

CITY OF MARCO ISLAND, FLORIDA
Comprehensive Annual Financial Report
For the Fiscal Year Ended September 30, 2010

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INTRODUCTION SECTION



City of Marco Island

March 31, 2011

The Honorable Chairman and Members of City Council
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, 2010.

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

The City's financial statements have been audited by Mayer Hoffman McCann, P.C., a firm of independent licensed certified public accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements of the City for the fiscal year ended September 30, 2010, 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, 2010, are fairly presented in conformity with GAAP. The independent auditors' report is presented as the first component of the financial section of this report.

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

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

The City and Its Services

The City of Marco Island was incorporated on August 28, 1997. Marco Island, Florida, is located in the southwestern part of the state, on the Gulf of Mexico side of the Ten Thousand Islands region of the Florida Everglades. Originally discovered by the Spanish and named Isla de San Marcos (Saint Mark's Island), modern development of the island began in the late 1960s by the Deltona Corporation. Prior to incorporation in 1997, the island was a part of unincorporated Collier County and was served by a local Fire Protection District. The City serves a permanent population of approximately 17,000, which grows to 45,000 in the peak winter season. The City is empowered to levy a property tax on both real and personal property located within its boundaries.

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

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

The Hideaway Beach Tax District was created as a component unit of the City in 2003. Voters in this upscale, gated neighborhood approved a bond issue and tax levy for re-nourishment of the beaches adjacent to the neighborhood. In 2005, \$2.9 million in bonds were issued and the project was completed under the oversight of Collier County. As part of the project, "T-groins" were constructed by the County using tourist development tax funds to stabilize the beach to prevent future erosion. The City has no other component units.

Budget Process

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

General Fund
Capital Projects Fund

Debt Service Fund
Building Services Fund
Water/Sewer Utility Enterprise Fund
Recreation Enterprise Fund
Hideaway Beach Tax District
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. Budget-to-actual comparisons are provided in this report for individual governmental funds.

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

Factors Affecting Financial Condition

The information presented in the financials 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, and an additional beach access is provided for the exclusive use of island residents. Beachfront property is high-density, with multi-family and tourist-oriented accommodations.

The long-term economic outlook for the City of Marco Island is positive. 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 City’s local economy is based on residential, resort and tourist activities. Marco Island’s economy relies primarily on seasonal residents, instead of true tourists, and although there has been an increase in properties sold through bankruptcy proceedings the impacted properties have primarily (but not exclusively) included investment and speculative properties.

The 2009 assessed taxable valuations used for property taxes in fiscal year 2010 showed an eleven percent (11%) reduction. The 2010 assessed taxable valuations to be used for property taxes in fiscal year

2011 show a reduction of eleven percent (11%) from 2010 assessed valuations, too. It is projected that the 2011 valuations used to determine property taxes for fiscal year 2012 will show continued but smaller reductions as the real estate market is projected to reach the bottom. The reduction in valuations as a direct result of the national real estate slump is not projected to result in any significant decreases in services provided to the community. However, decreases in expenditures will result from less ad valorem tax revenue based on lower property values.

Long-term Financial Planning. The City includes a five-year capital improvement plan for both its governmental and enterprise activities. As a result of the economic downturn and Florida property tax reform, it became evident during fiscal year 2010's budget process that the City's long-term financial plans would require adjustment. The 2010 budget placed a priority on "Holding the Line" and 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 that will be used to reduce reliance on debt financing and stabilize property tax millage rate increases in the future. In addition to \$300,000 designated from the fiscal year 2009 contribution, the City contributed \$1.4 million in fiscal year 2010 and is budgeting an additional \$1.4 million for fiscal year 2011.

Marco Island: In July 2002, the City negotiated an interlocal agreement with Collier County to transfer ownership of public roads and rights-of-way from the County to the newly formed City. Additionally, the County agreed to pay the City \$15 million in return for the City assuming the roadway segments. The City is a true island and has embarked on a repair and replacement of all 15 bridges within the city's limits. Engineers have estimated \$7 million will be needed to replace 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 improvement funds. In fiscal year 2010, site work was completed at the Community Park in preparation for a Veterans Memorial to be constructed next year. Likewise, ball and soccer field improvements occurred at Winterberry and Mackle Parks. The next phase of the Mackle Park master plan calls for the replacement of the existing 8,000 square foot facility built in 1986.

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 renewal and replacement account and a capital reserve account required by bond covenants. In April 2010, \$57 million in bonds were issued to refund existing debt, finance additional capital projects and establish a debt service reserve. This report includes details of the seventh full year of municipal ownership of the water and sewer utility.

Financial Policies

Financial Reserve Policy: The City established a financial reserve policy to handle the distinctive emergencies and contingencies of our barrier island. Per that policy the City will maintain emergency reserves of 25% of the proposed 2011 fiscal year general fund operating budget.

Charter Spending Cap: The City of Marco Island is unique in Florida with a spending cap after the first four years of incorporation included as part of the original charter of the City. Currently, increases in annual spending are limited to three percent annually plus the annual change in the Federal cost of living index. The charter was amended by the voters in 2002 to remove the expenditures of self-supporting enterprise funds from the calculation of the spending cap. The City Council may approve emergency expenditures outside of the cap. Further information on the spending cap and the calculation of compliance is included in the Management Discussion and Analysis (MD&A) section of this report.

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

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

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

Major Initiatives

Marco Island Utilities continues with a seven-year plan to provide central sewer system for the entire island. The septic tank replacement program (STRP) is expected to be completed in phases by 2012 with construction of year 5 districts substantially completed in fiscal year 2010 and year 6 districts to begin at the end of the winter season in April 2011.

With the fiscal year 2011 budget, a scaled back capital improvement program continues the next phase of storm water drainage improvements along the main evacuation route of Collier Boulevard and the Jolley Bridge. Moreover, the City retained funding for annual neighborhood drainage improvements, street resurfacing and bike lane widening as part of its Capital Improvement Plan. Renovations at City Hall are part of the next year's project list as well as continuing improvements at Mackle Park.

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, 2009. This was the eighth consecutive year that the government has achieved this prestigious award.

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

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

Acknowledgements: The preparation of this report on a timely basis could not be accomplished without the efficient and dedicated service of the entire staff of the Finance Department especially Maria Aguilar, Controller, and Donna Senica, Accountant. We also thank the Chairman and City Council for the interest and support in planning and conducting the financial operations of the City. Moreover, we wish to express our appreciation to the members of the Audit Advisory Committee for their time and input. In addition, we wish to express our appreciation to our audit firm, Mayer Hoffman McCann, P.C., for their comprehensive and efficient examination of our accounts.

Respectfully submitted,

A handwritten signature in black ink that reads "P. Bliss". The signature is written in a cursive, flowing style.

Patricia Bliss
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, 2009

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



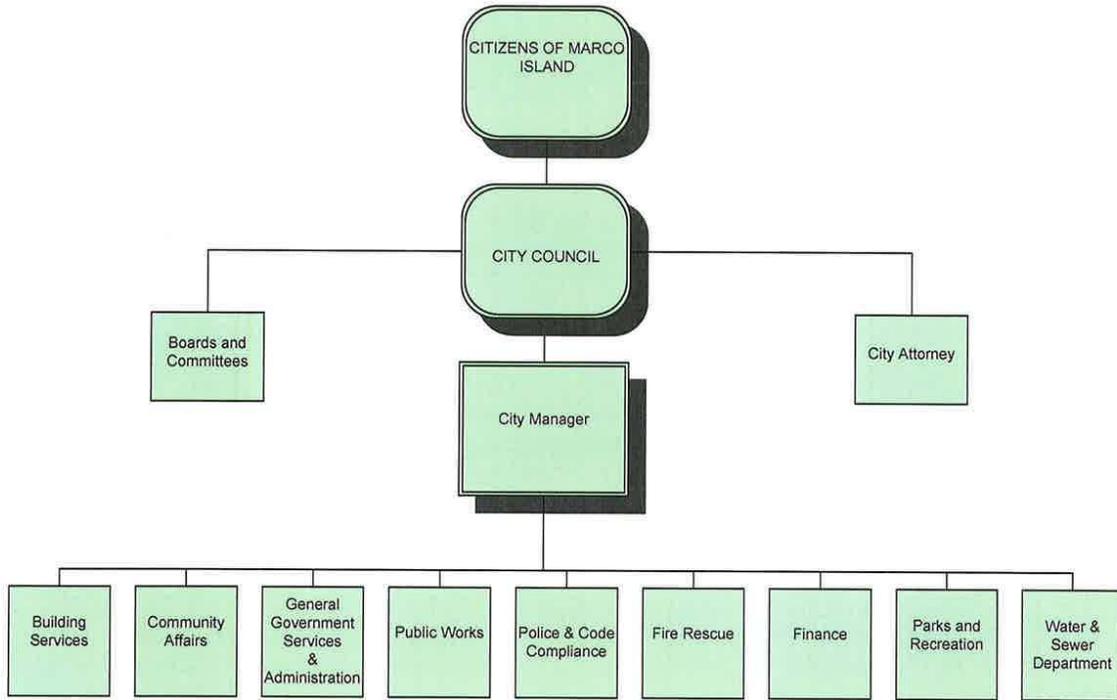
President

Executive Director

CITY OF MARCO ISLAND, FLORIDA



City Of Marco Island



FY 2010

CITY OF MARCO ISLAND, FLORIDA

PRINCIPAL OFFICIALS:

FRANK R. RECKER, CITY COUNCIL CHAIRMAN
JERRY GIBSON, CITY COUNCIL VICE-CHAIRMAN
JOE BATTE, COUNCILMAN
CHUCK KIESTER, COUNCILMAN
LARRY MAGEL, COUNCILMAN
WILLIAM D. TROTTER, COUNCILMAN
WAYNE WALDACK, COUNCILMAN

ALAN L. GABRIEL, CITY ATTORNEY

DR. JAMES C. RIVIERE, CITY MANAGER
PATRICIA BLISS, FINANCE DIRECTOR

LAURA M. LITZAN, CITY CLERK
MICHAEL MURPHY, FIRE CHIEF
BRYAN MILK, PARKS AND RECREATION DIRECTOR
THOM CARR, POLICE CHIEF
TIMOTHY E. PINTER, PUBLIC WORKS DIRECTOR
A. RONY JOEL, WATER AND SEWER GENERAL MANAGER



FINANCIAL SECTION



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Independent Auditors' Report

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Marco Island, Florida (the City), as of and for the year ended September 30, 2010, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Marco Island, Florida, as of September 30, 2010, 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 March 31, 2011 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.

In accordance with *Government Auditing Standards*, we have issued our report dated March 31, 2011 on our consideration of the City's internal control over financial reporting and on our tests of its compliances with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, schedule of pension funding progress and employer and state contributions, and budgetary comparison information on pages 3 through 20 and 78 through 82, respectively, be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

Mayer Hoffman McCann P.C.

March 31, 2011
Clearwater, FL

CITY OF MARCO ISLAND, FLORIDA

Management's Discussion and Analysis September 30, 2010

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, 2010. 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 \$168.4 million (*net assets*). Of this amount, \$48.7 million (*unrestricted net assets*) may be used to meet the ongoing obligations to citizens and creditors. Governmental activities accounts for 49.5% of total net assets while business-type activities made up the remaining 50.5%.
- The City's total net assets overall increased by \$19.2 million during the current fiscal year. Since the purchase of the water and sewer utility in fiscal year 2004, the city's total net assets have increased over \$85 million.
- 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 \$15.4 million, a decrease of \$1.1 million in comparison with the prior year. Approximately 84% of this total amount (\$12.9 million) is *available for spending* at the government's discretion (*unreserved 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 \$12.3 million, including \$11.7 million in unreserved fund balance.
- At the end of the current fiscal year, unrestricted net assets of the water and sewer utility fund total \$34.6 million compared to \$15.3 million in the prior year. This increase was primary due to activities associated with major wastewater projects in sewer assessment districts and bond issue.
- The financial condition of the City of Marco Island continued to be strong in 2010. Major capital investments have been made to both the utility system and the basic infrastructure of the community. Professional department heads manage their operations within budgeted appropriations and reserve levels are sufficient to respond in changing conditions.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City of Marco Island basic financial statements. The City's basic financial statement consists of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. In addition to these basic financial statements, this report contains other supplementary information.

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.

CITY OF MARCO ISLAND, FLORIDA

Management's Discussion and Analysis September 30, 2010

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

The *Statement of Activities* presents information showing how the City's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in the future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the City include general government, police services, fire/rescue services (emergency medical service and transport is provided by Collier County), planning and zoning, code compliance, building services, transportation, and parks. The business-type activities of the City include its water and wastewater treatment plants, water distribution, sewer collection services and its recreation services.

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

The government-wide financial statements can be found on pages 21-22 of this report.

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

Government Funds: *Governmental funds* are used to account for essentially the same functions as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of the governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the 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*.

CITY OF MARCO ISLAND, FLORIDA

Management's Discussion and Analysis September 30, 2010

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 2010, the City has two major funds: General Fund and Capital Projects Fund.

The basic governmental fund financial statements can be found on pages 23-26 of this report.

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

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

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

The basic proprietary fund financial statements can be found on pages 27-29 of this report.

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

The basic fiduciary fund financial statements are found on pages 30-31 of this report.

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

The notes to the financial statements can be found on pages 32-77 of this report.

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

Required supplementary information can be found on pages 78-82 of this report.

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

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 \$168.4 million at the close of the fiscal year. This was an increase

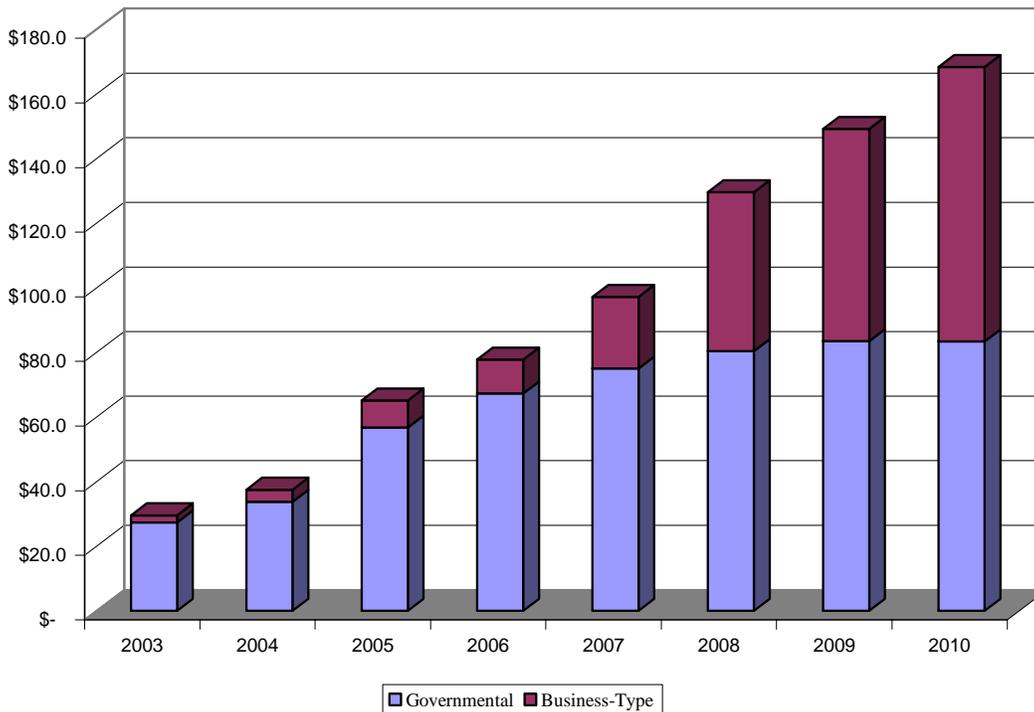
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of approximately 12.9% compared to last year's net assets of \$149.2 million. The chart shows the steady and gradual increase over the last eight fiscal years of both the governmental and business-type activities.

The relative stability of the City's governmental performance is reflected in the modest \$0.1 million decrease in total net assets of governmental activities. In business-type activities, the \$19.3 million increase in total net assets resulted from rate increases to utility base and volume revenues as well as additional capital grants used for repayment of debt and capital expenses for the fifth year of the seven-year \$120 million program to extend central sewer to approximately 5,600 single-family residential properties on septic tanks. Moreover, additional debt for completion of these planned projects 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 (52%) 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 net assets are subject to external restrictions on how they may be used. These assets are earmarked for completion of capital projects, debt service payments or growth-related expenses to police and fire rescue services. The amount totals \$31.9 million or 19% as of the end of the fiscal year.

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The remaining balance of unrestricted net assets (\$48.7 million or 29%) 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 \$4.3 million compared to last fiscal year with the bulk of the increase occurring in the water and sewer utility system's capital and assessment projects.

Summary Statement of Net Assets (in \$ millions)

	Governmental Activities		Business-type Activities		Total	
	2009	2010	2009	2010	2009	2010
Current and other assets	\$ 20.7	\$ 18.5	\$ 53.1	\$ 90.9	\$ 73.8	\$ 109.4
Capital assets	82.0	81.6	211.1	223.9	293.1	305.5
Total Assets	102.7	100.1	264.2	314.8	366.9	414.9
Current and other liabilities	2.9	2.4	6.8	6.0	9.7	8.4
Long-term debt	16.3	14.3	191.7	223.8	208.0	238.1
Total Liabilities	19.2	16.7	198.5	229.8	217.7	246.5
Net Assets:						
Investment in capital assets, net of related debt	66.8	68.2	35.1	19.7	101.9	87.9
Restricted	1.0	1.1	15.2	30.6	16.2	31.7
Unrestricted	15.7	14.1	15.4	34.7	31.1	48.8
Total Net Assets	\$ 83.5	\$ 83.4	\$ 65.7	\$ 85.0	\$ 149.2	\$ 168.4

Summary Statement of Activities (in \$ millions)

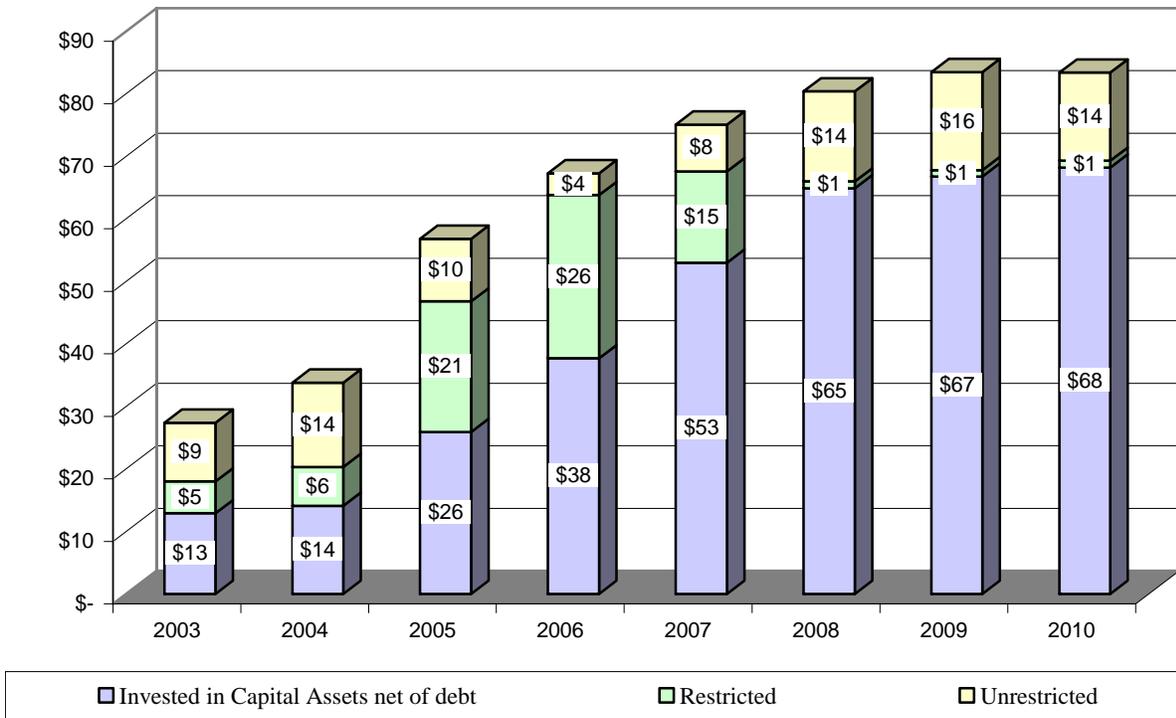
	Governmental Activities		Business-type Activities		Total	
	2009	2010	2009	2010	2009	2010
Revenues:						
Program revenues:						
Charges for services	\$ 2.0	\$ 1.6	\$ 24.6	\$ 26.9	\$ 26.6	\$ 28.5
Operating grants and contributions	1.8	1.0	-	-	1.8	1.0
Capital grants and contributions	1.6	1.5	14.9	18.9	16.5	20.4
General revenues:						
Taxes	16.7	17.9	-	-	16.7	17.9
Other general revenues	3.9	2.1	3.4	2.8	7.3	4.9
Total Revenues	26.0	24.1	42.9	48.6	68.9	72.7
Expenses:						
Governmental activities:						
General government	5.3	4.8	-	-	5.3	4.8
Public safety	9.4	10.6	-	-	9.4	10.6
Transportation	5.8	6.3	-	-	5.8	6.3
Culture and recreation	1.9	2.0	-	-	1.9	2.0
Interest on long-term debt	0.6	0.5	-	-	0.6	0.5
Business-type activities:						
Water and sewer	-	-	26.0	28.9	26.0	28.9
Recreation	-	-	0.4	0.4	0.4	0.4
Total Expenses	23.0	24.2	26.4	29.3	49.4	53.5
Excess revenues over expenses before transfers	3.0	(0.1)	16.5	19.3	19.5	19.2
Transfers	0.1	-	(0.1)	-	-	-
Change in net assets	3.1	(0.1)	16.4	19.3	19.5	19.2
Net Assets, beginning of year	80.4	83.5	49.3	65.7	129.7	149.2
Net Assets, end of year	\$ 83.5	\$ 83.4	\$ 65.7	\$ 85.0	\$ 149.2	\$ 168.4

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Governmental Activities: Total net assets of the City’s governmental activities decreased by \$0.1 million from \$83.5 million in the last fiscal year compared to \$83.4 million in the current fiscal year. While intergovernmental and grant revenue decreased, there was a slight increase in ad valorem revenue. These funds were spent on normal operating expenses and infrastructure projects. This data is visually reflected in the below bar chart.

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

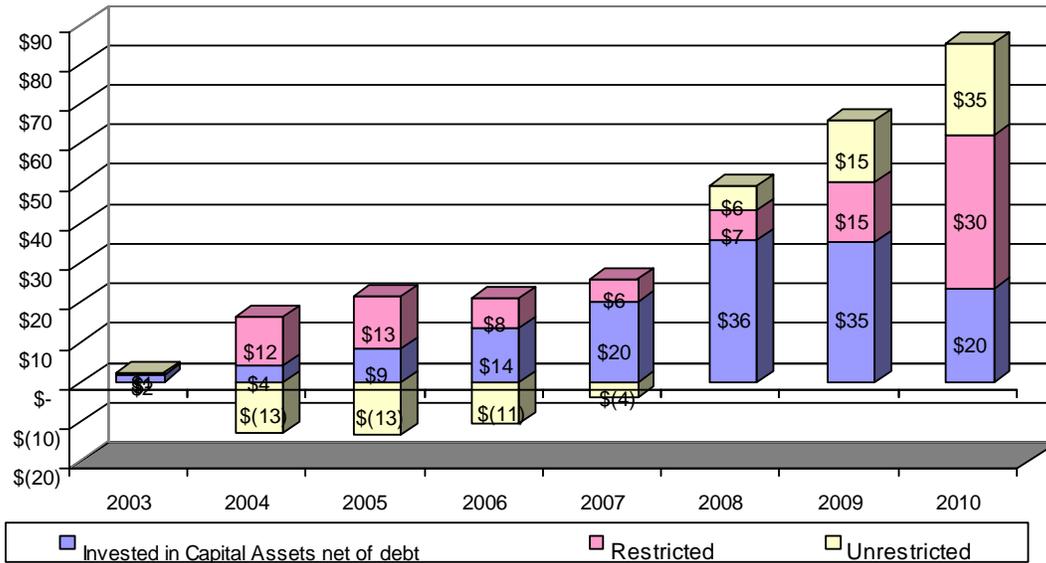


Business-type Activities: The City’s total net assets of the business-type activities increased by \$19.3 million from \$65.7 million in last fiscal year compared to \$85.0 million in the current fiscal year. In 2003, the City issued \$101 million in bonds for the acquisition of the water and sewer utility system for the island and an area adjacent to the island. In 2006, a seven-year plan to replace deteriorating septic systems and provide 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 6 years; however, much of this is debt financed. This fiscal year, an additional \$61 million in permanent financing was secured in order to pay off \$31 million in temporary financing, reimburse the system for projects already completed, and provide funds for completion of additional projects. By executing a major refunding, the City shortened the maturity by five years and eliminated the variable rate interest risk associated with its existing bond issues.

