

CITY OF MARATHON, FLORIDA

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FISCAL YEAR ENDED SEPTEMBER 30, 2007

PREPARED BY THE FINANCE DEPARTMENT

CITY OF MARATHON, FLORIDA

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INTRODUCTORY SECTION



CITY OF MARATHON, FLORIDA

9805 Overseas Highway, Marathon, Florida 33050

Phone: (305) 743-0033 Fax: (305) 743-3667

March 30, 2008

To the Honorable Mayor, Members of the Governing Council, and Citizens of the City of Marathon:

State law requires that all general-purpose local governments publish within one year 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 auditing standards generally accepted in the United States and Government Auditing Standards by a firm of licensed certified public accountants. Pursuant to that requirement, we hereby issue the comprehensive annual financial report of the City of Marathon for the fiscal year ended September 30, 2007.

This report consists of management's representations concerning the finances of the City of Marathon. Consequently, management assumes full responsibility for the 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 of Marathon has established a comprehensive internal control framework that is designed both to protect the City's assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of the City of Marathon's financial statements in conformity with GAAP. Because the cost of internal controls should not outweigh their benefits, the City of Marathon'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 of Marathon's financial statements have been audited by Rachlin, LLP, a firm of licensed certified public accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements of the City of Marathon for the fiscal year ended September 30, 2007, 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 of Marathon's financial statements for the fiscal year ended September 30, 2007, are fairly presented in conformity with GAAP. The independent auditor's report is presented as the first component of the financial section of this report.

In accordance with Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Government*, 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 MD&A and should be read in conjunction with it. The City of Marathon's MD&A can be found immediately following the report of the independent auditors.

Profile of the Government

The City of Marathon, incorporated November 30, 1999, is located approximately one hour from Key West, Florida and Key Largo, Florida. Marathon is known as the “Heart of the Florida Keys”. Its boundaries run from the east end of the Seven Mile Bridge, mile marker 47, to the west end of Tom’s Harbor Bridge, approximately mile marker 60. The islands of Marathon include Boot Key, Knights Key, Hog Key, Vaca Key, Stirrup Key, Crawl and Little Crawl Key, East and West Sister’s Island, Deer Key, Little Deer Key, Fat Deer Key, Long Point Key, and Grassy Key. The City of Marathon is empowered to levy a property tax on both real and personal properties located within its boundaries. It also is empowered by state statute to extend its corporate limits by annexation, which occurs when deemed appropriate by the City Council.

The City of Marathon operates under the council-manager form of government. Policy-making and legislative authority are vested in a governing council consisting of the mayor and four other members. The City Council is responsible, among other things, for passing ordinances, resolutions, and regulations governing the city, adopting the budget, and appointing the city manager, city attorney, and members of various boards. The City Manager is responsible for carrying out the policies and ordinances adopted by the City Council, for overseeing the day-to-day operations of the City, appointing the heads of the various departments, and submission of the budget to City Council for approval. The mayor and four council members are elected at large every two years with a term limit of three consecutive terms.

The City of Marathon provides a wide variety of services, including police and fire protection; the construction and maintenance of highways, streets and other infrastructure; planning and zoning; building and code enforcement; and recreational activities and community events. The City also manages three enterprise funds including a City marina facility, a wastewater utility and a stormwater utility.

The financial reporting entity (the City of Marathon) includes all of the funds of the City. The City does not have any component units. A component unit is a legally separate entity for which the City is financially accountable or the nature and significance of the relationship between the City and the entity was such that exclusion would cause the City’s financial statements to be misleading or incomplete.

The annual budget serves as the foundation for the City of Marathon’s financial planning and control. All departments of the City of Marathon 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. The City Manager then presents this proposed budget to City Council for review prior to September 1. The City Council is required to hold public hearings on the proposed budget and to adopt a final budget no later than September 30, the close of the City of Marathon’s fiscal year. The appropriated budget is prepared by fund, function (e.g., public safety), and department (e.g., police). Department heads may make transfers within a department with the approval of the City Manager. Transfers of appropriations between departments, however, require the approval of the City Council. A budget-to-actual comparison for the general fund is included as Required Supplementary Information on page 40 following the notes to the basic financial statements. A budget-to-actual comparison for the capital infrastructure fund and street maintenance fund is also included as Required Supplemental Information following the notes to the basic financial statements on pages 40-41. For governmental funds, other than the general fund, capital infrastructure fund, and street maintenance fund, this comparison is presented in the nonmajor governmental fund subsection of this report, which starts on page 47.

Factors Affecting Financial Condition

The information presented in the financial statements is best understood when it is considered from the broader perspective of the specific environment within which the City of Marathon operates.

Local Economy

The City of Marathon currently enjoys a favorable economic environment and local indicators point to continued stability. Marathon's ideal location between Key Largo and Key West makes it a desirable place in which to live and work. Tourism is an important economic factor, which offers excellent sport fishing and recreational diving opportunities. The tropical climate, in addition to the recreational water activities, makes the City a major tourist destination as well as a desirable retirement and second home location.

