



City of Marco Island

CITY OF MARCO ISLAND, FLORIDA

**COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2012**

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

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INTRODUCTION SECTION



City of Marco Island

May 17, 2013

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, 2012.

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 City'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, 2012, 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, 2012, 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.

GASB requires that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The City's MD&A can be found immediately following the report of the independent auditors.

The City and Its Services

The City 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 private neighborhood approved a tax levy for re-nourishment of the beaches adjacent to the neighborhood.

Budget Process

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

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

The City Manager may make transfers of appropriations within a fund or department. Budget amendments that increase fund appropriations require the approval of the City Council. The City Council has authorized the City Manager to amend, modify or otherwise adjust the operating budget to a maximum limit of \$50,000 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 fund has a five-year capital 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 2011 assessed taxable valuations used for property taxes in fiscal year 2012 showed an eight and one half percent (8.5%) reduction. The 2012 assessed taxable valuations to be used for property taxes in fiscal year 2013 show a reduction of two and seven tenths percent (2.7%) from 2011 assessed valuations. It is projected that the 2013 valuations used to determine property taxes for fiscal year 2014 will remain constant as the real estate market is projected to recover.

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 beginning with 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 \$3.1 million accumulated since 2010, the City contributed \$2 million in fiscal year 2012. Fiscal year 2012 was the first year that the asset replacement funds were utilized in the amount of \$665,000.

Marco Island: In July 2002, the City negotiated an inter-local agreement with Collier County to transfer ownership of public roads and rights-of-way from the County to the newly formed City. Additionally, the County agreed to pay the City \$15 million in return for the City assuming the roadway segments. The City is a true island and has embarked on a repair and replacement of all 15 bridges within the City’s limits. Engineers have estimated \$9 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. The Community Park continues to be a major focal point for the island activities such as seasonal festivals and a weekly farmer’s market.

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.

Financial Policies

The City previously 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 inter-local 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 minimum to handle the distinctive emergencies and contingencies of our barrier island. Per that minimum the City will maintain emergency reserves of 25% of the proposed 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.

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 \$600,000 in cumulative annual losses. The City is a Drug-Free Workplace and has safety programs in place to minimize risk exposures.

Major Initiatives

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 by 2013.

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, 2011. This was the ninth consecutive year that the government has achieved this award.

In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized Comprehensive Annual Financial Report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current Comprehensive Annual Financial Report continues to meet the Certificate of Achievement Program's requirements, and we are submitting it to the GFOA to determine its eligibility for another certificate.

Acknowledgements: The preparation of this report on a timely basis could not be accomplished without the efficient and dedicated service of the entire staff of the Finance Department. We also thank the City Manager, City Council, and Chairman, for the interest and support in planning and conducting the financial operations of the City. Moreover, we wish to express our appreciation to the members of the Audit Advisory Committee for 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,

A handwritten signature in blue ink, appearing to read "G. Polanco".

Guillermo Polanco, CPA
Finance Director

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Marco Island
Florida

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
September 30, 2011

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.



Christopher P. Morrell

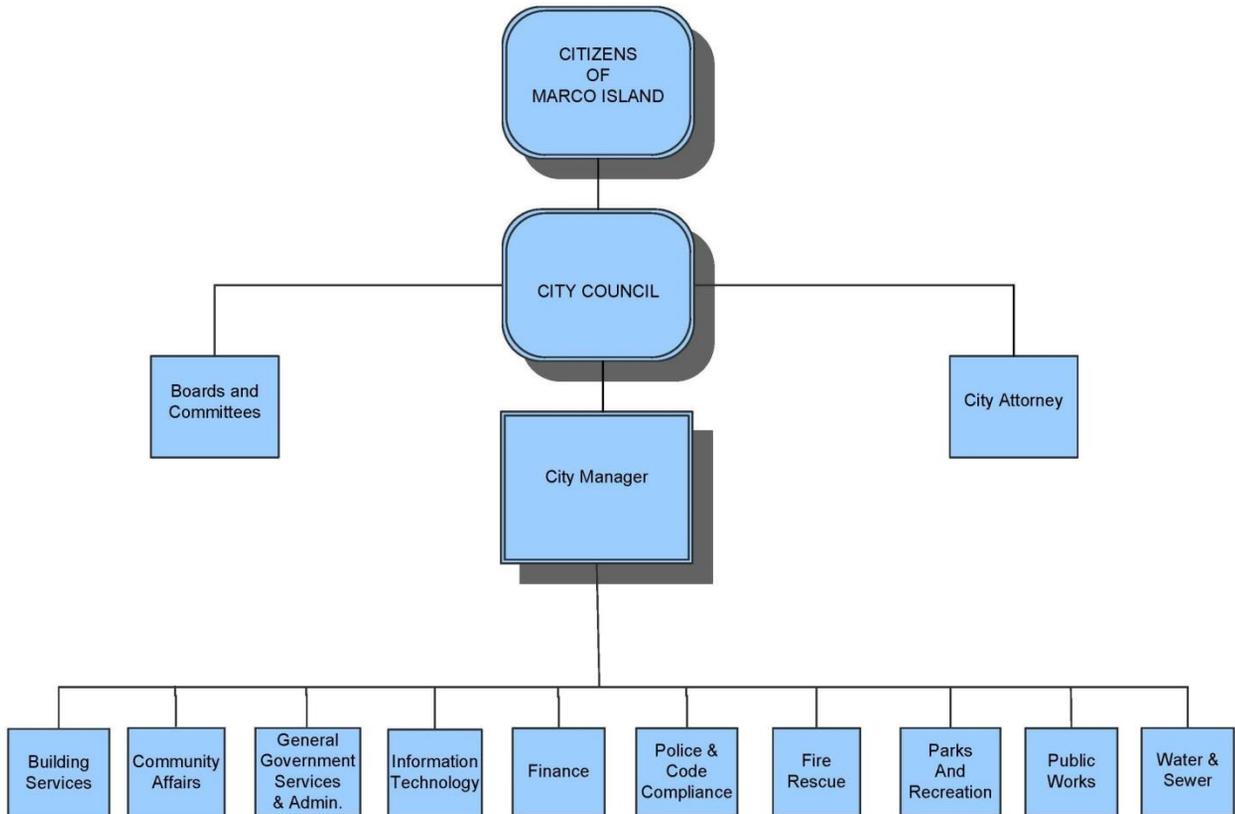
President

Jeffrey R. Enen

Executive Director



City of Marco Island





PRINCIPAL OFFICIALS:

JOE BATTE, CITY COUNCIL CHAIRMAN
KEN HONECKER, CITY COUNCIL VICE-CHAIRMAN
AMADEO PETRICCA, COUNCILOR
CHUCK KIESTER, COUNCILOR
LARRY HONIG, COUNCILOR
LARRY MAGEL, COUNCILOR
LARRY SACHER, COUNCILOR

BURT SAUNDERS, GRAY-ROBINSON, CONTRACTED CITY ATTORNEY

DR. JAMES C. RIVIERE, CITY MANAGER

GUILLERMO POLANCO, FINANCE DIRECTOR

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

FINANCIAL SECTION



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Independent Auditor's Report

To 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, 2012, 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 of Marco Island, Florida'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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the 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, 2012, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 17, 2013 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 and required supplementary information as listed in the table of contents on pages 4 through 20 and pages 71 through 76, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The introductory section, combining and individual nonmajor fund financial statements and schedules and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and is also not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements and schedules, and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain other 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, the combining and individual nonmajor fund financial statements and schedules and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the financial statements as a whole. The introductory section and statistical section have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion or provide any assurance on them.

Maye Hoffman McCann P.C.

Clearwater, Florida

May 17, 2013

MANAGEMENT DISCUSSION AND ANALYSIS

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, 2012. 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 \$193.4 million (*net assets*). Of this amount, \$76 million (*unrestricted net assets*) may be used to meet the ongoing obligations to citizens and creditors. Governmental activities accounts for 45 % of total net assets while business-type activities made up the remaining 55%.
- The City's total net assets overall increased by \$8.9 million or 5% percent during the current fiscal year.
- 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 \$19.2 million, an increase of \$2 million in comparison with the prior year. Approximately 37% of this total amount (\$7 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 \$8 million. The \$7 million in *unassigned fund balance* includes \$4.1 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 \$58.4 million compared to \$43.3 million in the prior year.
- The financial condition of the City of Marco Island continued to be strong in 2012. 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 statements consist of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. In addition to these basic financial statements, this report contains other supplementary information.

Government-wide Financial Statements: The *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 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), 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 Hideaway, 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*.

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 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 2012, the City has two major funds: General Fund and Capital Projects Fund.

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.

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

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

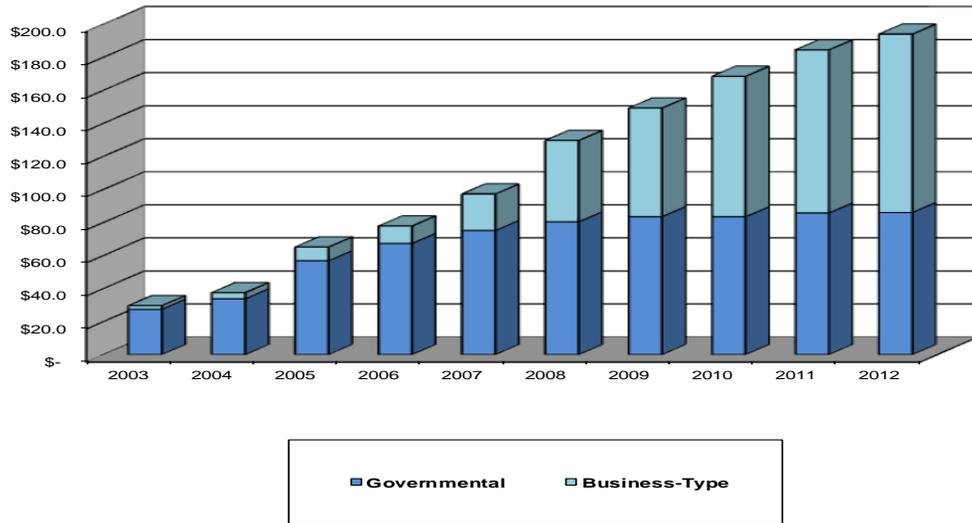
Other Information: In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information* concerning the City's defined benefit pension plans and budget-to-actual schedules for the City's General Fund.

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

Government-Wide Financial Analysis

Net 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 \$193.4 million at the close of the fiscal year. This was an increase of approximately 5% compared to last year's net assets of \$184.4 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 unchanged balance in total net assets of governmental activities. This steadiness is primarily due to Council's desire to limit governmental debt and in 2012, long term liabilities decreased by \$1 million as principal was paid down using resources provided for those purposes. In business-type activities, the \$9 million increase in total net assets is the result of additional cash and accounts receivable created by the assessments on the two most recently completed districts related to \$120 million STRP project. This capital program will continue to 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)



A substantial portion of the City's net assets (\$94 million or 49%) 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 they 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 restricted amount totals \$23.7 million or 13% of net assets as of the end of the fiscal year.

The remaining balance of unrestricted net assets (\$76 million or 39%) 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 \$17 million or 29% compared to last fiscal year with the majority of the increase occurring in the water and sewer utility system's unrestricted net assets.

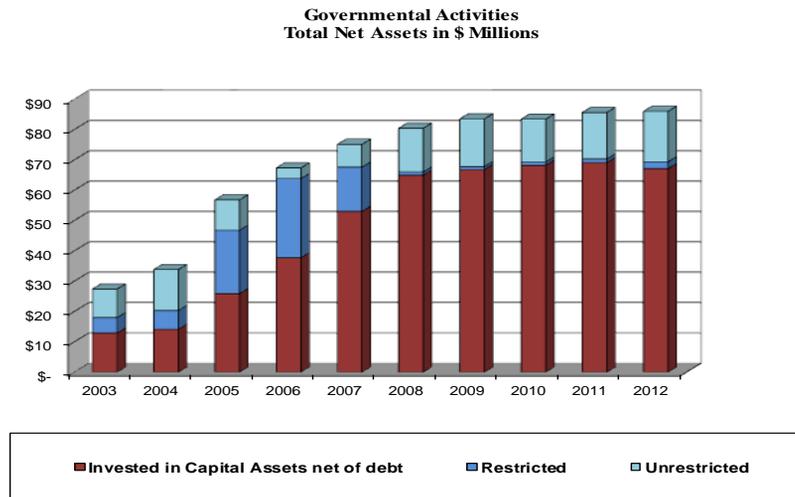
The table below summarizes the City's Net Assets as of September 30, 2012 and 2011:

	Summary Statement of Net Assets (in \$ millions)					
	Governmental Activities		Business-type Activities		Total	
	2012	2011	2012	2011	2012	2011
Current and other assets	\$ 22.8	\$ 19.9	\$ 94.1	\$ 91.0	\$ 116.9	\$ 110.8
Capital assets	77.2	80.6	237.9	232.3	315.1	312.9
Total Assets	100.0	100.5	332.0	323.3	432.0	423.7
Current and other liabilities	4.0	3.3	13.2	19.4	17.2	22.6
Long-term debt	10.5	11.5	210.9	205.2	221.4	216.7
Total Liabilities	14.5	14.8	224.1	224.6	238.6	239.3
Net Assets:						
Investment in capital assets, net of related debt	66.7	69.1	27.0	28.2	93.7	97.3
Restricted	1.5	1.3	22.2	26.9	23.7	28.2
Unrestricted	17.2	15.3	58.8	43.6	76.0	58.9
Total Net Assets	\$ 85.4	\$ 85.7	\$ 108.0	\$ 98.7	\$ 193.4	\$ 184.4

The table below summarizes the City's Statement of Activities as of September 30, 2012 and 2011:

	Summary Statement of Activities (in \$ millions)					
	Governmental Activities		Business-type Activities		Total	
	2012	2011	2012	2011	2012	2011
Revenues:						
Program revenues:						
Charges for services	\$ 2.7	\$ 2.0	\$ 28.5	\$ 30.4	\$ 31.2	\$ 32.4
Operating grants and contributions	1.1	1.2	-	-	1.1	1.2
Capital grants and contributions	0.7	1.3	10.0	10.5	10.6	11.8
General revenues:						
Taxes	17.3	18.0	-	-	17.3	18.0
Other general revenues	2.4	2.3	3.0	3.2	5.4	5.5
Total Revenues	24.2	24.8	41.4	44.2	65.5	68.9
Expenses:						
Governmental activities:						
General government	4.5	3.6	-	-	4.5	3.6
Public safety	11.0	10.5	-	-	11.0	10.5
Transportation	7.7	5.9	-	-	7.7	5.9
Culture and recreation	0.9	2.1	-	-	0.9	2.1
Interest on long-term debt	0.4	0.5	-	-	0.4	0.5
Business-type activities:						
Water and sewer	-	-	31.7	29.8	31.7	29.8
Recreation	-	-	0.5	0.5	0.5	0.5
Total Expenses	24.5	22.6	32.2	30.3	56.6	52.9
Excess revenues over expenses before transfers	(0.3)	2.2	9.2	13.8	8.9	16.0
Transfers	-	0.1	-	(0.1)	-	-
Change in net assets	(0.3)	2.3	9.2	13.7	8.9	16.0
Net Assets, beginning of year	85.7	83.4	98.7	85.0	184.4	168.4
Net Assets, end of year	\$ 85.4	\$ 85.7	\$ 108.0	\$ 98.7	\$ 193.4	\$ 184.4

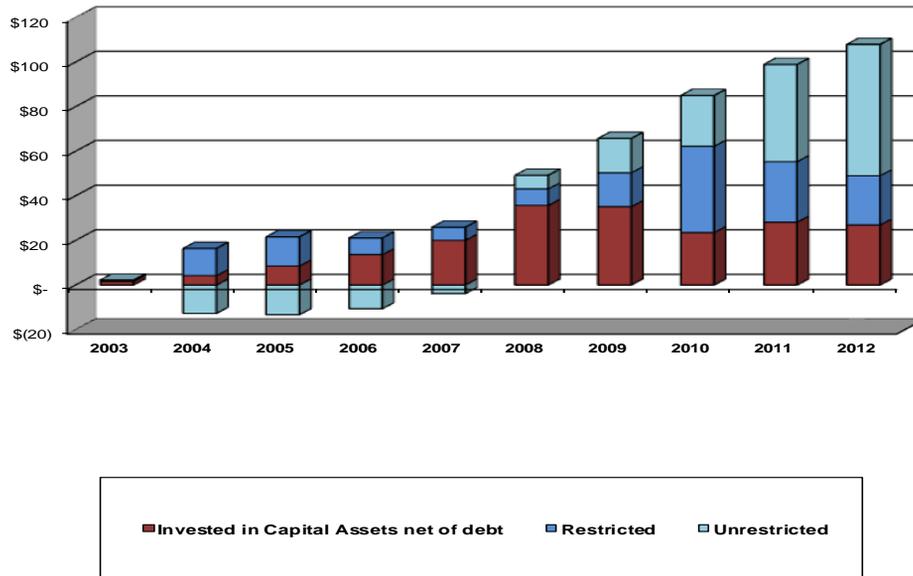
Government Activities: Total net assets of the City’s governmental activities remained relatively the same from \$85.7 million in the last fiscal year compared to \$85.4 million in the current fiscal year. The changes in total net assets over several years are visually reflected in the below bar chart:



Business-type Activities: The City’s total net assets of the business-type activities increased by \$9.3 million from \$98.7 million in last fiscal year compared to \$108 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 a city-wide central sewer system was implemented.

As the bar chart below indicates, the City’s investment in capital assets has increased substantially over the past 9 years; however, much of this is debt financed. This fiscal year, an additional \$13.2 million in permanent financing was secured in order to reimburse the system for projects already completed and to pay off temporary financing.

**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.

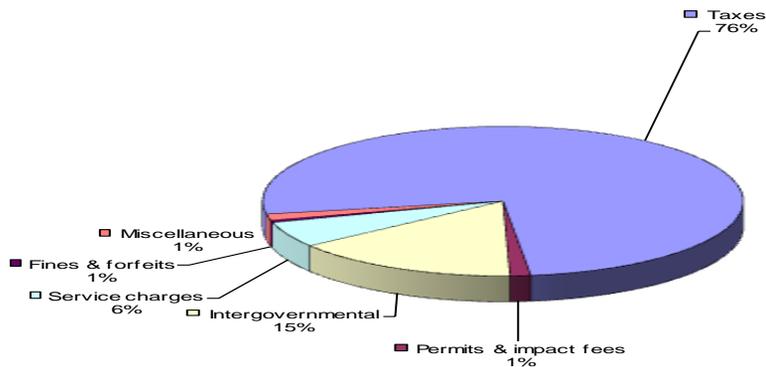
As of the end of the current fiscal year, the City’s *governmental funds* reported combined ending fund balances (non-spendable, restricted, assigned, and unassigned) of \$19.2 million, an increase of \$2 million in comparison with the prior year. This increase resulted from charges for services revenues, a reduction in general government expenses, a decrease in capital outlay, 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 (\$17.6 million) constitutes assigned and unassigned fund balance. Of this amount, the Council has assigned or indicated its intention that \$10.6 million be used for transportation, grants, asset replacement and on-going capital improvement projects. Approximately \$7 million, including the City’s general fund financial reserve of \$4.1 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 the general fund's total fund balance is \$8 million, an increase of \$0.9 million or 13%, of which \$1 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 four months of normal general fund operating expenses to cover emergencies and other contingencies that may occur. The remaining \$2.9 million in unassigned fund balance is available for new spending.