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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, *unreserved 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 (reserved, designated, and undesignated) of \$15.4 million, a decrease of \$1.1 million in comparison with the prior year. The relative minor change was indicative of the relatively flat revenue stream and stable expenses of the governmental funds. Compared to the prior year, the bulk of the decrease was due to the elimination of electric franchise fees that occurred in October 2009.

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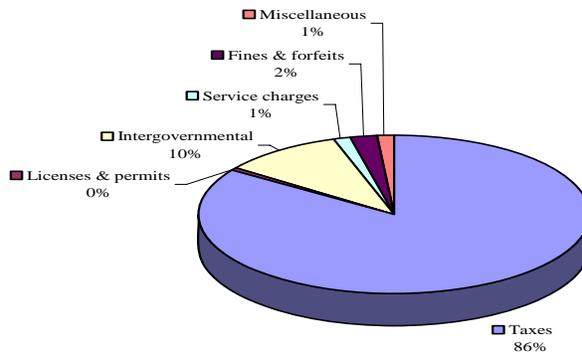
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Unreserved fund balance is the portion of fund balance available for spending at the City’s discretion. This year, 84% of the fund balance (\$12.9 million) constitutes unreserved fund balance. Of this amount, the Council has designated \$12.0 million for asset replacement, on-going capital improvement projects, the building services department and emergency contingencies and approximately \$0.9 million as undesignated. The remainder of fund balance is *reserved* to indicate it is not available for new spending because it has already been committed for a variety of restricted 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.

The City has a long history of planning for contingencies and designating its fund balances and has a financial reserve policy which sets aside 25% of the prior year’s budget. At the end of the current fiscal year, general fund’s total fund balance is \$12.3 million. A \$4.1 million reserve is available for emergencies and other contingencies that may occur and represents approximately four months of normal operating expenses in the general fund. The unreserved designated fund balance was \$6.7 million for asset replacement and capital improvements and reserved fund balance was \$0.6 million for various impact funds and prepaid items, leaving an unreserved, undesignated fund balance of \$0.9 million. The \$0.9 million decrease from last fiscal year’s general fund total fund balance of \$13.2 million was due to an increase in pension contributions required by the police and firefighters collective bargaining agreements and use of reserved fund balance for planned equipment expenses.

FY 2010 GENERAL FUND REVENUES



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

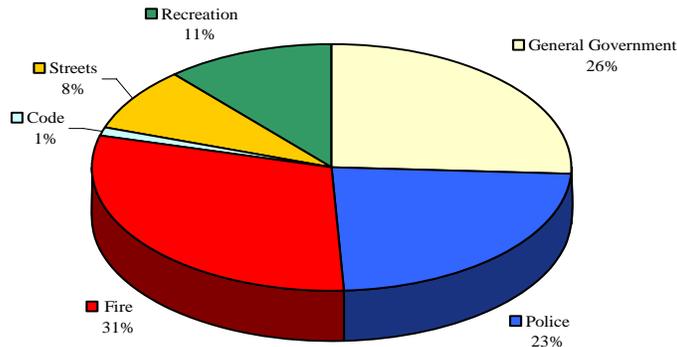
Total general fund revenue increased by \$75,000 compared to the prior fiscal year. City Council has made a conscious decision to use ad valorem taxes (property taxes) as its primary revenue source for the general fund instead of diversifying its revenue base with other taxes, user fees, and charges for services. The slight decrease in code enforcement fine revenue was offset by an increase in ad valorem and intergovernmental revenue.

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The pie chart below shows the breakdown of fiscal year 2010 general fund expenses by department category.

FY 2010 GENERAL FUND EXPENSES



Total general fund operating expenditures increased by approximately \$0.5 million as compared to prior year. Some of the increase is due to contractual obligations under collective bargaining agreements. Even though no salary increases were provided to employees, investment income decreased due to market conditions and the respective actuaries determined that increases are needed for the required employer pension contributions. Moreover, in fiscal year 2010, electric, water and sewer costs increased because of street lighting, new baseball field lights and sod irrigation at various community parks. Expenditures were stable due to the City’s continued effort in consolidating departments to operate in a more efficient manner due to economic conditions and to provide tax relief to property owners.

The capital projects fund is the City’s other major fund. Since its incorporation in 1997, the City has embarked upon major infrastructure projects throughout the city limits. Current projects focus on replacement and repair of bridges, road surfaces, and drainage lines and maintenance of existing infrastructure and improvements to parks and open spaces for community events. The City’s spending cap (discussed later) limits expenses and creates a financial environment in which the City may have adequate revenues for operations but the spending spikes created by capital needs forces a constant reevaluation of whether the City will maintain services or invest in capital improvements. A new asset replacement reserve in the general fund was created to minimize this condition by allowing for a build up of reserves. A considerable portion of the general fund balance also is earmarked for capital improvement projects each fiscal year. During fiscal year ended September 30, 2010, \$4.5 million in capital projects were completed with \$1.9 million funded by federal and state grants and other intergovernmental sources. The balance was funded from impact fees, non-governmental donations, and use of designated general fund balance.

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

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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 \$34.6 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. The City Council has 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, 2008, 2009 and 2010, as well as additional temporary and permanent financing which will be paid from the various sewer assessment districts.

Overall, the utility fund's net assets as shown on the fund financial statements increased by \$19.2 million from \$65.7 million in the prior year to \$84.9 million at the end of this fiscal year. The bulk of the increase is the \$18.9 million in capital contributions due to major infrastructure improvements. In addition to its normal debt financing process of the seven-year plan to provide a citywide sewer system, a public bond offering occurred in April 2010 which increased the system's long-term debt. The bonds were used to refund existing debt, reimburse system expenses for projects already completed, and provide funding for additional projects. The variable rate interest risk associated with its existing bonds was eliminated and the bond maturity date was shortened by five years.

Operating revenues for the system increased by \$2.0 million or 8.3% and operating expenses not including depreciation and amortization costs decreased by \$0.6 million (or 6%) compared to the prior year. Interest income decreased by \$0.4 million; however, interest expense increased by \$1.9 million compared to the prior fiscal year. Net income was approximately \$0.3 million this fiscal year. The impact on revenues due to the weak economy in general and elasticity in volumetric usage due to the system's compulsory rate increases is being closely monitored.

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 \$2.0 million. As is the case every year, the increase in appropriations primarily resulted from carryover of capital expenditures from the preceding fiscal year for capital improvement projects and equipment. Additionally, City Council created a new advisory committee during the fiscal year and funding was needed to cover the first year's administrative and staff expenses. Grants and other intergovernmental pass-through revenue necessitated the balance of the changes.

Overall, departmental expenditures were in line with budgeted expenditures. The major difference between actual revenues as compared to the final amended budget was in the intergovernmental revenue and other taxes category. The City budgeted conservatively between 90% and 95% of the State's projections on various state shared revenue due to the uncertainty in the economy. Actual revenue received was \$0.4 million more than budgeted. Additionally, fire prevention fees increased during this fiscal year due to the increase in the quantity of inspections from high-rise fire alarm and elevator improvements occurring at various condominium complexes within the city limits.

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A budgetary comparison schedule for the General Fund is part of the required supplementary information and can be found on pages 78-82 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 03-13, 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 the subsequent year.

For the fiscal year ended September 30, 2010, the City was in compliance with the charter spending cap:

General fund	\$16,047,274
General fund transfer to self-insurance	682,798
General fund transfer to asset replacement	1,383,459
Capital projects expenses	7,322,625
Debt service expenses	<u>1,648,695</u>
Total	\$27,084,851
Less: Expenditures funded by grants and gifts	(2,536,297)
Less: Impact fee and enterprise expenditures	(57,418)
Less: Expenditures funded by cash forward from fiscal year 2009 and subject to 2009 spending cap	(9,047,066)
Less: Approved emergency expenditures	(94,878)
Add back: Funding for uncompleted balance of fiscal year 2010 capital projects, subject to spending cap in 2010; balanced carried forward to 2011	<u>5,522,205</u>
Fiscal year 2010 expenditures subject to spending cap:	\$20,871,397
Fiscal year 2010 maximum spending cap:	\$21,618,805
Amount below fiscal year 2010 maximum spending cap:	\$747,408
Cumulative amount below maximum spending cap as of September 30, 2010:	\$747,408

The fiscal year 2010 maximum spending cap was \$21,618,805. The originally adopted budget was in the amount of \$21,191,808. This is the first year that the City budgeted and actually spent below the maximum spending cap since incorporation. In prior years, the budget re-appropriation ordinance included an increase to transfer any amount below the spending cap into the capital project fund

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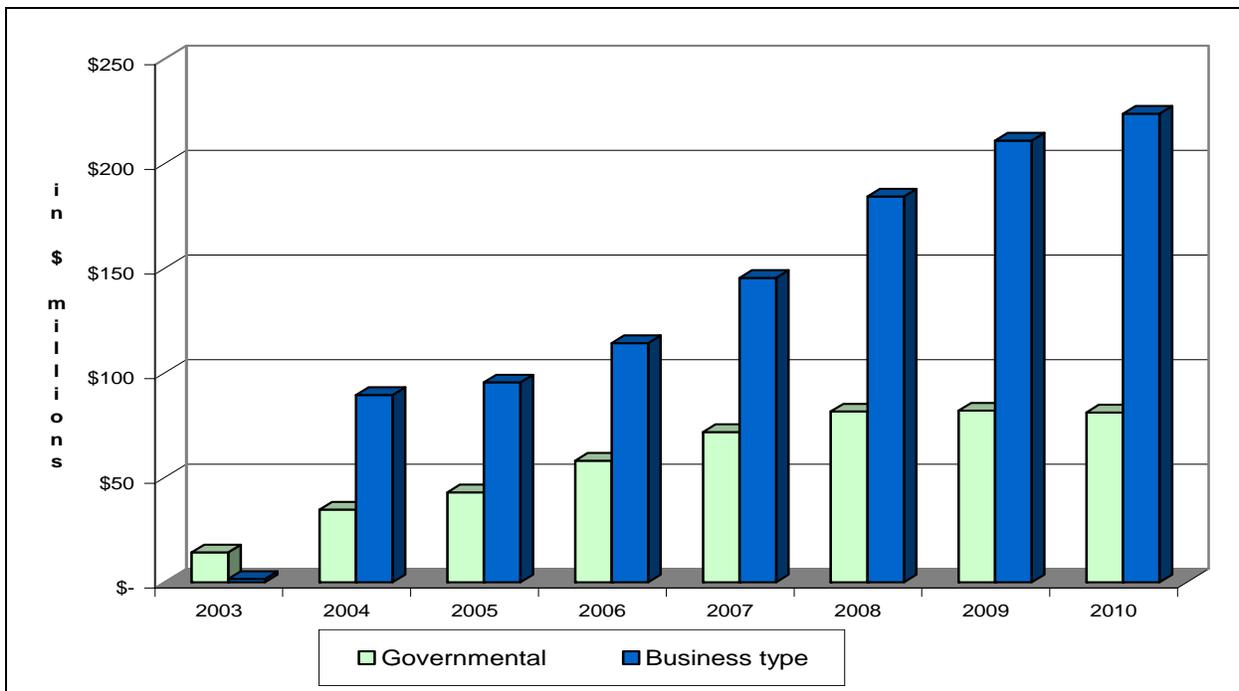
contingency account for use in the new fiscal year. This action was not taken in fiscal year 2010 and the unused funds become available for use as unreserved, undesignated general fund balance.

With the 3% annual increase and the October 2009 cost of living increase of zero percent allowed by the City Charter, the spending cap for fiscal year 2011 has been determined to be \$21,497,539. The fiscal year 2011 budget subject to the spending cap totaled \$19,629,915. The cumulative amount below the spending cap as calculated using the actual expenses in 2010 and adopted appropriation budget in 2011 is \$2,615,032.

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, 2010 was \$306 million (net of accumulated depreciation). This investment in capital assets includes land, buildings, and improvements other than buildings, machinery and equipment.

The \$12.8 million 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 2010, construction of 14 of 17 sewer assessment districts were substantially complete or in progress.

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

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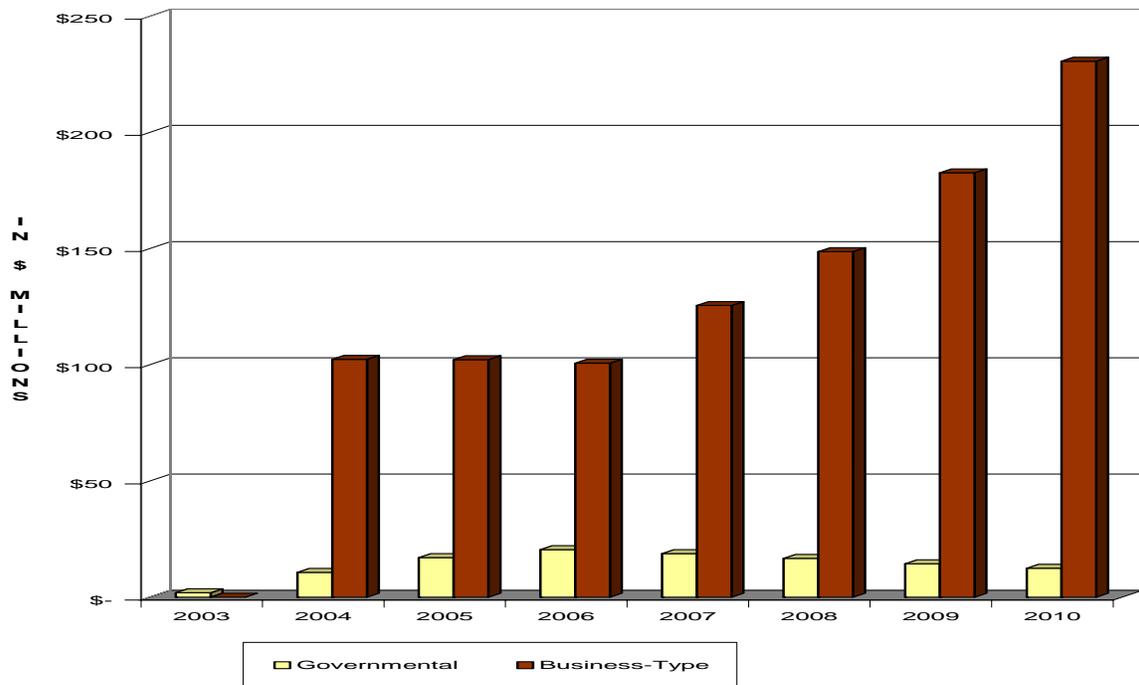
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Long-term Debt: The City continues to have strong underlying bond ratings. Standard and Poor’s, Moody’s and Fitch recently re-affirmed ratings of “AA”, “Aaa”, and “AA+” for the City’s general obligation bond issue and “A”, “A2”, and “A+” for the Water and Sewer Utility system revenue bond issues, respectively.

At the end of the current year, the City had a total long-term debt outstanding of \$230.6 million (excluding accrued compensated absences, OPEB liability, capital leases, and deferred assessments). Of this amount \$12.4 million is considered governmental obligations and the remaining \$218.2 million is business-type debt which is secured solely by specified water and sewer utility fund revenue sources.

Of the governmental debt, \$7.0 million was approved by referendum by the City’s voters and additional ad-valorem property tax is collected to retire this debt. Sales tax revenue was pledged to cover \$4.9 million in debt with the remaining \$0.5 million secured by the full faith and credit of the City.

LONG TERM DEBT (IN \$ MILLIONS)



As is common for a newly acquired utility system, the City has significant debt related to its water and wastewater utility system. Utility Series 2003 Revenue Bonds were issued to finance the acquisition of the water and wastewater utility system from Florida Water Services, Inc in November 2003. Utility Series 2006 and 2008 Revenue Bonds and State revolving loan funds from 2007 were used to finance additional capital improvements to the City’s water and wastewater systems. In 2008, a temporary revenue note funded water plant improvements and this note will be paid once final payout of a state subsidized low interest rate loan is distributed. During fiscal year 2010, tax-exempt bonds were issued to refund and reimburse the water and sewer utility for projects previously committed and spent as well as for supplementary projects. In addition, taxable bonds were issued to refund the prior year’s bonds and to

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currently fund a deposit to the required debt service reserve. The total debt outstanding of this portion of system acquisition and improvements is \$152.4 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 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. 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 2010, construction of fourteen districts was substantially complete. Permanent financing totaling \$32.0 million was in place for nine districts and interim financing totaling \$18.4 million has been obtained for five districts for construction draws. Of these interim financings, loan applications for permanent financing with SRF were filed with the State with two districts' almost at the point of distribution of funding from FDEP as of March 2011. Of the \$218.2 million in business-type debt, \$50.4 million is already or will be secured by the sewer assessment districts. A City Council directive to assist in reducing the impact to the new sewer customers for upgrades to the existing wastewater treatment plant will be covered by an eight percent (8%) surcharge to all Marco Island utility rate payers. Additionally, a 6% surcharge has been assessed for road resurfacing necessitated by the STRP program. During this fiscal year, additional debt of \$15.4 million was secured and will be paid from these two surcharge revenues. As of the end of the fiscal year, the total debt related to the STRP (including permanent and interim assessment districts and surcharges) is \$65.8 million with the remaining \$152.4 million secured by the general rate base customer fees.

Additional information on long-term debt can be found in Note F of this report.

Economic Factors and Next Year's Budget and Rates

Collier County is located on the southwest coast of the Florida peninsula, across the state and directly west of the Miami-Fort Lauderdale area. The County's principal industries include tourism, agriculture, fishing and cattle ranching. Located on a barrier island along the Gulf of Mexico, the City's local economy is based primarily on upscale resort and retirement activities. It was originally marketed as a winter retreat for people with permanent homes in the north. The region enjoys a climate that is classified as sub-tropical and the City has a permanent population of approximately 17,000 which grows to 45,000 in peak winter season with the influx of part-time residents and tourists. The City of Marco Island is the second largest municipality (after the City of Naples) located in Collier County. A study by *Forbes* found that more wealthy people moved to Collier County in 2008 than any other county in the United States. For years, a number of top-level executives from major multinational firms have maintained homes in the area, jetting in on weekends for golf and recreation.

The county's median age of 44.3 is nearly four years older than the state's median age. More than 25% of the county's residents are 65 or older, compared with 17.1% statewide. Per the U.S. Department of Labor, the unemployment rate for South Florida and Collier County is currently twelve percent (12%), up from eleven percent (11%) a year ago. The Naples/Marco Island regional unemployment rate has declined from eleven and one-half percent (11.5%) last year to seven percent (7%) this year. Southwest Florida has been hit especially hard from the failure of the housing market and reduced Florida tourism and, while Marco Island has not fallen as badly as other southwestern Florida cities, financially distressed properties and foreclosures have occurred on Marco Island.

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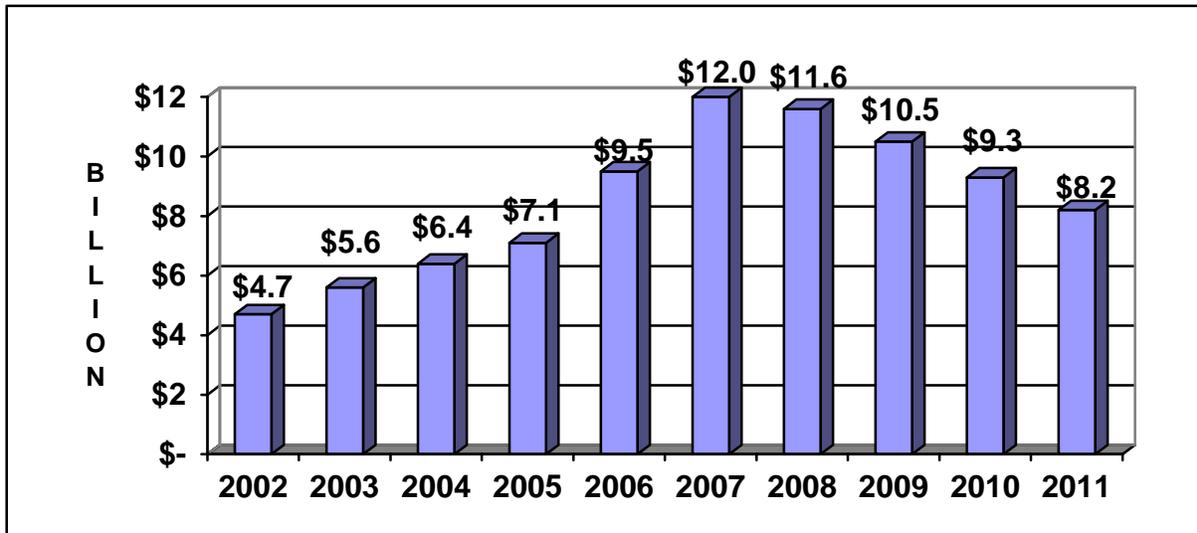
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During the budget process the Deepwater Horizon (BP Oil) disaster occurred. Council earmarked \$0.5 million in the fiscal year 2011 budget to cover unknown impacts related to the disaster in the event that the oil would reach the City’s beaches. The City incurred minor costs for monitoring the shoreline which has been paid by BP Oil Inc. Even though the City’s beaches were not spoiled by oil, the perception was that all gulf coast beaches in Florida were affected. The Collier County Tourist Development Commission (Naples, Marco Island, Everglades City Convention and Visitors Bureau) reported that the number of visitors to the three Collier County cities increased by 3.0% compared to 2009. A decrease of outside-of-state vacationers occurred; however, in-state residents, Northeast and Midwesterners as well as European vacationers continue to be a strong major point of origin for visitors to our area. Council has further decided that the unspent funds earmarked for the oil spill would be used to payoff existing general fund debt in fiscal year 2011.

During the current fiscal year, unreserved designated fund balance of the general fund increased by \$1.4 million with a city funded earmark to the newly 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.

Property Values and Taxes: Property values in Southwest Florida increased dramatically after incorporation in 1997 and prior to 2006. Taxable values on Marco Island increased from \$3.9 billion in 2001 to \$12 billion in 2007. The growth proved to be unsustainable and the housing bubble burst in late 2006. For fiscal year 2009, the City’s assessed valuation decreased approximately nine percent (9%) with a further reduction of eleven percent in both 2010 and in 2011. The City’s current taxable value is \$8.2 billion.

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 on June 14, 2007 and signed into law on June 21, 2007 to assist homeowners due to the increasing taxable valuations.

CITY OF MARCO ISLAND, FLORIDA

Management's Discussion and Analysis September 30, 2010

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 including counties, municipalities and special taxing districts. The maximum millage allowed is based on each government's compound annual growth in per capita property taxes levied from fiscal year 2002 to 2007. In effect, the State required all governments to decrease property taxes by rolling back the operating millage rate to fiscal year 2002 values. Further tax reform regulations allow municipalities to increase the tax rate to the point where tax revenues equal the rolled-back tax rate plus growth in Florida personal income with a simple majority vote of the City Council. The City's total current year maximum aggregate rolled-back rate based on the legislative changes is 1.9317.

The City's operating tax levy for fiscal year 2010 was changed from 1.6518 mills to 1.8900 mills. Marco Island residents enjoy a millage rate in fiscal year 2010 that is approximately the same as the pre-incorporation millage rate of 1.8705 from 1997 while services were expanded to include a local police presence, improved streets and drainage, and additional recreation capabilities. Marco Island's charter mandated spending cap further limited increases to the City's millage rate during the years when the property values were increasing rapidly. During the housing bubble expansion, many local governments throughout the State increased services and expanded their budgets while Marco Island's spending levels remained relatively stable. Those same governments are now enduring severe cuts due to the unsustainable growth that the housing bubble created while Marco Island has enjoyed a relative flat change to its millage rates. Additionally, City Council and residents prefer the use of ad valorem taxes rather than diversifying the City's revenue base with the use of franchise fees and other optional taxes. The City's share of the total ad valorem tax bill received by the residents from Collier County is only 16 percent. What this means to taxpayers is that 16 cents of every \$1 on the property tax bill is distributed for use within Marco Island city limits. The remainder of the property tax bill is spent by other taxing agencies including Collier County and the school board.

Water and Wastewater Utility: In November 2003, the City of Marco Island achieved a long-term objective with the acquisition of the local water and wastewater operations from a private provider. Prior to this date, the City's utilities fund was used to account for the wastewater distribution system serving approximately 1,200 accounts with central sewer on this island. Wastewater treatment was handled by Florida Water Services Inc under contract. The City issued \$101 million in utility revenue bonds to purchase utility operations on Marco Island and at an adjacent area of unincorporated Collier County also known as Marco Shores. 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 required by bond covenants and provided through monthly deposits to a renewal and replacement fund, and a system contribution to a capital reserve fund. Likewise, subsequent project revenue was provided by bonds issued in 2006, 2008, and most recently in April 2010.

During fiscal year 2010, a consultant was engaged to perform a rate study and bond feasibility analysis. An Ad Hoc Utility Advisory Committee of interested residents with past experience in utility operations or detailed financial analysis was created to assist Council in reviewing the utilities capital budget, bond indebtedness and rate study. As a result of the Committee's review and analysis, the fiscal year 2010 utility rates were increased by nine and one-half percent (9.5%) to fund the \$57 million series 2010 bonds issued to refund system bonds and to provide funding for more water and wastewater projects. Council approved a future rate resolution on March 1, 2010 which supported the Advisory Committee's recommended capital project schedule and includes respective rate increases of 10.5%, 6.0%, 6.0%, and 1.5% over the next four fiscal years. The new bonds closed on April 1, 2010.

