Florida Department of Transportation			
Highway Planning & Construction ( Linear Park Trail)	20.205	428108-1-58-01	\$ 209,258
Highway Planning & Construction (Sidewalk-SCB)	20.205	427945-1-58-01	277,569
Highway Planning & Construction ( Sidewalk Bald Eagle Dr)	20.205	427948-1-58-01	<u>36,462</u>
			<u>523,289</u>
Environmental Protection Agency			
Passed through Florida Department of Environmental Protection			
Capitalization Grants for Clean Water			
State Revolving Funds - Kendall	66.458	CWSRF 110700	4,100,000
State Revolving Funds - Mackle	66.458	CWSRF 110710	3,800,000
Capitalization Grants for Drinking Water			
State Revolving Funds	66.468	DW110301	<u>5,000,000</u>
			<u>12,900,000</u>
US Department of Housing and Urban Development (HUD)			
Passed through Collier County Housing & Human Services Dept.			
Community Development Block Grant (CDBG)	14.218	B-09-UC-12-0016	<u>43,452</u>
US Department of Agriculture/US Forestry Services			
Passed through Florida Dept. of Agriculture & Consumer Services			
Tree Planting Program	10.668	15935	<u>18,255</u>
Federal Emergency Management Agency			
Passed through Florida Division of Emergency Management			
Hazard Mitigation Grant	97.039	1785-013-R	<u>36,847</u>
US Department of Homeland Security			
Passed through Florida Department of Financial Services			
Division of Emergency Management			
Fire Hazardous Material	20.703	10-DS-39-13-00-16-414	10,492
Fire Hazardous Material	20.703	09-DS-51-13-00-16-409	45,920
Fire Hazardous Material	20.703	08-DS-60-13-00-16-373	<u>13,160</u>
			<u>69,572</u>
Bureau of Federal Property Assistance			
Passed through Florida Department Management Services			
Surplus Equipment	unknown	0-218	<u>3,500</u>
<b>Total Indirect Federal Awards</b>			<b><u>13,594,915</u></b>
<b>Direct Federal Awards</b>			
Department of Justice			
Federal Equitable Sharing Agreement	16.xxx	FL0110300	<u>7,807</u>
<b>Total Direct Federal Awards</b>			<b><u>7,807</u></b>
<b>Total Federal Awards</b>			<b>\$ <u>13,602,722</u></b>

**CITY OF MARCO ISLAND, FLORIDA**

**Notes to the Schedule of Expenditures of Federal Awards**

**For the Year Ended September 30, 2011**

**Basis of Presentation**

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

**Loans Outstanding**

The City of Marco Island, Florida, had \$34,590,521 in State Revolving Funds loan balance outstanding at September 30, 2011.

**CITY OF MARCO ISLAND, FLORIDA**  
**Schedule of Findings and Questioned Costs**  
**For the Year Ended September 30, 2011**

**Section I – Summary of Auditors’ Results**

**Basic Financial Statements**

Type of auditors' report issued: Unqualified Opinion

Internal control over financial reporting:

- Material weakness(es) identified? \_\_\_\_\_ yes  X  no
- Significant deficiency(ies) identified that are not considered to be material weaknesses? \_\_\_\_\_ yes  X  none reported
- Noncompliance material to the basic financial statements noted? \_\_\_\_\_ yes  X  no

**Federal Awards**

Internal control over compliance:

- Material weakness(es) identified? \_\_\_\_\_ yes  X  no
- Significant deficiency(ies) identified that are not considered to be material weaknesses? \_\_\_\_\_ yes  X  none reported

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

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

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
66.458	US Environmental Protection Agency pass through Florida Department of Environmental Protection for capitalization of grants for clean water state revolving funds
66.468	US Environmental Protection Agency pass through Florida Department of Environmental Protection for capitalization of grants for drinking water state revolving funds

Dollar threshold used to determine Type A programs: \$ 408,082

Auditee qualified as low-risk auditee? \_\_\_\_\_ yes  X  no

**Section II –Basic Financial Statement Findings**

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

There were no findings to be reported in accordance with *Government Auditing Standards*.

**Section III –Federal Award Findings and Questioned Costs**

This section identifies significant deficiencies, material weaknesses, and material instances of noncompliance, including known fraud, questioned costs, and abuse related to the audit of Federal programs, as required to be reported by OMB Circular A-133 and Chapter 10.550, *Rules of the Auditor General – Local Governmental Entity Audits*.