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

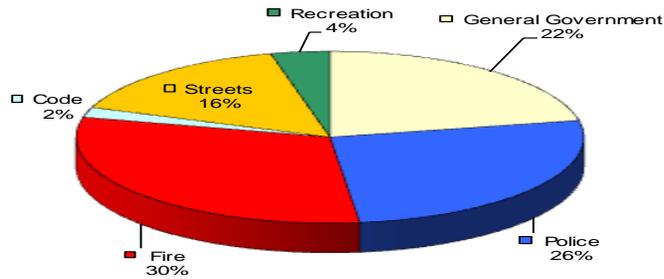
FY 2012 General Fund Revenues



Total general fund revenues decreased by \$.3 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 decreased by \$.7 compared to last year. Charges for services increased by \$.3 million primarily due to the administrative charges allocated to the enterprise funds. The intergovernmental and tax revenues were 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 pie chart below shows the breakdown of fiscal year 2012 general fund expenses by department category.

FY 2012 General Fund Expenses



Total general fund operating expenditures increased by \$.2 million. Expenditures remained stable due to the City Manager's continued effort to operate in a more efficient manner and directives to department directors to reduce spending which generated cost reductions throughout the general fund. Culture and Recreation expenses decreased by \$1.2 million and Transportation expenses increased correspondingly by \$1.8 million primarily due to the upkeep of sidewalks and parking lots and the parks being transferred to Transportation.

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. An asset replacement reserve in the general fund was created 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, 2012, \$3.5 million in capital projects were completed with \$.4 million funded by federal and state grants and other intergovernmental sources. The remainder was funded from the general fund, and use of unassigned general fund balance. The general fund transferred \$4.7 million into the capital projects fund during this fiscal year.

Proprietary Funds: The City's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail. Proprietary funds account for services that are generally supported by user fees and charges to customers. Proprietary funds are presented on a total economic resource basis. Proprietary fund statements provide both short and long term financial information. The City's proprietary fund is composed of two enterprise funds and one internal service fund. Unrestricted net assets for all enterprise funds at the end of the year were \$58.4 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 2012, 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 \$9.2 million from \$98.3 million in the prior year to \$107.5 million at the end of this fiscal year. The increase is primarily due to the \$15.7 million increase in construction in progress due to major infrastructure improvements.

Operating revenues for the proprietary fund decreased by \$1.6 million or 6% primarily due to the decrease in the average daily treatment of water by 1.42 million gallons. Operating expenses not including depreciation and amortization costs decreased by \$0.3 million or 3% compared to the prior year. Interest income decreased by \$0.4 million; however, interest expense decreased by \$2,151 compared to the prior fiscal year. Net loss before capital contributions and transfers was \$592,064 this fiscal year. 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.

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 \$0.2 million. The increase in appropriations primarily resulted from the use of reserves.

Historically, the City develops a conservative budget based upon between 90% and 95% of the State's various shared revenue projections due to the uncertainty in the economy. Actual revenue received was \$1.3 million more than budgeted. This increase was from a conservative budget approach on tax revenue which resulted in an excess of \$0.5 million in revenues than expected. Likewise, permit and impact fees exceeded budget by \$0.3 million, intergovernmental revenue exceeded budget by \$0.4 million and charges for services exceeded budget by \$0.1 million. Overall departmental expenditures were in line with budgeted expenditures. General government expenditures were below budget by \$0.5 million due to budgeted contingencies not used for expected retirements of senior staff and the BP oil spill clean-up. Expenditures for Police services were under budget by \$0.1 million due to a lower than expected property insurance premium tax contributions to the retirement plan. Fire and rescue expenditures were over budget by \$0.4 million due to higher than expected property insurance premium tax contribution to the retirement plan. Capital outlays were due to the acquisition of a parcel of property that was continuously flooded. Funding was provided via a Federal grant. The budgetary comparison schedule for the General Fund is part of the required supplementary information and can be found on pages 75 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 three percent (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 three percent (3%) and the annual COLA to establish the spending cap for the new fiscal year.
- Expenditures funded by the proceeds of municipal debt are not counted against the spending cap; however, all debt service payments for the life of the debt are counted against the cap.
- Capital expenditures budgeted and subject to the spending cap in a prior fiscal year, but unexpended as of the end of that fiscal year, may be carried forward into a subsequent year and those expenditures are not counted against the spending cap a second time in any subsequent year.

As of September 30, 2012 any accumulated capital funds will remain in the capital projects assigned fund balance, as defined by the implementation of GASB 54, in order to exclude them in future year’s spending cap calculations.

For the fiscal year ended September 30, 2012, the City was in compliance with the Charter Spending Cap:

Expenditures fiscal year 2012:	
General Fund	\$ 16,078,372
General Fund Transfer to Asset Replacement	2,731,725
General Fund Transfer to Capital Improvement Project	1,305,639
Debt Service	1,485,103
TOTAL OF ALL FUNDS SUBJECT TO SPENDING CAP	<u>21,600,839</u>
Less: Expenditures funded by grants and gifts:	(1,594,907)
Less: Expenditures funded by impact fees:	-
Less: Expenditures funded by enterprise funds:	(825,707)
Less: City Council approved emergency Expenditures	-
Fiscal Year 2012 Expenditures subject to Spending Cap:	<u>\$ 19,180,225</u>
Fiscal Year 2012 Maximum Spending Cap:	<u>\$ 20,218,812</u>
Amount below the spending cap in 2012	<u><u>\$ (1,038,587)</u></u>

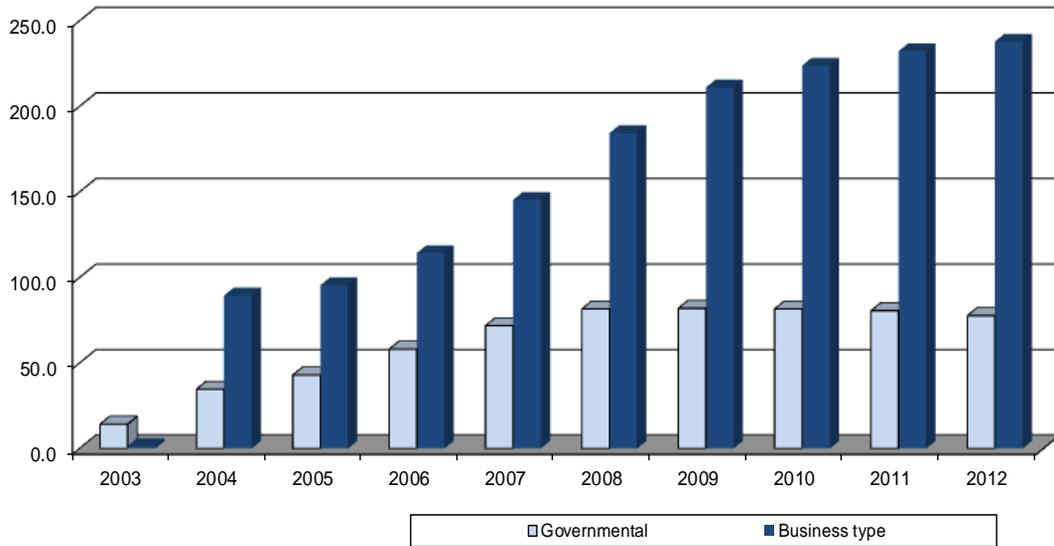
This is the third year that the City budgeted and spent below the maximum spending cap since incorporation. Annual contributions into the asset replacement reserve fund are covered by the spending cap while future expenditures from the fund will be exempt from the spending cap.

With the 3% annual increase and the October 2012 cost of living increase percent allowed by the City Charter, the spending cap for fiscal year 2012 budget year is \$20,218,812

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, 2012 was \$315 million (net of accumulated depreciation). This investment in capital assets includes land, buildings, and improvements other than buildings, machinery and equipment.

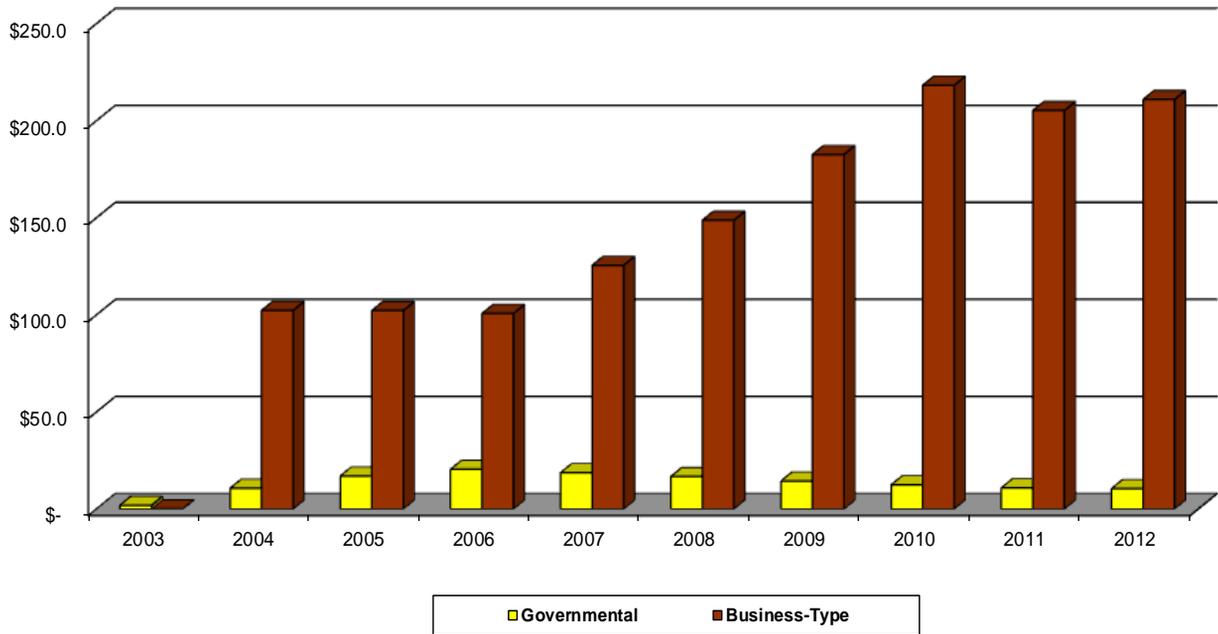
The \$5.6 million net increase in business-type capital assets, net of depreciation, is due to the City’s philosophy of accomplishing significant infrastructure improvements including a multi-year plan to provide a central city sewer system for all properties on the island. At the end of fiscal year 2012, construction of all 17 sewer assessment districts were substantially complete or in progress. Additional information on the City’s capital assets can be found in Note (6) 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 \$225.2 million. Of this amount \$10 million is considered governmental obligations and the remaining \$215.2 million is business-type debt which is secured solely by specified water and sewer utility fund revenue sources.

Of the \$10 million in governmental debt, \$5.8 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 the \$4.2 million in governmental debt. A capital lease of \$.4 million is secured by non ad-valorem revenue.

Long Term Debt (in \$ Millions)



As is common in acquiring 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 Fund loans from 2007 were used to finance additional capital improvements to the City’s water and wastewater systems. During fiscal year 2010, tax-exempt bonds were issued to refund and reimburse the water and sewer utility for projects previously committed and spent as well as for supplementary projects. In addition, taxable bonds were issued to refund prior year bonds, and to 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 \$165 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 2012, construction of seventeen districts was substantially complete. Permanent financing totaling \$47.1 million was in place for eleven districts and an interim 2010 note with a balance of \$3.1 million was 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 funding from FDEP. Of the \$217 million in business-type debt, \$50.2 million is or will be secured by the sewer assessment districts.

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 \$50.2 million. This \$50.2 million in STRP-related debt plus the remaining \$165 million secured by the general rate base customer fees make

up the total business-type debt outstanding of \$215.2 million. Additional information on long-term debt can be found in Note (8) 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.

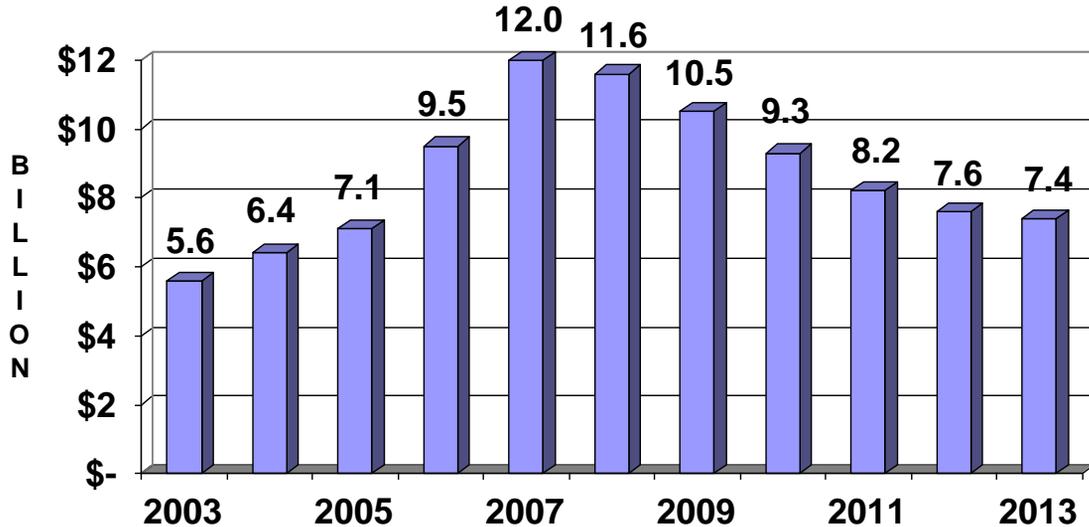
The county's median age of 46.9 is nearly six years older than the state's median age. More than 26% of the county's residents are 65 or older, compared with 17% statewide. Per the U.S. Department of Labor, the Naples/Marco Island regional unemployment rate has declined from 11 percent last year to 9.3 percent 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 to the extent they have in other southwestern Florida cities, financially distressed properties and foreclosures have occurred on Marco Island.

The Collier County Tourist Development Council reported that the number of visitors to the three Collier County cities including Naples, Marco Island, and Everglades in 2012 increased by 6.1% compared to the prior year.

During the current fiscal year, assigned fund balance of the capital projects fund increased from \$7.4 million to \$8.4 million including a city funded earmark of \$4.5 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 2013 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 properly reflect the arrangement in the capital projects fund starting in fiscal year 2013.

Property Values and Taxes: Property values in Southwest Florida increased dramatically after incorporation in 1997 and prior to 2007. Taxable values on Marco Island increased from \$5.6 billion in 2003 to \$12 billion in 2007. As is true across the country, the growth proved to be unsustainable and the housing bubble burst in 2007. The City's assessed valuation decreased approximately to the 2005 values. The City's 2012 taxable value was \$7.6 billion which reflects a reduction of 0.9 percent from 2011 values, and 2013 taxable value is \$7.4 billion which reflects a reduction of 0.3 percent from 2012.

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 three percent (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 its City Council. The City's total current year maximum aggregate rolled-back rate based on the legislative changes is 2.1238 mils.

Marco Island residents enjoyed a standard operating millage rate of 1.9592 mils in fiscal year 2012 that is only .09 mils more than the pre-incorporation millage rate of 1.8705 in 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. The City has made a practice of living within its means. During the housing bubble expansion, many local governments throughout the State increased services and expanded their budgets while Marco Island did not. 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 less than 17 percent. What this means to taxpayers is that less than 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 Collier County District 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 revenue was provided by bonds issued in 2006, 2008, 2010 and 2012.

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 percent and 10.5 percent 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 2010 and to fund continuation of ongoing capital projects. The scheduled rate increase of 6 percent for fiscal year 2012 has been deferred until the rate sufficiency study has been completed. Second, is a surcharge to fund roadway resurfacing after each neighborhood Septic Tank Replacement Program (STRP) district's sewer construction. The resurfacing surcharge of six percent 6% was applied to the rate-base (gross water and sewer bill) rather than using a special assessment charge. In November 2011, this surcharge was reduced by 2 percent from 6 percent to 4 percent as discussed in the millage rate section above. A second surcharge is an eight percent (8%) surcharge which is used to reduce each property neighborhood STRP district owner's construction assessment when they connect to the system. Based on preliminary results of the consultant's revenue sufficiency study released in March 2012, both surcharges were further reduced to 3 percent 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 2012, infrastructure for 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 distribution system.

Total water and sewer utility revenue decreased \$1.6 million, or 5 percent compared to last year. 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 funds for the re-nourishment of the beach. The Collier County Tourist Development Council (TDC) also contributed funds for T-groin construction. The disappearance of Coconut Island has exposed a section of the beach to rapid erosion, requiring the re-nourishment project with additional T-groins and sand for beach protection. The taxing district has requested a short-term loan from the City to implement Phase III while waiting for receipt of permanent financing and TDC funds. 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 year's reports can be found on the City's website at www.cityofmarcoisland.com. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Office of the Finance Director, 50 Bald Eagle Drive, Marco Island, Florida 34145.

BASIC FINANCIAL STATEMENTS

CITY OF MARCO ISLAND, FLORIDA

Government-Wide Financial Statements

Statement of Net Assets

September 30, 2012

	<u>Primary Government</u>			<u>Component Unit Hideaway Beach District</u>
	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>	
Assets				
Pooled cash and investments	\$ 21,476,333	\$ 9,674,378	\$ 31,150,711	\$ 432,853
Receivables:			-	-
Accounts, net	532,103	2,669,893	3,201,996	-
Grants	-	6,798,122	6,798,122	-
Interest	707	104,942	105,649	-
Assessments, current portion	-	998,506	998,506	-
Assessments, interest	-	2,969,461	2,969,461	-
Due from other governments	257,991	-	257,991	-
Internal balances	(391,415)	391,415	-	-
Prepaid items	25	1,855	1,880	-
Restricted cash and investments	545,948	32,664,387	33,210,335	-
Assessments receivable	-	33,498,193	33,498,193	-
Bond issue costs, net	73,609	4,376,504	4,450,113	-
Net pension asset	299,920	-	299,920	-
Capital assets:			-	-
Nondepreciable	20,186,824	45,829,652	66,016,476	-
Depreciable, net	56,986,387	192,064,319	249,050,706	-
Total Assets	\$ 99,968,432	\$ 332,041,627	\$432,010,059	\$ 432,853
Liabilities and Fund Balance				
Liabilities				
Accounts payable	\$ 1,440,032	\$ 2,230,750	\$ 3,670,782	\$ 31,926
Accrued liabilities	1,038,552	114,041	1,152,593	-
Deposits	13,705	13,000	26,705	-
Accrued interest	128,657	3,920,121	4,048,778	-
Deferred revenues	24,136	61,671	85,807	-
Noncurrent liabilities			-	-
Due within one year	1,422,349	6,821,432	8,243,781	-
Due in more than one year	10,486,452	210,919,101	221,405,553	-
Total Liabilities	14,553,883	224,080,116	238,633,999	31,926
Net Assets				
Invested in capital assets, net of related debt	66,732,879	26,962,499	93,695,378	-
Restricted for:				
Capital outlay	-	4,343,596	4,343,596	-
Debt service	545,948	14,025,320	14,571,268	-
Renewal and replacements	-	2,228,299	2,228,299	-
Impact and public safety programs	958,362	1,587,483	2,545,845	-
Unrestricted	17,177,360	58,814,314	75,991,674	400,927
Total Net Assets	\$ 85,414,549	\$ 107,961,511	\$193,376,060	\$ 400,927

See accompanying notes to financial statements.