CITY OF MARCO ISLAND, FLORIDA

Management's Discussion and Analysis September 30, 2010

City Council has expressed a preference for measured annual increases to reflect the costs of operation of the utility. For fiscal year 2010, water and wastewater operating rates were increased by 9.5 percent. The City's utility rate is composed of three components. First, is the annual base and volumetric rates charged to customers that increased by the 9.5 percent necessitated to cover a bond issue in April and continuation of capital projects. Next, the surcharge to fund roadway resurfacing at the end of each neighborhood's sewer construction from the rate base rather than assessment charges did not incur its scheduled two percent (2%) increase and this construction will be funded by the total road resurfacing surcharge of six percent (6%). Additionally, there was no increase in the last component, an eight percent (8%) surcharge to reduce each property's sewer customers for upgrades to the existing wastewater treatment plant. Water and sewer utility projected revenue increased \$2.0 million due to these rate changes. The majority of the increase was used for payment of operating costs for water production and wastewater treatment, employee costs, and insurance premiums.

The City's fresh water consumption over the past few years has been declining as the national economy has declined while the wastewater by-product is growing as more properties are connected to the central sewer system as part of the seven-year Septic Tank Replacement Program (STRP). At end of fiscal year 2010, infrastructure for 14 of 17 sewer assessment districts were completed which creates more households connected to the central wastewater system and more sewerage available for treatment. Rather than only disposing the treated effluent into deep injection wells, the system 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; thereby lowering the costs to all the current and future system users.

The weak economy combined with water and sewer rate increases has resulted in a decrease in water consumption. The impact to revenues from the decrease in consumption is being monitored. In the fiscal year 2011 budget, \$1.6 million in projects with starting dates in the fall of 2011 were included to be cash funded. After a third quarter review, a decision will be made on whether the projects will proceed as planned, scaled back, further deferred or eliminated.

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 that is funded through ad valorem taxes and has an independent advisory board that makes recommendations that are subsequently reviewed and ratified by City Council.

In 2003, voters in the Hideaway Beach neighborhood voted to tax themselves by establishing a special taxing district as the financing mechanism for beach re-nourishment. The taxing district subsequently raised \$2.9 million for re-nourishment and the Collier County Tourist Development Council (TDC) contributed \$2.4 million for T-groin construction. The disappearance of Coconut Island has exposed a section of the beach to rapid erosion, requiring a second phase of the re-nourishment project with additional T-groins and sand for beach protection. The T-groins in this second phase of the project are expected to cost approximately \$1.2 million of the \$1.6 million funded by County-collected Tourist Taxes, and the taxing district will pay for the sand re-nourishment under the same arrangement as Phase I. The tax levy in the Hideaway Beach District is 2.6 mils in this fiscal year budget, the legal maximum until December 31, 2014 as set by referendum, to fund this Phase II project. The taxing district previously requested and received approval for a short-term loan from the City to implement Phase II while waiting for receipt of an interlocal agreement to use County TDC funds which has been subsequently approved by all parties. Project construction was substantially completed in February 2011. The remaining beach areas needing restoration will be part of Phase III which will be considered in the future.

CITY OF MARCO ISLAND, FLORIDA

**Management's Discussion and Analysis
September 30, 2010**

Property values in Hideaway Beach have declined by 14.1%, and the millage rate reflects the maximum allowable millage rate of 2.6 mils. Even with declining property values, ad valorem tax revenue appears to be adequate to meet the bond requirements for the first bond issue and for the 2009 T-groin project.

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, 2010

	<u>Primary Government</u>			<u>Component Unit</u>
	<u>Governmental Activities</u>	<u>Business - Type Activities</u>	<u>Total</u>	<u>Hideaway Beach District</u>
Assets				
Pooled cash and investments	\$ 16,457,962	20,293,020	36,750,982	508,146
Receivables:				
Accounts, net	159,850	2,664,849	2,824,699	588,420
Interest	4,937	-	4,937	-
Assessments, current portion	-	866,863	866,863	-
Assessments interest	-	2,413,028	2,413,028	-
Due from other governments	268,044	-	268,044	-
Internal balances	(43,176)	43,176	-	-
Prepaid items	622,979	100	623,079	-
Restricted cash and investments	548,160	26,962,313	27,510,473	-
Assessments receivable	-	33,815,420	33,815,420	-
Bond issue costs, net	94,335	3,854,393	3,948,728	1,727
Net pension asset	265,222	-	265,222	-
Capital assets:				
Nondepreciable	33,000,867	89,150,179	122,151,046	-
Depreciable, net	48,644,490	134,788,863	183,433,353	-
Total Assets	\$ 100,023,670	314,852,204	414,875,874	1,098,293
Liabilities				
Accounts payable	\$ 893,980	1,538,105	2,432,085	451,942
Accrued liabilities	1,333,773	270,792	1,604,565	-
Deposits	16,526	3,506	20,032	-
Accrued interest	157,211	4,185,048	4,342,259	3,975
Noncurrent liabilities:				
Due within one year	1,927,705	10,349,704	12,277,409	540,000
Due in more than one year	12,335,137	213,467,375	225,802,512	-
Total Liabilities	16,664,332	229,814,530	246,478,862	995,917
Net Assets				
Invested in capital assets, net of related debt	68,148,861	19,655,427	87,804,288	-
Restricted for:				
Capital outlay	306,033	17,775,164	18,081,197	-
Debt service	548,160	11,869,275	12,417,435	-
Renewal and replacements	-	1,093,778	1,093,778	-
Police, fire and rescue	303,975	-	303,975	-
Unrestricted	14,052,309	34,644,030	48,696,339	102,376
Total Net Assets	83,359,338	85,037,674	168,397,012	102,376
Total Liabilities and Net assets	\$ 100,023,670	314,852,204	414,875,874	1,098,293

CITY OF MARCO ISLAND, FLORIDA

Government-Wide Financial Statements

Statement of Activities

For the Year Ended September 30, 2010

Function/Program Activities	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets			Component Unit Hideaway Beach District
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		Total	
					Governmental Activities	Business-Type Activities		
Governmental Activities								
General government	\$ 4,799,310	143,117	32,700	366,049	(4,257,444)	-	(4,257,444)	
Police services	3,951,306	351,497	312	13,158	(3,586,339)	-	(3,586,339)	
Fire and rescue	4,685,618	114,926	6,840	278,868	(4,284,984)	-	(4,284,984)	
Code compliance	1,146,597	57,497	-	-	(1,089,100)	-	(1,089,100)	
Building services	821,680	895,004	-	-	73,324	-	73,324	
Transportation	6,302,748	-	1,000,000	584,209	(4,718,539)	-	(4,718,539)	
Culture and recreation	2,035,189	1,000	-	220,312	(1,813,877)	-	(1,813,877)	
Interest on long-term debt	517,849	-	-	-	(517,849)	-	(517,849)	
Total Governmental Activities	24,260,297	1,563,041	1,039,852	1,462,596	(20,194,808)	-	(20,194,808)	
Business-Type Activities								
Water and sewer	28,881,053	26,647,596	-	18,893,283	-	16,659,826	16,659,826	
Recreation	381,786	271,972	-	-	-	(109,814)	(109,814)	
Total Business-Type Activities	29,262,839	26,919,568	-	18,893,283	-	16,550,012	16,550,012	
Total Primary Government	\$ 53,523,136	28,482,609	1,039,852	20,355,879	(20,194,808)	16,550,012	(3,644,796)	
Component Unit- Hideaway Beach District	\$ 1,371,191	-	588,420	-				(782,771)
		General Revenues						
		Taxes						
					15,650,276	-	15,650,276	1,171,899
					1,021,735	-	1,021,735	-
					1,211,299	-	1,211,299	-
					1,844,849	-	1,844,849	-
					200,612	2,619,932	2,820,544	17,658
					143,215	139,540	282,755	-
					(6,300)	(19,822)	(26,122)	-
					20,065,686	2,739,650	22,805,336	1,189,557
					Change in Net Assets	19,289,662	19,160,540	406,786
					Net assets- Beginning of year	83,488,460	149,236,472	(304,410)
					Net assets- End of year	\$ 83,359,338	168,397,012	102,376

See accompanying notes to financial statements.

CITY OF MARCO ISLAND, FLORIDA
Fund Financial Statements

Balance Sheet – Governmental Funds

September 30, 2010

	<u>General</u>	<u>Capital Projects</u>	<u>Nonmajor Fund Totals</u>	<u>Total Governmental Funds</u>
Assets				
Pooled cash and investments	\$ 13,044,358	158,661	2,634,250	15,837,269
Restricted cash and investments	-	-	548,160	548,160
Receivables:				
Accounts, net	156,220	-	122	156,342
Interest	4,937	-	-	4,937
Due from other governments	255,482	-	12,562	268,044
Prepaid items	900	-	-	900
Total Assets	<u>\$ 13,461,897</u>	<u>158,661</u>	<u>3,195,094</u>	<u>16,815,652</u>
Liabilities and Fund Balances				
Liabilities				
Accounts payable	\$ 673,989	158,661	26,330	858,980
Accrued liabilities	462,378	-	31,002	493,380
Deposits	16,526	-	-	16,526
Total Liabilities	<u>1,152,893</u>	<u>158,661</u>	<u>57,332</u>	<u>1,368,886</u>
Fund Balances				
Reserved for:				
Parks construction or operation	43,240	-	-	43,240
Road construction	242,504	-	-	242,504
Transportation	20,289	-	-	20,289
Fire services	70,479	-	-	70,479
Police services	233,496	-	-	233,496
Debt service	-	-	1,934,854	1,934,854
Prepaid items	900	-	-	900
Unreserved, undesignated				
General	850,672	-	-	850,672
Unreserved, designated for:				
Special revenue funds	-	-	1,202,908	1,202,908
Capital projects	5,047,336	-	-	5,047,336
Asset replacement	1,688,375	-	-	1,688,375
Emergency reserve	4,111,713	-	-	4,111,713
Total Fund Balances	<u>12,309,004</u>	<u>-</u>	<u>3,137,762</u>	<u>15,446,766</u>
Total Liabilities and Fund Balances	<u>\$ 13,461,897</u>	<u>158,661</u>	<u>3,195,094</u>	<u>16,815,652</u>

CITY OF MARCO ISLAND, FLORIDA

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

September 30, 2010

Fund Balance - Total Governmental Funds	\$	15,446,766
 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.		94,335
Net pension assets are not available to pay for current period expenditures and, therefore, are not reported in the governmental funds.		265,222
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds:		
Capital assets	\$ 109,006,911	
Less: accumulated depreciation	<u>(27,361,554)</u>	81,645,357
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.		327,711
Accrued interest is not due and payable in the current period and, therefore, is not reported in the governmental funds.		(157,211)
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds:		
Revenue bond, Series 2000B	\$ (475,000)	
Revenue bond, Series 2004	(7,025,000)	
Revenue bond, Series 2005	(4,940,000)	
Capital leases	(615,494)	
Other post - employment benefits liability	(155,032)	
Compensated absences	<u>(1,052,316)</u>	<u>(14,262,842)</u>
Net Assets of Governmental Activities	\$	<u><u>83,359,338</u></u>

CITY OF MARCO ISLAND, FLORIDA
Fund Financial Statements

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

For the Year Ended September 30, 2010

	<u>General</u>	<u>Capital Projects</u>	<u>Nonmajor Fund Totals</u>	<u>Total Governmental Funds</u>
Revenues				
Taxes	\$ 17,029,248	-	854,062	17,883,310
Licenses and permits	58,497	-	895,004	953,501
Intergovernmental	2,020,465	1,884,209	-	3,904,674
Charges for services	314,391	-	-	314,391
Fines and forfeitures	351,497	-	-	351,497
Interest income	180,460	-	20,152	200,612
Miscellaneous	174,307	220,312	46,859	441,478
Total Revenues	<u>20,128,865</u>	<u>2,104,521</u>	<u>1,816,077</u>	<u>24,049,463</u>
Expenditures				
Current:				
General government	4,297,355	-	120,928	4,418,283
Police services	3,858,373	-	-	3,858,373
Fire and rescue	5,039,364	-	-	5,039,364
Code compliance	282,859	-	-	282,859
Building services	-	-	1,139,165	1,139,165
Transportation	1,358,546	-	-	1,358,546
Culture and recreation	1,879,614	-	-	1,879,614
Debt service:				
Principal	-	-	2,100,575	2,100,575
Interest and fiscal charges	-	-	517,849	517,849
Capital outlay	-	4,535,622	-	4,535,622
Total Expenditures	<u>16,716,111</u>	<u>4,535,622</u>	<u>3,878,517</u>	<u>25,130,250</u>
Excess (Deficiency) of Revenues				
Over (Under) Expenditures	<u>3,412,754</u>	<u>(2,431,101)</u>	<u>(2,062,440)</u>	<u>(1,080,787)</u>
Other Financing Sources (Uses)				
Transfers in	858,573	4,289,674	1,898,339	7,046,586
Transfers out	(5,188,013)	(1,858,573)	-	(7,046,586)
Total Other Financing Sources (Uses)	<u>(4,329,440)</u>	<u>2,431,101</u>	<u>1,898,339</u>	<u>-</u>
Net Change in Fund Balance	(916,686)	-	(164,101)	(1,080,787)
Fund Balances- October 1, 2009	<u>13,225,690</u>	<u>-</u>	<u>3,301,863</u>	<u>16,527,553</u>
Fund Balances- September 30, 2010	<u>\$ 12,309,004</u>	<u>-</u>	<u>3,137,762</u>	<u>15,446,766</u>

CITY OF MARCO ISLAND, FLORIDA

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

For the Year Ended September 30, 2010

Net Change in Fund Balance - Total Governmental Funds	\$	(1,080,787)
 Amounts Reported for Governmental Activities in the Statement of Activities are Different Because:		
<p>The statement of activities reports changes in the net pension asset. Conversely, governmental funds do not report any changes in the net pension asset.</p>		
		(945)
<p>Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense:</p>		
Expenditures for capital assets	\$ 5,312,015	
Less: current year depreciation	<u>(5,636,394)</u>	(324,379)
<p>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.</p>		
		88,957
<p>Code compliance revenue deferred last year in the fund financial statements but not recognized in the government-wide financial statements was written off in the current year.</p>		
		(863,154)
<p>Some expenses reported in the statement of activities do not require the use of current financial resources, and, therefore, are not reported as expenditures in the governmental fund:</p>		
Changes in compensated absences		35,854
Accrued interest		24,177
Other post - employment benefits liability		(76,911)
<p>In the statement of activities, only the gain on the sale of the capital assets is reported, whereas in the governmental funds, the proceeds from the sale increase financial resources. Thus, the change in net assets differs from the change in fund balances by the cost of the assets sold.</p>		
		(6,300)
<p>Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets:</p>		
Amortization of bond issue costs	\$ (26,209)	
Principal payments on debt	<u>2,100,575</u>	<u>2,074,366</u>
Changes in Net Assets of Governmental Activities	\$	<u>(129,122)</u>

CITY OF MARCO ISLAND, FLORIDA
Fund Financial Statements

Statement of Fund Net Assets – Proprietary Funds

September 30, 2010

	<u>Business-Type Activities- Enterprise Funds</u>			<u>Internal Service Fund</u>
	<u>Water and Sewer</u>	<u>Recreation (Nonmajor)</u>	<u>Total</u>	
Assets				
Current Assets				
Pooled cash and investments	\$ 20,208,752	84,268	20,293,020	620,693
Accounts receivables, net	2,664,849	-	2,664,849	3,508
Assessments receivable-current portion	866,863	-	866,863	-
Assessments interest receivable	2,413,028	-	2,413,028	-
Prepays and other current assets	100	-	100	622,079
Total Current Assets	<u>26,153,592</u>	<u>84,268</u>	<u>26,237,860</u>	<u>1,246,280</u>
Noncurrent Assets				
Restricted cash and investments	26,962,313	-	26,962,313	-
Assessments receivable	33,815,420	-	33,815,420	-
Bond issue costs, net	3,854,393	-	3,854,393	-
Capital Assets				
Land	17,415,059	-	17,415,059	-
Transmission and distribution Infrastructure	97,168,107	-	97,168,107	-
Buildings and improvements	8,903,273	-	8,903,273	-
Vehicles and equipment	6,523,487	63,854	6,587,341	-
Construction in progress	60,227,003	75,913	60,302,916	-
Accumulated depreciation	71,735,120	-	71,735,120	-
	<u>(38,144,237)</u>	<u>(28,537)</u>	<u>(38,172,774)</u>	<u>-</u>
Total Capital Assets (Net of Accumulated Depreciation)	<u>223,827,812</u>	<u>111,230</u>	<u>223,939,042</u>	<u>-</u>
Total Noncurrent Assets	<u>288,459,938</u>	<u>111,230</u>	<u>288,571,168</u>	<u>-</u>
Total Assets	<u>\$ 314,613,530</u>	<u>195,498</u>	<u>314,809,028</u>	<u>1,246,280</u>
Liabilities				
Current Liabilities				
Accounts payable	\$ 1,531,632	6,473	1,538,105	35,000
Accrued liabilities	224,400	46,392	270,792	840,393
Accrued compensated absences-current portion	281,674	-	281,674	-
Accrued interest	4,185,048	-	4,185,048	-
Deferred assessment revenue- current portion	1,773,164	-	1,773,164	-
Deferred assessment interest revenue	375,021	-	375,021	-
Bonds payable, current portion	2,788,654	-	2,788,654	-
Notes payable, current portion	5,131,191	-	5,131,191	-
Due to other funds	-	-	-	-
Deposits	3,506	-	3,506	-
Total Current Liabilities	<u>16,294,290</u>	<u>52,865</u>	<u>16,347,155</u>	<u>875,393</u>
Noncurrent Liabilities				
Bonds payable	161,308,522	-	161,308,522	-
Notes payable	48,976,019	-	48,976,019	-
Accrued compensated absences	93,891	-	93,891	-
Deferred assessment revenue	3,016,295	-	3,016,295	-
Other post - employment benefits liability	72,648	-	72,648	-
Total Noncurrent Liabilities	<u>213,467,375</u>	<u>-</u>	<u>213,467,375</u>	<u>-</u>
Total Liabilities	<u>229,761,665</u>	<u>52,865</u>	<u>229,814,530</u>	<u>875,393</u>
Net Assets				
Invested in capital assets, net of related debt	\$ 19,544,197	111,230	19,655,427	-
Restricted for:			-	
Construction	17,775,164	-	17,775,164	-
Debt service	11,869,275	-	11,869,275	-
Renewal and replacement	1,093,778	-	1,093,778	-
Unrestricted	34,569,451	31,403	34,600,854	370,887
Total Net Assets	<u>84,851,865</u>	<u>142,633</u>	<u>84,994,498</u>	<u>370,887</u>
Total Liabilities and Net Assets	<u>\$ 314,613,530</u>	<u>195,498</u>	<u>314,809,028</u>	<u>1,246,280</u>
Net assets-above			84,994,498	
Adjustments to reflect internal service fund activities reflected in the enterprise funds			43,176	
Net assets of business-type activities			<u>85,037,674</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, 2010

	Business-Type Activities- Enterprise Funds			Internal Service Fund
	Water and Sewer	Recreation (Nonmajor)	Total	
Operating Revenues				
Charges for services	\$ 26,544,812	271,972	26,816,784	1,441,566
Operating Expenses				
Personal services	4,783,331	173,779	4,957,110	-
Insurance	662,948	-	662,948	1,279,911
Utilities	2,176,577	23,492	2,200,069	-
Contractual fees	865,124	108,430	973,554	-
Repairs and maintenance	478,155	6,092	484,247	-
Supplies	1,186,360	19,294	1,205,654	-
Rental and lease costs	33,773	1,904	35,677	-
Other expenses	1,218,744	40,666	1,259,410	-
Amortization	603,568	-	603,568	-
Depreciation	8,771,386	8,129	8,779,515	-
Total Operating Expenses	20,779,966	381,786	21,161,752	1,279,911
Operating Income (Loss)	5,764,846	(109,814)	5,655,032	161,655
Non-operating Income (Expense)				
Interest earnings	2,619,932	-	2,619,932	84
Interest expense	(8,053,916)	-	(8,053,916)	-
Miscellaneous expense	(47,171)	-	(47,171)	-
Other non-operating income	11,650	108,068	119,718	-
Total Non-operating Income (Expense)	(5,469,505)	108,068	(5,361,437)	84
Income before capital contributions and transfers	295,341	(1,746)	293,595	161,739
Capital Contributions	18,893,283	-	18,893,283	-
Changes in Net Assets	19,188,624	(1,746)	19,186,878	161,739
Net Assets- October 1, 2009	65,663,241	144,379	66,107,620	209,148
Net Assets- September 30, 2010	\$ 84,851,865	142,633	85,000,493	370,887
Adjustment to reflect the internal service fund activities related to the enterprise funds			102,784	
Changes in net assets of business-type activities			\$ 19,289,662	

CITY OF MARCO ISLAND, FLORIDA
Fund Financial Statements

Statement of Cash Flows – Proprietary Funds

For the Year Ended September 30, 2010

	<u>Business-Type Activities- Enterprise Funds</u>			Governmental Activities- Internal Service Fund
	<u>Water and Sewer</u>	<u>Recreation (Nonmajor)</u>	<u>Total</u>	
Cash Flows from Operating Activities				
Cash received from customers and users	\$ 26,404,662	382,040	26,786,702	-
Cash received from interfund services provided	-	-	-	1,442,441
Cash payments to vendors for goods and services	(8,817,156)	(204,257)	(9,021,413)	(1,668,303)
Cash payments to employees for services	(4,799,864)	(135,497)	(4,935,361)	-
Net Cash Provided by Operating Activities	<u>12,787,642</u>	<u>42,286</u>	<u>12,829,928</u>	<u>(225,862)</u>
Cash Flows from Noncapital Financing Activities				
Payments from General Fund	(3,324,686)	-	(3,324,686)	-
Net Cash used in Noncapital Financing Activities	<u>(3,324,686)</u>	<u>-</u>	<u>(3,324,686)</u>	<u>-</u>
Cash Flows from Capital and Related Financing Activities				
Proceeds from issuance of debt	75,930,114	-	75,930,114	-
Utility improvements projects from other sources	1,575,007	-	1,575,007	-
Proceeds from special assessments	8,152,794	-	8,152,794	-
Acquisition of property, plant and equipment	(21,531,188)	(71,677)	(21,602,865)	-
Proceeds from sale of property, plant and equipment	2,200	-	2,200	-
Receipts from customers for contracted plumbing, net	(2,884)	-	(2,884)	-
Principal paid on long-term debt	(40,173,434)	-	(40,173,434)	-
Issue costs paid on notes payable	(1,350,619)	-	(1,350,619)	-
Payment of interest	(6,719,159)	-	(6,719,159)	-
Net Cash Provided By Capital and Related Financing Activities	<u>15,882,831</u>	<u>(71,677)</u>	<u>15,811,154</u>	<u>-</u>
Cash Flows from Investing Activities				
Interest received on investments	2,619,932	-	2,619,932	84
Net Increase (decrease) in Cash and Cash Equivalents	27,965,719	(29,391)	27,936,328	(225,778)
Cash and Cash Equivalents - October 1, 2009	<u>19,205,346</u>	<u>113,659</u>	<u>19,319,005</u>	<u>846,471</u>
Cash and Cash Equivalents - September 30, 2010	<u>\$ 47,171,065</u>	<u>84,268</u>	<u>47,255,333</u>	<u>620,693</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities				
Operating income (loss)	\$ 5,764,846	(109,814)	5,655,032	161,655
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:				
Depreciation	8,771,386	8,129	8,779,515	-
Amortization	503,097	-	503,097	-
Other non-operating income, net	11,650	108,068	119,718	-
Changes in assets and liabilities				
Accounts receivable	(146,679)	2,000	(144,679)	872
Prepays and other assets	5,300	-	5,300	(606,808)
Accounts payable and accrued liabilities	(2,130,866)	33,903	(2,096,963)	218,419
Deposits	(5,121)	-	(5,121)	-
Accrued compensation	14,029	-	14,029	-
Net Cash Provided by Operating Activities	<u>\$ 12,787,642</u>	<u>42,286</u>	<u>12,829,928</u>	<u>(225,862)</u>
Reconciliation of Cash and Cash Equivalents				
Pooled cash and investments	\$ 20,208,752	84,268	20,293,020	620,693
Restricted cash and investments	26,962,313	-	26,962,313	-
Cash and Cash Equivalents - September 30, 2009	<u>\$ 47,171,065</u>	<u>84,268</u>	<u>47,255,333</u>	<u>620,693</u>
Noncash Financing Activities				
Capital contributions				
Assessments receivable	3,375,071	-	3,375,071	-
Assessments interest receivable	170,167	-	170,167	-

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, 2010

Assets	
Cash and cash equivalents	\$ 508,184
Contributions receivable	32,454
Due from other governments	120,930
Investments, at fair value	
Common stock	4,601,059
Government bonds	2,834,788
Accrued interest	16,612
Total Assets	<u>8,114,027</u>
Liabilities	
Due to other governments	2,324
Accounts payable	1,641
Total Liabilities	<u>3,965</u>
Net Assets	
Held in trust for pension benefits and other purposes	<u>\$ 8,110,062</u>

CITY OF MARCO ISLAND, FLORIDA
Fund Financial Statements

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

For the Year Ended September 30, 2010

Additions

Contributions		
Employer	\$	914,099
Employee		117,866
State of Florida insurance funds		469,216
Total contributions		<u>1,501,181</u>
Investment earnings		
Investment interest and dividends		204,641
Investment appreciation		464,254
Investment expenses		(67,118)
Net investment earnings		<u>601,777</u>
Total Additions		<u><u>2,102,958</u></u>
Deductions		
Legal		17,308
Actuary		16,289
Administrative		2,071
Refunds to contributors		88,910
Total Deductions		<u>124,578</u>
Change in Net Assets		1,978,380
Fund Balances -October 1, 2009		<u>6,131,682</u>
Fund Balances - September 30, 2010	\$	<u><u>8,110,062</u></u>

CITY OF MARCO ISLAND, FLORIDA

Notes to Financial Statements

September 30, 2010

(1) Summary of Significant Accounting Policies

(a) Reporting Entity

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

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

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

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

(b) Government-Wide and Fund Financial Statements

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

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

CITY OF MARCO ISLAND, FLORIDA

Notes to Financial Statements - Continued

(1) Summary of Significant Accounting Policies - Continued

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

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

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

The government-wide financial statements, the proprietary fund financial statements, and the fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Pension trust funds recognize employer and state contributions in the period in which the contributions are due, and the City has made a formal commitment to provide the contributions. Retirement benefits and refunds are recognized when due and payable in accordance with the terms of the Plan.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. 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.