The economic condition of the area during the past year was positive and the outlook is the same. Property tax values and revenues both increased. In September 2007, the area's unemployment rate was 3.0%, better than the statewide rate of 4.4%.

Long-term Financial Planning

The City continues to pursue its long-term goals as outlined in the Five Year Capital Improvement Plan adopted annually by the City Council and the City's Planning Commission. During the fiscal year ended September 30, 2007 the construction of a new Fire Station neared completion; construction also continued for the implementation of City-wide wastewater treatment and stormwater management utilities. Other major projects currently included in the Five Year Capital Improvement Plan are:

- Improvements to the 33rd Street Boat Ramp and other City boat ramps
- The construction of a Marina service building, parking area and boardwalk
- Acquisition of fire hydrants and Fire/EMS vehicles
- Continuing improvements to City parks and beaches

Cash Management Policies and Practices

The City maintains a pooled cash account for all funds. The cash management program is designed to maintain earnings free from risk, maintain adequate liquidity to meet the City's obligations, and maximize investment return. The City formally adopted its written investment policy pursuant to Florida Statutes, Section 218.415 in 2004.

The City has primarily invested in certificates of deposits with financial institutions, collateralized as required by Florida Statutes Chapter 280 "Florida Security for Public Deposits Act", and with the State Board of Administration Investment Pool. The combined interest earnings from all sources totaled \$595,386. The City of Marathon Firefighters' Pension and Trust Fund manage their own funds and are not included in the City's pooled cash system.

Risk Management

The City of Marathon is exposed to various risks of loss. The City purchases commercial insurance coverage for general liability, property damage, auto liability, and workers' compensation. This insurance coverage assumes all risk of loss up to the policy maximum after a premium deductible. The coverage is evaluated annually by management and adjusted as needed to provide the most cost effective protection for the City.

Pension Benefits

The employees of the City, except for firefighters, are covered under a defined contribution plan administered by ICMA Retirement Corporation. The City contributes 10% for all full-time employees, except the City Manager for which the City contributes 15%. This plan is not reported as a fund of the City but is disclosed in the notes to the financial statements as a defined contribution pension plan.

The City also sponsors a deferred compensation plan which qualifies under Internal Revenue Code Section 457. The plan is funded by employee contributions and administered by ICMA Retirement

Corporation. This plan is not reported as a fund of the City nor is it disclosed in the notes to the financial statements.

Effective October 1, 2005 the City adopted a defined benefit local law plan under Chapter 175, Florida Statutes for the full-time firefighters. A separate Board is responsible for the administration of this plan. State premium tax revenue, which is collected from insurance companies on a calendar year basis, is used as the primary source of revenue for providing these benefits. Both the City and its firefighter employees make contributions to the plan; however, the City contributions can be adjusted based on periodic actuarial review of the plan's assets and earnings.

Awards and Acknowledgements

The Government Finance Officers Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Marathon for its Comprehensive Annual Financial Report (CAFR) for the fiscal year ended September 30, 2006. This was the fourth year that the City of Marathon had applied for and received this prestigious award. In order to be awarded a Certificate of Achievement, the City must prepare an easily readable and efficiently organized CAFR, which satisfies both GAAP and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that the September 30, 2007 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.

The preparation of this report would not have been accomplished without the dedicated and efficient service of the entire staff of the finance department. We would like to express our appreciation to all members of the department who assisted and contributed to the preparation of this report. We would also like to express a special note of thanks to our independent certified public accountants, Rachlin LLP, for their cooperation and assistance. Their professional approach and high standards in the conduct of their independent audit of the City's financial records and transactions is greatly appreciated.

Credit must also be given to the Mayor and City Council for their leadership and support for maintaining the highest standards of professionalism in the management of the City of Marathon's finances.

Respectfully submitted,



Michael H. Puto
City Manager



Peter Rosasco
Finance Director

CITY OF MARATHON, FLORIDA

LIST OF PRINCIPAL OFFICIALS

SEPTEMBER 30, 2007

CITY COUNCIL

Christopher M. Bull, Mayor
Marilyn Tempest, Vice-Mayor

Michael Cinque, Councilman
Donald Vasil, Jr., Councilman
Pete Worthington, Councilman

CITY MANAGER

Michael Puto

CITY CLERK

Diane Clavier

CITY ATTORNEY

John R. Herin, Jr.
Stearns, Weaver, Miller, Weissler, Alhadeff & Sitterson, P.A.

FINANCE DIRECTOR

Peter L. Rosasco, CPA

CITY AUDITORS

Rachlin LLP
Accountants • Advisors

CITY OF MARATHON, FLORIDA

CERTIFICATE OF ACHIEVEMENT FOR EXCELLENCE IN FINANCIAL REPORTING

Certificate of
Achievement
for Excellence
in Financial
Reporting

Presented to

City of Marathon
Florida

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
September 30, 2006

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.