CITY OF MARCO ISLAND, FLORIDA

Government-Wide Financial Statements

Statement of Activities

For the Year Ended September 30, 2012

Function/Program Activities	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets			Hideaway Beach District
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		Component Unit	
					Governmental Activities	Business-type Activities	Total	
Governmental Activities:								
General government	\$ 4,461,910	983,325	5,912	-	(3,472,673)	-	(3,472,673)	
Police services	4,612,996	29,259	-	8,711	(4,575,026)	-	(4,575,026)	
Fire and rescue	5,218,196	245,181	82,122	14,463	(4,876,430)	-	(4,876,430)	
Code compliance	308,749	104,726	-	-	(204,023)	-	(204,023)	
Building services	828,981	1,333,631	-	-	504,650	-	504,650	
Transportation	7,728,870	-	1,000,000	598,308	(6,130,562)	-	(6,130,562)	
Culture and recreation	892,691	-	-	31,096	(861,595)	-	(861,595)	
Interest on long-term debt	413,409	-	-	-	(413,409)	-	(413,409)	
Total Governmental Activities	24,465,802	2,696,122	1,088,034	652,578	(20,029,068)	-	(20,029,068)	
Business-type Activities:								
Water and sewer	31,670,493	28,108,927	-	9,966,904	-	6,405,338	6,405,338	
Recreation	484,339	360,466	-	-	-	(123,873)	(123,873)	
Total Business-type Activities	32,154,832	28,469,393	-	9,966,904	-	6,281,465	6,281,465	
Total Primary Government	\$ 56,620,634	31,165,515	1,088,034	10,619,482	(20,029,068)	6,281,465	(13,747,603)	
Hideaway Beach District	\$ 460,649	-	-	-				(460,649)
General Revenues:								
Taxes								
Property taxes					15,186,850	-	15,186,852	955,981
Communication service tax					991,888	-	991,888	-
Other taxes					1,128,441	-	1,128,441	-
State shared revenues-unrestricted					2,036,642	-	2,036,642	-
Interest					230,611	2,455,405	2,686,016	11,973
Miscellaneous					144,892	499,433	644,325	300
Total General Revenues					19,719,324	2,954,838	22,674,164	968,254
Change in Net Assets					(309,744)	9,236,303	8,926,561	507,605
Net Assets - Beginning of Year					85,724,291	98,725,208	184,449,499	(106,678)
Net Assets - End of Year					\$ 85,414,547	107,961,511	193,376,060	400,927

See accompanying notes to financial statements.

CITY OF MARCO ISLAND, FLORIDA

Fund Financial Statements

Balance Sheet - Governmental Funds

September 30, 2012

	<u>General</u>	<u>Capital Projects</u>	<u>Nonmajor Fund Totals</u>	<u>Total Governmental Funds</u>
Assets				
Pooled cash and investments	\$ 8,320,592	8,886,194	2,275,831	19,482,617
Restricted cash and investments	-	-	545,948	545,948
Receivables:				
Accounts, net	532,103	-	-	532,103
Interest	707	-	-	707
Due from other governments	257,991	-	-	257,991
Prepaid items	25	-	-	25
Total Assets	<u>9,111,418</u>	<u>8,886,194</u>	<u>2,821,779</u>	<u>20,819,391</u>
Liabilities and Fund Balance				
Liabilities				
Accounts Payable	\$ 872,139	523,844	10,292	1,406,275
Accrued Liabilities	209,189	-	14,153	223,342
Deposits	13,705	-	-	13,705
Deferred Revenues	24,136	-	-	24,136
Total Liabilities	<u>1,119,169</u>	<u>523,844</u>	<u>24,445</u>	<u>1,667,458</u>
Fund Balances				
Nonspendable:				
Prepaid items	25	-	-	25
Restricted for:				
Parks construction or operation	90,660	-	-	90,660
Road construction	585,901	-	-	585,901
Fire services	76,552	-	-	76,552
Police services	205,249	-	-	205,249
Debt service	-	-	545,948	545,948
Assigned to:				
Transportation	20,289	600,000	-	620,289
Grants	10,113	-	-	10,113
Debt service	-	-	1,108,735	1,108,735
Capital projects	-	3,179,554	-	3,179,554
Building services	-	-	1,142,651	1,142,651
Asset replacement	-	4,582,796	-	4,582,796
Unassigned	7,003,460	-	-	7,003,460
Total Fund Balances	<u>7,992,249</u>	<u>8,362,350</u>	<u>2,797,334</u>	<u>19,151,933</u>
Total Liabilities and Fund Balances	<u>\$ 9,111,418</u>	<u>8,886,194</u>	<u>2,821,779</u>	<u>20,819,391</u>

See accompanying notes to financial statements.

CITY OF MARCO ISLAND, FLORIDA

FUND FINANCIAL STATEMENTS

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

September 30, 2012

Fund Balance - Total Governmental Funds		\$	19,151,933
Amounts Reported for Governmental Activities in the Statement of Net Assets are Different Because:			
Bond issue costs are not available to pay for current period expenditures, and therefore are not reported in the governmental funds.			73,609
Net Pension assets are not available to pay for current period expenditures, and therefore, are not reported in the governmental funds.			299,920
Capital assets used in governmental activities are not financial resources, and therefore, are not reported in the governmental funds:			
Capital assets	116,063,321		
Less: accumulated depreciation	<u>(38,890,111)</u>		77,173,210
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.			753,335
Accrued interest is not due and payable in the current period, and therefore, is not reported in the governmental funds.			(128,657)
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	(5,790,000)		
Sales tax bond, series 2005	(4,175,000)		
Capital leases	(475,332)		
Other post-employment benefits liability	(372,370)		
Compensated absences	<u>(1,096,099)</u>		<u>(11,908,801)</u>
Net Assets of Governmental Activities		\$	<u>85,414,549</u>

See accompanying notes to financial statements.

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, 2012

	<u>General</u>	<u>Capital Projects</u>	<u>Nonmajor Fund Totals</u>	<u>Total Governmental Funds</u>
Revenues				
Taxes	\$ 16,448,498	-	858,681	17,307,179
Permits and impact fees	267,135	-	1,266,041	1,533,176
Intergovernmental	3,284,168	382,445	-	3,666,613
Charges for services	1,217,785	-	-	1,217,785
Fines and forfeitures	133,835	-	-	133,835
Interest income	157,269	-	25,238	182,507
Miscellaneous	130,652	-	28	130,680
Total Revenues	<u>21,639,342</u>	<u>382,445</u>	<u>2,149,988</u>	<u>24,171,775</u>
Liabilities and Fund Balance				
Expenditures				
Current:				
General government	3,462,824	-	-	3,462,824
Police services	4,151,932	-	-	4,151,932
Fire and rescue	4,869,967	-	-	4,869,967
Code compliance	304,010	-	-	304,010
Building services	-	-	1,036,310	1,036,310
Transportation	2,524,969	-	-	2,524,969
Culture and recreation	599,266	-	-	599,266
Debt Service:				
Principal	-	-	1,071,692	1,071,692
Interest and fiscal changes	-	-	413,411	413,411
Capital Outlay	165,404	3,517,462	29,796	3,712,662
Total Expenditures	<u>16,078,372</u>	<u>3,517,462</u>	<u>2,551,209</u>	<u>22,147,043</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>5,560,970</u>	<u>(3,135,017)</u>	<u>(401,221)</u>	<u>2,024,732</u>
Other Financing Sources				
Transfers in	-	4,733,464	640,985	5,374,449
Transfers out	<u>(4,678,349)</u>	<u>(665,100)</u>	<u>(31,000)</u>	<u>(5,374,449)</u>
Total Other Financing Sources (Uses)	<u>(4,678,349)</u>	<u>4,068,364</u>	<u>609,985</u>	<u>-</u>
Net Change in Fund Balances	<u>882,621</u>	<u>933,347</u>	<u>208,764</u>	<u>2,024,732</u>
Fund Balances - October 1, 2011	<u>7,109,628</u>	<u>7,429,003</u>	<u>2,588,570</u>	<u>17,127,201</u>
Fund Balances - September 30, 2012	<u>\$ 7,992,249</u>	<u>8,362,350</u>	<u>2,797,334</u>	<u>19,151,933</u>

See accompanying notes to financial statements.

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**

September 30, 2012

Net Change in Fund Balance-Total Governmental Funds	\$	2,024,732
 Amounts Reported for Governmental Activities in the Statement of Activities are Different Because:		
The statement of activities reports changes in the net pension asset. Conversely, governmental funds do not report any changes in the net pension assets.		
		32,487
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	3,124,243	
Less: current year depreciation	<u>(6,386,113)</u>	(3,261,870)
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.		
		(187,316)
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.		
		126,936
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		(489)
Accrued interest		3,402
Other post-employment benefits liability		(108,957)
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>1,071,694</u>	<u>1,061,331</u>
Changes in Net Assets of Governmental Activities	\$	<u><u>(309,744)</u></u>

See accompanying notes to financial statements.

CITY OF MARCO ISLAND, FLORIDA

Fund Financial Statements

Statement of Fund Net Assets - Proprietary Funds

September 30, 2012

Business-type Activities-Enterprise Funds

	<u>Water and Sewer</u>	<u>Recreation (Nonmajor)</u>	<u>Total</u>	<u>Internal Service</u>
Assets				
Current Assets				
Pooled cash and investments	\$ 9,608,349	66,029	9,674,378	1,993,715
Accounts receivable, net	2,669,893	-	2,669,893	-
Grants receivable	6,798,122	-	6,798,122	-
Assessments receivable-current portion	998,506	-	998,506	-
Assessments interest receivable	3,074,403	-	3,074,403	-
Prepays and other current assets	-	1,855	1,855	-
Restricted cash and investments	18,639,067	-	18,639,067	-
Total Current Assets	<u>41,788,340</u>	<u>67,884</u>	<u>41,856,224</u>	<u>1,993,715</u>
Noncurrent Assets				
Restricted cash and investments	14,025,320	-	14,025,320	-
Assessments receivable	33,498,193	-	33,498,193	-
Bond issue costs, net	4,376,504	-	4,376,504	-
Capital Assets				
Land	17,415,059	-	17,415,059	-
Transmissions and distributions	109,414,279	-	109,414,279	-
Infrastructure	69,488,914	-	69,488,914	-
Buildings and improvements	6,523,487	63,854	6,587,341	-
Vehicles and equipment	64,424,889	75,913	64,500,802	-
Construction in progress	28,414,590	-	28,414,590	-
Accumulated depreciation	(57,869,596)	(57,418)	(57,927,014)	-
Total Capital Assets (Net of Accumulated Depreciation)	<u>237,811,622</u>	<u>82,349</u>	<u>237,893,971</u>	<u>-</u>
Total Assets	<u>\$ 331,499,979</u>	<u>\$ 150,233</u>	<u>\$ 331,650,212</u>	<u>\$ 1,993,715</u>
Liabilities				
Current Liabilities				
Accounts payable	\$ 2,216,924	13,826	2,230,750	33,757
Accrued liabilities	111,491	2,550	114,041	815,210
Accrued compensated absences-current portion	203,614	-	203,614	-
Accrued interest	3,920,121	-	3,920,121	-
Deferred Revenue	-	61,671	61,671	-
Deferred assessment revenue - current portion	241,247	-	241,247	-
Deferred assessment interest revenue	257,811	-	257,811	-
Bonds payable, current portion	3,839,472	-	3,839,472	-
Notes payable, current portion	2,279,288	-	2,279,288	-
Deposits	13,000	-	13,000	-
Total Current Liabilities	<u>13,082,968</u>	<u>78,047</u>	<u>13,161,015</u>	<u>848,967</u>
Noncurrent Liabilities				
Bonds payable	161,120,428	-	161,120,428	-
Notes payable	48,035,880	-	48,035,880	-
Accrued compensated absences	165,667	-	165,667	-
Deferred assessment revenue	1,426,993	-	1,426,993	-
Other post employment benefits liability	170,133	-	170,133	-
Total Noncurrent Liabilities	<u>210,919,101</u>	<u>-</u>	<u>210,919,101</u>	<u>-</u>
Total Liabilities	<u>224,002,069</u>	<u>78,047</u>	<u>224,080,116</u>	<u>848,967</u>
Net Assets				
Invested in capital assets, net of related debt	26,880,150	82,349	26,962,499	-
Restricted for:				
Construction	4,343,596	-	4,343,596	-
Debt service	14,025,320	-	14,025,320	-
Renewal and replacement	2,228,299	-	2,228,299	-
Impact and public safety programs	1,587,483	-	1,587,483	-
Unrestricted	58,433,062	(10,163)	58,422,899	1,144,748
Total Net Assets	<u>\$ 107,497,910</u>	<u>72,186</u>	<u>107,570,096</u>	<u>1,144,748</u>
Net assets-above			<u>107,570,096</u>	
Adjustments to reflect internal service fund activities reflected in the enterprise funds			<u>391,415</u>	
Net assets of business-type activities			<u>\$ 107,961,511</u>	

See accompanying notes to financial statements.

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, 2012

	<u>Business-type Activities - Enterprise Funds</u>			
	<u>Water and Sewer</u>	<u>Recreation (Nonmajor)</u>	<u>Total</u>	<u>Internal Service Fund</u>
Operating Revenues				
Charges for services	\$ 28,235,280	360,466	28,595,746	1,422,865
Operating Expenses				
Personal services	5,081,360	156,813	5,238,173	-
Insurance	662,950	-	662,950	1,218,409
Utilities	1,863,726	26,756	1,890,482	-
Contractual fees	883,018	106,854	989,872	-
Repairs and maintenance	609,755	12,188	621,943	-
Supplies	1,306,350	22,133	1,328,483	-
Rental and lease costs	35,187	1,209	36,396	-
Other expenses	728,980	143,946	872,926	-
Amortization	402,306	-	402,306	-
Depreciation	10,581,731	14,440	10,596,171	-
Total Operating Expenses	<u>22,155,363</u>	<u>484,339</u>	<u>22,639,702</u>	<u>1,218,409</u>
Operating Income (Loss)	<u>6,079,917</u>	<u>(123,873)</u>	<u>5,956,044</u>	<u>204,456</u>
Non-Operating Income (Expense)				
Interest earnings	2,455,405	-	2,455,405	38,709
Interest expense	(8,873,653)	-	(8,873,653)	-
Miscellaneous expense	(334,231)	-	(334,231)	-
Other non-operating income	80,498	94,321	174,819	-
Total Non-Operating Income (Expense)	<u>(6,671,981)</u>	<u>94,321</u>	<u>(6,577,660)</u>	<u>38,709</u>
Income (Loss) Before Capital Contributions	<u>(592,064)</u>	<u>(29,552)</u>	<u>(621,616)</u>	<u>243,165</u>
Transfers and Contributions				
Capital Contributions	9,748,495	-	9,748,495	-
Change in Net Assets	9,156,431	(29,552)	9,126,879	243,165
Net Assets - October 1, 2011	98,341,479	101,738	98,443,217	901,583
Net Assets - September 30, 2012	<u>\$ 107,497,910</u>	<u>72,186</u>		<u>1,144,748</u>
Adjustment to reflect the internal service fund activities related to the enterprise funds			391,415	
Change in net assets of business-type activities			<u>\$ 9,538,706</u>	

See accompanying notes to financial statements.

CITY OF MARCO ISLAND, FLORIDA

Fund Financial Statement

Statement of Cash Flows - Proprietary Funds

For the Year Ended September 30, 2012

	<u>Business-Type Activities - Enterprise Funds</u>			
	<u>Water and Sewer</u>	<u>Recreation (Nonmajor)</u>	<u>Total</u>	<u>Internal Service Fund</u>
Cash Flows from Operating Activities				
Cash received from customers and users	\$ 21,745,640	454,787	22,200,427	-
Cash received from interfund services provided		-	-	1,427,284
Cash payments to vendors for goods and services	(5,851,563)	(304,539)	(6,156,102)	(1,099,741)
Cash payments to employees for services	(5,054,582)	(155,869)	(5,210,451)	-
Net Cash Provided (Used) by Operating Activities	<u>10,839,495</u>	<u>(5,621)</u>	<u>10,833,874</u>	<u>327,543</u>
Cash Flows from Capital and Related Financing Activities				
Proceeds from issuance of debt	13,226,044	-	13,226,044	-
Proceeds from special assessments	7,943,517	-	7,943,517	-
Proceeds for deferred revenue	-	5,771	5,771	-
Acquisition of property, plant and equipment	(16,332,685)	-	(16,332,685)	-
Principal paid on long-term debt	(12,814,343)	-	(12,814,343)	-
Payment of interest	(8,583,382)	-	(8,583,382)	-
Net Cash (Used) Provided By Capital and Related Financing Activities	<u>(16,560,849)</u>	<u>5,771</u>	<u>(16,555,078)</u>	<u>-</u>
Cash Flows from Investing Activities				
Interest received on investments	2,455,405	-	2,455,405	38,709
Net Increase (Decrease) in Cash and Cash Equivalents	<u>(3,265,949)</u>	<u>150</u>	<u>(3,265,799)</u>	<u>366,252</u>
Cash and Cash Equivalents - October 1, 2011	<u>45,538,685</u>	<u>65,879</u>	<u>45,604,564</u>	<u>1,627,463</u>
Cash and Cash Equivalents - September 30, 2012	<u>\$ 42,272,736</u>	<u>66,029</u>	<u>42,338,765</u>	<u>1,993,715</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities				
Operating income (loss)	\$ 6,079,917	(123,873)	5,956,044	204,456
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:				
Depreciation	10,581,731	14,440	10,596,171	-
Amortization	402,306	-	402,306	-
Other non-operating income (expense), net	-	94,321	94,321	-
Changes in assets and liabilities				
Accounts receivable	(6,492,640)	-	(6,492,640)	4,418
Prepays and other assets	-	-	-	102,878
Accounts payable and accrued liabilities	291,809	8,547	300,356	15,791
Deposits	3,000	-	3,000	-
Accrued compensation	(26,628)	944	(25,684)	-
Net Cash Provided (Used) by Operating Activities	<u>\$ 10,839,495</u>	<u>(5,621)</u>	<u>10,833,874</u>	<u>327,543</u>
Reconciliation of Cash and Cash Equivalents				
Pooled cash and investments	\$ 9,608,349	66,029	9,674,378	1,993,715
Restricted cash and investments	32,664,387	-	32,664,387	-
Cash and Cash Equivalents - September 30, 2012	<u>\$ 42,272,736</u>	<u>66,029</u>	<u>42,338,765</u>	<u>1,993,715</u>

See accompanying notes to financial statements.

CITY OF MARCO ISLAND, FLORIDA

Fund Financial Statements

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

September 30, 2012

Assets	
Cash and cash equivalents	\$ 802,782
Accounts receivable:	
Unsettled sales	453,988
Investments, at fair value	
Common stock	6,751,297
Government bonds	4,429,622
Accrued interest	15,856
	<hr/>
Total Assets	12,453,545
	<hr/>
Liabilities	
Accounts payable	3,526
	<hr/>
Total Liabilities	3,526
	<hr/>
Net Assets	
Held in trust for pension benefits and other purposes	\$ 12,450,019
	<hr/> <hr/>

See accompanying notes to financial statements.

CITY OF MARCO ISLAND, FLORIDA

Fund Financial Statement

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

For the Year Ended September 30, 2012

Additions

Contributions		
Employer	\$	1,057,648
Employee		112,833
State of Florida insurance funds		455,951
		<hr/>
Total contributions		1,626,432
		<hr/>
Investment earnings		
Investment interest and dividends		256,816
Investment appreciation		1,356,376
Investment expenses		(103,734)
		<hr/>
Net investment earnings		1,509,458
		<hr/>

Total Additions 3,135,890

Deductions

Legal		25,967
Actuary		14,678
Administrative		4,023
Refunds to contributors		85,373
		<hr/>

Total Deductions 130,041

Change in Net Assets 3,005,849

Fund Balances - October 1, 2011 9,444,170

Fund Balances - September 30, 2012 \$ 12,450,019

See accompanying notes to financial statements.

City of Marco Island, Florida
Notes to Financial Statements

(1) Summary of Significant Accounting Policies

(a) Reporting Entity

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

The accompanying financial statements present the City and its component unit, Hideaway Beach District (Hideaway), an entity for which the City is considered to be financially accountable. The Hideaway Beach District was established on April 19, 2004 by the voters within the Hideaway Beach neighborhood to assess a special ad valorem tax within Hideaway.