CITY OF MARCO ISLAND, FLORIDA

Notes to Financial Statements - Continued

(1) Summary of Significant Accounting Policies - Continued

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

The City reports the following major proprietary fund:

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

Additionally, the City reports the following fund types:

- The *internal service fund* accounts for the collection of premiums, accumulation of reserves and payment of insurance claims for the City.
- The *pension trust funds* account for the activities of the Firefighters' and Police Officers' Pension Plans, which accumulate resources for defined benefit payments to qualified employees.

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

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. In the fund financial statements, the City charged the building services fund \$340,731 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.

CITY OF MARCO ISLAND, FLORIDA

Notes to Financial Statements - Continued

(1) Summary of Significant Accounting Policies - Continued

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

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 or Equity

1. Deposits and Investments

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

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

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

CITY OF MARCO ISLAND, FLORIDA

Notes to Financial Statements - Continued

(1) Summary of Significant Accounting Policies - Continued

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

2. Receivables and Payables

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

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

3. Prepaid Items

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

4. Restricted Assets

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

5. Capital Assets

Capital assets include property, plant, equipment and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items). They are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Proprietary fund capital assets are also recorded in their respective fund financial statements. Capital assets, other than infrastructure assets, are defined by the City as assets with an initial, individual cost of more than \$1,000 and an estimated useful life in excess of one year. The City reports infrastructure assets on a network and subsystem basis. Accordingly, the amounts spent for construction or acquisition of infrastructure assets are capitalized and reported in the government-wide financial statements regardless of their amount.

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

CITY OF MARCO ISLAND, FLORIDA

Notes to Financial Statements - Continued

(1) Summary of Significant Accounting Policies - Continued

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

5. Capital Assets - Continued

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

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

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

6. Compensated Absences

It is the government's policy to permit employees to accumulate earned leave, but not 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 fund.

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

7. Long-Term Obligations

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

CITY OF MARCO ISLAND, FLORIDA

Notes to Financial Statements - Continued

(1) Summary of Significant Accounting Policies - Continued

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

7. Long-Term Obligations - Continued

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

8. Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change. The two major designations are for an asset replacement program and for emergency reserves.

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

9. 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 \$9.3 billion for fiscal year 2010 and \$8.3 billion for fiscal year 2011.

Details of the tax calendar are presented below:

Lien Date	January 1, 2009
Levy Date	November 1, 2009
Installment Payments	
First Installment	No Later Than June 30, 2009
Second Installment	No Later Than September 30, 2009
Third Installment	No Later Than December 31, 2009
Fourth Installment	No Later Than March 31, 2010
Regular Payments	
Discount Periods	November 2009 through February 2010
No Discount Period	After March 1, 2010
Delinquent Date	April 1, 2010

CITY OF MARCO ISLAND, FLORIDA

Notes to Financial Statements - Continued

(2) Stewardship, Compliance, and Accountability

(a) Budgetary Information

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

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

The appropriated budget is prepared by fund, function, and department. The City's department heads may make transfers of appropriations within a department. Transfers of appropriations between departments require the approval of the City Council. The legal level of budgetary control (i.e., the level at which expenditures may not legally exceed appropriations) is the fund level.

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

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 2010 fiscal year, as adopted by City Council, was \$21,618,805. The final actual amount for the 2010 fiscal year was \$20,871,397, which was in accordance with the spending cap limit.

CITY OF MARCO ISLAND, FLORIDA

Notes to Financial Statements - Continued

(3) Detailed Notes on All Funds

(a) Deposits and Investments

As of September 30, 2010, the City had the following deposits and investments:

<u>Deposit and Investment Type</u>	<u>No Specific Maturity</u>	<u>Matures in Less Than 1 Year</u>	<u>Matures in 1-5 Years</u>	<u>Matures in 5-10 Years</u>	<u>Matures in 10+ Years</u>	<u>Total (at Fair Value)</u>
Deposits with bank	\$ 39,790,550	-	-	-	-	39,790,550
Money market funds	-	12,450,658	-	-	-	12,450,658
U.S. Government securities	-	591,731	7,569,831	2,823,791	4,377,866	15,363,219
Common stock	<u>4,601,059</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,601,059</u>
Total deposits and investments	<u>\$ 44,391,609</u>	<u>13,042,389</u>	<u>7,569,831</u>	<u>2,823,791</u>	<u>4,377,866</u>	<u>72,205,486</u>

Cash held on deposit with banks for the discretely presented component unit as of September 30, 2010 is \$508,146.

Interest Rate Risk: As a means of limiting its exposure to fair value losses arising from rising interest rates, the City's investment policy limits the City's investment portfolio, excluding investments held for debt service requirements, to maturities of five years or less. The investment maturities of the pension trust funds are not limited.

Credit Risk: While authorized by policy, the City has no investments in commercial paper, bankers' acceptances, corporate bonds, or mutual funds except for those investments by pension funds. Federal agencies carry only an implicit guarantee from the government and are not full faith and credit investments such as U.S. Treasury Bills and Bonds. The City has investments, as allowed under the investment policy, in the Federal Home Loan Bank (FHLB), the Federal National Mortgage Association (FNMA) and the Federal Home Loan Mortgage Corporation (FHLMC), all of which carry a AAA rating.

The City also holds investments with the Florida Municipal Investment Trust (FMIVT), an external investment pool under GASB 40. These investments are held in 0 to 2 year high quality bonds with a AAA Standard & Poor's rating. External financial statements are available at www.floridaleagueofcites.com/finance.

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

CITY OF MARCO ISLAND, FLORIDA

Notes to Financial Statements - Continued

(3) Detailed Notes on All Funds - Continued

(a) Deposits and Investments - Continued

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

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

The pension trust fund investments are determined by the Board of Directors of each pension trust plan. The portfolios of the pension trust funds are geared for long-term growth and have a target allocation of 60% common stocks and 40% bond funds, with a maximum of 10% of the portfolios being invested in foreign investments.

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

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

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

CITY OF MARCO ISLAND, FLORIDA

Notes to Financial Statements - Continued

3) Detailed Notes on All Funds - Continued

(b) Receivables

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

	<u>General</u>	<u>Nonmajor Governmental</u>	<u>Water and Sewer</u>	<u>Fiduciary</u>	<u>Internal Service</u>
Receivables					
Accounts	\$ 1,109,510	122	2,696,926	-	3,508
Assessments	-	-	34,682,283	-	-
Due from city	-	-	-	32,454	-
Due from other governments	255,482	12,562	-	120,930	-
Interest	4,937	-	2,413,028	16,612	-
Gross receivables	1,369,929	12,684	39,792,237	169,996	3,508
Less: allowance for uncollectibles	953,290	-	32,077	-	-
Net total receivables	\$ 416,639	12,684	39,760,160	169,996	3,508

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, 2010 there is no deferred revenue reported in the governmental funds.

(c) Interfund Receivables, Payables and Transfers

For the year ended September 30, 2010, the City did not have any outstanding interfund receivables and payables. For the year ended September 30, 2010, the interfund transfers were as follows:

Transfer In:					
<u>Transfers Out</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Emergency Relief</u>	<u>General</u>	<u>Total</u>
General	\$ 803,461	4,289,674	94,878	-	5,188,013
Capital Project	1,000,000	-	-	858,573	1,858,573
Total	\$ 1,803,461	4,289,674	94,878	858,573	7,046,586

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

CITY OF MARCO ISLAND, FLORIDA

Notes to Financial Statements - Continued

(3) Detailed Notes on All Funds - Continued

(d) Capital Assets

The City has the following investment in capital assets activity for the year ended September 30, 2010:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>(Decreases)</u>	<u>Ending Balances</u>
Governmental Activities				
Capital assets not being depreciated:				
Land	\$ 15,033,137	-	-	15,033,137
Construction in progress	20,115,864	4,500,694	(6,648,828)	17,967,730
Total capital assets not being depreciated	<u>35,149,001</u>	<u>4,500,694</u>	<u>(6,648,828)</u>	<u>33,000,867</u>
Capital assets being depreciated:				
Buildings and improvements	3,794,541	87,390	-	3,881,931
Vehicles and equipment	5,993,513	1,076,892	(257,912)	6,812,493
Road network	37,679,379	51,928	-	37,731,307
Storm water	10,680,798	-	(265,571)	10,415,227
Pathway	2,790,160	-	-	2,790,160
Parks	1,145,764	-	-	1,145,764
Bridge network	6,276,724	6,509,510	-	12,786,234
Beach and waterway	442,928	-	-	442,928
Total capital assets being depreciated	<u>68,803,807</u>	<u>7,725,720</u>	<u>(523,483)</u>	<u>76,006,044</u>
Accumulated depreciation for:				
Buildings and improvements	(2,178,985)	(182,237)	-	(2,361,222)
Vehicles and equipment	(3,800,115)	(784,668)	251,612	(4,333,171)
Road network	(8,385,947)	(3,695,172)	-	(12,081,119)
Storm water	(4,146,676)	(222,071)	-	(4,368,747)
Pathway	(1,297,502)	(111,177)	-	(1,408,679)
Parks	(215,507)	(105,459)	-	(320,966)
Bridge network	(1,917,762)	(493,379)	-	(2,411,141)
Beach and waterway	(34,278)	(42,231)	-	(76,509)
Total accumulated depreciation	<u>(21,976,772)</u>	<u>(5,636,394)</u>	<u>251,612</u>	<u>(27,361,554)</u>
Total capital assets being depreciated, net	<u>46,827,035</u>	<u>2,089,326</u>	<u>(271,871)</u>	<u>48,644,490</u>
Total governmental activities capital assets, net	\$ <u>81,976,036</u>	<u>6,590,020</u>	<u>(6,920,699)</u>	<u>81,645,357</u>
Business-Type Activities				
Capital assets not being depreciated:				
Land	\$ 17,415,059	-	-	17,415,059
Construction in progress	77,220,005	21,568,446	(27,053,331)	71,735,120
Total capital assets not being depreciated	<u>94,635,064</u>	<u>21,568,446</u>	<u>(27,053,331)</u>	<u>89,150,179</u>
Capital assets being depreciated:				
Transmission and distribution	79,077,012	18,091,095	-	97,168,107
Infrastructure	-	8,903,273	-	8,903,273
Buildings and improvements	6,523,487	63,854	-	6,587,341
Vehicles and equipment	60,301,142	49,347	(47,573)	60,302,916
Total capital assets being depreciated	<u>145,901,641</u>	<u>27,107,569</u>	<u>(47,573)</u>	<u>172,961,637</u>
Accumulated depreciation for:				
Transmission and distribution	(12,167,596)	(1,184,083)	-	(13,351,679)
Infrastructure	-	(639,694)	-	(639,694)
Buildings and improvements	(1,215,741)	(2,785,779)	-	(4,001,520)
Vehicles and equipment	(16,037,676)	(4,169,959)	27,754	(20,179,881)
Total accumulated depreciation	<u>(29,421,013)</u>	<u>(8,779,515)</u>	<u>27,754</u>	<u>(38,172,774)</u>
Total capital assets being depreciated, net	<u>116,480,628</u>	<u>18,328,054</u>	<u>(19,819)</u>	<u>134,788,863</u>
Total business-type activities capital assets, net	\$ <u>211,115,692</u>	<u>39,896,500</u>	<u>(27,073,150)</u>	<u>223,939,042</u>

CITY OF MARCO ISLAND, FLORIDA

Notes to Financial Statements - Continued

(3) Detailed Notes on All Funds - Continued

(d) Capital Assets - Continued

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

Governmental Activities:	
General government	\$ 138,947
Police services	168,293
Fire and rescue	241,389
Code compliance	584
Building services	23,246
Transportation	4,908,360
Culture and recreation	155,575
Total depreciation expense, governmental activities	<u>5,636,394</u>
Business-type Activities:	
Water and sewer	8,771,386
Recreation	8,129
Total depreciation expense, business-type activities	<u>8,779,515</u>
Total depreciation expense	<u>\$ 14,415,909</u>

(e) Leases

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

The asset acquired through capital lease, as reported in the governmental activities, is as follows:

Asset:	
Vehicles and equipment	\$ 544,026
Less: accumulated depreciation	<u>(22,668)</u>
Total	<u>\$ 521,358</u>

CITY OF MARCO ISLAND, FLORIDA

Notes to Financial Statements - Continued

(3) Detailed Notes on All Funds - Continued

(e) Leases— Continued

The future minimum lease obligations and the net present value of these minimum lease payments, as reported in the governmental activities, as of September 30, 2010, are as follows:

2011	\$	110,753
2012		90,697
2013		90,697
2014		90,697
2015		90,697
2016-2018		<u>272,091</u>
Total minimum lease payments		745,632
Less: amount representing interest		<u>130,138</u>
Present value of minimum lease payments	\$	<u><u>615,494</u></u>

CITY OF MARCO ISLAND, FLORIDA

Notes to Financial Statements - Continued

(3) Detailed Notes on All Funds - Continued

(f) Long Term Liabilities

Primary Government

Long-term liability activity for the year ended September 30, 2010, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>(Reductions)</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental Activities					
Revenue bonds	\$ 540,000	-	(65,000)	475,000	70,000
General obligation bonds	7,615,000	-	(590,000)	7,025,000	610,000
Sales tax revenue bonds	5,305,000	-	(365,000)	4,940,000	375,000
Capital improvement bonds	1,000,000	-	(1,000,000)	-	-
Capital leases	696,069	-	(80,575)	615,494	83,468
Other post-employment benefit liability	78,121	76,911	-	155,032	-
Compensated absences	1,088,170	819,169	(855,023)	1,052,316	789,237
Total governmental activity long-term liabilities	<u>\$ 16,322,360</u>	<u>896,080</u>	<u>(2,955,598)</u>	<u>14,262,842</u>	<u>1,927,705</u>
Business Activities					
Revenue bonds, 2003					
Principal	\$ 93,235,000	-	(2,075,000)	91,160,000	2,135,000
Premium	980,298	-	(40,704)	939,594	40,704
Revenue bonds, 2006	5,243,156	-	(267,014)	4,976,142	277,000
State revolving loan, 2007	1,625,427	-	(64,629)	1,560,798	66,353
Revenue bond, 2008	7,477,241	-	-	7,477,241	340,932
Assessment revenue bond, 2008	2,232,160	-	(80,184)	2,151,976	83,444
Assessment revenue bond, 2008	704,076	-	(25,292)	678,784	26,320
Revenue note, 2008	13,214,668	-	(13,214,668)	-	-
Revenue note, 2008	4,000,000	-	-	4,000,000	4,000,000
State revolving loan, 2009-2010	19,022,777	8,349,500	(6,498,896)	20,873,381	677,305
Assessment revenue bond, 2009	840,000	-	(46,049)	793,951	24,463
Assessment revenue bond, 2009	1,775,000	-	(97,306)	1,677,694	51,692
Assessment revenue bond, 2009	2,450,000	-	(134,310)	2,315,690	71,350
Assessment revenue bond, 2009	260,000	-	(15,378)	244,622	5,868
Revenue bond, 2009A	11,000,000	-	(11,000,000)	-	-
Revenue bond, 2009B	6,594,600	-	(6,594,600)	-	-
Revenue note, 2009	11,923,309	2,030,614	-	13,953,923	-
Assessment revenue bond, 2010	-	1,400,000	-	1,400,000	53,585
Assessment revenue bond, 2010	-	1,850,000	-	1,850,000	70,809
Revenue bond, 2010B	-	7,365,000	-	7,365,000	-
Revenue bond, 2010A					
Principal	-	50,475,000	-	50,475,000	-
Discount	-	(151,986)	2,576	(149,410)	(4,980)
Revenue note, 2010	-	4,460,000	-	4,460,000	-
Deferred assessments	8,164,530	35,627	(3,410,698)	4,789,459	1,773,164
Deferred assessment interest	545,188	61,356	(231,523)	375,021	375,021
Other post-employment benefit liability	35,889	36,759	-	72,648	-
Compensated absences	361,536	283,015	(268,986)	375,565	281,674
Total business-type activity long-term liabilities	<u>\$ 191,684,855</u>	<u>76,194,885</u>	<u>(44,062,661)</u>	<u>223,817,079</u>	<u>10,349,704</u>

CITY OF MARCO ISLAND, FLORIDA

Notes to Financial Statements - Continued

(3) Detailed Notes on All Funds - Continued

(f) Long Term Liabilities – Continued

In November 2000, the City issued revenue bonds for governmental activities for the repair of the Factory Bay Bridge, secured by non-ad valorem revenue. The original amount of the revenue bonds was \$985,000. The bonds are issued as 15-year serial bonds with varying amounts of principal maturing each year from \$55,000 to \$90,000. Interest rates on the bonds vary from 4.25 percent to 5.75 percent. As of September 30, 2010, \$475,000 of the principal was outstanding. Annual debt service requirements for the revenue bonds are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>
2011	\$ 70,000	23,675
2012	75,000	20,194
2013	75,000	16,519
2014	80,000	12,363
2015	85,000	7,619
2016	90,000	2,587
Total	\$ <u>475,000</u>	<u>82,957</u>

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

In March 2004, the City issued general obligation bonds for governmental activities for the acquisition of land, secured by ad valorem revenue and pledged with full faith and credit of the City. The original amount of the general obligation bonds was \$9,860,000. The bonds are issued as 15-year serial bonds with varying amounts of principal maturing each year from \$545,000 to \$815,000. Interest rates on the bonds vary from 2 percent to 3.8 percent. As of September 30, 2010, \$7,025,000 of the principal was outstanding. Annual debt service requirements for the general obligation bonds are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>
2011	\$ 610,000	237,234
2012	625,000	218,934
2013	645,000	200,184
2014	665,000	180,834
2015	685,000	160,053
2016-2020	3,795,000	429,454
Total	\$ <u>7,025,000</u>	<u>1,426,693</u>

CITY OF MARCO ISLAND, FLORIDA

Notes to Financial Statements - Continued

(3) Detailed Notes on All Funds - Continued

(f) Long Term Liabilities – Continued

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

The bonds are issued as 15-year serial bonds with varying amounts of principal maturing each year from \$345,000 to \$535,000. Interest rates vary from 3 percent to 3.9 percent. As of September 30, 2010, \$4,940,000 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>
2011	\$ 375,000	173,160
2012	390,000	159,773
2013	400,000	145,948
2014	415,000	131,685
2015	430,000	116,898
2016-2020	2,395,000	335,654
2021	<u>535,000</u>	<u>10,433</u>
Total	\$ <u>4,940,000</u>	<u>1,073,551</u>

In May 2006, the City issued capital improvement bonds for governmental activities for various capital improvements to be owned by and located within the City, including the reconstruction of North Collier Boulevard. The original amount of the capital improvement bonds was \$4,000,000, secured by non-ad valorem revenues. The bonds were issued as 4-year serial bonds with \$1,000,000 of principal maturing each year. The interest rate on the bonds was 4.39 percent. As of September 30, 2010, the capital improvement bonds were paid in full.

CITY OF MARCO ISLAND, FLORIDA

Notes to Financial Statements - Continued

(3) Detailed Notes on All Funds - Continued

(f) Long Term Liabilities – Continued

In November 2003, the City issued revenue bonds for business-type activities for: (1) the acquisition of certain water production, transmission, treatment and disposal facilities, and (2) the improvement of certain assets within these facilities. The original amount of the revenue bonds was \$101,115,000, in addition to a premium paid on the bonds in the amount of \$1,183,818. The bonds are secured by pledged revenues which consist of a senior lien pledge on net revenues of the water and sewer fund and any water and sewer capital facility fees. The bonds are issued as 30-year serial bonds with varying amounts of principal maturing each year from \$1,910,000 to \$6,280,000. Interest rates on the bonds vary from 2 percent to 5.25 percent. As of September 30, 2010, \$91,160,000 of the principal was outstanding. Annual debt service requirements for the revenue bonds are as follows:

<u>Fiscal Year</u>		<u>Principal</u>	<u>Interest</u>
2011	\$	2,135,000	4,424,369
2012		2,200,000	4,353,343
2013		2,275,000	4,274,424
2014		2,360,000	4,188,065
2015		2,450,000	4,078,913
2016-2020		14,320,000	18,270,150
2021-2025		18,465,000	14,029,744
2026-2030		23,575,000	8,803,681
2031-2034		23,380,000	2,409,249
Total	\$	<u>91,160,000</u>	<u>64,831,938</u>

CITY OF MARCO ISLAND, FLORIDA

Notes to Financial Statements - Continued

(3) Detailed Notes on All Funds - Continued

(f) Long Term Liabilities – Continued

During 2006, 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, 2010, the City had \$1,560,798 outstanding. Funds used for pre-construction planning design are secured by utility system revenues and impact fees. Pledged revenue is a junior lien pledge of system revenue. The amount due within one year as of September 30, 2010, of \$66,353 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>
2011	\$ 66,353	10,924
2012	68,123	39,154
2013	69,941	37,337
2014	71,806	35,472
2015	73,722	33,556
2016-2020	399,158	137,211
2021-2025	455,336	81,052
2026-2029	356,359	19,134
Total	\$ <u>1,560,798</u>	<u>393,840</u>

The City received additional funding under this program in 2007 through 2010. As of September 30, 2010, the City has drawn down loan funds totaling \$20,873,381 including accrued interest of \$159,232. Funds utilized for neighborhood construction of the Septic Tank Replacement Program are secured by construction assessments against individual properties, with a back-up covenant to budget and appropriate additional funds as necessary. Interest rates range from 2.6% to 3.8%.