There were no findings required to be reported in accordance with OMB Circular A-133 and Chapter 10.550, *Rules of the Auditor General – Local Governmental Entity Audits*.

**Section IV – Summary Schedule of Prior Audit Findings**

<u>Prior Year's Comments</u>	<u>Not Implemented</u>	<u>In Process</u>	<u>Implemented</u>
<b>Material Weakness - 2010</b>			
2010-01: Financial Reporting and Year-End Close			X
<b>Significant Deficiencies - 2009 and 2010</b>			
2009-02: Financial Reporting			X
2009-04: Account Reconciliations			X
2009-05: Accounting Staff			X
2010-02: Grant Policies and Procedures			X





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### Management Letter

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

We have audited 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, 2011 and have issued our report thereon dated March 30, 2012.

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; and U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. We have issued our 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*; report on compliance with requirements that could have a direct and material effect on each major federal awards program and on internal control over compliance in accordance with OMB Circular A-133 and *Rules of the Auditor General*, Chapter 10.550; and the related schedule of findings and questioned costs. Disclosures in those reports and schedule, which are dated March 30, 2012, should be considered in conjunction with this management letter.

Additionally, our audit was conducted in accordance with Chapter 10.550, *Rules of the Auditor General*, which governs the conduct of local governmental entity audits performed in the State of Florida. This letter includes the following information, which is not included in the aforementioned auditors’ 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. In connection with our audit, we determined whether or not corrective actions have been taken to address findings and recommendations made in the preceding annual financial report as noted in the prior year management recommendations and findings section of this letter.
- Section 10.554(1)(i)2., *Rules of the Auditor General*, requires our audit include a review of the provisions of Section 218.415, *Florida Statutes*, regarding the investment of public funds. In connection with our audit, nothing came to our attention that caused us to believe the City was not in compliance 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. In connection with our audit, the recommendations are noted below under the heading Process Improvements.
- Section 10.554(1)(i)4., *Rules of the Auditor General*, requires that we address violations of provisions of contracts or grant agreements, or abuse that have occurred or are likely to have occurred, that have an effect on the financial statements that is less than material but more than inconsequential. In connection with our audit, nothing came to our attention that caused us to believe that the City was in violation of provisions of contracts or agreements or that there were any known or likely instances of abuse.
- Section 10.554(1)(i)5., *Rules of the Auditor General*, provides that the auditor may, based on professional judgment, report the following matters that have an inconsequential effect on the financial statements, considering both quantitative and qualitative factors: (1) violations of provisions of contracts or grant agreements, fraud, illegal acts, or abuse and (2) deficiencies in internal control that are not significant deficiencies. In connection with our audit, we noted areas for improvement below under Process Improvements.
- Section 10.554(1)(i)6., *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 the management letter, unless disclosed in the notes to the financial statements. This information has been disclosed in the notes to the financial statements.
- Section 10.554(1)(i)7.a., *Rules of the Auditor General*, requires a statement be included as to whether or not the local governmental 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)7.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, 2011, 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, 2011. In connection with our audit, we determined that these two reports were in agreement.
- Pursuant to Sections 10.554(1)(i)7.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 the review of the financial information provided by same.

### **Process Improvements**

#### **2011-01: Information Technology – Terminated Employees**

**Observation:** During our review of the Information Technology (IT) Control Environment, deficiencies were noted related to the City's general control environment with respect to user ID's. It was discovered that there were active user ID's that were not for current employees.

**Recommendation:** We recommend that the City develop and implement a formalized process surrounding user access and ID review. Management should review user access levels annually at a minimum, to ensure user access levels remain appropriate for the current responsibilities of the users and that there are no active user ID's for non-current employees. This will allow the IT department to timely disable user ID's of terminated employees until the user ID's can be reviewed and determined safe to delete. This recommendation will enhance the security around the City's systems and strengthen internal controls over fraud detection and prevention.

**Management Response:** The City agrees with the recommendation and the IT Department will review user ID's and their access annually. All financial databases, including accounting, accounts payable and payroll, were scanned and it was determined that appropriate active employee user ID's were found. This comment is limited to the general city control environment and the identified user ID's have been purged by IT staff.