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

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

(b) Government-Wide and Fund Financial Statements

The 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.

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

City of Marco Island, Florida
Notes to 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.

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.

City of Marco Island, Florida
Notes to Financial Statements

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.

The accounting policies and the presentation of the financial report of the City have been designed to conform to accounting principles generally accepted in the United State of America as applicable to governmental units, in accordance with statements promulgated by the Governmental Accounting Standards Board (GASB). 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 GASB. Governments have the option of following subsequent private-sector guidance for their proprietary funds and governmental activities. 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 \$234,460 for indirect services provided by general fund departments which have been eliminated in the government-wide statement of activities in accordance with this policy.

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

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

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

(d) Assets, Liabilities and Net Assets

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.

City of Marco Island, Florida
Notes to Financial Statements

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

Investments for the City, as well as for its component unit, are reported at fair value. The pension trust fund may also invest in qualified public depositories, or other investments as determined by an investment advisor, retained by the Pension Boards, subject to guidelines prescribed by the Pension Boards.

2. Receivables and Payables

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

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

3. Prepaid Items

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

4. Restricted Assets

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

City of Marco Island, Florida
Notes to Financial Statements

activities columns in the government-wide financial statements. Proprietary fund capital assets are also recorded in their respective fund financial statements. Capital assets, other than infrastructure assets, are defined by the City as assets with an initial, individual cost of more than \$1,000 and an estimated useful life in excess of one year. The City reports infrastructure assets on a network and subsystem basis. Accordingly, the amounts spent for construction or acquisition of infrastructure assets are capitalized and reported in the government-wide financial statements regardless of their amount.

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

In the case of the initial capitalization of general infrastructure, the City was able to estimate the historical cost through back trending (i.e., estimating the current replacement cost of the infrastructure to be capitalized and using an appropriate price-level index to deflate the cost to the acquisition year or 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 Infrastructure	20-40 Years
	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 unused personal leave. These amounts are accrued when incurred in the government-wide, proprietary, and fiduciary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements. Compensated absences are generally liquidated by the general and enterprise funds.

Full-time City employees earn from 160 to 224 hours annually, based upon years of service, and can accrue up to 720 hours. Sworn Police Officers under a collective bargaining agreement earn from 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.

City of Marco Island, Florida
Notes to Financial Statements

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.

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 Balances

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 the City Manager 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

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

10. Financial Reserve Policy

The City maintains an adequate General Fund balance to provide liquidity in the event of an economic downturn or natural disaster and management administers the Council's direction for an Emergency Reserve of 25% of the proposed fiscal year General Fund Operating Budget. This amount is included in the General Fund unassigned fund balance and represents \$4,097,039 of \$7,003,460 at September 30, 2012.

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 if applicable. Debt relating to capital assets is issued subsequently to the utility capital asset purchase in many instances, due to the nature of the utility capital projects with the septic tank replacement program. Capital assets are acquired using temporary financing which is later refunded when permanent bonds and notes are issued.

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 \$7.6 billion for fiscal year 2012 and \$7.4 billion for fiscal year 2013. Details of the tax calendar are presented below:

Lien Date	January 1, 2011
Levy Date	November 1, 2011
Installment Payments	
First Installment	No Later Than June 30, 2011
Second Installment	No Later Than September 30, 2011
Third Installment	No Later Than December 31, 2011
Fourth Installment	No Later Than March 31, 2012
Regular Payments	
Discount Periods	November 2011 through February 2012
No Discount Period	After March 1, 2012
Delinquent Date	April 1, 2012

City of Marco Island, Florida
Notes to Financial Statements

(2) Stewardship, Compliance, and Accountability

Annual budgets are adopted on a basis consistent with generally accepted accounting principles and are prepared for all governmental funds.

Prior to May 1, all agencies of the government submit requests for appropriations to the City Manager so that a budget may be prepared. During August, the proposed budget is presented to the City Council for review. The Council holds public hearings and a final budget must be prepared and adopted no later than September 30.

The appropriated budget is prepared by fund, function, and department. The City's department heads may make transfers of appropriations within a department. The City Council has authorized the City Manager to amend, modify or otherwise adjust the operating budget to a maximum limit of \$50,000 per 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 the general fund. 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.

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 2012 fiscal year, as adopted by City Council, was \$20,218,812. The final actual amount for the 2012 fiscal year was \$19,180,225 which was in accordance with the spending cap limit.

(3) Deposits and Investments

As of September 30, 2012, the City had the following deposits and investments:

<u>Deposit and Investment</u>	<u>No Specific Maturity</u>	<u>Matures In Less Than One Year</u>	<u>Matures in 1-5 Years</u>	<u>Matures in 5-10 Years</u>	<u>Matures in 10+ Years</u>	<u>Total (at Fair Value)</u>
Deposits with Bank	\$ 8,040,550	-	-	-	-	8,040,550
Money Market Funds	13,055,819	-	-	-	-	13,055,819
U.S. Government Securities	-	1,204,365	333,473	-	4,366,857	5,904,695
FMIvT	-	-	37,792,834	-	-	37,792,834
Total Deposits and Investments	\$ 21,096,369	1,204,365	38,126,307	-	4,366,857	64,793,898

Cash held on deposit with banks for the discretely presented component unit as of September 30, 2012 is \$432,853.

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

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 an 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 an AAA Standard & Poor's rating. External financial statements are available at www.floridaleagueofcities.com/finance.

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

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

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

The pension trust fund investments are determined by the Board of Trustees 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.

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

The pledging level may range from 25% to 200% depending upon the depository's financial condition and establishment period. All collateral must be deposited with an approved financial institution. Any losses to public depositors are covered by applicable deposit insurance, sale of securities pledged as collateral, and, if necessary, assessments against other qualified public depositories of the same type as the depository in default.

City of Marco Island, Florida
Notes to Financial Statements

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.

(4) Receivables

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

	General	Water and Sewer
Receivables		
Accounts	\$ 532,103	2,701,969
Assessments	-	34,496,699
Grants Receivable		6,798,122
Due from other governments	257,991	-
Interest	707	3,074,403
Gross receivables	790,801	47,071,193
Less: allowance for uncollectibles	-	32,077
Net total receivables	\$ 790,801	47,039,116

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, 2012 the City has deferred revenues in the amount of \$24,136 reported in the governmental funds.

(5) Inter-fund Receivables, Payables and Transfers

For the year ended September 30, 2012, the inter-fund transfers were as follows:

Transfer In:

	Transfers Out	Debt Service	Capital Projects	Total
General	\$	640,985	4,037,364	4,678,349
Building Services		-	31,000	31,000
Total	\$	640,985	4,068,364	4,709,349

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

City of Marco Island, Florida
Notes to Financial Statements

(6) Capital Assets

The City has the following investment in capital assets activity for the year ended September 30, 2012:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>(Decreases)</u>	<u>Ending Balances</u>
Governmental Activities				
Capital assets not being depreciated:				
Land	\$ 15,154,359	165,404	-	15,319,763
Construction in progress	4,318,750	3,479,365	(2,931,055)	4,867,060
Total capital assets not being depreciated	<u>19,473,109</u>	<u>3,644,769</u>	<u>(2,931,055)</u>	<u>20,186,823</u>
Capital assets being depreciated:				
Buildings and improvements	9,792,793	32,166	-	9,824,959
Vehicles and equipment	6,711,888	818,804	(261,420)	7,269,272
Road network	41,596,564	1,259,072	-	42,855,636
Storm water	12,736,588	214,567	-	12,951,155
Pathway	3,137,643	-	-	3,137,643
Parks	5,103,024	2,905	-	5,105,929
Bridge network	14,205,961	83,015	-	14,288,976
Beach and waterway	442,928	-	-	442,928
Total capital assets being depreciated	<u>93,727,389</u>	<u>2,410,529</u>	<u>(261,420)</u>	<u>95,876,498</u>
Accumulated depreciation for:				
Buildings and improvements	(2,527,389)	(451,557)	-	(2,978,946)
Vehicles and equipment	(4,682,491)	(624,469)	74,104	(5,232,856)
Road network	(15,602,097)	(3,672,365)	-	(19,274,462)
Storm water	(4,733,930)	(571,422)	-	(5,305,352)
Pathway	(1,519,858)	(128,551)	-	(1,648,409)
Parks	(425,126)	(267,198)	-	(692,324)
Bridge network	(2,968,471)	(628,319)	-	(3,596,790)
Beach and waterway	(118,740)	(42,232)	-	(160,972)
Total accumulated depreciation	<u>(32,578,102)</u>	<u>(6,386,113)</u>	<u>74,104</u>	<u>(38,890,111)</u>
Total capital activities being depreciated, net	<u>61,149,287</u>	<u>(3,975,584)</u>	<u>(187,316)</u>	<u>56,986,387</u>
Total governmental activities capital assets, net	\$ <u>80,622,396</u>	<u>(330,815)</u>	<u>(3,118,371)</u>	<u>77,173,210</u>
Business-Type Activities				
Capital assets not being depreciated:				
Land	\$ 17,415,059	-	-	17,415,059
Construction in progress	57,777,810	15,685,192	(45,048,409)	28,414,593
Total capital assets not being depreciated	<u>75,192,869</u>	<u>15,685,192</u>	<u>(45,048,409)</u>	<u>45,829,652</u>
Capital assets being depreciated:				
Transmission and distribution Infrastructure	103,960,886	5,453,392	-	109,414,278
Buildings and improvements	33,524,615	35,964,299	-	69,488,914
Vehicles and equipment	6,587,341	-	-	6,587,341
Total capital assets being depreciated	<u>60,475,806</u>	<u>4,151,603</u>	<u>(126,608)</u>	<u>64,500,801</u>
Total capital assets being depreciated	<u>204,548,648</u>	<u>45,569,294</u>	<u>(126,608)</u>	<u>249,991,334</u>
Accumulated depreciation for:				
Transmission and distribution Infrastructure	(19,771,971)	(4,101,297)	-	(23,873,268)
Buildings and improvements	(1,530,021)	(2,273,055)	-	(3,803,076)
Vehicles and equipment	(1,761,126)	(115,102)	-	(1,876,228)
Total accumulated depreciation	<u>(24,356,053)</u>	<u>(4,106,716)</u>	<u>88,326</u>	<u>(28,374,443)</u>
Total accumulated depreciation	<u>(47,419,171)</u>	<u>(10,596,170)</u>	<u>88,326</u>	<u>(57,927,015)</u>
Total capital assets being depreciated, net	<u>157,129,477</u>	<u>34,973,124</u>	<u>(38,282)</u>	<u>192,064,319</u>
Total business-type activities capital assets, net	\$ <u>232,322,346</u>	<u>50,658,316</u>	<u>(45,086,691)</u>	<u>237,893,971</u>

City of Marco Island, Florida
Notes to Financial Statements

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

Governmental Activities:	
General government	\$ 136,344
Police services	155,007
Fire and rescue	294,075
Code compliance	232
Building services	6,040
Transportation	5,641,386
Culture and recreation	153,029
	6,386,113
Total depreciation expense, governmental activities	
Business-Type Activities	
Water and sewer	10,581,730
Recreation	14,440
	10,596,170
Total depreciation expense, business-type activities	
Total depreciation expense	
	\$ 16,982,283

(7) Leases

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

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

Asset:	
Vehicles and Equipment	\$ 544,026
Less: accumulated depreciation	(204,010)
	340,016
Total	\$ 340,016

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, 2012, are as follows:

2013	\$ 90,697
2014	90,697
2015	90,697
2016	90,697
2017	90,697
2018	90,697
	544,181
Total minimum lease payments	
Less: amount representing interest	68,849
	475,332
Present value of minimum lease payments	
	\$ 475,332

City of Marco Island, Florida
Notes to Financial Statements

(8) Long Term Liabilities

Primary Government

Long-term liability activity for the year ended September 30, 2012, was as follows:

	Beginning Balance	Additions	(Reductions)	Ending Balance	Due Within One Year
Governmental Activities					
General obligation bonds	\$ 6,415,000	-	(625,000)	5,790,000	645,000
Sales tax revenue bonds	4,565,000	-	(390,000)	4,175,000	400,000
Capital leases	532,026	-	(56,694)	475,332	71,059
Other post-employment benefit liability	263,413	108,957	-	372,370	-
Compensated absences	1,095,609	771,165	(770,675)	1,096,099	306,290
	<u>12,871,048</u>	<u>880,122</u>	<u>(1,842,369)</u>	<u>11,908,801</u>	<u>1,422,349</u>
Total governmental activity long-term liabilities	<u>\$ 12,871,048</u>	<u>880,122</u>	<u>(1,842,369)</u>	<u>11,908,801</u>	<u>1,422,349</u>
Business Activities					
Revenue bonds, 2003:					
Principal	\$ 65,420,000	-	(2,200,000)	63,220,000	2,275,000
Premium	898,888	-	(40,704)	858,184	40,704
Revenue bonds, 2006	4,699,142	-	(287,360)	4,411,782	297,655
State revolving loan, 2007	1,494,444	-	(68,123)	1,426,321	69,941
Revenue bond, 2008	7,136,309	-	(354,793)	6,781,516	368,462
Revenue note, 2009	5,956,042	-	(5,956,042)	-	-
Revenue bond, 2010A:					
Principal	50,475,000	-	(955,000)	49,520,000	980,000
Discount	(144,258)	-	5,152	(139,106)	(5,152)
Revenue bond, 2010B	7,365,000	-	(175,000)	7,190,000	180,000
Revenue note, 2010	4,460,000	-	(1,370,000)	3,090,000	-
State revolving loan, 2011	5,000,000	309,320	(150,408)	5,158,912	211,647
Revenue bond, 2011:					
Principal	26,253,513	-	-	26,253,513	-
Deferred amount on refunding	(2,971,974)	-	297,197	(2,674,777)	(297,197)
Deferred assessments	3,126,733	-	(1,458,495)	1,668,238	241,246
Deferred assessment interest	254,405	127,839	(124,433)	257,811	257,811
Other post-employment benefit liability	119,427	50,706	-	170,133	-
Compensated absences	381,899	294,826	(307,444)	369,281	203,614
	<u>179,924,570</u>	<u>782,691</u>	<u>(13,145,453)</u>	<u>167,561,808</u>	<u>4,823,731</u>
Total Water & Sewer	<u>179,924,570</u>	<u>782,691</u>	<u>(13,145,453)</u>	<u>167,561,808</u>	<u>4,823,731</u>
Assessment Districts					
Assessment revenue bond, 2008	2,068,533	-	(86,836)	1,981,697	90,146
Assessment revenue bond, 2008	652,464	-	(27,390)	625,074	28,434
State revolving loan, 2009-2012	28,096,076	9,916,722	(1,173,170)	36,839,628	1,463,595
Assessment revenue bond, 2009	769,488	-	(25,837)	743,651	27,174
Assessment revenue bond, 2009	1,626,002	-	(54,596)	1,571,406	57,420
Assessment revenue bond, 2009	2,244,340	-	(75,357)	2,168,983	79,256
Assessment revenue bond, 2009	238,754	-	(6,342)	232,412	6,802
Assessment revenue bond, 2010	1,346,415	-	(47,270)	1,299,145	49,517
Assessment revenue bond, 2010	1,779,191	-	(62,464)	1,716,727	65,433
Assessment revenue bond, 2012	-	1,450,000	-	1,450,000	62,796
Assessment revenue bond, 2012	-	1,550,000	-	1,550,000	67,126
	<u>38,821,263</u>	<u>12,916,722</u>	<u>(1,559,262)</u>	<u>50,178,723</u>	<u>1,997,699</u>
Total Assessment Districts	<u>38,821,263</u>	<u>12,916,722</u>	<u>(1,559,262)</u>	<u>50,178,723</u>	<u>1,997,699</u>
Total business activity long-term liabilities	<u>\$ 218,745,833</u>	<u>13,699,413</u>	<u>(14,704,715)</u>	<u>217,740,531</u>	<u>6,821,430</u>

City of Marco Island, Florida
Notes to Financial Statements

Governmental Activities

On March 30, 2004, the City issued general obligation bonds for governmental activities for the acquisition of land, secured by ad valorem revenue and pledged with full faith and credit of the City. The original amount of the general obligation bonds was \$9,860,000. The bonds are issued as 15-year serial bonds with varying amounts of principal each year from \$645,000 to \$815,000. Interest rates on the bonds vary from 2 percent to 3.8 percent. As of September 30, 2012, \$5,790,000 of the principal was outstanding. Annual debt service requirements to maturity for the general obligation bonds are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>
2013	\$ 645,000	200,184
2014	665,000	180,834
2015	685,000	160,053
2016	705,000	137,790
2017	730,000	113,115
2018-2020	<u>2,360,000</u>	<u>178,549</u>
Total	<u>\$ 5,790,000</u>	<u>970,525</u>

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

The bonds are issued as 15-year serial bonds with varying amounts of principal maturing each year from \$400,000 to \$535,000. Interest rates vary from 3 percent to 3.9 percent. As of September 30, 2012, \$4,175,000 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>
2013	\$ 400,000	145,948
2014	415,000	131,685
2015	430,000	116,898
2016	445,000	101,474
2017	460,000	85,295
2018-2020	<u>2,025,000</u>	<u>159,318</u>
Total	<u>\$ 4,175,000</u>	<u>740,618</u>

City of Marco Island, Florida
Notes to Financial Statements

Water and Sewer

On November 6, 2003, the City issued revenue bonds for business-type activities for: (1) the acquisition of certain water production, transmission, wastewater treatment and disposal facilities, and (2) the improvement of certain assets within these facilities. The original amount of the revenue bonds was \$101,115,000, in addition to a premium paid on the bonds in the amount of \$1,183,818. 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 between \$2,275,000 to \$6,280,000. Interest rates on the bonds vary from 2 percent to 5.25 percent.

On August 23, 2011 the City advance refunded \$23,605,000 of the outstanding bonds from the proceeds of the 2011 Refunding Revenue Bond (discussed later). The City partially defeased the series 2003 revenue bonds by placing the proceeds of the new bonds in an irrevocable trust to provide for that portion of the future debt service payments of old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the City's financial statements. The difference between cash flows of the old and new debt is \$1,052,173. The economic gain from this refunding is \$1,034,028. As of September 30, 2012, \$63,220,000 of the principal was outstanding. Annual debt service requirements to maturity for the revenue bonds are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>
2013	\$ 2,275,000	3,035,161
2014	2,360,000	2,948,803
2015	-	2,903,963
2016	-	2,903,963
2017	-	2,903,963
2018-2022	-	14,519,812
2023-2027	20,385,000	12,070,937
2028-2032	25,940,000	6,379,881
2032-2033	12,260,000	620,500
Total	<u>\$ 63,220,000</u>	<u>48,286,983</u>

On December 5, 2006, the City issued revenue bonds for business-type activities to pay the costs of constructing certain additions, extensions, supplements and replacements to the City's water and wastewater utility system. The original amount of the revenue bonds was \$5,500,000, secured by a senior lien pledge on net revenues of the water and sewer fund. The bonds are issued as 15-year serial bonds with varying amounts of principal maturing each year from \$297,655 to \$446,412. The interest rate on bonds is fixed at 3.74 percent. As of September 30, 2012, \$4,411,782 was outstanding. Annual debt service requirements to maturity for the revenue bonds are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>
2013	\$ 297,655	161,664
2014	309,239	150,158
2015	320,805	138,214
2016	332,803	126,149
2017	344,927	112,973
2018-2022	1,929,623	354,791
2023-2027	876,730	33,595
Total	<u>\$ 4,411,782</u>	<u>1,077,544</u>

City of Marco Island, Florida
Notes to Financial Statements

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, 2012, the City had \$1,426,321 outstanding. This debt is secured by a junior lien pledge of utility system revenues and impact fees. The interest rate is fixed at 2.65%. The amount due within one year as of September 30, 2012 is \$69,941. Annual debt service requirements to maturity for the state revolving funding are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>
2013	\$ 69,941	37,337
2014	71,806	35,472
2015	73,722	33,556
2016	75,688	31,589
2017	77,707	29,570
2018-2022	420,758	115,630
2023-2027	479,953	56,436
2028-2029	156,746	4,173
Total	<u>\$ 1,426,321</u>	<u>343,763</u>

On March 7, 2008, the City issued revenue bonds to pay the costs of the subordinate wastewater improvement project. The original amount of the revenue bonds was not to exceed \$7,477,241, and is secured by a senior lien pledge on net revenues of the water and sewer fund. The bonds have varying amounts of principal maturing each year ranging from \$368,462 to \$619,737. The interest rate on the bonds is fixed at 4.01 percent. As of September 30, 2012, \$6,781,516 was outstanding. Annual debt service requirements to maturity for the revenue bonds are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>
2013	\$ 368,462	268,246
2014	384,198	252,946
2015	399,819	237,009
2016	416,074	221,005
2017	432,410	203,177
2018-2022	2,443,252	731,884
2023-2026	2,337,301	195,049
Total	<u>\$ 6,781,516</u>	<u>2,109,316</u>

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") 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 the final payments on the note of \$5,956,042 in March 2012. As of September 30, 2012, this note was paid in full.