CITY OF MARCO ISLAND, FLORIDA

Notes to Financial Statements - Continued

(3) Detailed Notes on All Funds - Continued

(f) Long Term Liabilities – Continued

During the fiscal year ending September 30, 2010, loan payments were made in the amount of \$6,498,896. Annual estimated installments for the fiscal years ending after September 30 are based only on the amount drawn down on the loans, and the payment amounts as stated in the loan agreements. The amount due within one year as of September 30, 2010, of \$677,305 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>
2011	\$ 677,305	563,450
2012	869,913	541,147
2013	897,124	517,707
2014	925,191	493,845
2015	954,140	469,092
2016-2020	5,237,892	2,221,577
2021-2025	6,111,839	1,348,119
2026-2030	5,199,977	361,136
Total	\$ 20,873,381	6,516,073

In December 2006, the City issued revenue bonds for business-type activities to pay the costs of constructing certain additions, extensions, supplements and replacements to the City's water and wastewater utility system. The original amount of the revenue bonds was \$5,500,000, secured by a senior lien pledge on net revenues of the water and sewer fund. The bonds are issued as 15-year serial bonds with varying amounts of principal maturing each year from \$256,844 to \$446,412. The interest rate on the bonds is fixed at 3.74 percent. As of September 30, 2010, \$4,976,142 was outstanding. Annual debt service requirements for the revenue bonds are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>
2011	\$ 277,000	183,455
2012	287,360	173,214
2013	297,655	161,664
2014	309,239	150,158
2015	320,805	138,214
2016-2020	1,792,866	496,209
2021-2024	1,691,217	131,300
Total	\$ 4,976,142	1,434,214

CITY OF MARCO ISLAND, FLORIDA

Notes to Financial Statements - Continued

(3) Detailed Notes on All Funds - Continued

(f) Long Term Liabilities – Continued

In March 2008, the City issued revenue bonds for business-type activities to pay the costs of the subordinate wastewater improvement project. The original amount of the revenue bonds was not to exceed \$7,477,241, and is secured by a senior lien pledge on net revenues of the water and sewer fund. The bonds have varying amounts of principal maturing each year ranging from \$340,932 to \$619,737. The interest rate on the bonds is fixed at 4.01 percent. As of September 30, 2010, the entire amount was outstanding. Annual debt service requirements for the revenue bonds are as follows:

<u>Fiscal Year</u>		<u>Principal</u>	<u>Interest</u>
2011	\$	340,932	297,090
2012		354,793	283,703
2013		368,462	268,246
2014		384,198	252,946
2015		399,819	237,009
2016-2020		2,255,898	923,413
2021-2025		2,753,402	415,070
2026		619,737	12,633
Total	\$	<u>7,477,241</u>	<u>2,690,110</u>

In March 2008, the City issued special assessment revenue bonds for business-type activities to pay the costs of the subordinate wastewater improvement project for the Tigertail District. The original amount of the revenue bonds was not to exceed \$2,321,886, and is secured by capacity and construction assessments on individual properties within the District. The bonds have varying amounts of principal maturing each year ranging from \$80,184 to \$164,258. The interest rate on the bonds is fixed at 4.01 percent. As of September 30, 2010, \$2,151,976 was outstanding. Annual debt service requirements for the revenue bonds are as follows:

<u>Fiscal Year</u>		<u>Principal</u>	<u>Interest</u>
2011	\$	83,444	85,810
2012		86,836	82,570
2013		90,146	78,752
2014		94,032	75,009
2015		97,855	71,109
2016-2020		552,086	291,593
2021-2025		673,803	167,166
2026-2028		473,774	29,485
Total	\$	<u>2,151,976</u>	<u>881,494</u>

CITY OF MARCO ISLAND, FLORIDA

Notes to Financial Statements - Continued

(3) Detailed Notes on All Funds - Continued

(f) Long Term Liabilities – Continued

In March 2008, the City issued special assessment revenue bonds for business-type activities to pay the costs of the subordinate wastewater improvement project for the South Barfield District. The original amount of the revenue bonds was not to exceed \$732,378 and is secured by capacity and construction assessments on individual properties within the District. The bonds have varying amounts of principal maturing each year ranging from \$25,292 to \$51,811. The interest rate on the bonds is fixed at 4.01 percent. As of September 30, 2010, \$678,784 was outstanding. Annual debt service requirements for the revenue bonds are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>
2011	\$ 26,320	27,067
2012	27,390	26,045
2013	28,434	24,840
2014	29,660	23,660
2015	30,866	22,429
2016-2020	174,141	91,975
2021-2025	212,534	52,728
2026-2028	149,439	9,300
Total	\$ 678,784	278,044

In August 2008, the City issued a revenue note for business-type activities to pay the costs of the subordinate wastewater improvement project (year 3). The original amount of the revenue note was not to exceed \$18,500,000, with additional funds withdrawn during 2009 and is secured by a second lien pledge on net revenues and capital facility fees of the water and sewer fund. The note requires principal payment in full on August 5, 2011. The interest rate on the note is variable equal to the sum of 63.7% of the 30-day London Interbank Offered Rate (“LIBOR Rate”) as evidenced in The Wall Street Journal, plus 68 basis points (0.68%) and the interest on the note on September 30, 2010, was .842%. The City repaid the revenue note in full in March 2010.

In August 2008, the City issued a revenue note for business-type activities to pay the costs of the subordinate water improvement project. The original amount of the revenue note was not to exceed \$4,000,000, and is secured by a second lien pledge on net revenues and capital facility fees of the water and sewer fund. The note requires principal payment in full on August 5, 2011. The interest rate on the note is variable equal to the sum of 63.7% of the 30-day London Interbank Offered Rate (“LIBOR Rate”) as evidenced in The Wall Street Journal, plus 68 basis points (0.68%) and the interest on the note on September 30, 2010, was .842%. As of September 30, 2010, \$4,000,000 was outstanding.

CITY OF MARCO ISLAND, FLORIDA

Notes to Financial Statements - Continued

(3) Detailed Notes on All Funds - Continued

(f) Long Term Liabilities – Continued

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

<u>Fiscal Year</u>		<u>Principal</u>	<u>Interest</u>
2011	\$	<u>4,000,000</u>	<u>30,800</u>
Total	\$	<u><u>4,000,000</u></u>	<u><u>30,800</u></u>

In March 2009, the City issued a revenue note for business-type activities to pay the costs of the subordinate wastewater improvement project (year 4). The original amount of the revenue note was not to exceed \$14,155,000, and is secured by a second lien pledge on net revenues and capital facility fees of the water and sewer fund with a back-up covenant to budget and appropriate. The note requires principal payment in full on March 3, 2012. The interest rate on the note is variable equal to the sum of 63.7% of the 30-day London Interbank Offered Rate (“LIBOR Rate”) as evidenced in The Wall Street Journal, plus 235 basis points (2.35%) and the interest on the note on September 30, 2010, was 2.51%. As of September 30, 2010, \$13,953,923 was outstanding. Annual debt service requirements for the revenue bonds are as follows:

<u>Fiscal Year</u>		<u>Principal</u>	<u>Interest</u>
2011	\$	-	350,243
2012		<u>13,953,923</u>	<u>145,935</u>
Total	\$	<u><u>13,953,923</u></u>	<u><u>496,178</u></u>

CITY OF MARCO ISLAND, FLORIDA

Notes to Financial Statements - Continued

(3) Detailed Notes on All Funds - Continued

(f) Long Term Liabilities – Continued

In July 2009, the City issued special assessment revenue bonds for business-type activities to pay the costs of the subordinate wastewater improvement project for the North Marco District. The original amount of the revenue bonds was not to exceed \$840,000 and is secured by capacity assessments on individual properties within the District. The bonds have varying amounts of principal maturing each year ranging from \$24,463 to \$65,376. The interest rate on the bonds is fixed at 5.54 percent. As of September 30, 2010, \$793,951 was outstanding. Annual debt service requirements for the revenue bonds are as follows:

<u>Fiscal Year</u>		<u>Principal</u>	<u>Interest</u>
2011	\$	24,463	43,914
2012		25,837	42,617
2013		27,174	41,014
2014		28,814	39,442
2015		30,433	37,778
2016-2020		179,695	160,666
2021-2025		236,135	102,507
2026-2029		241,400	28,108
Total	\$	793,951	496,046

In July 2009, the City issued special assessment revenue bonds for business-type activities to pay the costs of the subordinate wastewater improvement project for the North Barfield District. The original amount of the revenue bonds was not to exceed \$1,775,000 and is secured by capacity assessments on individual properties within the District. The bonds have varying amounts of principal maturing each year ranging from \$51,692 to \$138,146. The interest rate on the bonds is fixed at 5.54 percent. As of September 30, 2010, \$1,677,694 was outstanding. Annual debt service requirements for the revenue bonds are as follows:

<u>Fiscal Year</u>		<u>Principal</u>	<u>Interest</u>
2011	\$	51,692	92,795
2012		54,596	90,053
2013		57,420	86,666
2014		60,887	83,344
2015		64,307	79,829
2016-2020		379,712	339,503
2021-2025		498,976	216,606
2026-2029		510,104	59,396
Total	\$	1,677,694	1,048,192

CITY OF MARCO ISLAND, FLORIDA

Notes to Financial Statements - Continued

(3) Detailed Notes on All Funds - Continued

(f) Long Term Liabilities – Continued

In July 2009, the City issued special assessment revenue bonds for business-type activities to pay the costs of the subordinate wastewater improvement project for the West Winterberry District. The original amount of the revenue bonds was not to exceed \$2,450,000 and is secured by capacity assessments on individual properties within the District. The bonds have varying amounts of principal maturing each year ranging from \$71,350 to \$190,681. The interest rate on the bonds is fixed at 5.54 percent. As of September 30, 2010, \$2,315,690 was outstanding. Annual debt service requirements for the revenue bonds are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>
2011	\$ 71,350	128,084
2012	75,357	124,298
2013	79,256	119,623
2014	84,042	115,038
2015	88,762	110,186
2016-2020	524,110	468,609
2021-2025	688,727	298,978
2026-2029	704,086	81,985
Total	\$ 2,315,690	1,446,801

In July 2009, the City issued taxable special assessment revenue bonds for business-type activities to pay the costs of the subordinate wastewater improvement project for the Old Marco District. The original amount of the revenue bonds was not to exceed \$260,000 and is secured by capacity and construction assessments on individual properties within the District. The bonds have varying amounts of principal maturing each year ranging from \$3,868 to \$23,693. The interest rate on the bonds is fixed at 7.96 percent. As of September 30, 2010, \$244,622 was outstanding. Annual debt service requirements for the revenue bonds are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>
2011	\$ 5,868	19,508
2012	6,342	19,066
2013	6,802	18,485
2014	7,403	17,912
2015	8,000	17,290
2016-2020	50,738	75,321
2021-2025	74,780	50,246
2026-2029	84,689	14,364
Total	\$ 244,622	232,192

CITY OF MARCO ISLAND, FLORIDA

Notes to Financial Statements - Continued

(3) Detailed Notes on All Funds - Continued

(f) Long Term Liabilities – Continued

In September 2009, the City issued Series 2009A tax-exempt Revenue Bonds for business-type activities to pay the costs of resurfacing and constructing certain additions, extensions, supplements and replacements to the City's water and wastewater utility system. The original amount of the Series 2009A Revenue Bonds was \$11,000,000, secured by a senior lien pledge on the net revenues of the water and sewer fund. As part of the 2010A Revenue Bonds (\$50,475,000) dated April 1, 2010, with an average interest rate of 4.80%, the City executed a current refunding of the \$11,000,000 of Series 2009A Revenue Bonds. The 2009A Bonds had a variable interest rate equal to 30-day LIBOR plus 180 basis points. By executing the refunding the City shortened the maturity of this financing from 2028 to 2023 and eliminated the variable rate interest risk associated with the 2009A Bonds. The 2009A Revenue Bonds were paid in full within 90 days of refunding with the bond proceeds in fiscal year 2010 and as a result, the liability had been removed from the utility fund of the City's financials. The City recorded the current refunding for which neither debt service savings or loss, nor economic gain or loss were reported. Although the City may have benefitted or suffered financially as a result of the refunding, the amount can not be calculated by the City because of the variable rate nature of the bond. See the 2010 revenue bond for new debt repayment schedule.

In September 2009, the City issued Series 2009B taxable Revenue Bonds for business-type activities to establish a debt service reserve for covenants from the 2004 Series Bonds. The original amount of the Series 2009B Revenue Bonds was \$6,594,600, secured by a senior lien pledge on net revenues of the water and sewer fund. As part of the 2010B Revenue Bond (\$7,365,000) dated April 1, 2010, with an average interest rate of 6.54%, the City executed a current refunding of the \$6,594,600 Series 2009B Revenue Bonds. The 2009B Bonds had a variable interest rate equal to 30-day LIBOR plus 180 basis points. Through the 2010B financing the City increased the 2029 final maturity of the 2009B Bonds to match the 2034 final maturity of the 2004 Series Bonds, in order to provide a funded Debt Service Reserve Fund to match the 2004 Series Bonds final maturity. Additionally the refunding eliminated the variable rate interest risk associated with the 2009B Bonds. The 2009B Revenue Bonds were paid in full within 90 days of refunding with the bond proceeds in fiscal year 2010 and as a result, the liability had been removed from the utility fund of the City's financials. The City recorded the current refunding for which neither debt service savings or loss, nor economic gain or loss were reported. Although the City may have benefitted or suffered financially as a result of the refunding, the amount can not be calculated by the City because of the variable rate nature of the bond. See the 2010 revenue bond for new debt repayment schedule.

CITY OF MARCO ISLAND, FLORIDA

Notes to Financial Statements - Continued

(3) Detailed Notes on All Funds - Continued

(f) Long Term Liabilities – Continued

In March 2010, the City issued special assessment revenue bonds for business-type activities to pay the costs of the subordinate wastewater improvement project for the Lamplighter District. The original amount of the revenue bonds was not to exceed \$1,400,000 and is secured by capacity assessments on individual properties within the District. The bonds have varying amounts of principal maturing each year ranging from \$53,585 to \$110,772. The interest rate on the bonds is fixed at 5.07 percent. As of September 30, 2010, \$1,400,000 was outstanding. Annual debt service requirements for the revenue bonds are as follows:

<u>Fiscal Year</u>		<u>Principal</u>	<u>Interest</u>
2011	\$	53,585	70,600
2012		47,270	68,189
2013		49,517	65,519
2014		52,245	62,904
2015		54,931	60,150
2016-2020		319,851	254,520
2021-2025		410,920	160,896
2026-2029		411,681	43,751
Total	\$	<u>1,400,000</u>	<u>786,529</u>

In March 2010, the City issued special assessment revenue bonds for business-type activities to pay the costs of the subordinate wastewater improvement project for the Sheffield District. The original amount of the revenue bonds was not to exceed \$1,850,000 and is secured by capacity assessments on individual properties within the District. The bonds have varying amounts of principal maturing each year ranging from \$70,809 to \$146,377. The interest rate on the bonds is fixed at 5.07 percent. As of September 30, 2010, \$1,850,000 was outstanding. Annual debt service requirements for the revenue bonds are as follows:

<u>Fiscal Year</u>		<u>Principal</u>	<u>Interest</u>
2011	\$	70,809	93,293
2012		62,464	90,107
2013		65,433	86,579
2014		69,039	83,124
2015		72,587	79,484
2016-2020		422,659	336,330
2021-2025		543,002	212,613
2026-2029		544,007	57,813
Total	\$	<u>1,850,000</u>	<u>1,039,343</u>

CITY OF MARCO ISLAND, FLORIDA

Notes to Financial Statements - Continued

(3) Detailed Notes on All Funds - Continued

(f) Long Term Liabilities – Continued

In April 2010, the City issued revenue bonds for business-type activities to: (1) finance or reimburse the costs of construction of planned system improvements, (2) currently refund the System’s series 2009A bonds, and (3) fund a deposit to the 2010A reserve fund. The new bonds were issued on a parity with the system revenue bonds series 2003, 2006, and 2008 bonds. The original amount of the revenue bonds was \$50,475,000 with a discount of \$151,586. The revenue bonds are comprised of serial and term bonds of which \$18,265,000 is a 15 year serial bond, \$6,460,000 is a term bond due October 1, 2029 yielding 4.87 percent interest, \$10,020,000 is a term bond due October 1, 2034 yielding 5.03 percent interest, and \$15,730,000 is a term bond due October 1, 2040 yielding 5.10 percent interest. The 15-year serial bonds are issued with varying amounts of principal maturing each year from \$955,000 to \$1,440,000. Interest rates on the bonds vary from 2.5 percent to 5 percent. The bonds are secured by pledged revenues which consist of a senior lien pledge on net revenues of the water and sewer fund and any water and sewer capital facility fees. As of September 30, 2010, \$50,475,000 of the principal was outstanding. Annual debt service requirements for the revenue bonds are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>
2011	\$ -	1,151,650
2012	955,000	2,303,300
2013	980,000	2,279,425
2014	1,000,000	2,254,925
2015	1,050,000	2,204,925
2016-2020	5,865,000	10,429,074
2021-2025	6,975,000	9,158,464
2026-2030	7,900,000	7,592,287
2031-2035	10,020,000	5,484,750
2036-2040	12,780,000	2,716,250
2041	2,950,000	147,500
Total	\$ <u>50,475,000</u>	<u>45,722,550</u>

CITY OF MARCO ISLAND, FLORIDA

Notes to Financial Statements - Continued

(3) Detailed Notes on All Funds - Continued

(f) Long Term Liabilities – Continued

In April 2010, the City issued taxable revenue bonds for business-type activities to: (1) currently refund the System’s taxable series 2009B bond and (2) fund a deposit to the reserve fund. The new bonds were issued on a parity with the system revenue series 2003, 2006, and 2008 bonds. The original amount of the revenue bonds was \$7,365,000, of which \$2,075,000 is a 10 year serial bond and \$5,290,000 is a term bond due October 1, 2033 yielding 6.79 percent interest. The 10-year serial bonds are issued with varying amounts of principal maturing each year from \$175,000 to \$250,000. Interest rates on the bonds vary from 2.05 percent to 5.35 percent. The bonds are secured by pledged revenues which consist of a senior lien pledge on net revenues of the water and sewer fund and any water and sewer capital facility fees. As of September 30, 2010, \$7,365,000 of the principal was outstanding. Annual debt service requirements for the revenue bonds are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>
2011	\$ -	223,583
2012	175,000	447,165
2013	180,000	443,569
2014	185,000	438,790
2015	190,000	432,742
2016-2020	1,095,000	2,032,983
2021-2025	1,430,000	1,696,927
2026-2030	1,980,000	1,144,788
2031-2034	2,130,000	373,670
Total	\$ 7,365,000	7,234,217

In April 2010, the City issued a revenue note for business-type activities to pay the costs of the subordinate wastewater improvement project (year 5). The original amount of the revenue note was not to exceed \$5,955,000, and is secured by a second lien pledge on net revenues and capital facility fees of the water and sewer fund with a back-up covenant to budget and appropriate. The note requires principal payment in full on April 6, 2013. The interest rate on the note is variable equal to the sum of 63.7% of the 30-day London Interbank Offered Rate (“LIBOR Rate”) as evidenced in The Wall Street Journal, plus 235 basis points (2.35%) and the interest on the note on September 30, 2010, was 2.51%. As of September 30, 2010, \$4,460,000 was outstanding. Annual debt service requirements for the revenue bonds are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>
2011	\$ -	111,946
2012	-	111,946
2013	4,460,000	27,986
Total	\$ 4,460,000	251,878

CITY OF MARCO ISLAND, FLORIDA

Notes to Financial Statements - Continued

(3) Detailed Notes on All Funds - Continued

(g) Discretely Presented Component Unit

Long-term liability activity for Hideaway for the year ended September 30, 2009, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>(Reductions)</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
General obligation bonds	\$ 1,060,000	-	(520,000)	540,000	540,000

In February 2005, Hideaway issued general obligation bonds for the re-nourishment of Hideaway Beach. The original amount of the general obligation bonds was \$2,900,000 and is secured by ad valorem tax revenue assessed to Hideaway Beach Tax District. The bonds are issued as 7-year serial bonds with varying amounts of principal maturing each year from \$240,000 to \$520,000. The interest rate on the bonds is 2.89 percent. As of September 30, 2010, \$540,000 of the principal was outstanding. Annual debt service requirements for the general obligation bonds are as follows:

	<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>
	2011	\$ 540,000	7,950
	Total	\$ 540,000	7,950

(h) Wastewater Pollution Control Facility Assessment

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

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

CITY OF MARCO ISLAND, FLORIDA

Notes to Financial Statements - Continued

(3) Detailed Notes on All Funds - Continued

(h) Wastewater Pollution Control Facility Assessment - Continued

Costs related to each project will be accumulated and paid as each project progresses. Property owners will not be assessed until the project is completed, that is, when the assessment becomes legal, unless the property owner chooses 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 property tax bill with interest at 5.57%. Payment is due in full upon sale or transfer of the property; or
- (3) Defer principal and interest at 5.9% for 20 years. Similarly, payment is due in full upon sale of the property.

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

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

Assessments receivable and assessments interest receivable have been recognized in the water and sewer fund's statement of net assets in relation to property owners paying on the payment terms outlined above. The current portion of the assessment receivable relates to the portion of payment option 2 above which will be received in the 2011 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 that 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 worn on private property. Prior to October 1, 2010, if the City contractor is used, then each property owner is charged the actual cost of construction and abandonment. This charge will appear on the property owners' utility bill and is expected to be approximately \$2,000. This fee will be paid directly to the contractors who provide the service after collection is made. The fees collected by the City are reported net of payments to contractors as miscellaneous expense on the water and sewer fund's statement of revenues, expenses, and changes in fund net assets.

CITY OF MARCO ISLAND, FLORIDA

Notes to Financial Statements - Continued

(4) **Other Information**

(a) **Risk Management**

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

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

Prior to October 1, 2004, the City was insured against these losses with a commercial insurance agreement with the Florida League of Cities, Inc, under a retrospectively rated policy. Premiums were accrued based upon the ultimate cost-to-date of the City's experience for each type of risk. The City entered into an agreement with an insurance administrator to reduce the potential for significant risk. The agreement has a deductible per claim of \$350,000 for workers' compensation, \$250,000 for crime and theft liability, and \$100,000 for the other risk types. Additionally, the agreement has a stop-loss policy which caps the aggregate annual loss for the City at \$500,000. Settlements have not exceeded coverage for each of the past four years.

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

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

Estimated unpaid claims, October 1, 2008	\$	243,146
Incurred claims (including IBNRs)		1,339,306
Claim payments		<u>(927,171)</u>
Estimated unpaid claims, September 30, 2009		655,281
Incurred claims (including IBNRs)		1,512,029
Claim payments		<u>(1,326,917)</u>
Estimated unpaid claims, September 30, 2010	\$	<u><u>840,393</u></u>

CITY OF MARCO ISLAND, FLORIDA

Notes to Financial Statements - Continued

(4) Other Information – Continued

(b) Contingent Liabilities

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

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

(c) Commitments

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

<u>Project</u>	<u>Contractor</u>	<u>Expended as of 9/30/2010</u>	<u>Remaining Commitment</u>
Swallow Drive	Bonness, Inc.	\$ 206,766	131,658
Smokehouse Bay Bridge Repairs	Ty Lin International	243,022	339,647
Linear Park Trail	Mitchell & Stark	1,457	369,802
N Plant Water Pressure Filters	Pall Corporation	174,536	776,790
WWTP: Design/Building MBNR	Camp, Dresser & McKee, Inc.	22,779,034	274,617
Renewal & Replacement - Water	Mader Electric	622,490	245,979
STRP Roadway Re-surfacing	Mitchell & Stark Const. Co., Inc.	5,781,481	472,915
Finished Water Storage	CH2M Hill, Inc.	6,949,159	180,912
S Plant Water Storage	The Crom Corporation	1,251,721	1,115,451
Water Pipe Upgrade	ADJ Excavating	210,801	338,458
Re-Use Odor Control	G&G Industries, Inc.	26,509	1,065,083
Wastewater Plant Upgrades	Camp, Dresser & McKee, Inc.	6,028,356	160,836
Filter Upgrade	Cardinal Contractors	219,867	122,451
N Plant Water Pressure Filters	Pall Corporation	-	1,484,000
Emergency Repairs	Cardinal Contractors	675,728	3,925,072
Upgrade Gravity Sewer	Insituform Technologies	1,144,828	328,410
Gulfport Sewer District	Mitchell & Stark Const. Co., Inc.	1,472,090	1,920,170
E Winterberry N Sewer District	Mitchell & Stark Const. Co., Inc.	1,038,179	510,103
Estates Sewer District	AECOM USA, Inc.	1,530,326	360,458
E Winterberry S Sewer District	Mitchell & Stark Const. Co., Inc.	2,073,293	537,497
		<u>\$ 52,429,643</u>	<u>14,660,309</u>

CITY OF MARCO ISLAND, FLORIDA

Notes to Financial Statements - Continued

(4) Other Information – Continued

(d) Employee Retirement Systems and Pensions Plans

The City of Marco Island Firefighters' Pension Plan

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

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

As of October 1, 2009, (date of the latest annual actuarial valuation), employee membership data related to the Plan were:

Retirees and beneficiaries currently receiving benefits	-
Terminated employees entitled to benefits, but not receiving them	-
Retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits, but not yet receiving them	-
Active plan participants	
Vested	8
Non-vested	14
Total active plan participants	22
Vested terminated members	-

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

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

CITY OF MARCO ISLAND, FLORIDA

Notes to Financial Statements - Continued

(4) Other Information – Continued

(d) Employee Retirement Systems and Pensions Plans - Continued

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

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

The cost of administering the Plan is financed by contributions made to the Plan.

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

Funding Policy: Participants in the Plan, are required to pay 1% of their compensation to the Plan, however, the City has been funding this on the participant's behalf. 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, with the exception of fiscal year 2010. This year's actuarial valuation has not been completed prior to issuance of this financial report, therefore last years valuations have been used. Contributions for the fiscal year ended September 30, 2010, were based on actuarial computations performed for 2009, in the actuarial report dated October 1, 2009.

For the year ended September 30, 2010, the total annually required contribution amount was \$427,810 with the anticipated state contribution of \$73,936. Accordingly, the total required employer contribution made during 2010 was \$353,874.