### **2011-02: Capital Assets – Retainage Payable**

**Observation:** During our testing of capital assets and construction in progress, we discovered that the City had not been properly recording retainage payable. Retainage represents an amount withheld from payment to the contracted vendors for work that has already been completed. Based on information provided by project managers, it was determined that there was approximately \$838,000 of retainage that was not reflected in the City's account balances as of year ended September 30, 2011. Based on review of the information provided it was determined that construction in progress and accounts payables was understated by approximately \$171,000 and \$667,000 for the governmental activities and business-type activities, respectively.

**Recommendation:** We recommend that the City implement procedures whereby the project managers and the finance department communicate retainage balances on the construction in progress projects to allow for adjustments to be made at year end to properly reflect those amounts as capital assets and payables.

**Management Response:** The City agrees with this recommendation and the Finance Department has added retainage to the annual year-end processing memo to ensure retainage balances are reviewed by the directors and project managers for proper financial reporting. Moreover, the retainage payable amount is included in the City's financial statements starting in fiscal year 2011.

### **2011-03: Capital Assets – Construction in Progress**

**Observation:** During our testing of capital assets and construction in progress, it was determined that a new fund had been created to track certain new construction projects. Additionally, it was noted that the City uses "capital outlay" expense accounts to capture all expenses related to construction in progress and capitalizable assets within the enterprise funds. While temporary staff were being utilized by the Finance Department to assist in the year-end closeout process, this new fund was inadvertently missed while working to reconcile and properly record construction in progress and capitalizable assets for the year ended September 30, 2011. This resulted in a variance of approximately \$737,000 between the capital asset roll-forward schedule provided to the auditors and the trial balance. Of this amount, approximately \$700,000 should have been recorded as construction in progress rather than as an expense and approximately \$37,000 should have been capitalized as a depreciable asset at year end.

**Recommendation:** We recommend that the City review its policy for recording capital outlay and implement procedures to ensure that all projects are properly recorded. This way as projects are completed and in use they are moved out of construction in progress and into capital assets to ensure that depreciation expense is accurate as of year-end.

**Management Response:** The City agrees with this recommendation and will work with the project managers to establish a formal process to ensure that the finance department is aware of work-in-progress projects and their status at year end. The two construction projects and the depreciable asset identified have been updated on the appropriate schedules in fiscal year 2011.

**Prior Year Findings and Recommendations**

Management letters are intended to identify accounting processes or internal control features that do not provide adequate safeguards for an entity’s assets, or they address areas that could be operationally more efficient. We made numerous suggestions for improvement in the prior year. We would like to congratulate you on the significant accomplishments made in the last year.

The following chart outlines the status of prior year management comments:

<u>Prior Year's Comments</u>	<u>Not Implemented</u>	<u>In Process</u>	<u>Implemented</u>
<b>Process Improvements</b>			
2009-06: Schedule of Federal and State Awards			X
2009-10: Code Compliance Accounts Receivable			X
2009-11: Accounting Software		X	
2009-12: Cash Flows of the Utility Fund			X
2010-03: Utility Credit Memos			X
2010-04: Personnel File Documentation			X
2010-05: Accounting User Access			X
2010-06: Procurement Cards			X
2010-07: Password Parameters			X
2010-08: Disposals of Capital Assets			X

**2009-11: Accounting Software**

**Observation:** The current accounting software cannot produce the reports necessary for account analysis or to provide information user friendly for audit or citizen information requests.

**Recommendation:** We recommend the City continue to review accounting software available for governmental accounting capable of producing user friendly and timely financial reports.

**Status:** The City recommended new accounting software as part of the five-year CIP plan for consideration in FY 2012. We recommend that the software the City intends on purchasing include a separate module related to sewer assessments and the continuous tracking of payments and the related amortization schedules. This is a very time consuming task for the Finance department with 17 sewer districts.

Pursuant to Chapter 119, *Florida Statutes*, this management letter is a public record and its distribution is not limited. Auditing standards generally accepted in the United States of America require us to indicate that this letter is intended solely for the information and use of management and Members of the City Council, and the Florida Auditor General, and is not intended to be and should not be used by anyone other than these specified parties.

*Mayor Hoffman McCara P.C.*

March 30, 2012  
Clearwater, Florida