City of Marco Island, Florida
Notes to Financial Statements

On April 1, 2010, the City issued Series 2010A revenue bonds for business-type activities to: (1) finance or reimburse the costs of construction of planned system improvements, (2) currently refund the System's series 2009A bonds, and (3) fund a deposit to the 2010A reserve fund. The new bonds were issued on parity with the system revenue bonds series 2003, 2006, and 2008 bonds. The original amount of the revenue bonds was \$50,475,000 with a discount of \$151,586. The revenue bonds are comprised of serial and term bonds of which \$18,265,000 is a 15-year serial bond, \$6,460,000 is a term bond due October 1, 2029 yielding 4.87 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. Interest rates on the bonds vary from 2.5 percent to 5.1 percent. The 15-year serial bonds are issued with varying amounts of principal maturing each year from \$980,000 to \$1,440,000. The bonds are secured by pledged revenues which consist of a senior lien pledge on net revenues of the water and sewer fund and any water and sewer capital facility fees. As of September 30, 2012, \$49,520,000 of the principal was outstanding. Annual debt service requirements for the revenue bonds are as follows:

Fiscal Year	Principal	Interest
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	1,135,000	2,102,150
2018-2022	6,330,000	9,841,768
2023-2027	7,235,000	8,423,738
2028-2032	8,670,000	6,614,531
2032-2036	11,050,000	4,181,250
2037-2041	10,985,000	1,131,875
Total	\$ 49,520,000	41,127,887

On April 1, 2010, the City issued tax exempt series 2010B revenue bonds for business-type activities to: (1) currently refund the System's taxable series 2009B bond and (2) fund a deposit to the reserve fund. The new bonds were issued on parity with the system revenue series 2003, 2006, and 2008 bonds. The original amount of the revenue bonds was \$7,365,000, of which \$2,075,000 is a 10-year serial bond and \$5,290,000 is a term bond due October 1, 2033 yielding 6.79 percent interest. The 10-year serial bonds are issued with varying amounts of principal maturing each year from \$180,000 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, 2012, \$7,190,000 of the principal was outstanding. Annual debt service requirements for the revenue bonds are as follows:

Fiscal Year	Principal	Interest
2013	\$ 180,000	441,179
2014	185,000	435,766
2015	190,000	429,136
2016	200,000	421,384
2017	210,000	412,426
2018-2022	1,200,000	1,889,286
2023-2027	1,630,000	1,444,404
2028-2032	2,260,000	789,802
2033-2034	1,135,000	78,301
Total	\$ 7,190,000	6,341,684

City of Marco Island, Florida
Notes to Financial Statements

On 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 LIBOR as evidenced in the Wall Street Journal, plus 235 basis points (2.35%) and the interest on the note on September 30, 2012, was 2.44%. As of September 30, 2012, \$3,090,000 was outstanding. Annual debt service requirements for the revenue bonds and estimated interest are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>
2013	<u>3,090,000</u>	<u>42,300</u>
Total	<u>\$ 3,090,000</u>	<u>42,300</u>

On May 15, 2011, the City received funding under the State of Florida Department of Environmental Protection Revolving Loan Program in the amount of \$5,000,000 to fund the construction of a high service pump station, a 4 MG water tank, and an operations building all associated with drinking water. In 2012, an additional \$309,320 was received. Funds are secured by utility system revenues and impact fees. Pledged revenue is a junior lien pledge of system revenue. The interest rate is fixed at 2.66%. As of September 30, 2012, the City had \$5,158,912 outstanding. The amount due within one year as of September 30, 2012, of \$211,647 is based on these estimated installments. Annual debt service requirements for the state revolving funding to maturity are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>
2013	\$ 211,647	136,278
2014	217,333	130,592
2015	223,173	124,754
2016	229,167	118,758
2017	235,324	112,602
2018-2022	1,274,919	464,711
2023-2027	1,455,631	283,998
2028-2031	<u>1,311,718</u>	<u>79,986</u>
Total	<u>\$ 5,158,912</u>	<u>1,451,679</u>

City of Marco Island, Florida
Notes to Financial Statements

On August 23, 2011, the city issued Series 2011 \$26.3 million to partially refund the City's Utility System Revenue Bonds, Series 2003. The fixed interest rate of Series 2011 is 2.769 percent compared to the 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 bonds are secured and payable solely from the net revenues of the water and sewer system. As of September 30, 2012, \$26,253,513 of the principal was outstanding. Annual debt service requirements to maturity for the revenue bonds are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>
2013	\$ -	726,960
2014	103,000	725,534
2015	2,965,060	683,056
2016	3,048,538	599,798
2017	3,132,502	514,222
2018-2022	<u>17,004,413</u>	<u>1,153,251</u>
Total	<u>\$ 26,253,513</u>	<u>4,402,821</u>

Sewer Assessments

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

City of Marco Island, Florida
Notes to Financial Statements

On March 7, 2008, the City issued special assessment revenue bonds to pay the costs of the subordinate wastewater improvement project for the Tigertail District in the amount of \$2,321,886 and is secured by capacity and construction assessments on individual properties within the District. The bonds have varying amounts of principal maturing each year ranging from \$90,146 to \$164,258. The interest rate on the bonds is fixed at 4.01 percent. As of September 30, 2012, \$1,981,697 was outstanding. Annual debt service requirements for the revenue bonds are as follows:

Fiscal Year	Principal	Interest
2013	\$ 90,146	78,752
2014	94,032	75,009
2015	97,855	71,109
2016	101,833	67,228
2017	105,796	62,829
2018-2022	597,936	244,691
2023-2027	729,840	110,128
2027-2028	164,259	3,368
Total	\$ 1,981,697	713,114

On March 7, 2008, the City issued special assessment revenue bonds to pay the costs of the wastewater improvement project for the South Barfield District. The original amount of the revenue bonds was \$732,378 and is secured by capacity and construction assessments on individual properties within the District. The bonds have varying amounts of principal maturing each year ranging from \$28,434 to \$51,811. The interest rate on the bonds is fixed at 4.01 percent. As of September 30, 2012, \$625,074 was outstanding. Annual debt service requirements for the revenue bonds to maturity are as follows:

Fiscal Year	Principal	Interest
2013	\$ 28,434	24,840
2014	29,660	23,660
2015	30,866	22,429
2016	32,120	21,205
2017	33,370	19,818
2018-2022	188,603	77,181
2023-2027	230,209	34,737
2027-2028	51,812	1,062
Total	\$ 625,074	224,932

City of Marco Island, Florida
Notes to Financial Statements

The City received additional funding under the State of Florida Department of Environmental Protection Revolving Loan Program in 2007 through 2012. As of September 30, 2012, the City has a balance on funds drawn down totaling \$36,839,628 including accrued interest of \$217,524. Funds are utilized for neighborhood construction of the Septic Tank Replacement Program and are secured by assessments against individual properties, with a back-up covenant to budget and appropriate additional funds as necessary. Interest rates range from 2.6% to 3.8%.

Annual estimated installments for the fiscal years ending after September 30th are based only on the amount drawn down on the loans, and the payment amounts as stated in the loan agreements. The amount due within one year as of September 30, 2013 of \$1,463,595 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>
2013	\$ 1,463,595	1,125,991
2014	1,909,657	1,379,283
2015	2,155,039	1,320,356
2016	2,219,518	1,255,878
2017	2,227,161	1,120,163
2018-2022	10,180,665	3,872,057
2023-2027	10,325,890	1,870,194
2028-2032	6,358,103	382,389
Total	\$ 36,839,628	12,326,311

On July 21, 2009, the City issued special assessment revenue bonds to pay the costs of the subordinate wastewater improvement project for the North Marco District. The original amount of the revenue bonds is \$840,000 and is secured by capacity assessments on individual properties within the District. The bonds have varying amounts of principal maturing each year ranging from \$27,174 to \$65,376. The interest rate on the bonds is fixed at 5.54 percent. As of September 30, 2012, \$743,651 was outstanding. Annual debt service requirements to maturity for the revenue bonds are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>
2013	\$ 27,174	41,014
2014	28,814	39,442
2015	30,433	37,778
2016	32,142	36,117
2017	33,851	34,168
2018-2022	200,467	139,242
2023-2027	263,485	74,469
2028-2029	127,285	7,285
Total	\$ 743,651	409,515

City of Marco Island, Florida
Notes to Financial Statements

On July 21, 2009, the City issued special assessment revenue bonds to pay the costs of the wastewater improvement project for the North Barfield District. The original amount of the revenue bonds is \$1,775,000 and is secured by capacity assessments on individual properties within the District. The bonds have varying amounts of principal maturing each year ranging from \$57,420 to \$138,146. The interest rate on the bonds is fixed at 5.54 percent. As of September 30, 2012, \$1,571,406 was outstanding. Annual debt service requirements for the revenue bonds are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>
2013	\$ 57,420	86,666
2014	60,887	83,334
2015	64,307	79,829
2016	67,920	76,319
2017	71,531	72,200
2018-2022	423,606	294,231
2023-2027	556,769	157,369
2028-2029	268,966	15,396
Total	\$ 1,571,406	865,344

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 \$79,256 to \$190,681. The interest rate on the bonds is fixed at 5.54 percent. As of September 30, 2012, \$2,168,983 was outstanding. Annual debt service requirements for the revenue bonds are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>
2013	\$ 79,256	119,623
2014	84,042	115,038
2015	88,762	110,186
2016	93,748	105,342
2017	98,733	99,657
2018-2022	584,695	406,122
2023-2027	768,497	217,200
2028-2029	371,250	21,251
Total	\$ 2,168,983	1,194,419

City of Marco Island, Florida
Notes to Financial Statements

On July 21, 2009, the City issued taxable special assessment revenue bonds to pay the costs of the wastewater improvement project for the Old Marco District. The original amount of the revenue bonds is \$260,000 and is secured by capacity and construction assessments on individual properties within the District. The bonds have varying amounts of principal maturing each year ranging from \$6,802 to \$23,693. The interest rate on the bonds is fixed at 7.96 percent. As of September 30, 2012, \$232,412 was outstanding. Annual debt service requirements for the revenue bonds are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>
2013	\$ 6,802	18,485
2014	7,403	17,912
2015	8,000	17,290
2016	8,646	16,663
2017	9,299	15,895
2018-2022	59,264	66,418
2023-2027	87,375	37,182
2028-2029	<u>45,623</u>	<u>3,773</u>
Total	<u>\$ 232,412</u>	<u>193,618</u>

On March 2, 2010, the City issued special assessment revenue bonds for business-type activities to pay the costs of the subordinate wastewater improvement project for the Lamplighter District. The original amount of the revenue bonds was not to exceed \$1,400,000 and is secured by capacity assessments on individual properties within the District. The bonds have varying amounts of principal maturing each year ranging from \$49,517 to \$110,772. The interest rate on the bonds is fixed at 5.07 percent. As of September 30, 2012, \$1,299,145 was outstanding. Annual debt service requirements for the revenue bonds are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>
2013	\$ 49,517	65,519
2014	52,245	62,904
2015	54,931	60,150
2016	57,755	57,407
2017	60,571	54,214
2018-2022	353,609	219,784
2023-2027	454,374	116,451
2028-2029	<u>216,143</u>	<u>11,310</u>
Total	<u>\$ 1,299,145</u>	<u>647,739</u>

City of Marco Island, Florida
Notes to Financial Statements

On March 2, 2010, the City issued special assessment revenue bonds for business-type activities to pay the costs of the subordinate wastewater improvement project for the Sheffield District. The original amount of the revenue bonds was not to exceed \$1,850,000 and is secured by capacity assessments on individual properties within the District. The bonds have varying amounts of principal maturing each year ranging from \$65,433 to \$146,377. The interest rate on the bonds is fixed at 5.07 percent. As of September 30, 2012, \$1,716,727 was outstanding. Annual debt service requirements for the revenue bonds are as follows:

Fiscal Year	Principal	Interest
2013	\$ 65,433	86,579
2014	69,039	83,124
2015	72,587	79,484
2016	76,319	75,860
2017	80,040	71,640
2018-2022	467,269	290,429
2023-2027	600,423	153,881
2028-2029	285,617	14,946
Total	\$ 1,716,727	855,943

On March 1, 2012, the City issued special assessment revenue bonds for business – type activities for the Mackle Park District. The revenue bonds are for \$1,550,000 and are secured by capacity assessments on individual properties within the District. The bonds have varying amounts of principal maturing each year ranging from \$67,126 to \$118,559. The interest rate on the bonds is fixed at 4.17% percent. As of September 30, 2012, \$1,550,000 was outstanding. Annual debt service requirements for the revenue bonds are as follows:

Fiscal Year	Principal	Interest
2013	\$ 67,126	63,235
2014	61,667	60,550
2015	64,238	57,925
2016	66,917	55,190
2017	69,707	52,342
2018-2022	394,640	214,644
2023-2027	484,077	123,343
2027-2029	341,628	21,757
Total	\$ 1,550,000	648,986

City of Marco Island, Florida
Notes to Financial Statements

On March 1, 2012, the City issued special assessment revenue bonds for business – type activities for the Kendall District. The revenue bonds are for \$1,450,000 and are secured by capacity assessments on individual properties within the District. The bonds have varying amounts of principal maturing each year ranging from \$62,796 to \$110,910. The interest rate on the bonds is fixed at 4.17% percent. As of September 30, 2012, \$1,450,000 was outstanding. Annual debt service requirements for the revenue bonds are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>
2013	\$ 62,796	59,156
2014	57,688	56,644
2015	60,094	54,188
2016	62,600	51,630
2017	65,210	48,965
2018-2022	369,179	200,796
2023-2027	452,846	115,385
2027-2029	319,587	20,353
Total	<u>\$ 1,450,000</u>	<u>607,117</u>

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 is 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. In 2012 Copperfield and Goldenrod districts were completed. The final and largest district, Estates, began construction in April 2012 and is scheduled for completion in 2013, completing the work of the Septic Tank Replacement Program (STRP).

Costs related to each project are accumulated and paid as each project progresses. Property owners are not 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.

City of Marco Island, Florida
Notes to Financial Statements

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 2013 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.

(9) Risk Management

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

1. Workers' Compensation
2. Public Officials' Liability
3. General and Property Liability
4. Automobile Liability
5. Crime and Theft Liability

Prior to October 1, 2004, the City was insured against these losses with a commercial insurance agreement with the Florida League of Cities, Inc. under a retrospectively rated policy. Premiums were accrued based upon the ultimate cost-to-date of the City's experience for each type of risk. The City entered into an agreement with an insurance administrator to reduce the potential for significant risk. The agreement has a deductible per claim of \$350,000 for workers' compensation, \$10,000 for crime and \$100,000 for third party liability. Additionally, the agreement has a stop-loss policy which caps the aggregate annual loss for the City at \$600,000. The stop loss covers excess worker's compensation, general, law enforcement, automobile, public officials and employment practices liability. Settlements have not exceeded coverage for each of the past four years.

City of Marco Island, Florida
Notes to Financial Statements

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

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

Estimated unpaid claims, October 1, 2010	\$	840,393
Incurred claims (including IBNRs)		1,537,072
Claim payments		<u>(1,665,133)</u>
Estimated unpaid claims, September 30, 2011		712,332
Incurred claims (including IBNRs)		2,251,297
Claim payments		<u>(2,148,419)</u>
Estimated unpaid claims, September 30, 2012	\$	<u>815,210</u>

(10) Contingent Liabilities

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

The City is a defendant in various lawsuits. 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.

(11) Commitments

The City has numerous active construction projects. As of September 30, 2012, the City's commitments with contractors are as follows:

<u>Project</u>	<u>Contractor</u>	<u>Contract Amount</u>	<u>Completed to date</u>	<u>Balance</u>
N Collier Blvd Phase 4 Drainage	Quality Enterprises USA Inc.	\$ 428,914	90,944	337,970
Smokehouse Bay Bridge Repairs	Ty Lin International	1,569,224	1,475,774	93,450
Total Governmental Projects		<u>1,998,138</u>	<u>1,566,718</u>	<u>431,420</u>
NWTP Improvements and MFS Install	Cardinal Contractors	3,801,959	2,490,567	1,311,392
NWTP MF Structure	Beach Construction Co, Inc.	1,289,323	1,169,138	120,185
RWPF Phase IV Improvements	Beach Construction Co, Inc.	3,446,341	2,521,590	924,751
RWPF Sewall Replacement	Center Marine Contract LLC	456,900	139,815	317,085
SWTP Piping Improvements	G&G Industries	1,254,614	1,223,922	30,692
Total Water/Sewer Projects		<u>10,249,137</u>	<u>7,545,032</u>	<u>2,704,105</u>
Estates Sewer District	Mitchell & Stark Const. Co., Inc.	9,342,498	3,379,494	5,963,004
Total STRP Projects		<u>9,342,498</u>	<u>3,379,494</u>	<u>5,963,004</u>
Total Business Type Projects		<u>\$ 19,591,635</u>	<u>10,924,526</u>	<u>8,667,109</u>

City of Marco Island, Florida
Notes to Financial Statements

(12) Employee Retirement Systems and Pensions Plans

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

The City maintains a single-employer, defined benefit pension plan (the Plan) that covers all fulltime firefighters hired after January 1, 1996. The Plan does not prepare separate financial statements and is included as part of the pension trust funds in the City's financial reporting entity since it is not legally separate from the City.

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

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

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

Retired employees or their beneficiaries are entitled to pension payments for the longer of ten years or the retirees' remaining life equal to 3% of their final five-year average compensation times the number of years of credited service. The final five-year average compensation is the average annual compensation of the five highest years within the last ten years of service. Compensation includes overtime, but excludes lump-sum payments of unused leave. Maximum annual pension payments to retirees are the lesser of \$90,000 or 100% of the average aggregate compensation for the three consecutive calendar years during which the firefighter was an active member and had his/her highest aggregate compensation. An additional supplemental benefit is also payable in the monthly amount of \$3 multiplied by credited service.

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

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

City of Marco Island, Florida
Notes to Financial Statements

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

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

Funding Policy: Participants in the Plan, are required to pay 1% of their compensation to the Plan, however, the City has been funding this on the participant's behalf, for members of the collective bargaining agreement. The State of Florida contributes casualty insurance premium taxes pursuant to Chapter 175, Florida Statutes, and the City contributes the required remaining balance, as determined by the actuary. The City recognized these on-behalf payments from the State as revenues and expenditures in the governmental fund financial statements.