CITY OF MARCO ISLAND, FLORIDA

Notes to Financial Statements - Continued

(4) Other Information – Continued

(d) Employee Retirement Systems and Pensions Plans - Continued

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

Three Year Trend Information

<u>Fiscal Year Ended</u> <u>September 30,</u>	<u>Annual Pension</u> <u>Cost (APC)</u>	<u>Percentage of APC</u> <u>Contributed</u>	<u>Net Pension</u> <u>Obligation</u>
2008	\$ 208,651	99.5%	(245,818)
2009	303,687	99.7%	(244,869)
2010	428,755	99.8%	(243,924)

Changes in the Fire Pension Plan for fiscal 2009 are as follows:

Annual required contribution	\$ 427,810
Interest on net pension asset/obligation	(19,590)
Adjustment to annual required contribution	<u>20,535</u>
Annual pension cost	428,755
Contributions made	<u>427,810</u>
Decrease in net pension asset	945
Net pension asset at beginning of the year	<u>(244,869)</u>
Net pension asset at end of year	<u><u>\$ (243,924)</u></u>

CITY OF MARCO ISLAND, FLORIDA

Notes to Financial Statements - Continued

(4) Other Information – Continued

(d) Employee Retirement Systems and Pensions Plans - Continued

Funded Status and Funding Progress: The schedule below shows the balance of the actuarial accrued liability (AAL), all of which was unfunded as of September 30, 2009:

<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%

* The City has opted for biennial actuarial valuations. Consequently there was no valuation done on 10/1/2010.

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.

The eligible compensation base for the benefit calculation purposes that has been used since the inception of the Plan in 2005 is under review. True up as of September 30, 2010 has not been completed to date. Based on estimated calculations, it does not appear that the correction will materially change the City of Marco Island’s pension balances and the September 30, 2010 balance does not appear to be materially misstated.

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

As of October 1, 2009, (date of the annual actuarial valuation), employee membership data related to the Plan were:

Retirees and beneficiaries currently receiving benefits	-
Terminated employees entitled to benefits, but not receiving them	-
Retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits, but not yet receiving them	-
Active plan participants	
Vested	-
Non-vested	30
Total active plan participants	30
Vested (full or partial) terminated members	-

CITY OF MARCO ISLAND, FLORIDA

Notes to Financial Statements - Continued

(4) Other Information – Continued

(d) Employee Retirement Systems and Pensions Plans – Continued

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

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

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

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

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

The cost of administering the Plan is financed by contributions made to the Plan.

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

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

CITY OF MARCO ISLAND, FLORIDA

Notes to Financial Statements - Continued

(4) Other Information – Continued

(d) Employee Retirement Systems and Pensions Plans - Continued

The City makes periodic contributions totaling 100% of the actuarially determined amount (after state contributions) annually to the Plan. Florida Statutes Section 185 requires that an actuarial valuation of the Plan be completed at least once every three years. Since Plan establishment, the Pension Board has had actuarial valuations completed on an annual basis, with the exception of fiscal year 2010. This year’s actuarial valuation has not been completed prior to issuance of this financial report, therefore last years valuations have been used. Contributions for the fiscal year ended September 30, 2010, were based on actuarial computations determined as of October 1, 2009.

For the year ended September 30, 2010, the annually required contribution amount was \$655,983 with the anticipated state contribution of \$95,758. Accordingly, the required employer contribution for 2010 was \$560,225.

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

Three Year Trend Information

<u>Fiscal Year Ended September 30,</u>	<u>Actuarially Determined Contribution</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
2008	\$ 351,644	106.0%	(22,725)
2009	450,064	99.7%	(21,298)
2010	655,983	100.0%	(21,298)

Changes in the Police Pension Plan for fiscal 2010 are as follows:

Annual required contribution	\$ 655,983
Interest on net pension asset/obligation	-
Adjustment to annual required contribution	-
	655,983
Annual pension cost	655,983
Contributions made	655,983
	-
Increase in net pension asset	-
Net pension asset at beginning of the year	(21,298)
	(21,298)
Net pension asset at end of year	\$ (21,298)

CITY OF MARCO ISLAND, FLORIDA

Notes to Financial Statements - Continued

(4) Other Information – Continued

(d) Employee Retirement Systems and Pensions Plans - Continued

Funded Status and Funding Progress: The schedule below shows the balance of the actuarial accrued liability (AAL), all of which was unfunded as of September 30, 2010:

<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	\$ 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%

* The City has opted for biennial actuarial valuations. Consequently there was no valuation done on 10/1/2010.

The combining statement of fiduciary net assets for the pension trust funds as of September 30, 2010 is as follows:

	<u>Fire Pension</u>	<u>Police Pension</u>	<u>Total Pension Trust Funds</u>
Assets			
Cash and cash equivalents	\$ 258,372	249,812	508,184
Due from other governments	120,930	-	120,930
Contributions receivable	-	32,454	32,454
Investments, at fair value:			
Common stock	3,001,035	1,600,024	4,601,059
Government bonds	1,844,074	990,714	2,834,788
Accrued interest	10,792	5,820	16,612
Total Assets	<u>5,235,203</u>	<u>2,878,824</u>	<u>8,114,027</u>
Liabilities			
Due to other governments	2,324	-	2,324
Accounts payable	-	1,641	1,641
Total Liabilities	<u>2,324</u>	<u>1,641</u>	<u>3,965</u>
Net Assets			
Held in trust for pension benefits	\$ <u>5,232,879</u>	<u>2,877,183</u>	<u>8,110,062</u>

CITY OF MARCO ISLAND, FLORIDA

Notes to Financial Statements - Continued

(4) Other Information - Continued

(d) Employee Retirement Systems and Pensions Plans - Continued

The combining statement of changes in fiduciary net assets for the pension trust funds as of September 30, 2010 is as follows:

	<u>Fire Pension</u>	<u>Police Pension</u>	<u>Total Pension Trust Funds</u>
Additions			
Contributions			
Employer	\$ 353,874	560,225	914,099
Employee	12,106	105,760	117,866
State of Florida insurance funds	366,394	102,822	469,216
Total contributions	<u>732,374</u>	<u>768,807</u>	<u>1,501,181</u>
Investment earnings			
Investment interest and dividends	132,817	71,824	204,641
Investment appreciation	331,235	133,019	464,254
Investment expenses	(43,785)	(23,333)	(67,118)
Net investment earnings	<u>420,267</u>	<u>181,510</u>	<u>601,777</u>
Total Additions	<u>1,152,641</u>	<u>950,317</u>	<u>2,102,958</u>
Deductions			
Legal	8,080	9,228	17,308
Actuary	9,438	6,851	16,289
Administrative	800	1,271	2,071
Refunds to contributors	78,850	10,060	88,910
Total Deductions	<u>97,168</u>	<u>27,410</u>	<u>124,578</u>
Change in Net Assets	1,055,473	922,907	1,978,380
Fund Balances - October 1, 2009	<u>4,177,406</u>	<u>1,954,276</u>	<u>6,131,682</u>
Fund Balances - September 30, 2010	<u>\$ 5,232,879</u>	<u>2,877,183</u>	<u>8,110,062</u>

The Florida Retirement System Plan, Firefighters

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

CITY OF MARCO ISLAND, FLORIDA

Notes to Financial Statements - Continued

(4) Other Information - Continued

(d) Employee Retirement Systems and Pensions Plans - Continued

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

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

Funding Policy: The contribution requirements of the system members and the City are established and may be amended by the State. Plan members are not required to make contributions to the System. The City's contributions to the System for the years ended September 30, 2010, 2009 and 2008, were \$237,639, \$245,512, and \$251,451, respectively; and were equal to the required contributions for each year.

(e) City Employee Pension Plan

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

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

CITY OF MARCO ISLAND, FLORIDA

Notes to Financial Statements - Continued

(4) **Other Information - Continued**

(f) **Other Post-Employment Benefits**

During fiscal year 2009, the City implemented GASB No. 45, Accounting and Financial Reporting by Employers for Post Employment Benefits Other than Pensions, for certain postemployment health care benefits provided by the City. The requirements of this Statement were implemented prospectively, with the actuarially determined liability at the October 1, 2009 date of transition being amortized over 30 years. As of October 1, 2010 the City has an actuarially determined liability of \$592,223. Accordingly, for financial reporting purposes, this liability for the postemployment health care benefits liability is not reported in the financial statements for the City. The Plan does not prepare separate financial statements.

Plan Description: The City administers a single-employer defined benefit healthcare plan that provides medical and dental coverage to retirees as well as their eligible spouses. Benefits are provided through the City's group health insurance plan, which covers both active and retired members. All City employees, with the exception of firefighters and sworn police officers, may retire after reaching the age of 62 and with five or more years of service. Firefighters and sworn police officers may retire at age 55 and with 6 years of service or upon accumulating twenty-five years of service with the City, regardless of age. Service-incurred disabled employees retire immediately; while non-service incurred disabled employees retire upon completion of 8 years of service.

Number of Covered Participants:

Actives	196
Retirees	5
Eligible Spouses	<u>2</u>
Total	<u><u>203</u></u>

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

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

CITY OF MARCO ISLAND, FLORIDA

Notes to Financial Statements - Continued

(4) Other Information - Continued

(f) Other Post-Employment Benefits - Continued

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

	<u>Utilities</u>	<u>All Other Employees</u>
Valuation Date	<u>10/1/2009</u>	<u>10/1/2009</u>
Applicable for Fiscal Year Ending	<u>9/30/2010</u>	<u>9/30/2010</u>
Annual Required Contribution	\$ 38,160	100,661
Interest on Net OPEB Obligation	1,794	3,906
Adjustment to Annual Required Contribution	<u>(2,223)</u>	<u>(4,840)</u>
Annual OPEB Cost/(Expense)	37,731	99,727
Net Contributions Made	<u>(972)</u>	<u>(22,816)</u>
Increase/(Decrease) in Net OPEB Obligation	36,759	76,911
Net OPEB Obligation- Beginning of Year	<u>35,889</u>	<u>78,121</u>
Net OPEB Obligation- End of Year	\$ <u><u>72,648</u></u>	\$ <u><u>155,032</u></u>

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

<u>Year Ending</u>	<u>Annual OPEB Cost</u>	<u>Percentage of OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
9/30/2010	\$ 37,371	2.6%	72,648
9/30/2009	39,395	8.9%	35,889
9/30/2008	N/A	N/A	N/A

All Other Employees:

<u>Year Ending</u>	<u>Annual OPEB Cost</u>	<u>Percentage of OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
9/30/2010	\$ 99,727	22.9%	155,032
9/30/2009	89,830	13.0%	78,121
9/30/2008	N/A	N/A	N/A

CITY OF MARCO ISLAND, FLORIDA

Notes to Financial Statements - Continued

(4) Other Information - Continued

(f) Other Post-Employment Benefits - Continued

Funded Status and Funding Progress: The schedule below shows the balance of the actuarial accrued liability (AAL), all of which was unfunded as of September 30, 2010:

Schedule of Funding Progress

Utilities Employees:

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Accrued Liability (AAL) Unit Credit (b)</u>	<u>Unfunded AAL (UAAL) (b-a)</u>	<u>Funded Ratio (a/b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as % of Covered Payroll ((b-a)/c)</u>
10/1/2009	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%
10/1/2007	N/A	N/A	N/A	N/A	N/A	N/A

All Other Employees:

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Accrued Liability (AAL) Unit Credit (b)</u>	<u>Unfunded AAL (UAAL) (b-a)</u>	<u>Funded Ratio (a/b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as % of Covered Payroll ((b-a)/c)</u>
10/1/2009	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%
10/1/2007	N/A	N/A	N/A	N/A	N/A	N/A

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 2013); (c) post-Medicaid healthcare inflation of 8% (grading down to 5% in 2013). The actuarial accrued liability is being amortized as a level percentage of payroll over thirty years (closed basis).

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

The actuarial cost method used in the valuation to determine the Actuarial Accrued Liability (AAL) and the Actuarial Required Contribution (ARC) was the Projected Unit Credit Method with service prorated.

CITY OF MARCO ISLAND, FLORIDA

Notes to Financial Statements - Continued

(4) Other Information - Continued

(f) Other Post-Employment Benefits - Continued

Under this method, the total present value of benefits is determined by projecting the benefit to be paid after the expected retirement date (or other event) and discounting those amounts to the valuation date. The normal cost is computed by dividing the total present value of benefits by the participant's total service (actual plus expected service) at retirement. The AAL under this method represents the total present value of benefits multiplied by the ratio of the participant's actual service to date and divided by expected service at retirement. The AAL for participants currently receiving payments and deferred vested participants is calculated as the actuarial present value of future benefits expected to be paid. No normal cost for these participants is payable. The AAL and normal costs were calculated at the measurement date, which is the beginning of the applicable fiscal year using standard actuarial techniques.

(g) Subsequent Events

Long-Term Liabilities

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

During fall 2010, the City Council modified the budget and intends to pay the remaining balance in the 2000 General Obligation debt in full.

**REQUIRED SUPPLEMENTARY
INFORMATION**

CITY OF MARCO ISLAND, FLORIDA

Pension Trust Funds

**Schedule of Funding Progress
Firefighters' 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
10/1/1997	\$ 53,383	41,289	(12,094)	129.3%	164,716	-7.3%
10/1/2000	364,049	105,398	(258,651)	345.4%	90,046	-287.2%
10/1/2002	331,733	248,387	(83,346)	133.6%	365,065	-22.8%
10/1/2004	684,654	523,963	(160,691)	130.7%	528,346	-30.4%
10/1/2006	1,142,686	998,736	(143,950)	114.4%	812,703	-17.7%
10/1/2007	1,629,498	1,448,921	(180,577)	112.5%	977,418	-18.5%
10/1/2008	1,386,519	1,917,711	531,192	72.3%	1,154,776	46.0%
10/1/2009*	1,914,130	2,335,981	421,851	81.9%	1,336,355	31.6%

* The City has opted for biennial actuarial valuations. Consequently there was no valuation done on 10/1/2010.

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>
9/30/2002	\$ 15,306	-	73,936	483.1%
9/30/2003	91,217	17,281	73,936	100.0%
9/30/2004	91,217	17,281	73,936	100.0%
9/30/2005	124,866	50,930	73,936	100.0%
9/30/2006	126,510	52,574	73,936	100.0%
9/30/2007	195,928	151,300	73,936	115.0%
9/30/2008	207,699	133,763	73,936	100.0%
9/30/2009	302,738	228,802	73,936	100.0%
9/30/2010	427,810	353,874	73,936	100.0%

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
10/1/2005	\$ -	1,722,719	1,722,719	0.0%	1,459,781	118.0%
10/1/2006	375,400	2,799,941	2,424,541	13.4%	1,702,158	142.4%
10/1/2007	792,685	3,686,865	2,894,180	21.5%	1,844,318	156.9%
10/1/2008	1,363,977	4,977,447	3,613,470	27.4%	2,010,512	179.7%
10/1/2009*	2,077,907	6,078,152	4,000,245	34.2%	2,024,908	197.6%

* The City has opted for biennial actuarial valuations. Consequently there was no valuation done on 10/1/2010.

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>
9/30/2006	\$	312,780	257,999	54,781	100.0%
9/30/2007		322,163	229,970	92,193	100.0%
9/30/2008		447,402	374,369	95,758	105.1%
9/30/2009		549,632	450,064	99,568	100.0%
9/30/2010		655,983	560,225	95,758	100.0%

CITY OF MARCO ISLAND, FLORIDA

General Fund

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

For the Year Ended September 30, 2010

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Taxes:				
Ad valorem taxes	\$ 14,641,057	14,641,057	14,796,214	155,157
Other taxes	1,799,585	1,925,515	2,233,034	307,519
Licenses and permits	6,500	6,500	11,580	5,080
Intergovernmental	1,972,015	1,972,015	2,067,382	95,367
Charges for services	192,000	192,000	314,391	122,391
Fines and forfeitures	193,000	193,000	351,497	158,497
Interest income	350,000	350,000	180,460	(169,540)
Miscellaneous	15,000	15,000	174,307	159,307
Total Revenues	<u>19,169,157</u>	<u>19,295,087</u>	<u>20,128,865</u>	<u>833,778</u>
Expenditures				
Current:				
General government:				
Legislative	67,960	67,960	66,228	1,732
Executive	690,635	875,635	873,868	1,767
Finance	1,445,662	1,445,662	1,397,154	48,508
Legal	400,000	400,000	397,977	2,023
Community development	624,614	638,614	637,728	886
Other - unclassified	144,575	1,127,224	924,400	202,824
Total general government	<u>3,373,446</u>	<u>4,555,095</u>	<u>4,297,355</u>	<u>257,740</u>
Public safety:				
Police services	4,398,503	4,013,003	3,858,373	154,630
Fire and rescue	4,678,035	4,981,863	5,039,364	(57,501)
Code compliance	282,175	288,175	282,859	5,316
Total public safety	<u>9,358,713</u>	<u>9,283,041</u>	<u>9,180,596</u>	<u>102,445</u>
Highways and streets	1,644,120	1,434,120	1,358,546	75,574
Culture and recreation:				
Parks maintenance	619,925	636,525	632,230	4,295
Recreation administration	781,545	615,245	615,004	241
Beautification	800,947	700,647	632,380	68,267
Total culture and recreation	<u>2,202,417</u>	<u>1,952,417</u>	<u>1,879,614</u>	<u>72,803</u>
Total Expenditures	<u>16,578,696</u>	<u>17,224,673</u>	<u>16,716,111</u>	<u>508,562</u>
Excess of Revenues Over Expenditures	<u>2,590,461</u>	<u>2,070,414</u>	<u>3,412,754</u>	<u>1,342,340</u>
Other Financing Sources (Uses)				
Transfers in	1,518,062	3,421,843	858,573	(2,563,270)
Transfers out	(4,108,523)	(5,492,257)	(5,188,013)	304,244
Total Other Financing Sources (Uses)	<u>(2,590,461)</u>	<u>(2,070,414)</u>	<u>(4,329,440)</u>	<u>(2,259,026)</u>
Net Change in Fund Balance	-	-	(916,686)	(916,686)
Fund Balances -October 1, 2009	<u>13,225,690</u>	<u>13,225,690</u>	<u>13,225,690</u>	
Fund Balances - September 30, 2010	<u>\$ 13,225,690</u>	<u>13,225,690</u>	<u>12,309,004</u>	<u>(916,686)</u>

NOTES TO BUDGETARY COMPARISON SCHEDULE

NOTE 1. BUDGETS AND BUDGETARY ACCOUNTING

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

1. Prior to September 1, the City Manager submits to the City Council a budget estimate of the revenues and expenditures for all City departments and divisions for the fiscal year commencing the following October 1.
2. Upon receipt of the annual budget estimates, the City Council holds various budget workshops to review and amend the proposed budget.
3. Public hearings are held to obtain taxpayers' comments.
4. Prior to October 1, the budget is legally enacted through passage of an ordinance.
5. No department may legally expend or contract to expend amounts in excess of amounts appropriated for any department within an individual fund. Budget appropriations lapse at year end; however, the Finance Director, through the City Manager, is authorized to reserve at the beginning of the year the unpaid purchase orders, outstanding contracts, and other commitments from the prior year.
6. The adopted budget may be amended as follows:
 - a) The City Manager can approve line item adjustments within a department. 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 a 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 \$2,029,711 of supplemental appropriations in the general fund during the year ended September 30, 2010. This includes \$1,383,459 to establish an asset replacement reserve contribution as part of the budget process.
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, 2010, fire department expenditures exceeded appropriations by \$57,500. This amount was directly attributed to fire equipment and training expense that will be reimbursed from a Homeland Security 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.

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

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

Debt Service Fund

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

CITY OF MARCO ISLAND, FLORIDA

Combining Balance Sheet

Nonmajor Governmental Funds

September 30, 2010

	<u>Special Revenue Funds</u>			
	<u>Emergency Relief</u>	<u>Building Services</u>	<u>Debt Service</u>	<u>Nonmajor Fund Totals</u>
Assets				
Pooled cash and investments	\$ -	1,247,678	1,386,572	2,634,250
Restricted cash and investments	-	-	548,160	548,160
Accounts receivable, net	-	-	122	122
Due from other governments	12,562	-	-	12,562
Total Assets	<u>\$ 12,562</u>	<u>1,247,678</u>	<u>1,934,854</u>	<u>3,195,094</u>
Liabilities and Fund Balances				
Liabilities				
Accounts payable	\$ -	26,330	-	26,330
Accrued liabilities	-	31,002	-	31,002
Due to other funds	-	-	-	-
Total Liabilities	<u>-</u>	<u>57,332</u>	<u>-</u>	<u>57,332</u>
Fund Balances				
Reserved for debt service	-	-	1,934,854	1,934,854
Unreserved, designated	12,562	1,190,346	-	1,202,908
Total Fund Balances	<u>12,562</u>	<u>1,190,346</u>	<u>1,934,854</u>	<u>3,137,762</u>
Total Liabilities and Fund Balances	<u>\$ 12,562</u>	<u>1,247,678</u>	<u>1,934,854</u>	<u>3,195,094</u>

CITY OF MARCO ISLAND, FLORIDA

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

Nonmajor Governmental Funds

For the Year Ended September 30, 2010

	<u>Special Revenue Funds</u>			<u>Nonmajor Fund Totals</u>
	<u>Emergency Relief</u>	<u>Building Services</u>	<u>Debt Service</u>	
Revenues				
Taxes	\$ -	-	854,062	854,062
Licenses and permits	-	895,004	-	895,004
Interest	-	20,152	-	20,152
Miscellaneous	38,612	8,247	-	46,859
Total Revenues	<u>38,612</u>	<u>923,403</u>	<u>854,062</u>	<u>1,816,077</u>
Expenditures				
Current:				
General government	120,928	-	-	120,928
Transportation	-	-	-	-
Building services	-	1,139,165	-	1,139,165
Debt Service:				
Principal	-	-	2,100,575	2,100,575
Interest and fiscal charges	-	-	517,849	517,849
Total Expenditures	<u>120,928</u>	<u>1,139,165</u>	<u>2,618,424</u>	<u>3,878,517</u>
Excess (Deficiency) of Revenues Over (Under)Expenditures	<u>(82,316)</u>	<u>(215,762)</u>	<u>(1,764,362)</u>	<u>(2,062,440)</u>
Other Financing Sources				
Transfers in	94,878	-	1,803,461	1,898,339
Transfers out	-	-	-	-
Total Other Financing Sources (Uses)	<u>94,878</u>	<u>-</u>	<u>1,803,461</u>	<u>1,898,339</u>
Net Change in Fund Balances	12,562	(215,762)	39,099	(164,101)
Fund Balances -October 1, 2009	<u>-</u>	<u>1,406,108</u>	<u>1,895,755</u>	<u>3,301,863</u>
Fund Balances - September 30, 2010	<u>\$ 12,562</u>	<u>1,190,346</u>	<u>1,934,854</u>	<u>3,137,762</u>

CITY OF MARCO ISLAND, FLORIDA

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

For the Year Ended September 30, 2010

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Intergovernmental	\$ 1,475,000	2,668,467	1,884,209	(784,258)
Miscellaneous	-	-	220,312	220,312
Total Revenues	<u>1,475,000</u>	<u>2,668,467</u>	<u>2,104,521</u>	<u>(563,946)</u>
Expenditures				
Capital outlay	<u>2,887,000</u>	<u>10,273,161</u>	<u>4,535,622</u>	<u>5,737,539</u>
Total Expenditures	<u>2,887,000</u>	<u>10,273,161</u>	<u>4,535,622</u>	<u>5,737,539</u>
Excess (Deficiency) of Revenues Over (Under)Expenditures	<u>(1,412,000)</u>	<u>(7,604,694)</u>	<u>(2,431,101)</u>	<u>5,173,593</u>
Other Financing Sources (Uses)				
Transfers in	2,412,000	8,604,694	4,289,674	(4,315,020)
Transfers out	<u>(1,000,000)</u>	<u>(1,000,000)</u>	<u>(1,858,573)</u>	<u>(858,573)</u>
Total Other Financing Sources (Uses)	<u>1,412,000</u>	<u>7,604,694</u>	<u>2,431,101</u>	<u>(5,173,593)</u>
Net Change in Fund Balances	-	-	-	<u>-</u>
Fund Balances -October 1, 2009	-	-	-	
Fund Balances - September 30, 2010	<u>\$ -</u>	<u>-</u>	<u>-</u>	

CITY OF MARCO ISLAND, FLORIDA

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

For the Year Ended September 30, 2010

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Licenses and permits	\$ 640,000	640,000	895,004	255,004
Interest	30,000	30,000	20,152	(9,848)
Miscellaneous	-	-	8,247	8,247
Total Revenues	<u>670,000</u>	<u>670,000</u>	<u>923,403</u>	<u>253,403</u>
Expenditures				
Current:				
Building services:				
Personal services	648,850	638,350	605,886	32,464
Operating expenses	505,568	505,568	494,126	11,442
Total Expenditures	<u>1,154,418</u>	<u>1,143,918</u>	<u>1,100,012</u>	<u>43,906</u>
Capital Outlay	<u>-</u>	<u>90,506</u>	<u>39,153</u>	<u>51,353</u>
Other Financing Sources (Uses)				
Use of reserves	484,418	564,424	-	(564,424)
Total Other Financing Sources (Uses)	<u>484,418</u>	<u>564,424</u>	<u>-</u>	<u>(564,424)</u>
Excess (Deficiency) of Revenues Over (Under)Expenditures	-	-	(215,762)	<u>(215,762)</u>
Fund Balances -October 1, 2009	<u>1,406,108</u>	<u>1,406,108</u>	<u>1,406,108</u>	
Fund Balances - September 30, 2010	<u>\$ 1,406,108</u>	<u>1,406,108</u>	<u>1,190,346</u>	

CITY OF MARCO ISLAND, FLORIDA

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

For the Year Ended September 30, 2010

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 846,189	846,189	854,062	7,873
Total Revenues	<u>846,189</u>	<u>846,189</u>	<u>854,062</u>	<u>7,873</u>
Expenditures				
Debt service:				
Principal	2,100,575	2,100,575	2,100,575	-
Interest and fiscal charges	549,075	549,075	517,849	31,226
Total Expenditures	<u>2,649,650</u>	<u>2,649,650</u>	<u>2,618,424</u>	<u>31,226</u>
Excess (Deficiency) of Revenues Over (Under)Expenditures	<u>(1,803,461)</u>	<u>(1,803,461)</u>	<u>(1,764,362)</u>	<u>39,099</u>
Other Financing Sources (Uses)				
Transfers in	1,803,461	1,803,461	1,803,461	-
Total Other Financing Sources (Uses)	<u>1,803,461</u>	<u>1,803,461</u>	<u>1,803,461</u>	<u>-</u>
Net Change in Fund Balances	-	-	39,099	<u>39,099</u>
Fund Balances -October 1, 2009	<u>1,895,755</u>	<u>1,895,755</u>	<u>1,895,755</u>	
Fund Balances - September 30, 2010	<u>\$ 1,895,755</u>	<u>1,895,755</u>	<u>1,934,854</u>	

CITY OF MARCO ISLAND, FLORIDA

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

For the Year Ended September 30, 2010

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Miscellaneous Income	\$ -	-	38,612	38,612
Total Revenues	-	-	38,612	38,612
Expenditures				
Personnel services	-	-	5,284	(5,284)
Operating expenses	-	42,864	63,631	(20,767)
Miscellaneous	-	52,014	52,014	-
Total Expenditures	-	94,878	120,929	(26,051)
Excess (Deficiency) of Revenues Over (Under)Expenditures	-	(94,878)	(82,317)	12,561
Other Financing Sources (Uses)				
Transfers in		94,878	94,878	-
Total Other Financing Sources (Uses)	-	94,878	94,878	-
Net Change in Fund Balances	-	-	12,561	<u>12,561</u>
Fund Balances -October 1, 2009	-	-	-	
Fund Balances - September 30, 2010	\$ -	-	12,561	

Fiduciary Funds

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

CITY OF MARCO ISLAND, FLORIDA

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

September 30, 2010

	Fire Pension	Police Pension	Total Pension Trust Funds
	<u> </u>	<u> </u>	<u> </u>
Assets			
Cash and cash equivalents	\$ 258,372	249,812	508,184
Due from other governments	120,930	-	120,930
Contributions receivable	-	32,454	32,454
Investments, at fair value:			
Common stock	3,001,035	1,600,024	4,601,059
Government bonds	1,844,074	990,714	2,834,788
Accrued interest	<u>10,792</u>	<u>5,820</u>	<u>16,612</u>
Total Assets	<u>5,235,203</u>	<u>2,878,824</u>	<u>8,114,027</u>
Liabilities			
Due to other governments	2,324	-	2,324
Accounts payable	<u>-</u>	<u>1,641</u>	<u>1,641</u>
Total Liabilities	<u>2,324</u>	<u>1,641</u>	<u>3,965</u>
Net Assets			
Held in trust for pension benefits	<u>\$ 5,232,879</u>	<u>2,877,183</u>	<u>8,110,062</u>

CITY OF MARCO ISLAND, FLORIDA

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

For the Year Ended September 30, 2010

	<u>Fire Pension</u>	<u>Police Pension</u>	<u>Total Pension Trust Funds</u>
Additions			
Contributions			
Employer	\$ 353,874	560,225	914,099
Employee	12,106	105,760	117,866
State of Florida insurance funds	366,394	102,822	469,216
Total contributions	<u>732,374</u>	<u>768,807</u>	<u>1,501,181</u>
Investment earnings			
Investment interest and dividends	132,817	71,824	204,641
Investment appreciation	331,235	133,019	464,254
Investment expenses	(43,785)	(23,333)	(67,118)
Net investment earnings	<u>420,267</u>	<u>181,510</u>	<u>601,777</u>
Total Additions	<u>1,152,641</u>	<u>950,317</u>	<u>2,102,958</u>
Deductions			
Legal	8,080	9,228	17,308
Actuary	9,438	6,851	16,289
Administrative	800	1,271	2,071
Refunds to contributors	78,850	10,060	88,910
Total Deductions	<u>97,168</u>	<u>27,410</u>	<u>124,578</u>
Change in Net Assets	1,055,473	922,907	1,978,380
Fund Balances -October 1, 2009	<u>4,177,406</u>	<u>1,954,276</u>	<u>6,131,682</u>
Fund Balances - September 30, 2010	\$ <u><u>5,232,879</u></u>	<u><u>2,877,183</u></u>	<u><u>8,110,062</u></u>

STATISTICAL SECTION

STATISTICAL SECTION (Unaudited)

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

Financial Trends

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

Revenue Capacity

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

Debt Capacity

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

Demographic and Economic Information

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

Operating Information

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

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

CITY OF MARCO ISLAND, FLORIDA

**Net Assets by Component
(Unaudited)**

**Last Seven Fiscal Years (1)
(accrual basis of accounting)**

	<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	\$ 68,148,861	66,819,967	64,857,666	53,038,873	37,670,845	25,914,490	14,140,148
Restricted	1,158,168	971,144	6,856,789	14,549,105	23,500,743	18,455,208	3,969,046
Unrestricted	<u>14,052,309</u>	<u>15,697,349</u>	<u>8,680,011</u>	<u>7,536,012</u>	<u>6,102,668</u>	<u>12,478,696</u>	<u>15,721,810</u>
Total governmental activities net assets	83,359,338	83,488,460	80,394,466	75,123,990	67,274,256	56,848,394	33,831,004
Business-type activities							
Invested in capital assets, net of related debt	19,655,427	35,132,580	35,680,521	19,956,161	13,601,948	8,520,919	4,187,756
Restricted	30,738,217	15,227,514	7,454,188	5,878,767	7,510,845	13,044,910	12,198,489
Unrestricted	<u>34,644,030</u>	<u>15,387,918</u>	<u>6,096,803</u>	<u>(3,752,960)</u>	<u>(10,572,102)</u>	<u>(13,285,715)</u>	<u>(12,720,573)</u>
Total business-type activities net assets	85,037,674	65,748,012	49,231,512	22,081,968	10,540,691	8,280,114	3,665,672
Primary government							
Invested in capital assets, net of related debt	87,804,288	101,952,547	100,538,187	72,995,034	51,272,793	34,435,409	18,327,904
Restricted	31,896,385	16,198,658	14,310,977	20,427,872	31,011,588	31,500,118	16,167,535
Unrestricted	<u>48,696,339</u>	<u>31,085,267</u>	<u>14,776,814</u>	<u>3,783,052</u>	<u>(4,469,434)</u>	<u>(807,019)</u>	<u>3,001,237</u>
Total primary government net assets	\$ <u>168,397,012</u>	<u>149,236,472</u>	<u>129,625,978</u>	<u>97,205,958</u>	<u>77,814,947</u>	<u>65,128,508</u>	<u>37,496,676</u>

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

CITY OF MARCO ISLAND, FLORIDA

**Changes in Net Assets
(Unaudited)**

**Last Seven Fiscal Years (1)
(accrual basis of accounting)**

	<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	\$ 4,799,310	5,226,421	3,990,986	3,769,788	4,799,331	3,187,492	2,883,757
Police services	3,951,306	3,910,895	3,394,126	3,570,381	3,024,973	2,690,359	2,606,276
Fire and rescue	4,685,618	4,377,797	3,902,445	3,633,748	3,156,845	2,547,211	2,768,306
Code compliance	1,146,597	248,818	197,316	179,376	148,161	116,787	199,036
Building services	821,680	923,423	1,216,644	1,350,070	1,128,468	680,662	1,020,790
Transportation	6,302,748	5,769,702	3,636,729	3,008,553	2,726,090	373,196	1,310,664
Culture and recreation	2,035,189	1,951,683	2,266,414	1,922,094	1,574,669	911,520	3,334,436
Interest on long-term debt	517,849	590,776	647,164	713,034	628,218	499,811	139,825
Total governmental activities expenses	24,260,297	22,999,515	19,251,824	18,147,044	17,186,755	11,007,038	14,263,090
Business-type activities							
Water and sewer	28,881,053	25,993,867	21,598,968	19,576,391	17,736,604	16,796,415	15,454,681
Recreation	381,786	358,943	247,977	148,389	118,309	107,047	90,020
Total business-type activities expenses	29,262,839	26,352,810	21,846,945	19,724,780	17,854,913	16,903,462	15,544,701
Total primary government expenses	53,523,136	49,352,325	41,098,769	37,871,824	35,041,668	27,910,500	29,807,791
Program revenues							
Governmental activities							
Charges for services							
General government	143,117	94,845	73,132	135,892	60,778	61,240	63,039
Police services	351,497	573,210	198,951	82,001	37,047	252,832	91,794
Fire and rescue	114,926	121,296	103,240	102,715	102,415	58,364	57,364
Code compliance	57,497	59,888	244,221	121,028	161,876	35,808	33,850
Building services	895,004	1,152,774	809,646	972,129	1,162,729	1,191,347	2,095,309
Culture and recreation	1,000	2,500	89,880	85,572	92,157	85,465	87,249
Operating grants and contributions	1,039,852	1,805,713	199,781	321,497	2,259,878	1,115,222	1,721,352
Capital grants and contributions	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	4,065,489	5,429,990	3,769,526	4,244,833	6,357,976	7,631,631	6,634,962
Business-type activities							
Charges for services - water and sewer	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	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	18,893,283	14,834,768	24,655,181	6,925,418	1,450,000	504,360	-
Total business-type activities program revenues	45,812,851	39,467,365	47,059,626	27,732,018	20,650,285	19,766,988	16,646,074
Net (expenses) revenues							
Governmental activities	(20,194,808)	(17,569,525)	(15,482,298)	(13,902,211)	(10,828,779)	(3,375,407)	(7,628,128)
Business-type activities	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	(3,644,796)	(4,454,970)	9,730,383	(5,894,973)	(8,033,407)	(511,881)	(6,526,755)

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

CITY OF MARCO ISLAND, FLORIDA

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

**Last Seven Fiscal Years (1)
(accrual basis of accounting)**

	<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	\$ 15,650,276	14,903,477	14,329,937	15,315,942	11,852,368	10,554,795	9,933,131
Communication service tax	1,021,735	934,875	980,662	914,729	997,457	967,296	1,056,959
Other taxes	1,211,299	910,544	665,451	676,038	870,728	315,630	-
Franchise fees	-	1,610,117	1,920,620	1,913,134	1,882,013	-	-
State shared revenues	1,844,849	1,748,568	1,943,146	1,952,268	2,393,388	2,270,293	1,750,719
Interest	200,612	368,780	560,622	919,185	1,279,907	621,291	347,976
Gain (loss) on sale of capital assets	(6,300)	-	-	20,000	-	250,000	-
Miscellaneous	143,215	147,158	352,336	40,649	446,924	2,048,983	984,134
Transfers	-	40,000	-	-	-	108,759	-
Total governmental activities	<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	2,619,932	3,103,387	1,476,393	797,892	518,451	306,738	256,333
Miscellaneous	139,540	338,558	460,470	2,736,147	478,610	1,552,937	73,989
Gain (loss) on sale of capital assets	(19,822)	-	-	-	-	-	-
Transfers	-	(40,000)	-	-	-	(108,759)	-
Total business-type activities	<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>22,805,336</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	(129,122)	3,093,994	5,270,476	7,849,734	8,894,006	13,761,640	6,444,791
Business-type activities	<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>\$ 19,160,540</u>	<u>19,610,494</u>	<u>32,420,020</u>	<u>19,391,011</u>	<u>12,686,439</u>	<u>18,376,082</u>	<u>7,876,486</u>

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

CITY OF MARCO ISLAND, FLORIDA

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

**Last Seven Fiscal Years (1)
(modified accrual basis of accounting)**

	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>
General fund							
Reserved	\$ 610,908	958,601	550,899	1,139,950	908,293	4,355,795	3,979,961
Unreserved:							
Designated	10,847,424	10,815,926	9,636,801	17,146,589	26,222,575	17,395,304	10,206,736
Undesignated	<u>850,672</u>	<u>1,451,163</u>	<u>2,101,476</u>	<u>2,497,833</u>	<u>2,027,228</u>	<u>6,354,549</u>	<u>3,221,265</u>
Total unreserved	<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>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							
Reserved							
Debt service fund	\$ 1,934,854	1,895,754	1,886,087	767,380	447,019	508,100	-
Unreserved							
Special revenue funds	<u>1,202,908</u>	<u>1,406,108</u>	<u>1,551,384</u>	<u>993,865</u>	<u>374,843</u>	<u>2,431,981</u>	<u>2,201,959</u>
Total all other governmental funds	\$ <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							
Reserved	\$ 2,545,762	2,854,355	2,436,986	1,907,330	1,355,312	4,863,895	3,979,961
Unreserved	<u>12,901,004</u>	<u>13,673,197</u>	<u>13,289,661</u>	<u>20,638,287</u>	<u>28,624,646</u>	<u>26,181,834</u>	<u>15,629,960</u>
Total governmental funds	\$ <u>15,446,766</u>	\$ <u>16,527,552</u>	\$ <u>15,726,647</u>	\$ <u>22,545,617</u>	\$ <u>29,979,958</u>	\$ <u>31,045,729</u>	\$ <u>19,609,921</u>

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

CITY OF MARCO ISLAND, FLORIDA

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

**Last Seven Fiscal Years (1)
(modified accrual basis of accounting)**

	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>
Revenues							
Taxes	\$ 17,883,310	18,359,013	17,896,670	18,819,843	16,341,065	12,585,979	11,870,991
Licenses and permits	953,501	775,843	840,236	1,008,708	1,199,975	1,229,030	2,130,035
Intergovernmental	3,904,674	4,093,649	3,843,101	4,271,471	6,451,616	8,842,937	5,278,142
Charges for services	314,391	238,987	378,902	435,456	302,343	355,670	522,944
Fines and forfeitures	351,497	573,210	198,951	82,001	37,047	252,832	91,794
Interest income	200,612	368,780	560,622	919,185	1,279,907	621,291	347,976
Miscellaneous	441,478	1,165,249	589,362	355,365	344,177	528,190	1,102,955
Total revenues	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	4,418,283	4,438,636	4,052,564	3,602,926	3,905,826	2,868,842	2,246,456
Police services	3,858,373	3,945,801	3,462,233	3,468,913	3,282,913	2,593,972	2,594,499
Fire and rescue	5,039,364	4,226,027	3,780,795	3,553,821	3,140,112	3,371,921	2,663,257
Code compliance	282,859	244,027	220,857	177,469	177,085	112,562	195,834
Building services	1,139,165	1,352,689	1,255,294	1,323,773	1,105,985	1,011,005	1,012,830
Transportation	1,358,546	1,762,405	2,201,749	2,181,730	951,800	1,106,152	1,179,243
Culture and recreation	1,879,614	1,948,370	1,701,382	1,712,998	1,413,631	1,244,657	1,545,047
Debt service:							
Principal	2,100,575	2,072,782	2,045,087	1,687,485	669,973	131,922	491,264
Interest	517,849	590,537	661,787	728,053	568,046	349,192	139,825
Bond issue cost	-	-	-	-	33,810	71,228	84,209
Capital outlay	4,535,622	4,764,578	11,745,066	14,906,202	15,680,011	6,690,666	13,780,786
Total expenditures	25,130,250	25,345,852	31,126,814	33,343,370	30,929,192	19,552,119	25,933,250
Excess (deficiency) of revenues over (under) expenditures	(1,080,787)	228,879	(6,818,970)	(7,451,341)	(4,973,062)	4,863,810	(4,588,413)
Other financing sources (uses)							
Transfers in	7,046,586	7,142,198	12,873,112	14,617,571	5,648,748	6,572,583	1,932,385
Transfers out	(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)	-	572,026	-	20,000	4,000,000	6,571,998	9,860,000
Net change in fund balance	\$ (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	13.27%	13.54%	14.85%	14.13%	8.56%	5.35%	6.16%
Capital outlay (per above)	\$ 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	855,459	906,286	1,153,197	1,340,988	396,895	2,546,777	539,886
Total capital outlay	\$ 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, FLORIDA

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

Last Ten Fiscal Years

<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>
2001	2000			3,874,706,433	11.8%	1.509
2002	2001			4,691,374,309	21.1%	1.744
2003	2002			5,609,081,378	19.6%	1.690
2004	2003			6,352,910,401	13.3%	1.620
2005	2004	7,034,182,252	82,851,261	7,117,033,513	12.0%	1.586
2006 ⁽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 ⁽³⁾	2010	8,191,850,914	79,404,135	8,271,255,049	-11.3%	1.998

⁽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. 2010 assessed values are used for fiscal year 2011 tax revenues

Source: Collier County Property Appraiser

CITY OF MARCO ISLAND, FLORIDA

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

Last Ten Fiscal Years

Fiscal Year Ended	Direct		Overlapping								Total Levy
	City Operating	City Debt Service	Collier County Parks and Rec MSTU	Collier County Operating	Collier School Board	Mosquito Control	South FL Water Management	Water Pollution Control	Big Cypress Basin	Collier County Other	
2001	1.5087	-	0.0377	3.5028	7.7220	0.1748	0.2840	0.0445	0.2780	-	13.5525
2002	1.7437	-	0.0318	3.8772	7.2310	0.1465	0.2840	0.0420	0.2425	-	13.5987
2003	1.6900	-	0.0268	3.8772	6.9110	0.1167	0.2840	0.0347	0.2425	-	13.1829
2004	1.6200	-	-	3.8772	6.5240	0.1051	0.2840	0.0347	0.2425	0.2500	12.9375
2005	1.5400	0.0460	-	3.8772	6.2200	0.0962	0.2840	0.0347	0.2425	0.2500	12.5906
2006	1.2925	0.0950	-	3.8772	5.9730	0.0830	0.2840	0.0347	0.2425	0.2500	12.1319
2007	1.2445	0.0736	-	3.729	5.5250	0.0680	0.2840	0.0320	0.2425	0.2500	11.4486
2008	1.2048	0.0785	-	3.1469	5.3510	0.0635	0.2549	0.0280	0.2265	0.3742	10.7283
2009	1.3917	0.0849	-	3.2969	4.9090	0.0635	0.2549	0.0293	0.2265	0.2329	10.4896
2010	1.6518	0.0955	-	3.5645	5.2390	0.0720	0.2549	0.0293	0.2265	0.2500	11.3835
2011 ⁽¹⁾	1.8900	0.1079	-	3.5645	5.6990	0.0826	0.2549	0.0293	0.2265	0.2500	12.1047

(1) Information only.

CITY OF MARCO ISLAND, FLORIDA

**Principal Property Taxpayers
(Unaudited)**

Fiscal Year 2010 ⁽¹⁾

<u>Taxpayer</u>	<u>Property by Type</u>	<u>January 1, 2010 Taxable Valuation</u>	<u>Rank</u>	<u>% of Total Assessed Valuation</u>
City National Bank of Miami Marriott Marco Island Resort	Hospitality	\$ 72,481,092	1	0.78%
Marco Beach Hotel, Inc.	Hospitality	38,375,199	2	0.41%
Marriott Ownership Properties	Hospitality	18,406,069	3	0.20%
Marco Town Center, Inc.	Shopping Center	13,100,644	4	0.14%
A & N of Marco, Inc.	Shopping Center	9,546,440	5	0.10%
Bates, Wesley C.	Single Family Residence	7,085,484	6	0.08%
Salvatore & Yvonne Balsamo	Condominium	7,044,000	7	0.08%
Gregg Holdings, Inc.	Single Family Residence	7,018,472	8	0.08%
Venetian Investments, LLC	Shopping Center	6,650,916	9	0.07%
Jack C. & Dorothy J. Skoog Trust	Single Family Residence	5,377,195	10	0.06%
Total		<u>\$ 185,085,511</u>		2.00%

Source: Collier County Property Appraiser

(1) Information is not available for year 2001 comparison

CITY OF MARCO ISLAND, FLORIDA

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

Last Ten Fiscal Years

Fiscal Year	Taxes Assessed January 1st	Total Tax Levy (2)	Current Tax Collections (2)	Percent of Current Taxes Collected	Delinquent Tax Collections	Total Collections To Date	Percent of Total Collections To Date
2001	2000	5,850,687	5,642,805	96.4%	4,735	N/A	N/A
2002	2001	8,180,349	7,904,281	96.7%	4,094	N/A	N/A
2003	2002	9,480,531	9,150,389	96.5%	5,659	N/A	N/A
2004	2003	10,291,715	9,919,609	96.4%	13,523	N/A	N/A
2005	2004	11,287,615	10,866,603	96.3%	3,823	N/A	N/A
2006	2005	13,163,819	12,713,792	96.6%	9,304	N/A	N/A
2007	2006	16,857,132	16,212,857	96.2%	11,693	N/A	N/A
2008	2007	15,683,488	15,124,912	96.4%	27,794	N/A	N/A
2009	2008	16,787,689	16,276,943	97.0%	50,638	N/A	N/A
2010	2009	16,098,597	15,341,212	95.3%	2,387	15,338,825	95.3%

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 operating only, no debt.

CITY OF MARCO ISLAND, FLORIDA

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

Last Ten Fiscal Years

Fiscal Year	Governmental Activities				Business-Type Activities		Total Primary Government	Percentage of Personal Income ⁽³⁾	Per Capita ⁽³⁾
	General Obligation Bonds	Non Ad Valorem	Sales Tax Revenue Bonds	Capital Leases	Water/Sewer Revenue Bonds (1)	STRP ⁽²⁾ Assessment Bonds & Notes			
2001	-	985,000	-	737,843	-	-	1,722,843	0.36%	114
2002	-	935,000	-	664,826	-	-	1,599,826	0.32%	105
2003	-	885,000	-	535,743	-	-	1,420,743	0.27%	93
2004	9,860,000	835,000	-	396,664	101,115,000	-	112,206,664	19.74%	7,204
2005	9,860,000	780,000	6,000,000	459,370	101,115,000	-	118,214,370	19.02%	7,549
2006	9,315,000	4,725,000	6,000,000	389,397	99,205,000	-	119,634,397	17.67%	7,600
2007	8,760,000	3,665,000	6,000,000	316,912	122,751,278	1,626,230	143,119,420	20.17%	9,044
2008	8,195,000	2,605,000	5,655,000	241,825	132,896,539	14,794,970	164,388,334	22.81%	9,753
2009	7,615,000	1,540,000	5,305,000	696,069	152,687,974	28,909,440	196,753,483	27.91%	11,700
2010	7,025,000	475,000	4,940,000	615,494	186,218,288	31,986,098	231,259,880	31.22%	13,902

⁽¹⁾ Water and wastewater operations on Marco Island and at Marco Shores acquired from Florida Water Services in November 2003. Includes \$18,413,923 of temporary 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 the Schedule of Demographic and Economic Statistics on page 104 for personal income and population data.

Source: City of Marco Island Finance Department.

CITY OF MARCO ISLAND, FLORIDA

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

Last Ten Fiscal Years

<u>Fiscal Year</u>	<u>General Obligation Bonds</u>	<u>Less Amount in Debt Service</u>	<u>Net Amount</u>	<u>Percentage of Net Assessed Property Value ⁽¹⁾</u>	<u>Per Capita ⁽²⁾</u>
2001	-	-	-	0.000%	-
2002	-	-	-	0.000%	-
2003	-	-	-	0.000%	-
2004	9,860,000	-	9,860,000	0.155%	633
2005	9,860,000	-	9,860,000	0.139%	630
2006	9,315,000	-	9,315,000	0.098%	592
2007	8,760,000	-	8,760,000	0.073%	554
2008	8,195,000	-	8,195,000	0.071%	486
2009	7,615,000	-	7,615,000	0.073%	453
2010	7,025,000	-	7,025,000	0.076%	539

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

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

Source: City of Marco Island Finance Department.

CITY OF MARCO ISLAND, FLORIDA

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

Last Seven Fiscal Years (1)

Fiscal Year	Water/Sewer Enterprise Funds							General Fund			
	Water/Sewer Obligation Bonds	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)	Sales Tax Revenues	Debt Service	Coverage (4)
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	-	0.00
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

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

(2) Excluded sewer assessment long-term debt.