The City makes periodic contributions totaling 100% of the actuarially determined amount (after state contributions) annually to the Plan. 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, 2012, were based on actuarial computations performed for 2012, in the actuarial report dated October 1, 2010.

For the year ended September 30, 2012, the total annually required contribution amount was \$449,040 with the anticipated state contribution of \$73,936. Accordingly, the total required employer contribution made during 2012 was \$409,461.

Annual Pension Cost and Net Pension Obligations: The required contribution was determined as part of the October 1, 2010 actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included: (a) 7.75% 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 cost of living adjustment increases of 3% per year. Market value was used to determine the actuarial value of assets. The unfunded actuarial accrued liability is being amortized as a level dollar amount over thirty years. The remaining amortization period at October 1, 2012, was thirty years (closed basis).

In 2011, the Pension Board authorized a revision to the actuarial assumptions and lowered the investment return assumption by 0.25% each year until 7% is attained and lowered the rate of inflation to 3%.

City of Marco Island, Florida
Notes to Financial Statements

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>
2010	\$ 428,755	99.8%	(243,924)
2011	436,241	101.2%	(249,317)
2012	450,137	107.4%	(282,577)

Changes in the Fire Pension Plan for fiscal 2012 are as follows:

Annual required contribution	\$ 449,040
Interest on net pension asset/obligation	(18,699)
Adjustment to annual required contribution	19,796
Annual pension cost	450,137
Contributions made	483,397
Increase in net pension asset	(33,260)
Net pension asset at beginning of the year	(249,317)
Net pension asset at end of year	\$ (282,577)

Funded Status and Funding Progress: The schedule below shows the balance of the actuarial accrued liability (AAL), part of which was unfunded as of September 30, 2012:

<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>
10/1/2007	\$ 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%
10/1/2012	4,122,634	4,794,681	672,047	86.0%	1,526,426	44.0%

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

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

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

City of Marco Island, Florida
Notes to Financial Statements

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

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

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

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

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

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

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

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.

City of Marco Island, Florida
Notes to Financial Statements

Funding Policy: Participants in the Plan are required to contribute 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 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, 2012, were based on actuarial computations performed for 2012, in the actuarial report dated October 1, 2010.

For the year ended September 30, 2012, the annually required contribution amount was \$725,947 with the anticipated state contribution of \$133,464. Accordingly, the required employer contribution for 2012 was \$592,483.

Annual Pension Cost and Net Pension Obligations: The required contribution was determined as part of the October 1, 2010, 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 cost of living adjustment increases of 3% per year. Market value was used to determine the actuarial value of assets. The unfunded actuarial accrued liability is being amortized as a level dollar amount over forty years. The remaining amortization period at October 1, 2012, was thirty-three years (closed basis).

Three Year Trend Information

Fiscal Year Ended September 30,	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation (Asset)
2010	\$ 645,001	99.8%	(21,298)
2011	754,496	99.8%	(18,116)
2012	726,720	99.9%	(17,343)

Changes in the Police Pension Plan for fiscal 2012 are as follows:

Annual required contribution	\$ 725,947
Interest on net pension asset/obligation	(1,449)
Adjustment to annual required contribution	<u>2,222</u>
Annual pension cost	726,720
Contributions made	<u>725,947</u>
Decrease in net pension asset	773
Net pension asset at beginning of the year	<u>(18,116)</u>
Net pension asset at end of year	<u>\$ (17,343)</u>

City of Marco Island, Florida
Notes to Financial Statements

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, 2012:

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
10/1/2007	\$ 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%
10/1/2012	4,522,707	7,946,977	3,424,270	56.9%	2,030,227	168.7%

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

The combining statement of fiduciary net assets for the pension trust funds as of September 30, 2012 is as follows:

	Fire Pension	Police Pension	Total Pension Trust Funds
Assets			
Cash and cash equivalents	\$ 311,632	491,150	802,782
Accounts Receivable	320,524	133,464	453,988
Investments, at fair value:			
Common stock	4,187,784	2,563,513	6,751,297
Government bonds	2,736,812	1,692,810	4,429,622
Accrued interest	9,791	6,065	15,856
Total Assets	7,566,543	4,887,002	12,453,545
Liabilities			
Accounts payable	2,706	820	3,526
Total Liabilities	2,706	820	3,526
Net Assets			
Held in trust for pension benefits	\$ 7,563,837	4,886,182	12,450,019

City of Marco Island, Florida
Notes to Financial Statements

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

The combining statement of changes in fiduciary net assets for the pension trust funds as of September 30, 2012 is as follows:

	<u>Fire Pension</u>	<u>Police Pension</u>	<u>Total Pension Trust Funds</u>
Additions			
Contributions			
Employer	\$ 409,461	648,187	1,057,648
Employee	12,918	99,915	112,833
State of Florida insurance funds	322,487	133,464	455,951
Total contributions	<u>744,866</u>	<u>881,566</u>	<u>1,626,432</u>
Investment earnings			
Investment interest and dividends	158,031	98,785	256,816
Investment appreciation	914,179	442,197	1,356,376
Investment expenses	(65,373)	(38,361)	(103,734)
Net investment earnings	<u>1,006,837</u>	<u>502,621</u>	<u>1,509,458</u>
Total Additions	<u>1,751,703</u>	<u>1,384,187</u>	<u>3,135,890</u>
Deductions			
Legal	14,481	11,486	25,967
Actuary	11,722	2,956	14,678
Administrative	2,198	1,825	4,023
Refunds to contributors	-	85,373	85,373
Total Deductions	<u>28,401</u>	<u>101,640</u>	<u>130,041</u>
Change in Net Assets	1,723,302	1,282,547	3,005,849
Fund Balances -October 1, 2011	<u>5,840,535</u>	<u>3,603,635</u>	<u>9,444,170</u>
Fund Balances - September 30, 2012	\$ <u>7,563,837</u>	<u>4,886,182</u>	<u>12,450,019</u>

(e) The Florida Retirement System Plan, Firefighters

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

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

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.

City of Marco Island, Florida
Notes to Financial Statements

Funding Policy: The contribution requirements of the system members and the City are established and amended as necessary by the State. Effective July 1, 2011 employees are required to make contributions of 3%; Effective July 1, 2012 the City's contribution is 14.9%, for a total contribution of 17.9% of eligible wages. The City's contributions to the System for the years ended September 30, 2012, 2011 and 2010, were \$150,755, \$219,788 and \$237,439, respectively; and were equal to the required contributions for each year. The employee's contributions to the system for the same years were \$21,394, \$3,894 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. The City has contracted with ICMA or VALIC for the plan administration.

For employees hired by the City as part of its acquisition of the water system from Florida Utility, Inc., the City contributes 5% of annual covered payroll plus a match up to 4% of any employee's voluntary contribution. For all other employees, the City contributes 5% of annual covered payroll, and employees do not contribute. Employer contributions for fiscal years ended September 30, 2012, 2011, 2010 were \$291,416, \$359,159, and \$374,337 respectively. Plan provision and contribution requirements are established and may be amended by the City Manager.

(13) Other Post-Employment Benefits

During fiscal year 2009, the City implemented GASB No. 45, Accounting and Financial Reporting by Employers for Post-Employment Benefits Other than Pensions, for certain postemployment health care benefits provided by the City. The requirements of this Statement were implemented prospectively, with the actuarially determined liability at the October 1, 2009 date of transition being amortized over 30 years. As of October 1, 2011 the City has an actuarially determined liability of \$1,049,978. 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:

Number of Covered Participants :	
Actives	196
Retirees	7
Eligible Spouses	<u>3</u>
Total	<u>206</u>

City of Marco Island, Florida
Notes to Financial Statements

Funding Policy: For all retired employees, the employee contributes 100% of the active premium rate and may also purchase spouse coverage at the active premium rate. The City does not contribute any amount. Plan provisions and contribution requirements are established and may be amended by the City Manager. The 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. Benefits are generally liquidated by the general and enterprise funds.

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.

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	Utilities		All Other Employees	
	10/1/2010	9/30/2012	10/1/2010	9/30/2012
Annual Required Contribution	\$ 53,465		134,796	
Interest on Net OPEB Obligation	5,971		13,171	
Adjustment to Annual Required Contribution	<u>(7,853)</u>		<u>(17,263)</u>	
Annual OPEB Cost/(Expense)	51,583		130,704	
Net Contributions Made	<u>(877)</u>		<u>(21,747)</u>	
Increase/(Decrease) in Net OPEB Obligation	50,706		108,957	
Net OPEB Obligation- Beginning of Year	<u>119,427</u>		<u>263,413</u>	
Net OPEB Obligation- End of Year	\$ <u>170,133</u>		<u>372,370</u>	

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal year 2012, 2011, and 2010 were as follows:

Utilities Employees:

Year Ending	Annual OPEB Cost	Percentage of OPEB Cost Contributed	Net OPEB Obligation
9/30/2012	\$ 51,583	1.7%	170,133
9/30/2011	47,641	1.8%	119,427
9/30/2010	37,731	2.6%	72,648

All Other Employees:

Year Ending	Annual OPEB Cost	Percentage of OPEB Cost Contributed	Net OPEB Obligation
9/30/2012	\$ 130,704	16.6%	372,370
9/30/2011	137,400	21.1%	263,413
9/30/2010	99,727	22.9%	155,032

City of Marco Island, Florida
Notes to Financial Statements

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, 2012:

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	0	163,152	163,152	0.0%	3,599,606	4.5%
10/1/2009	0	110,912	110,912	0.0%	3,645,502	3.0%
10/1/2008	0	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	0	744,522	744,522	0.0%	7,418,933	10.0%
10/1/2009	0	481,311	481,311	0.0%	7,618,478	6.3%
10/1/2008	0	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 8% (grading down to 5% in 2015); (c) post-Medicaid healthcare inflation of 8% (grading down to 5% in 2015). The actuarial accrued liability is being amortized as a level percentage of payrolls over thirty years (closed amortization basis).

Actuarial Methods and Assumptions: Projections of benefits are based on the substantive plan (the Plan as understood by the employer and plan members) and include the types of benefits in force at the valuation date and the pattern of sharing benefit costs between the City and the plan members to that point. Actuarial calculations reflect a long-term perspective and employ methods and assumptions that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets. The actuarial cost method used in the valuation to determine the Actuarial Accrued Liability (AAL) and the Actuarial Required Contribution (ARC) is the entry age normal (level percentage of pay).

(14) Subsequent Events

Subsequent to September 30, 2012 the City has had changes with regards to its long term debt. On December 20, 2012 the City approved the acquisition of a rescue boat, via a lease agreement, that is expected to be delivered to the City as of August 2013. The lease agreement qualifies as a capital lease for accounting purposes and, therefore, will be recorded at the present value of the future minimum lease payments of \$350,000 upon delivery of the boat and total draw down of the borrowed funds. The City has also extended a \$3,090,000 line of credit from Bank of America that matured as of April 6, 2013 for an additional six months in order to secure a permanent bank loan. During fiscal 2013 the City also drew an additional \$2,848,605 in business type activities loans from the Florida Department of Environmental Protection State Revolving Fund loans related to the Estates District of the STRP.

Required Supplementary Information

CITY OF MARCO ISLAND, FLORIDA

PENSION TRUST FUNDS

SCHEDULE OF FUNDING PROGRESS

FIREFIIGHTERS' PENSION PLAN

Actuarial Valuation Date	(a) Actuarial Value of Assets	(b) Actuarial Accrued Liability (AAL) Entry Age	(b-a) Unfunded (Overfunded) AAL (UAAL)	(A/B) Funded Ratio	(c) Covered Payroll	(b-a)/(c) UAAL as a Percentage of Covered Payroll
10/1/2007	\$ 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%
10/1/2012	4,122,634	4,794,681	672,047	86.0%	1,526,426	44.0%

See accompanying independent auditor's report.

CITY OF MARCO ISLAND, FLORIDA

PENSION TRUST FUNDS

SCHEDULE OF EMPLOYER AND STATE CONTRIBUTIONS

FIREFIGHTERS' PENSION PLAN

<u>Fiscal Year Ended</u>	<u>Annual Required Contribution</u>	<u>City Contribution</u>	<u>State Contribution</u>	<u>Percentage Contributed</u>
9/30/2007	\$ 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%
9/30/2012	449,040	409,461	73,936	107.7%

See accompanying independent auditor's report.

CITY OF MARCO ISLAND, FLORIDA

PENSION TRUST FUNDS

SCHEDULE OF FUNDING PROGRESS

POLICE OFFICERS' PENSION PLAN

Actuarial Valuation Date	(a) Actuarial Value of Assets	(b) Actuarial Accrued Liability (AAL) Entry Age	(b-a) Unfunded (Overfunded) AAL (UAAL)	(A/B) Funded Ratio	(c) Covered Payroll	(b-a)/(c) UAAL as a Percentage of Covered Payroll
10/1/2007	\$ 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%
10/1/2012	4,522,707	7,946,977	3,424,270	56.9%	2,030,227	168.7%

See accompanying independent auditor's report.

CITY OF MARCO ISLAND, FLORIDA

PENSION TRUST FUNDS

**SCHEDULE OF EMPLOYER AND STATE CONTRIBUTIONS
POLICE OFFICERS' PENSION PLAN**

<u>Fiscal Year Ended</u>	<u>Annual Required Contribution</u>	<u>City Contribution</u>	<u>State Contribution</u>	<u>Percentage Contributed</u>
9/30/2007	\$ 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	655,983	560,225	95,758	100.0%
9/30/2011	752,842	656,467	96,375	100.0%
9/30/2012	725,947	592,483	133,464	100.0%

See accompanying independent auditor's report.

CITY OF MARCO ISLAND, FLORIDA

General Fund

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

For the Year Ended September 30, 2012

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Taxes	\$ 15,934,275	15,934,275	16,448,498	514,223
Permits and Impact Fees	16,500	16,500	267,135	250,635
Intergovernmental	2,920,000	2,920,000	3,284,168	364,168
Charges for services	1,097,645	1,097,645	1,217,785	120,140
Fines and forfeitures	85,000	85,000	133,835	48,835
Interest income	235,000	235,000	157,269	(77,731)
Miscellaneous	5,000	43,689	130,652	86,963
Total Revenues	<u>20,293,420</u>	<u>20,332,109</u>	<u>21,639,342</u>	<u>1,307,233</u>
Expenditures				
Current:				
General government:				
Legislative	66,990	67,790	56,076	11,714
Executive	698,575	581,125	589,536	(8,411)
Finance	760,465	760,465	724,413	36,052
Legal	300,000	300,000	282,712	17,288
Information Technology	-	423,335	382,441	40,894
Community Affairs	392,635	522,678	448,859	73,819
General Government	1,841,165	1,521,251	978,787	542,464
Total general government	<u>4,059,830</u>	<u>4,176,644</u>	<u>3,462,824</u>	<u>713,820</u>
Public safety:				
Police services	4,268,680	4,277,642	4,151,932	125,710
Fire and rescue	4,491,840	4,498,840	4,869,967	(371,127)
Code compliance	311,760	311,760	304,010	7,750
Total public safety	<u>9,072,280</u>	<u>9,088,242</u>	<u>9,325,909</u>	<u>(237,667)</u>
Highways and streets	1,234,245	2,623,224	2,524,969	98,255
Culture and recreation:	2,021,800	624,075	599,266	24,809
Capital Outlay	-	-	165,404	(165,404)
Total Expenditures	<u>16,388,155</u>	<u>16,512,185</u>	<u>16,078,372</u>	<u>433,813</u>
Excess of Revenues Over Expenditures	<u>3,905,265</u>	<u>3,819,924</u>	<u>5,560,970</u>	<u>1,741,046</u>
Other Financing Sources (Uses)				
Use of Reserves	722,745	858,425	-	(858,425)
Transfers out	(4,628,010)	(4,678,349)	(4,678,349)	-
Total Other Financing Sources (Uses)	<u>(3,905,265)</u>	<u>(3,819,924)</u>	<u>(4,678,349)</u>	<u>(858,425)</u>
Net Change in Fund Balance	<u>-</u>	<u>-</u>	<u>882,621</u>	<u>882,621</u>
Fund Balances -October 1, 2011	<u>-</u>	<u>-</u>	<u>7,109,628</u>	<u>7,109,628</u>
Fund Balances - September 30, 2012	<u>\$ -</u>	<u>-</u>	<u>7,992,249</u>	<u>7,992,249</u>

See accompanying independent auditor's report.

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 \$174,369 of supplemental appropriations in the general fund during the year end September 30, 2012.
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, 2012, general government did not have expenditures exceeding fund level appropriations. Historically, the City develops a conservative budget based upon between 90% and 95% of the State's various shared revenue projections due to the uncertainty in the economy. Actual revenue received was \$1.3 million more than budgeted. Overall departmental expenditures were in line with budgeted expenditures. General government expenditures were below budget by \$0.5 million due to budgeted contingencies not used for expected retirements of senior staff and the BP oil spill clean-up. Expenditures for Police services were under budget by \$0.1 million due to a lower than expected property insurance premium tax contributions to the retirement plan. Fire and rescue expenditures were over budget by \$0.4 million due to higher than expected property insurance premium tax contribution to the retirement plan. Capital outlays were due to the acquisition of a parcel of property that was continuously flooded. Funding was provided via a Federal grant.

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.

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, 2012

	<u>Special Revenue</u>		
	<u>Building Services</u>	<u>Debt Services</u>	<u>Nonmajor Fund Totals</u>
Assets			
Pooled cash and investments	\$ 1,167,096	1,108,735	2,275,831
Restricted cash and investments	-	545,948	545,948
Accounts Receivable, Net	-	-	-
Total Assets	<u>1,167,096</u>	<u>1,654,683</u>	<u>2,821,779</u>
Liabilities and Fund Balance			
Liabilities			
Accounts Payable	\$ 10,292	-	10,292
Accrued Liabilities	14,153	-	14,153
Other Liabilities	-	-	-
Total Liabilities	<u>24,445</u>	<u>-</u>	<u>24,445</u>
Fund Balances			
Restricted for:			
Debt Service	-	545,948	545,948
Assigned to:			
Debt Service	-	1,108,735	1,108,735
Building Services	<u>1,142,651</u>	<u>-</u>	<u>1,142,651</u>
Total Fund Balances	<u>1,142,651</u>	<u>1,654,683</u>	<u>2,797,334</u>
Total Liabilities and Fund Balances	<u>\$ 1,167,096</u>	<u>1,654,683</u>	<u>2,821,779</u>

See accompanying independent auditor's report.

CITY OF MARCO ISLAND, FLORIDA

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

Nonmajor Governmental Funds

For the Year Ended September 30, 2012

	<u>Special Revenue</u>		
	<u>Building Services</u>	<u>Debt Services</u>	<u>Nonmajor Fund Totals</u>
Revenues			
Taxes	\$ -	858,681	858,681
Permits and impact fees	1,266,041	-	1,266,041
Intergovernmental	-	-	-
Interest income	25,238	-	25,238
Miscellaneous	28	-	28
Total Revenues	<u>1,291,307</u>	<u>858,681</u>	<u>2,149,988</u>
Liabilities and Fund Balance			
Expenditures			
Current:			
Fire and rescue	\$ -	-	-
Building services	1,036,310	-	1,036,310
Debt Service:			
Principal	-	1,071,692	1,071,692
Interest and fiscal charges	-	413,411	413,411
Capital Outlay	29,796	-	29,796
Total Expenditures	<u>1,066,106</u>	<u>1,485,103</u>	<u>2,551,209</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>225,201</u>	<u>(626,422)</u>	<u>(401,221)</u>
Other Financing Sources			
Transfers in	\$ -	640,985	640,985
Transfers out	(31,000)	-	(31,000)
Total Other Financing Sources (Uses)	<u>(31,000)</u>	<u>640,985</u>	<u>609,985</u>
Net Change in Fund Balances	<u>194,201</u>	<u>14,563</u>	<u>208,764</u>
Fund Balances - October 1, 2011	<u>948,450</u>	<u>1,640,120</u>	<u>2,588,570</u>
Fund Balances - September 30, 2012	<u>\$ 1,142,651</u>	<u>1,654,683</u>	<u>2,797,334</u>

See accompanying independent auditor's report.