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

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

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

Source: City of Marco Island Finance Department

CITY OF MARCO ISLAND, FLORIDA

**Demographic and Economic Statistics
(Unaudited)**

Last Ten Calendar Years

Fiscal Year	Population			Income			Florida Unemployment Rate
	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 (2)	
2001	15,080	264,475	16,331,739	486,866	NA	29,039	6.0
2002	15,206	277,457	16,674,608	503,348	NA	29,451	5.5
2003	15,346	286,634	17,019,068	537,536	NA	29,803	4.9
2004	15,576	306,186	17,516,732	590,405	NA	31,476	4.4
2005	15,659	319,905	17,872,295	641,866	53,867	33,377	3.5
2006	15,742	326,881	18,276,331	684,382	59,895	34,919	3.3
2007	15,825	333,858	18,680,367	722,631	63,276	36,273	4.3
2008	16,856	332,854	18,807,219	720,618	62,559	38,316	8.2
2009	16,816	333,032	18,750,483	704,854	61,807	37,591	11.7
2010	16,635	333,600	18,801,310	740,651	61,308	37,854	12.0

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

(2) Source: Florida Tax Watch

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

CITY OF MARCO ISLAND, FLORIDA

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

Fiscal Year 2010

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

Source: Enterprise Florida Inc.
Note: Naples-Marco Island

Employment by Industry	Collier	Florida
Average Annual Employment	113,137	7,182,815
Natural Resources & Mining	4.9%	1.3%
Construction	8.9%	5.5%
Manufacturing	2.4%	4.5%
Trade, Transportation & Utilities	18.8%	21.2%
Information	1.4%	2.0%
Financial Activities	5.7%	6.7%
Professional & Business Services	9.7%	14.6%
Education & Health Services	14.4%	21.5%
Leisure & Hospitality	18.6%	12.9%
Other Services	4.5%	3.2%
Public administration	5.0%	6.5%
Unclassified	0.0%	0.0%

Source: Enterprise Florida Inc.
Note: Naples-Marco Island

CITY OF MARCO ISLAND, FLORIDA

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

Last Nine Fiscal Years

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

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

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

Source: City of Marco Island annual budgets.

CITY OF MARCO ISLAND, FLORIDA

**Operating Indicators by Department
(Unaudited)**

Last Nine Fiscal Years

Department	Fiscal Year								
	2010	2009	2008	2007	2006	2005	2004	2003	2002 (2)
Police Department									
Calls for Service	77,628	68,215	61,430	52,273	29,291	33,480	41,527	32,290	27,920
Fire Department									
Calls for Service	2,802	2,430	2,448	2,911	2,467	2,481	2,358	2,095	2,329
Building Department									
New Single-Family Homes	33	16	28	43	72	136	233	211	202
New Multi-Family Units	-	-	7	0	0	33	123	172	254
Total Permits Issued	5,381	4,800	5,194	5,456	7,121	4,917	4,836	4,981	4,304
Water Production (1)									
Number of Customers	9,623	9,428	9,496	9,517	8,929	8,784	8,329	NA	NA
Average Daily Treatment (Millions of gallons)	7.29	8.95	8.72	8.83	8.90	9.35	7.72	NA	NA
Maximum Daily Treatment (Millions of gallons)	9.89	12.70	11.27	14.15	11.28	10.93	10.96	NA	NA
WasteWater Treatment (1)									
Number of Customers	7,044	6,412	5,669	5,032	4,120	4,061	4,020	NA	NA
Average Daily Treatment (Millions of gallons)	1.83	2.10	1.80	1.80	1.80	1.89	1.83	NA	NA
Maximum Daily Treatment (Millions of gallons)	3.48	3.70	4.50	2.65	2.88	3.96	3.81	NA	NA

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

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

Source: City of Marco Island

CITY OF MARCO ISLAND, FLORIDA

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

Last Nine Fiscal Years

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

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

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

Source: City of Marco Island

SINGLE AUDIT AND OTHER REPORTS AND LETTERS



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

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

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Marco Island, Florida, as of and for the year ended September 30, 2010, which collectively comprise the City of Marco Island, Florida's basic financial statements and have issued our report thereon dated March 31, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Marco Island, Florida's internal control over financial reporting 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 of Marco Island, Florida's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Marco Island, Florida'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 identified in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies that are considered to be significant deficiencies.

A *control 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 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 City's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and questioned costs as 2010-01 to be a material weakness.

A *significant deficiency* is a deficiency or 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 in the accompanying schedule of findings and questioned costs as 2010-02 to be a significant deficiency.

Compliance and Other Matters

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

The City of Marco Island, Florida'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 of Marco Island, Florida'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.

Mayer Hoffman McCann P.C.

March 31, 2011
Clearwater, FL



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Report on Compliance with Requirements Applicable to Each Major Federal Program and on Internal Control over Compliance in Accordance with OMB Circular A-133

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

Compliance

We have audited the compliance of the City of Marco Island, Florida, with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that are applicable to each of its major federal programs for the year ended September 30, 2010. The City of Marco Island, Florida'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 of Marco Island, Florida's management. Our responsibility is to express an opinion on the City of Marco Island, Florida'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 of Marco Island, Florida'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 of Marco Island, Florida's compliance with those requirements.

In our opinion, the City of Marco Island, Florida, complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended September 30, 2010.

Internal Control Over Compliance

The management of the City of Marco Island, Florida, 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 of Marco Island, Florida's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, 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 of Marco Island, Florida's internal control over compliance.

A *control deficiency* in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses.

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

Maya Hoffman Mc Cann P.C.

March 31, 2011
Clearwater, FL

CITY OF MARCO ISLAND, FLORIDA

Schedule of Expenditures of Federal and State Awards

For the Year Ended September 30, 2010

<u>Federal / State Agency, Pass-through Entity Federal Program / State Project</u>	<u>CFDA / CFSA No.</u>	<u>Grantor's Number</u>	<u>Expenditures</u>
Federal Awards			
Indirect Federal Awards			
Department of Transportation			
Passed through Florida Department of Transportation			
ARRA Highway Planning and Construction	20.205	426640.1	\$ 313,928
Highway Planning and Construction	20.205	42331.1	<u>70,281</u>
			<u>384,209</u>
Environmental Protection Agency			
Passed through Florida Department of Environmental Protection			
Capitalization Grants for Clean Water			
State Revolving Funds	66.458	WW715100	5,545,700
State Revolving Funds	66.458	WW715090	<u>2,803,800</u>
			<u>8,349,500</u>
Department of Homeland Security			
Passed through Florida Department of Financial Services			
Division of Emergency Management			
Fire Hazard Material	20.703	08DS-60-13-00-16-373	14,682
Fire Hazard Material	20.703	09DS-51-13-00-16-409	<u>65,939</u>
			<u>80,621</u>
Department of Justice			
Passed through Florida Department of Law Enforcement			
ARRA Edward Byrne Justice Assistance Grant	16.803	2010-ARRD-COLL-1-W8-051	7,392
Police Equipment	16.738	2010-JAGD-COLL-2-4Y-056	<u>2,099</u>
			<u>9,491</u>
			<u>8,823,821</u>
Total Indirect Federal Awards			<u>8,823,821</u>
Direct Federal Awards			<u>8,823,821</u>
Department of Justice			
Federal Equitable Sharing Agreement			
	16.xxx	FL0110300	<u>33,289</u>
Total Direct Federal Awards			<u>33,289</u>
Total Federal Awards			<u>\$ 8,857,110</u>
State Awards			
Direct State Awards			
Florida Department of Environmental Protection			
Florida Recreation Development Assistance Program			
	37.017	A 08204	<u>200,000</u>
			<u>200,000</u>
Total State Awards			<u>200,000</u>
Total Awards			<u>\$ 9,057,110</u>

CITY OF MARCO ISLAND, FLORIDA

Notes to the Schedule of Expenditures of Federal and State Awards

For the Year Ended September 30, 2010

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 \$20,873,381 in State Revolving Funds loan balance outstanding at September 30, 2010.

CITY OF MARCO ISLAND, FLORIDA

Schedule of Findings and Questioned Costs

For the Year Ended September 30, 2010

Section I - Summary of Auditor's Results

Basic Financial Statements

Type of auditors' report issued:	<u>Unqualified Opinion</u>		
Internal control over financial reporting:			
- Material weakness(es) identified?	<u> X </u>	yes	<u> </u> no
- Significant deficiency(ies) identified that are not considered to be material weaknesses?	<u> X </u>	yes	<u> </u> none reported
Noncompliance material to the basic financial statements noted?	<u> </u>	yes	<u> X </u> no

Federal Awards

Dollar threshold used to determine Type A programs:	<u>\$ 300,000</u>		
Auditee qualified as low-risk auditee?	<u> </u>	yes	<u> X </u> no
Internal control over compliance:			
- Material weakness(es) identified?	<u> </u>	yes	<u> X </u> no
- Significant deficiency(ies) identified that are not considered to be material weaknesses?	<u> </u>	yes	<u> X </u> none reported
Type of auditors' report on compliance for major programs:	<u>Unqualified Opinion</u>		
Any audit findings disclosed that are required to be reported in accordance with OMB Circular A-133 (Section .510(a))?	<u> </u>	yes	<u> X </u> no

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
20.205	U.S. Department of Transportation passed through Florida Department of Transportation for Highway Planning and Construction
66.458	U.S. Environmental Protection Agency passed through Florida Department of Environmental Protection for capitalization grants for clean water state revolving funds

Section II –Basic Financial Statement Findings

This section identifies the significant deficiencies, material weaknesses, fraud, illegal acts, violations of provisions of contracts and grant agreements, and abuse related to the basic financial statements that are required to be reported in accordance with Chapter 5.18 through 5.20 of *Government Auditing Standards*.

A significant deficiency has been reported for 2010 as described under heading Current Year Findings and Recommendations.

Section III –Federal Award Findings and Questioned Costs

This section identifies significant deficiencies, material weaknesses, and material instances of noncompliance, including known fraud, questioned costs, and abuse related to the audit of Federal programs, as required to be reported by Circular A-133 Section .510 (a).

No material weaknesses or material instances of noncompliance, including known fraud, questioned costs, and abuse related to the audit of Federal programs were identified.

Section IV – Summary Schedule of Prior Audit Findings

There were no prior audit findings for Federal programs.

PART II: SCHEDULE OF FINDINGS AND QUESTIONED COSTS—FINDINGS RELATED TO THE FINANCIAL STATEMENTS

Current Year Findings and Recommendations

Material Weakness

Finding 2010-01 : Financial Reporting and Year-end Close

Observation: Although significantly improved from prior year, the closing process continues to be delayed due to the work load imposed on the Finance department. There were delays in producing various closing entries, audit schedules, reconciliations, and account analysis. Specifically there were delays in long term debt schedules, bond issuance cost schedules and fund balance/net asset reconciliations. The trial balance was provided to the audit team in January 2011, but still required several journal entries which were provided by the City throughout the audit process. In addition, many journal entries were provided close to financial statement issuance. These additional entries were to close fund balances to other funds, create transfers and due to/from between funds, and included new accounts that needed to be added to the chart of accounts. Overall, most of these journal entries did not need to be posted by the audit team for CAFR presentation purposes.

Recommendation: During the September 30, 2009 audit, a material weakness regarding journal entries (2009-01) and significant deficiencies regarding financial reporting (2009-02) and account reconciliations (2009-04) were identified. The material weakness for journal entries has been corrected. The significant deficiencies regarding financial reporting and account reconciliations still exist and, when combined, indicate a material weakness.

We recommend the City reconcile account balances prior to providing the trial balance and only post journal entries that have a significant impact on financial statement presentation after audit work has been completed. We recognize that the City has developed a formal year-end closing schedule that indicates specific personnel responsibilities and corresponding time requirements. Strict adherence to this schedule should be required because this will allow for the year-end work and audit preparation to be a much less time-consuming and arduous process.

Management Response: Management is aware of the issues facing the Finance department work load and staffing and has taken steps to correct the situation with the addition of an advance-level position. Journal entries related to debt service fund activity was updated to enhance financial review and to facilitate cash flow analysis which was included as a management letter comment in the FY2009 audit. The Finance department has been tasked with creating monthly and annual journal entry and tasks lists. This in combination with the further refinement of a recently created year-end closing schedule should eliminate the tardiness of future year-end processes. Strict adherence to a year-end process schedule may not be feasible when community-wide events impact financial priorities as directed by management.

Significant Deficiency

Finding 2010-02 : Grant Policies and Procedures

Observation: During our testing of grants, it was determined that there is a lack of formal documentation of division of responsibility with respect to monitoring federal and state grants. We found that grants approved in different City departments are not always communicated to the finance department. This also caused the Schedule of Expenditures of Federal Awards prepared by the City to be incomplete. We noted

a similar observation during the September 30, 2009 audit as noted in the schedule of federal and state awards process improvement (2009-06).

Recommendation: The accumulation and coordination of grant activities throughout the City should be concentrated through one individual to ensure all grants are reported properly and compliance is monitored. We suggest that the City maintain a summary schedule of its grants, which should include the amount, term, dates of receipt, reporting requirements, any restrictions, other pertinent information, along with personnel responsible for monitoring compliance requirements of each grant. This will ensure that compliance requirements are met and that the schedule is properly assessed during the audit to ensure single audit requirements are met.

Management Response: Management concurs with the recommendation and has reassigned existing staff and tasked one individual with City wide grant coordinator. In the past, the accumulation of all grant activities concentrated through one individual was not in keeping with the City’s decentralized approach. The approach to centralize or decentralize control is a management decision and both methods have merits and obstacles. Likewise, management has been aware that changes in procedure are needed; however, staff has not been available to directly address the deficiency. A formal grant approval process is under development and should be in place during FY2011.

Summary Schedule of Prior Audit Findings

<u>Prior Year's Comments</u>	<u>Not Implemented</u>	<u>In Process</u>	<u>Implemented</u>
Material Weakness- 2009			
2009-01: Journal Entries			X
Significant Deficiencies- 2009			
2009-02: Financial Reporting		X	
2009-03: Budget Controls			X
2009-04: Account Reconciliations		X	
2009-05: Accounting Staff		X	



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

We have audited the financial statements of the City of Marco Island, Florida, as of and for the fiscal year ended September 30, 2010, and have issued our report thereon dated March 31, 2011.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. We have issued our Report on Internal Control over Financial Reporting and on Compliance and Other Matters based on an Audit of Financial Statements performed in Accordance with *Government Auditing Standards*, Report on Compliance with Requirements Applicable to 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 March 31, 2011, 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 govern the conduct of local governmental entity audits performed in the State of Florida. This letter includes the following information, which is not included in the aforementioned auditors' reports or schedule:

Those rules (Section 10.554(1)(i)(1)) require that we address in the management letter, if not already addressed in the auditors' report on internal control over financial reporting and on compliance and other matters, whether or not corrective actions have been taken to address findings and recommendations made in the preceding annual financial audit report. There were findings and recommendations made during the preceding annual financial audit, see *prior year findings and recommendations*.

As required by the Rules of the Auditor General (Section 10.554(1)(i)(2)), the scope of our audit included 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 the City was not in compliance with Section 218.415, Florida Statutes.

As required by the Rules of the Auditor General (Section 10.554(1)(i)(3)), the scope of our audit included a review of possible recommendations to improve the local government entity's financial management, accounting procedures, and internal control. In connection with our audit we did identify findings and recommendations, see *current year findings and recommendations*.

The Rules of the Auditor General (Section 10.554(1)(i)(4)) requires disclosures in the management letter of violations of laws, regulations, contracts, or grant agreements, or abuse that have occurred or are likely to have occurred, that have an effect on the determination of financial statement amounts that is less than material but more than inconsequential if not already addressed in the

auditors' report on internal control over financial reporting and compliance and other matters. In connection with our audit we did not identify any findings and recommendations.

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) control deficiencies that are not significant deficiencies. In connection with our audit, we noted areas for improvement below.

The Rules of the Auditor General (Section 10.554(1)(i)(6)) require that the name or official title and legal authority for the primary government and each component unit of the reporting entity be disclosed in the management letter, unless disclosed in the notes to the financial statements. This information has been disclosed in the notes to the financial statements.

The Rules of the Auditor General (Section 10.554(1)(i)(7)(a)) requires that the auditor state whether or not the governmental entity has met one or more of the conditions described in Section 218.503(1), Florida Statutes and identify the specific condition or conditions 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.

The Rules of the Auditor General (Section 10.554(1)(i)(7)(b)) requires a statement as to whether or not the financial report 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 current audit period and, if not, explanations of any significant differences. We determined that the financial statements of the City for the fiscal year ended September 30, 2009 are in agreement with the financial report filed with the Florida Department of Financial Services for the fiscal year ended September 30, 2010.

Pursuant to the Rules of the Auditor General (Section 10.554(1)(i)(7)(c)) we applied financial condition assessment procedures pursuant to Rule 10.556(7). 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 the City.

Process Improvements

2010-03 : Utility Credit Memos

Observation: During testing of the utility credit memos, we noted that two (2) of the fifteen (15) credit memos were approved and entered by the same employee. Eleven (11) of the fifteen (15) utility credit memos sampled did not appear to have third party documentation to support the credit issued. Based on further discussions with the management, it is our understanding that there are generally internal notes within the billing system supporting the credits and that only specific types of credit memos require third party documentation in an effort to be "customer friendly" to their citizens.

Recommendation: Based on the current policy, it appears there could potentially be a risk or opportunity for abuse due to insufficient controls in place for approval and insufficient documentation related to credit memos. We recommend the City work to ensure that two separate employees are involved with each transaction. Additionally, the City should consider the need for third party documentation to support the credit.

Management Response: The City Manager has taken personal charge of a review which will result in new processes regarding adjustments. Management is equally concerned about the opportunity for abuse and considers this a high priority.

Finding 2010-04 : Personnel File Documentation

Observation: One item in our sample selection for payroll testing was found to have a pay increase over the approved pay scale range without sufficient documentation for the increase.

Recommendation: Special salary adjustments may be utilized for a pay increase; however the special salary adjustment must meet requirements as outlined in the City's employee handbook. Although it appeared that proper approval was obtained, the proper documentation, as required by the City's employee handbook, could not be located to support the pay increase. Based on the information contained in the employee personnel file, it could not be determined which of the requirements, if any, were met. We recommend documentation for all changes related to payroll be included in the personnel file with appropriate approval and sufficient documentation as outlined in the City's policies.

Management Response: The City has hired a HR Coordinator responsible for enforcing the Personnel Rules and regulations and has implemented a new personnel transaction form.

Finding 2010-05 : Accounting User Access

Observation: We found that five Finance and two IT employees have full access to the accounting system that allows them to access and change the chart of accounts and post journal entries to accounts payable, accounts receivable, inventory, and payroll. Additionally, the user access rights are not formally documented.

Recommendation: The system has the ability to set up different restriction levels based on employee responsibilities. We recommend the human resources department become more involved in the approval process of new hires and existing employee user access levels. Management should ensure that requests and approvals for new and modified user access levels are documented and maintained in employee personnel files to ensure an audit trail exists. Management should review user access levels periodically, annually at a minimum, to ensure user access levels remain appropriate for the current responsibilities of the user. To strengthen internal controls, journal entry posting access should be restricted to a limited number of individuals and the same employee that has access to enter journal entries to the accounting system should not be able to post journal entries to the accounting system. As an alternative to restricting journal entry posting rights, the City may consider implementing a mitigating control such as having a designated individual to review all entries posted on a weekly or monthly basis.

Management Response: The five Finance and two IT users are key personnel and have full access due to the small size of the department. Other mitigating control factors such as monthly review of posted entries have been put in place during FY 2011.

2010-06 : Procurement Cards

Observation: During our testing of procurement card charges, it was noted that there were instances of insufficient documentation to support the purpose of the charge.

Recommendation: We recommend that the City require proper documentation for all procurement card charges. Additionally, the City could expand their current procurement card purchasing policy to ensure that the documentation includes adequate information to support that the charge is for a legitimate City business purpose. The policy should limit the use of the procurement card for certain specified

transactions. Such a formal documentation process would deter the possible misuse of the City's procurement cards.

Management Response: As part of the new Purchasing Ordinance that was adopted in February 2011, a review of existing forms and policies was started. New forms and policies have been designed for implementation in the upcoming year and will include the auditors' recommendations.

2010-07 : Password Parameters

Observation: Current password parameters in place over information systems are inadequate in today's IT environment. The City's current policy is to have a maximum password age of 90 days, however it appears many employees have not had to change passwords within the maximum days. During review of the City's default password requirements, passwords must be 6 characters and the complex passwords requirement function is disabled.

Recommendation: We recommend password parameters be strengthened to a high level of complexity. A high level of complexity would include passwords containing upper and lower case, character and or numbers and a password length of 6 to 8 characters at a minimum. In addition, passwords should contain an expiration date between 60 and 90 days that is enforced to enhance overall access controls to City's IT system.

Management Response: The City implemented password complexity requirements on March 10, 2011.

2010-08 : Disposals of Capital Assets

Observation: During our testing of capital asset additions, there was a capital asset that was traded in on a purchase of a new asset that was not recorded as a disposal in the capital asset detailed schedules. Although properly approved, it appears there is no formal process in place to track capital asset disposals during the year to ensure the assets are properly removed from the asset depreciation schedules.

Recommendation: We recommend a formal process be adopted for disposals of capital assets to enable the finance department to properly account for and track the disposals throughout the year. We suggest that a simple yet standardized form be developed to centralize the approvals for disposal, provide adequate details, and adequate other pertinent information as evidence of proper posting to the general ledger in adherence to the City policy. We recommend consideration of the use of pre-numbered disposal forms. This will help to eliminate the risk that capital assets disposed of during the year remain on the asset depreciation schedules.

Management Response: The City has developed a formal disposal process where the City Manager reviews and approves all disposition activities.

Prior Year Findings and Recommendations

Management letters are intended to be critical of accounting processes or internal control features that do not provide adequate safeguards for a company's assets, or they address areas that could be operationally more efficient. We made numerous suggestions for improvement in last year's management letter. However, we would like to use this letter for an additional purpose and congratulate you on the significant accomplishments made in the last year. While there is still room for improvement, as the following comments indicate, substantial progress has been made and we commend you for it.

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>
Process Improvements			
2009-06: Schedule of Federal and State Awards	X		
2009-07: Sewer Assessment Districts			X
2009-08: Use of Outside Consultant			X
2009-09: Accounting Policies and Procedures			X
2009-10: Code Compliance Accounts Receivable		X	
2009-11: Accounting Software	X		
2009-12: Cash Flows of the Utility Fund	X		

Process improvements in process or not implemented during fiscal year 2010 are as follows:

2009-06 : Schedule of Federal and State Awards

Observation: The schedule of federal and state awards was not prepared for the fiscal year ended September 30, 2009. During testing, additional awards from the U.S. Department of Transportation were uncovered that required a single audit.

Recommendation: The schedule of federal and state awards should be prepared and updated continuously to ensure proper controls are in place for any awards received that may fall under the single audit requirements.

Status: During the September 30, 2010 audit, the preparation of a complete Schedule of Expenditures remained to be a problem. This will be included in the significant deficiency noted at

finding 2010-02 in under *Current Year Findings and Recommendations* in Section II of the Schedule of Findings and Questioned Costs.

2009-10 : Code Compliance Accounts Receivable

Observation: The related outstanding balances in code compliance accounts receivable and allowance for uncollectible accounts is not monitored on a timely basis.

Recommendation: A reconciliation of code compliance accounts receivable to the general ledger should be prepared to ensure that the recording of transactions is accurate and proper and that any adjustments to, or write-offs of accounts receivable have been properly addressed. We recommend that management review these receivables on a quarterly basis to develop a list of write-offs for approval by City Council. In addition, we recommend that the City review its collection policy to determine whether additional steps could be made to aid in collection of receivables or if collection is possible on all code compliance accounts receivables outstanding.

Status: During the September 30, 2010 audit, this continued to be a problem area throughout the audit. The individual accounts had been reviewed for collectability by the Code Enforcement Department prior to year end. However, the allowance had not been adjusted. Prior to issuance of the CAFR, the collectability was reviewed thoroughly by the Finance Department and it was decided to record a 100% allowance against the outstanding balance.

2009-11 : Accounting Software

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

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

Status: The City recommended new accounting software as part of the five-year CIP plan for consideration in FY 2012. We recommend that the software the City intends on purchasing should include a separate module related to sewer assessments and the continuous tracking of payments and the related amortization schedules.

2009-12 : Cash Flows of the Utility Fund

Observation: The City has undertaken a major expansion and upgrading of their sewer system which serves the citizens of Marco Island. Fourteen districts have been established, eleven have been constructed and seven have received permanent financing. Construction on these districts is financed by debt proceeds and assessments to the benefitting property owners. The collection of assessments and revenue generated from the system are projected to be sufficient to repay the related debt.

Recommendation: Because of the significance of the construction activities taking place, the debt being issued, and the multitude of arrangements that can be made on how affected property owners pay their assessments, we recommend that the City perform detailed cash flow projections for each district to ensure cash flows are or will be adequate to handle the anticipated future construction activities as well as repayment of the related debt. We understand that this has been done informally, but because of the nature of these projects and the amount of debt incurred, we believe detailed cash flow projections should be made for each district to ensure revenues will be adequate to repay, on a timely basis, all of the debt used to finance the construction in the sewer districts.

Status: The City started the analysis process with the separation of accounting data by individual funds. It is our understanding that management prepares an annual long term debt calculation during the budget process for individual sewer districts. An additional utility finance employee as approved in the FY 2011 budget would be able to assist in this process improvement; however, the position has not been filled yet.

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

Mayer Hoffman Mc Conn P.C.

April 25, 2011
Clearwater, Florida