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, 2012

	<u>Original Budgeted Amount</u>	<u>Final Budgeted Amount</u>	<u>Actual Amount</u>	<u>Variance with Final Budget</u>
Revenues				
Intergovernmental	\$ 727,840	727,840	382,445	(345,395)
Total Revenues	<u>727,840</u>	<u>727,840</u>	<u>382,445</u>	<u>(345,395)</u>
Expenditures				
Capital outlay	5,472,865	9,020,834	3,517,462	5,503,372
Total Expenditures	<u>5,472,865</u>	<u>9,020,834</u>	<u>3,517,462</u>	<u>5,503,372</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(4,745,025)</u>	<u>(8,292,994)</u>	<u>(3,135,017)</u>	<u>5,157,977</u>
Other Financing Sources (Uses)				
Use of reserves	758,000	4,224,630	-	(4,224,630)
Transfers in	4,596,325	4,733,464	4,733,464	-
Transfers out	<u>(609,300)</u>	<u>(665,100)</u>	<u>(665,100)</u>	<u>-</u>
Total Other Financing Sources (Uses)	<u>4,745,025</u>	<u>8,292,994</u>	<u>4,068,364</u>	<u>(4,224,630)</u>
Net Change in Fund Balances	<u>-</u>	<u>-</u>	<u>933,347</u>	<u>933,347</u>
Fund Balances - October 1, 2011			<u>7,429,003</u>	
Fund Balances - September 30, 2012			<u>\$ 8,362,350</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, 2012

	<u>Original Budgeted Amount</u>	<u>Final Budgeted Amount</u>	<u>Actual Amount</u>	<u>Variance with Final Budget</u>
Revenues				
Permits and impact fees	\$ 912,000	947,200	1,266,041	318,841
Interest income	30,000	30,000	25,238	(4,762)
Miscellaneous	-	-	28	28
Total Revenues	<u>942,000</u>	<u>977,200</u>	<u>1,291,307</u>	<u>314,107</u>
Expenditures				
Current:				
Building services:				
Operating expenses	1,043,970	1,048,170	1,036,310	11,860
Capital outlay	-	31,565	29,796	1,769
Total Expenditures	<u>1,043,970</u>	<u>1,079,735</u>	<u>1,066,106</u>	<u>13,629</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(101,970)</u>	<u>(102,535)</u>	<u>225,201</u>	<u>327,736</u>
Other Financing Sources (Uses)				
Use of reserves	101,970	133,535	-	(133,535)
Transfers out	-	(31,000)	(31,000)	-
Total Other Financing Sources (Uses)	<u>101,970</u>	<u>102,535</u>	<u>(31,000)</u>	<u>(133,535)</u>
Net Change in Fund Balances	<u>-</u>	<u>-</u>	<u>194,201</u>	<u>194,201</u>
Fund Balances - October 1, 2011			<u>948,450</u>	
Fund Balances - September 30, 2012			<u>\$ 1,142,651</u>	

See accompanying independent auditors' report.

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, 2012

	<u>Original Budgeted Amount</u>	<u>Final Budgeted Amount</u>	<u>Actual Amount</u>	<u>Variance with Final Budget</u>
Revenues				
Taxes	\$ 850,000	850,000	858,681	8,681
Total Revenues	<u>850,000</u>	<u>850,000</u>	<u>858,681</u>	<u>8,681</u>
Expenditures				
Debt service:				
Principal	1,071,700	1,071,700	1,071,692	8
Interest and fiscal charges	419,285	419,285	413,411	5,874
Total Expenditures	<u>1,490,985</u>	<u>1,490,985</u>	<u>1,485,103</u>	<u>5,882</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(640,985)</u>	<u>(640,985)</u>	<u>(626,422)</u>	<u>14,563</u>
Other Financing Sources (Uses)				
Transfers in	640,985	640,985	640,985	-
Total Other Financing Sources (Uses)	<u>640,985</u>	<u>640,985</u>	<u>640,985</u>	<u>-</u>
Net Change in Fund Balances	<u>-</u>	<u>-</u>	<u>14,563</u>	<u>14,563</u>
Fund Balances - October 1, 2011			<u>1,640,120</u>	
Fund Balances - September 30, 2012			<u>\$ 1,654,683</u>	

See accompanying independent auditor's report.

CITY OF MARCO ISLAND, FLORIDA

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

September 30, 2012

	<u>Fire Pension</u>	<u>Police Pension</u>	<u>Total Pension Trust Funds</u>
Assets			
Cash and cash equivalents	\$ 311,632	491,150	802,782
Accounts receivable:			
Unsettled sales	320,524	133,464	453,988
Investments, at fair value:			
Common stock	4,187,784	2,563,513	6,751,297
Government bonds	2,736,812	1,692,810	4,429,622
Accrued interest	9,791	6,065	15,856
Total Assets	<u>7,566,543</u>	<u>4,887,002</u>	<u>12,453,545</u>
Liabilities			
Accounts payable	<u>2,706</u>	<u>820</u>	<u>3,526</u>
Total Liabilities	<u>2,706</u>	<u>820</u>	<u>3,526</u>
Net Assets			
Held in trust for pension benefits	<u>\$ 7,563,837</u>	<u>4,886,182</u>	<u>12,450,019</u>

See accompanying independent auditor's report.

CITY OF MARCO ISLAND, FLORIDA

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

For the Year Ended September 30, 2012

	<u>Fire Pension</u>	<u>Police Pension</u>	<u>Total Pension Trust Funds</u>
Additions			
Contributions			
Employer	\$ 409,461	648,187	1,057,648
Employee	12,918	99,915	112,833
State of Florida insurance funds	<u>322,487</u>	<u>133,464</u>	<u>455,951</u>
Total contributions	<u>744,866</u>	<u>881,566</u>	<u>1,626,432</u>
Investment earnings			
Investment interest and dividends	158,031	98,785	256,816
Investment appreciation	914,179	442,197	1,356,376
Investment expenses	<u>(65,373)</u>	<u>(38,361)</u>	<u>(103,734)</u>
Net investment earnings	<u>1,006,837</u>	<u>502,621</u>	<u>1,509,458</u>
Total Additions	<u>1,751,703</u>	<u>1,384,187</u>	<u>3,135,890</u>
Deductions			
Legal	14,481	11,486	25,967
Actuary	11,722	2,956	14,678
Administrative	2,198	1,825	4,023
Refunds to contributors	<u>-</u>	<u>85,373</u>	<u>85,373</u>
Total Deductions	<u>28,401</u>	<u>101,640</u>	<u>130,041</u>
Change in Net Assets	1,723,302	1,282,547	3,005,849
Fund Balances - October 1, 2011	<u>5,840,535</u>	<u>3,603,635</u>	<u>9,444,170</u>
Fund Balances - September 30, 2012	<u>\$ 7,563,837</u>	<u>4,886,182</u>	<u>12,450,019</u>

See accompanying independent auditor's report.

STATISTICAL SECTION

CITY OF MARCO ISLAND

**Net Assets by Component
(Unaudited)**

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

Schedule 1

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

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

CITY OF MARCO ISLAND

**Changes in Net Assets
(Unaudited)**

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

Schedule 2

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

CITY OF MARCO ISLAND

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

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

Schedule 3

	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>
General revenues and other changes in net assets									
Governmental activities									
Taxes:									
Property taxes	\$ 15,186,850	15,882,920	15,650,276	14,903,477	14,329,937	15,315,942	11,852,368	10,554,795	9,933,131
Communication service tax	991,888	945,876	1,021,735	934,875	980,662	914,729	997,457	967,296	1,056,959
Other taxes	1,128,441	1,154,806	1,211,299	910,544	665,451	676,038	870,728	315,630	-
Franchise fees	-	-	-	1,610,117	1,920,620	1,913,134	1,882,013	-	-
State shared revenues	2,036,642	1,950,824	1,844,849	1,748,568	1,943,146	1,952,268	2,393,388	2,270,293	1,750,719
Interest	230,611	212,562	200,612	368,780	560,622	919,185	1,279,907	621,291	347,976
Gain on sale of capital assets	-	-	(6,300)	-	-	20,000	-	250,000	-
Miscellaneous	144,892	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>19,719,324</u>	<u>20,448,308</u>	<u>20,065,686</u>	<u>20,663,519</u>	<u>20,752,774</u>	<u>21,751,945</u>	<u>19,722,785</u>	<u>17,137,047</u>	<u>14,072,919</u>
Business-type activities									
Interest	2,455,405	2,821,122	2,619,932	3,103,387	1,476,393	797,892	518,451	306,738	256,333
Miscellaneous	499,433	419,073	139,540	338,558	460,470	2,736,147	478,610	1,552,937	73,989
Gain on sale of capital assets	-	(145,500)	(19,822)	-	-	-	-	-	-
Transfers	-	-	-	(40,000)	-	-	-	(108,759)	-
Total business-type activities	<u>2,954,838</u>	<u>3,094,695</u>	<u>2,739,650</u>	<u>3,401,945</u>	<u>1,936,863</u>	<u>3,534,039</u>	<u>997,061</u>	<u>1,750,916</u>	<u>330,322</u>
Total primary government	<u>22,674,162</u>	<u>23,543,003</u>	<u>22,805,336</u>	<u>24,065,464</u>	<u>22,689,637</u>	<u>25,285,984</u>	<u>20,719,846</u>	<u>18,887,963</u>	<u>14,403,241</u>
Changes in net assets									
Governmental activities	22,015	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	<u>9,256,715</u>	<u>13,687,534</u>	<u>19,289,662</u>	<u>16,516,500</u>	<u>27,149,544</u>	<u>11,541,277</u>	<u>3,792,433</u>	<u>4,614,442</u>	<u>1,431,695</u>
Total primary government	<u>\$ 9,278,730</u>	<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>

CITY OF MARCO ISLAND
Fund Balances of Governmental Funds
(Unaudited)

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

Schedule 4

	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>
General fund									
Nonspendable	\$ 25	3,331	-	-	-	-	-	-	-
Restricted	958,362	722,132	-	-	-	-	-	-	-
Assigned	30,402	20,289	-	-	-	-	-	-	-
Reserved	-	-	610,908	958,601	550,899	1,139,950	908,293	4,355,795	3,979,961
Unassigned	7,003,460	6,363,876	-	-	-	-	-	-	-
Designated	-	-	10,847,424	10,815,926	9,636,801	17,146,589	26,222,575	17,395,304	10,206,736
Undesignated	-	-	850,672	1,451,163	2,101,476	2,497,833	2,027,228	6,354,549	3,221,265
Total unreserved	<u>7,992,249</u>	<u>7,109,628</u>	<u>11,698,096</u>	<u>12,267,089</u>	<u>11,738,277</u>	<u>19,644,422</u>	<u>28,249,803</u>	<u>23,749,853</u>	<u>13,428,001</u>
Total general fund	<u>7,992,249</u>	<u>7,109,628</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	545,948	549,773	-	-	-	-	-	-	-
Assigned:									
Transportation	600,000	-	-	-	-	-	-	-	-
Building Services	1,142,651	948,450	-	-	-	-	-	-	-
Debt services	1,108,735	1,090,347	-	-	-	-	-	-	-
Grants	-	-	-	-	-	-	-	-	-
Capital projects	3,179,554	4,312,832	-	-	-	-	-	-	-
Asset replacement	4,582,796	3,116,171	-	-	-	-	-	-	-
Unassigned	-	-	-	-	-	-	-	-	-
Reserved:									
Debt service fund	-	-	1,934,854	1,895,754	1,886,087	767,380	447,019	508,100	-
Unreserved									
Special revenue funds	-	-	1,202,908	1,406,108	1,551,384	993,865	374,843	2,431,981	2,201,959
Total all other governmental funds	<u>11,159,684</u>	<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	25	3,331	-	-	-	-	-	-	-
Restricted	1,504,310	1,271,905	-	-	-	-	-	-	-
Assigned	10,644,138	8,397,742	-	-	-	-	-	-	-
Unassigned	7,003,460	6,363,876	-	-	-	-	-	-	-
Undesignated	-	-	-	-	-	-	-	-	-
Reserved	-	-	2,545,762	2,854,355	2,436,986	1,907,330	1,355,312	4,863,895	3,979,961
Unreserved	-	-	12,901,004	13,673,197	13,289,661	20,638,287	28,624,646	26,181,834	15,629,960
Total governmental funds	<u>\$ 19,151,933</u>	<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

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

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

Schedule 5

	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>
Revenues									
Taxes	\$ 17,307,179	17,983,602	17,883,310	18,359,013	17,896,670	18,819,843	16,341,065	12,585,979	11,870,991
Licenses and permits	1,533,176	993,199	953,501	775,843	840,236	1,008,708	1,199,975	1,229,030	2,130,035
Intergovernmental	3,666,613	4,254,122	3,904,674	4,093,649	3,843,101	4,271,471	6,451,616	8,842,937	5,278,142
Charges for services	1,217,785	920,267	314,391	238,987	378,902	435,456	302,343	355,670	522,944
Fines and forfeitures	133,835	231,662	351,497	573,210	198,951	82,001	37,047	252,832	91,794
Interest income	182,507	210,351	200,612	368,780	560,622	919,185	1,279,907	621,291	347,976
Miscellaneous	130,680	165,845	441,478	1,165,249	589,362	355,365	344,177	528,190	1,102,955
Total revenues	24,171,775	24,759,048	24,049,463	25,574,731	24,307,844	25,892,029	25,956,130	24,415,929	21,344,837
Expenditures									
Current:									
General government	\$ 3,462,824	3,602,127	4,418,283	4,438,636	4,052,564	3,602,926	3,905,826	2,868,842	2,246,456
Police services	4,151,932	4,117,627	3,858,373	3,945,801	3,462,233	3,468,913	3,282,913	2,593,972	2,594,499
Fire and rescue	4,869,967	4,821,296	5,039,364	4,226,027	3,780,795	3,553,821	3,140,112	3,371,921	2,663,257
Code compliance	304,010	268,625	282,859	244,027	220,857	177,469	177,085	112,562	195,834
Building services	1,036,310	1,104,754	1,139,165	1,352,689	1,255,294	1,323,773	1,105,985	1,011,005	1,012,830
Transportation	2,524,969	1,113,799	1,358,546	1,762,405	2,201,749	2,181,730	951,800	1,106,152	1,179,243
Culture and recreation	599,266	19,800,040	1,879,614	1,948,370	1,701,382	1,712,998	1,413,631	1,244,657	1,545,047
Debt service:									
Principal	1,071,692	1,543,467	2,100,575	2,072,782	2,045,087	1,687,485	669,973	131,922	491,264
Interest	413,411	477,221	517,849	590,537	661,787	728,053	568,046	349,192	139,825
Bond issue cost	-	-	-	-	-	-	33,810	71,228	84,209
Capital outlay	3,712,662	4,195,157	4,535,622	4,764,578	11,745,066	14,906,202	15,680,011	6,690,666	13,780,786
Total expenditures	22,147,043	41,044,113	25,130,250	25,345,852	31,126,814	33,343,370	30,929,192	19,552,119	25,933,250
Excess (deficiency) of revenues over (under) expenditures	2,024,732	(16,285,065)	(1,080,787)	228,879	(6,818,970)	(7,451,341)	(4,973,062)	4,863,810	(4,588,413)
Other financing sources (uses)									
Transfers in	5,374,449	11,388,719	7,046,586	7,142,198	12,873,112	14,617,571	5,648,748	6,572,583	1,932,385
Transfers out	(5,374,449)	(11,243,219)	(7,046,586)	(7,102,198)	(12,873,112)	(14,617,571)	(5,648,748)	(6,786,877)	(1,932,385)
Proceeds from sale of capital asset	-	-	-	-	-	20,000	-	-	-
Capital leases	-	-	-	532,026	-	-	-	786,292	-
Bonds issued	-	-	-	-	-	-	4,000,000	6,000,000	9,860,000
Total other financing sources (uses)	-	145,500	-	572,026	-	20,000	4,000,000	6,571,998	9,860,000
Net change in fund balance	\$ 2,024,732	(16,139,565)	(1,080,787)	800,905	(6,818,970)	(7,431,341)	(973,062)	11,435,808	5,271,587
Debt service as a percentage of non-capital expenditures	8.06%	10.80%	13.27%	13.54%	14.85%	14.13%	8.56%	5.35%	6.16%
Capital outlay (per above)	3,712,662	4,195,157	4,535,622	4,764,578	11,745,066	14,906,202	15,680,011	6,690,666	13,780,786
Capital outlay included in current expenditures	87,639	316,570	855,459	906,286	1,153,197	1,340,988	396,895	2,546,777	539,886
Total capital outlay	\$ 3,800,301	4,511,727	5,391,081	5,670,864	12,898,263	16,247,190	16,076,906	9,237,443	14,320,672

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

CITY OF MARCO ISLAND

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

Last Ten Fiscal Years

Schedule 6

<u>Fiscal Year</u>	<u>Assessed January 1st</u>	<u>Real Property ⁽¹⁾</u>	<u>Personal Property ⁽¹⁾</u>	<u>Total Assessed Taxable Value</u>	<u>Percentage Increase (Decrease) Over Prior Year</u>	<u>Total Direct Tax Rate</u>
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 ⁽²⁾	2005	9,416,315,319	83,290,481	9,499,605,800	33.5%	1.388
2007	2006	11,982,430,855	94,191,494	12,076,622,349	27.1%	1.318
2008	2007	11,476,813,202	93,768,111	11,570,581,313	-4.2%	1.283
2009	2008	10,401,701,636	84,592,274	10,486,293,910	-9.4%	1.477
2010	2009	9,248,174,862	78,795,703	9,326,970,565	-11.1%	1.747
2011	2010	8,191,850,914	79,404,135	8,271,255,049	-11.3%	1.998
2012	2011	7,493,705,720	74,289,395	7,567,995,115	-8.5%	2.077
2013 ⁽³⁾	2012	7,342,959,034	68,248,839	7,411,207,873	-2.1%	2.080

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

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

⁽³⁾ Information only. 2012 assessed values are used for fiscal year 2013 tax revenues

Source: Collier County Property Appraiser

CITY OF MARCO ISLAND

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

Last Ten Fiscal Years

Schedule 7

Fiscal Year Ended	Direct		Overlapping							Total Levy
	City Operating	City Debt Service	Collier County Operating	Collier School Board	Mosquito Control	South FL Water Management	Water Pollution Control	Big Cypress Basin	Collier County Other	
2004	1.6200	-	3.8772	6.5240	0.1051	0.2840	0.0347	0.2425	0.2500	12.9375
2005	1.5400	0.0460	3.8772	6.2200	0.0962	0.2840	0.0347	0.2425	0.2500	12.5906
2006	1.2925	0.0950	3.8772	5.9730	0.0830	0.2840	0.0347	0.2425	0.2500	12.1319
2007	1.2445	0.0736	3.7290	5.5250	0.0680	0.2840	0.0320	0.2425	0.2500	11.4486
2008	1.2048	0.0785	3.1469	5.3510	0.0635	0.2549	0.0280	0.2265	0.3742	10.7283
2009	1.3917	0.0849	3.2969	4.9090	0.0635	0.2549	0.0293	0.2265	0.2329	10.4896
2010	1.6518	0.0955	3.5645	5.2390	0.0720	0.2549	0.0293	0.2265	0.2500	11.3835
2011	1.8900	0.1079	3.5645	5.6990	0.0826	0.2549	0.0293	0.2265	0.2500	12.1047
2012	1.9592	0.1177	3.5645	5.5270	0.0934	0.1785	0.0293	0.1633	0.2500	11.8829
2013 (1)	1.9600	0.1204	3.5645	5.5760	0.1102	0.1757	0.0293	0.1633	0.2500	11.9494

(1) Information only.

Source: Collier County Property Appraiser

CITY OF MARCO ISLAND

**Principal Property Taxpayers
(Unaudited)**

Fiscal Year 2012 (1)

Schedule 8

<u>Taxpayer</u>	<u>Property by Type</u>	<u>January 1, 2012 Taxable Valuation</u>	<u>Rank</u>	<u>% of Total Assessed Valuation</u>
City National Bank of Miami- Marco Beach Hotel, Inc.	Hospitality	\$ 71,920,434	1	0.97%
Marriott Ownership Resorts	Hospitality	50,374,672	2	0.68%
Marco Town Center, Inc.	Shopping Center	10,328,334	3	0.14%
GM Esplanade LLC	Shopping Center	8,341,998	4	0.11%
Bates, Wesley C.	Single Family Residence	7,237,876	5	0.10%
Gregg Holdings, Inc.	Single Family Residence	6,942,979	6	0.09%
Venetian Investments, LLC	Shopping Center	6,634,635	7	0.09%
Brian R Williamson Trust	Single Family Residence	5,973,748	8	0.08%
Jack C. & Dorothy J. Skoog Trust	Single Family Residence	5,549,266	9	0.07%
William M & Nadine Gibson	Single Family Residence	5,220,868	10	0.07%
Total		\$ <u>173,303,942</u>		<u>2.34%</u>

Source: Collier County Property Appraiser

CITY OF MARCO ISLAND

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

Last Ten Fiscal Years

Schedule 9

Fiscal Year	Taxes Assessed January 1st	Total Tax Levy	Current Tax Collections	Percent of Current Taxes Collected	Delinquent Tax Collections	Total Collections To Date	Percent of Total Collections To Date
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%
2012	2011	15,717,969 [▼]	15,186,850	96.6%	-	15,186,850	96.6%

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

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

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

Schedule 10

Fiscal Year	Governmental Activities				Business-Type Activities		Total Primary Government	Percentage ⁽³⁾ of Personal Income	Per ⁽³⁾ Capita
	General Obligation Bonds	Non Ad Valorem	Sales Tax Revenue Bonds	Capital Leases	Water/Sewer ⁽¹⁾ Revenue Bonds & Loans	STRP ⁽²⁾ Assessment Bonds & Notes			
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	19.01%	7,204
2005	9,860,000	780,000	6,000,000	459,370	101,115,000	-	118,214,370	18.42%	7,549
2006	9,315,000	4,725,000	6,000,000	389,397	99,205,000	-	119,634,397	17.48%	7,600
2007	8,760,000	3,665,000	6,000,000	316,912	124,377,508	-	143,119,420	19.81%	9,044
2008	8,195,000	2,605,000	5,655,000	241,825	134,522,769	13,168,740	164,388,334	22.81%	9,753
2009	7,615,000	1,540,000	5,305,000	696,069	154,313,401	27,284,013	196,753,483	27.91%	11,700
2010	7,025,000	475,000	4,940,000	615,494	186,218,288	31,986,098	231,259,880	31.22%	14,065
2011	6,415,000	-	4,565,000	532,026	176,042,107	38,821,263	226,375,396	29.59%	13,792
2012	5,790,000	-	4,175,000	475,332	165,096,346	50,178,723	225,715,401	29.20%	13,471

⁽¹⁾ Water and wastewater operations on Marco Island and at Marco Shores acquired from Florida Water Services in November 2003. Includes \$36,839,632 of State Loan financing for the Septic Tank Replacement Program.

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

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

Source: City of Marco Island Finance Department.

CITY OF MARCO ISLAND
Ratios of General bonded Debt Outstanding
(Unaudited)
Last Ten Fiscal Years

Schedule 11

Fiscal Year	General Obligation Bonds	Percentage of Net Assessed Property Value ⁽¹⁾	Per Capita ⁽²⁾
2003	-	0.000%	-
2004	9,860,000	0.155%	633
2005	9,860,000	0.139%	630
2006	9,315,000	0.098%	592
2007	8,760,000	0.073%	554
2008	8,195,000	0.071%	486
2009	7,615,000	0.073%	453
2010	7,025,000	0.075%	427
2011	6,415,000	0.078%	391
2012	5,790,000	0.077%	346

⁽¹⁾ See the Schedule of Assessed Value of Taxable Property on Page 112 for net assessed property value data.

⁽²⁾ See the Schedule of Demographic and Economic Statistics on Page 119 for population data.

Source: City of Marco Island Finance Department.

CITY OF MARCO ISLAND
Pledged Revenue Bond Coverage
Water/Sewer Revenue Bonds and Sales Tax Revenue Bonds
(Unaudited)

Last Ten Fiscal Years

Schedule 12

Fiscal Year	Water/Sewer Enterprise Fund								General Fund			
	Water/Sewer Revenue	Water/Sewer Impact Fees	Less Operating Expenses	Net Revenues With Impact Fees	Net Revenues Without Impact Fees	Debt Service	Coverage With Impact Fees ⁽²⁾	Coverage Without Impact Fees ⁽³⁾	Coverage Without Impact Fees ⁽⁴⁾	Sales Tax Revenues	Debt Service	Coverage
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
2012	28,193,843	41,437 [▲]	11,171,326	17,063,954	17,022,517	8,793,539	1.94	1.94		1,576,141	549,775	2.87

(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
Demographic and Economic Statistics
(Unaudited)

Last Ten Fiscal Years

Schedule 13

Fiscal Year	Population			Income			Florida Unemployment Rate (1)
	City of Marco Island (1)	Collier County (1)	State of Florida (1)	Florida Personal Income (in millions of dollars) (2)	Naples-Marco Island Per Capita Personal Income (3)	Florida Per Capita Personal Income	
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	16,442	333,554	18,773,356	740,651	61,308	37,854	12.0
2011	16,413	321,520	18,801,310	764,917	59,985	40,427	10.7
2012	16,756	328,134	19,057,542	773,062	59,264	40,565	8.7

(1) Source: U.S. Census Bureau/Bureau of Labor Statistics

(2) Source: U.S. Department of Commerce BEA

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

CITY OF MARCO ISLAND

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

Fiscal Year 2012 (1)

Schedule 14

Fiscal Year 2012 (1)			
Employer	Business Type	Employees	Rank
Collier County Public Schools	Public Education	5,446	1
NCH Healthcare System	Health Care	3,725	2
Publix Supermarket	Supermarket	2,161	3
Collier County Government	Government	1,727	4
Collier County Sheriff	Government	1,387	5
Ritz Carlton Hotel	Hotel	1,150	6
Home Depot	Home Improvement Store	1,012	7
Marriott	Hospitality	943	8
Naples Grande Resort	Hotel	605	9
Barron Collier Partnership	Real Estate & Land Development	600	10
Total		18,756	

Source: Collier County Economic, Demographic & Community Profile

Note: Naples-Marco Island

CITY OF MARCO ISLAND
Full time Equivalent Employees
by Department as of September 30
(Unaudited)

Last Ten Fiscal Years

Schedule 15

Department	<u>2012</u>	<u>2011</u>	<u>2010(2)</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004 (1)</u>	<u>2003</u>
General Fund:										
Executive Administrative	8.5	6	8	8	8	6	5	5	5	5
Finance	7	7	7	14	14	15	15	14	14	4
Community Development	4	6	6	8	8	8	8	8	8	8
Fire / Rescue	38	38	38	38	35	35	32	32	31	31
Code Compliance	3	3	3	-	-	-	-	-	-	-
Police	35.5	35.5	35.5	36	36	36	33	33	31	30
Public Works	5.5	6	10	11	11	11	9	8	8	8
Parks and Recreation	15	15	20	15	15	15	14	12	12	8
Total General Fund	116.5	116.5	127.5	130	127	126	116	112	109	94
Water / Sewer Enterprise Fund	78	77	74	63	61	58	51	49	49	1
Building Services Fund	8	8	10	10	10	10	8	8	7	7
Recreation Enterprise Fund	3.5	3.5	4.5	3	3	1	1	1	-	-
Total	206	205	216	206	201	195	176	170	165	102

(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

**Operating Indicators by Department
(Unaudited)**

Last Ten Fiscal Years

Schedule 16

Department	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
Police Department										
Calls for Service	58,014	70,740	77,628	68,215	61,430	52,273	29,291	33,480	41,527	32,290
Fire Department										
Calls for Service	2,897	2,688	2,802	2,430	2,448	2,911	2,467	2,481	2,358	2,095
Building Department										
New Single-Family Homes	74	25	33	16	28	43	72	136	233	211
New Multi-Family Units	-	-	-	-	7	0	0	33	123	172
Total Permits Issued	5,369	5,149	5,381	4,800	5,194	5,456	7,121	4,917	4,836	4,981
Water Production (1)										
Number of Customers	9,583	9,756	9,623	9,428	9,496	9,517	8,929	8,784	8,329	NA
Raw Flow into Water Plants: (Surface & Ground)										
Average Daily Treatment (Millions of gallons)	6.47	7.89	7.80	6.37	8.88	10.25	10.19	10.13	NA	NA
Maximum Daily Treatment (Millions of gallons)	9.54	16.25	16.01	13.05	14.27	16.22	17.86	15.36	NA	NA
Wastewater Treatment (1)										
Number of Customers	8,424	8,375	7,044	6,412	5,669	5,032	4,120	4,061	4,020	NA
Flow into Wastewater Plants:										
Average Daily Treatment (Millions of gallons)	1.99	1.94	1.92	1.91	1.88	1.87	1.87	1.70	1.91	NA
Maximum Daily Treatment (Millions of gallons)	3.74	3.72	3.67	3.44	4.65	3.00	3.00	2.83	3.93	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

CITY OF MARCO ISLAND

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

Last Ten Fiscal Years

Schedule 17

Function/Program	Fiscal Year									
	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
Police Department										
Number of Stations	1	1	1	1	1	1	1	1	1	1
Number of Patrol Units	12	11	11	12	12	12	12	12	11	11
Fire Department										
Number of Stations	2	2	2	2	2	2	2	2	2	2
Parks and Recreation										
Number of Parks	10	10	10	10	8	8	8	8	8	8
Park Acreage	60.0	60.0	60.0	60.0	53.8	53.8	53.8	53.8	53.8	53.8
Tennis Courts	10	10	10	10	10	10	10	10	10	10
Bocce Ball Courts	3	3	3	3	3	2	2	2	2	2
Shuffleboard Courts	7	7	7	7	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	3	2	2	2	2	2	2
Teen Center	1	1	1	1	1	0	0	0	0	0
Public Beach Access	2	2	2	2	1	1	0	0	0	0
Public River Access	1	1	1	1	1	1	1	0	0	0
Public Works										
Streets (Centerline Miles)	127	127	127	127	127	127	127	127	127	127
Signalized intersections	10	10	10	10	10	8	8	7	7	7
Bridges	15	15	15	15	15	12	12	12	12	12
Utilities										
Number of Water Plants	3	3	3	3	3	3	3	3	3	NA
Number of WasteWater Plants	2	2	2	2	2	2	2	2	2	NA
Water Lines (Miles)	155	155	140	140	140	140	140	140	140	NA
Sewer Lines (Miles)	191	175	160	145	132	86	82	82	82	NA

Source: City of Marco Island

SINGLE AUDIT AND OTHER REPORTS AND LETTERS



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

To 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 (the “City”), as of and for the year ended September 30, 2012, which collectively comprise the City’s basic financial statements and have issued our report thereon dated May 17, 2013. 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified a deficiency in internal control over financial reporting that we consider to be a material weakness and one deficiency that we consider to be a significant deficiency.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity’s financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described as 2012-01 in the accompanying schedule of findings and questioned costs to be a material weakness.

A *significant deficiency* is a deficiency or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described as 2011-01 in the accompanying schedule of findings and questioned costs to be a significant deficiency.

Compliance and Other Matters

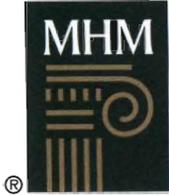
As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect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

The City's responses to the findings identified in our audit are included in the accompanying schedule of findings and questioned costs. We did not audit the City's responses and, accordingly, we express no opinion on them.

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.

Maye Hoffman Mc Conn P.C.

Clearwater, Florida
May 17, 2013



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Independent Auditor's 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

To 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 *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, 2012. 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*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the City's compliance with those requirements.

In our opinion, the City of Marco Island, Florida 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, 2012.

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, 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 and state awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Mary Hoffman Mc Carr P.C.

Clearwater, Florida
May 17, 2013

CITY OF MARCO ISLAND, FLORIDA

Schedule of Expenditures of Federal Awards

For the Year Ended September 30, 2012

<u>Federal/State Agency, Pass-through Entity Federal Program/State Project</u>	<u>CFDA/ CFSA No.</u>	<u>Grantors Number</u>	<u>Expenditures</u>
Federal Awards			
Indirect Federal Awards			
US Department of Transportation			
Passed through Florida Department of Transportation			
Highway Planning & Construction (Safe Routes to School)	20.205	425558-1-58-01	\$ 32,445
Highway Planning & Construction (Safe Route to Schools)	20.205	425558-1-58-01	-
US Department of Homeland Security			
Passed through Florida Department of Financial Services			
Division of Emergency Management			
Fire Hazardous Material	20.703	11-DS-9Z-13-00-16-436	\$ 1,091
Fire Hazardous Material	20.703	10-DS-39-13-00-16-414	5,755
Fire Hazardous Material	16.738	09-DS-51-13-00-16-373	7,359
			<u>\$ 14,205</u>
US Environmental Protection Agency			
Passed through Florida Department of Environmental Protection			
Capitalization Grants for Clean Water			
State Revolving Funds-Gulfport	66.458	CWSRF 110720	\$ 656,250
State Revolving Funds-E Winterberry S	66.458	CWSRF 110730	699,693
State Revolving Funds-E Winterberry N	66.458	CWSRF 110740	717,363
State Revolving Funds-Goldenrod	66.458	CWSRF 110750	3,416,403
State Revolving Funds-Copperfield	66.458	CWSRF 110760	2,107,499
State Revolving Funds-Estates	66.458	CWSRF 110770	2,319,519
Capitalization Grants for Drinking Water State Revolving Funds			
Drinking Water State Revolving Fund	66.468	DW110301	309,320
			<u>\$ 10,226,047</u>
Total Indirect Federal Awards			<u>\$ 10,272,697</u>
Total Awards			<u>\$ 10,272,697</u>

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 \$43,424,861 in State Revolving Funds loan balance outstanding at September 30, 2012.

**CITY OF MARCO ISLAND, FLORIDA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR YEAR ENDED SEPTEMBER 30, 2012**

Section I: Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? X Yes No
- Significant deficiency(ies) identified that are not considered to be material weaknesses? X Yes 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

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 program:

CFDA Number	Name of Federal Program or Cluster
66.458	U.S. Environmental Protection Agency Pass through Florida Department of Environmental Protection for capitalization of grants for clean water state revolving funds

The threshold for distinguishing Type A and Type B programs was: \$ 308,181

Auditee qualified as low-risk auditee? Yes X No

**CITY OF MARCO ISLAND, FLORIDA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR YEAR ENDED SEPTEMBER 30, 2012**

Section II: Financial Statement Findings

Material Weakness

2012-01: Year-End Close and Reconciliations

Observation: During the year-end audit, it was noted that the year-end close out process did not allow for all the necessary adjustments to be made to the books and records on a timely basis. As a result, a substantial number of journal entries (over 40) were required to be posted to the trial balance during the audit in order to update the account balances. Audit schedules and reconciliations for pension investments, compensated absences, governmental and proprietary capital assets (including construction in progress), bond issuance costs, sewer assessments, self insurance and debt were further adjusted once provided to the auditors during fieldwork. A more careful review of the schedules to agree beginning balances with the prior audit and the ending balances with the general ledger would have prevented some of these adjustments.

Recommendation: We recommend the City review the timeline of the close out process as well as the staffing of the finance department to determine that proper controls are in place to achieve a proper year-end close of the books and records. All account balances should be properly reconciled to the final general ledger for audit. We also recommend the City develop a formal year-end schedule and timeline to include identifying the specific personnel and related responsibilities for accomplishing the tasks. The City may want to consider a similar schedule for month-end and quarterly closes to allow the year-end audit preparation to be less time consuming. This would allow the City to obtain more accurate and reliable financial information.

Management Response: The City agrees with this recommendation and will review the timeline of the close out process as well as the staffing needs of the finance department at year-end to determine that proper controls are in place to achieve a proper closing. All account balances will be properly reconciled to the general ledger for audit purposes. A formal year-end schedule and timeline will be developed to identify the specific personnel and related responsibilities for accomplishing each task. The City will consider implementing a similar schedule for month end closes in order to facilitate the preparation of the annual report after year-end closing.

Significant Deficiency

2011-01: Information Technology – Terminated Employees

Observation: As noted during the prior year audit, our review of the Information Technology (IT) Control Environment indicated deficiencies 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.

**CITY OF MARCO ISLAND, FLORIDA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR YEAR ENDED SEPTEMBER 30, 2012**

Management Response: The City again agrees with the recommendation and the IT department will create a formalized process to review users ID's and their access annually. Reviews will be carried out to both assess access levels with current responsibilities and identify user ID's for noncurrent employees. All City databases will be scanned to determine that only active employee ID's are listed. This process will apply to the general city control environment and any identified noncurrent user ID's will be purged by IT staff.

Section III: Federal Award Findings and Questioned Costs

This section identifies significant deficiencies, material weaknesses, and material instances of noncompliance, including questioned costs, related to the audit of major federal awards and state financial assistance projects, as required to be reported by OMB Circular A-133.

There were no findings required to be reported in accordance with OMB Circular A-133.

Section IV: Summary Schedule of Prior Audit Findings

There were no audit findings reported in the Schedule of Findings and Questioned Costs in the prior year.



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Independent Auditor's Management Letter

To 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, 2012 and have issued our report thereon dated May 17, 2013.

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* and Chapter 10.550, *Rules of the Florida Auditor General*. We have issued our Independent Auditor's Report on Internal Control over Financial Reporting and Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*; Independent Auditor's Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Federal Program and on Internal Control over Compliance in Accordance with OMB Circular A-133; and the related Schedule of Findings and Questioned Costs. Disclosures in those reports and schedule, which are dated May 17, 2013, 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 government entity audits performed in the State of Florida. This letter includes the following information, which is not included in the aforementioned report:

- 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 the 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, we did not have any such recommendations other than those that are listed in the Schedule of Findings and Questioned Costs.
- 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, we did not have any such findings.
- 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 did not have any such findings.
- 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, 2012, 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, 2012. 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.

Prior Year Findings and Recommendations

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>
2009-11: Accounting Software		X	
2011-01: Information Technology - Terminated Employees	X		
2011-02: Capital Assets - Retainage Payable			X
2011-03: Capital Assets - Construction in Progress	X		

Recommendation 2009-11 is in process as the City has new accounting software budgeted in their five-year CIP plan.

Recommendation 2011-01 is a repeat comment and is now shown as a significant deficiency included in the Schedule of Findings and Questioned Costs.

Recommendation 2011-03 is a repeat comment and is included with the material weakness that is included in the Schedule of Findings and Questioned Costs.

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 the Chairman and Members of the City Council, and the Auditor General of the State of Florida, and is not intended to be and should not be used by anyone other than these specified parties.

Mayor Hoffman McCann P.C.

May 17, 2013
Clearwater, Florida