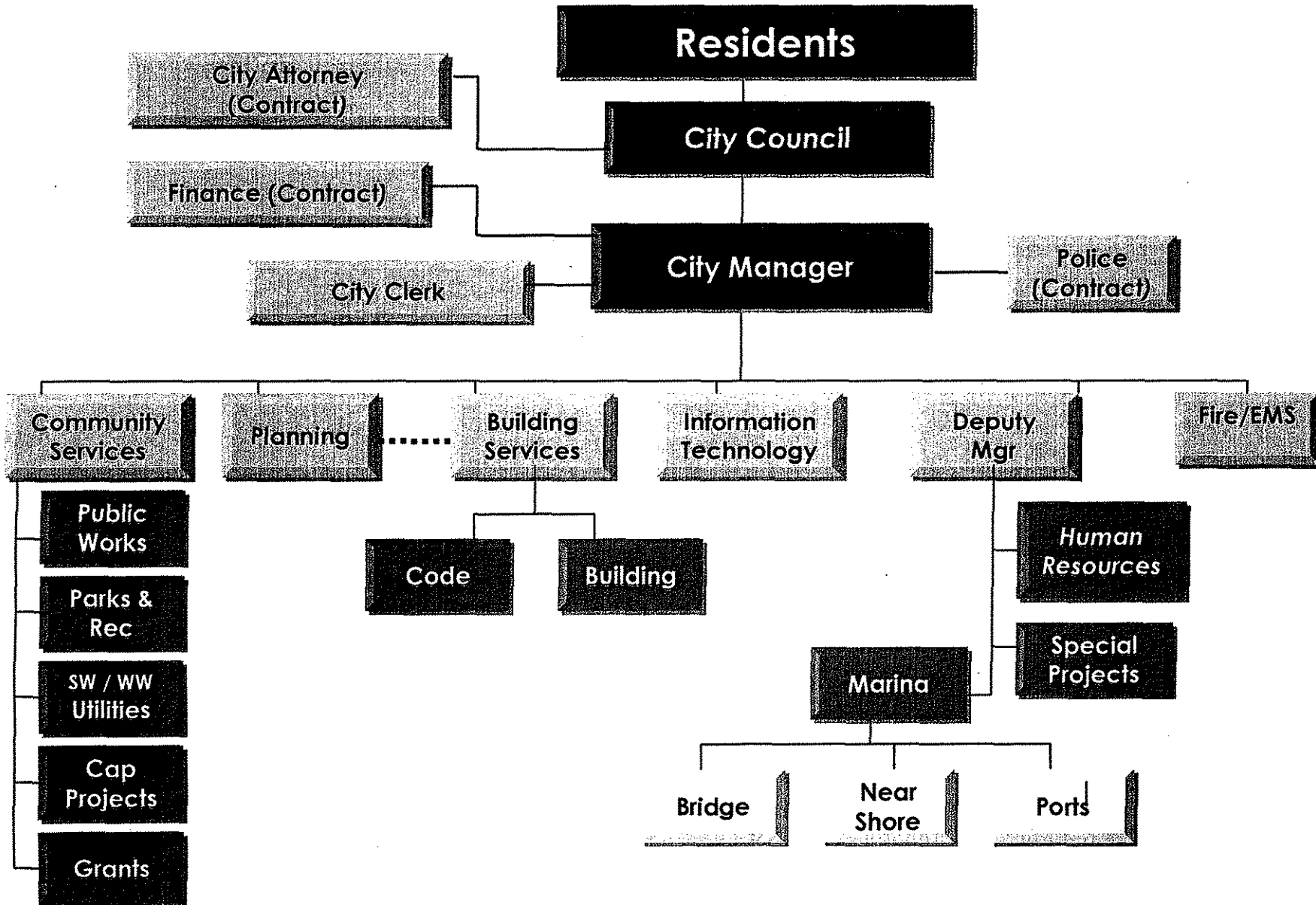
Oliver S. Cox

President

Jeffrey R. Enner

Executive Director

City of Marathon FY07 Department Organizational Chart



FINANCIAL SECTION

**REPORT OF INDEPENDENT
CERTIFIED PUBLIC ACCOUNTANTS**

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Honorable Mayor, City Council and City Manager
City of Marathon, Florida

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Marathon, Florida (the City) as of September 30, 2007 and for the year then ended, 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 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 opinions, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Marathon, Florida as of September 30, 2007 and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States.

In accordance with *Government Auditing Standards*, we have also issued a report dated March 25, 2008 on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, 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.



Honorable Mayor, City Council and City Manager
City of Marathon, Florida
Page Two

Management's Discussion and Analysis and the other required supplementary information, as listed in the table of contents, on pages 3 through 14 and pages 43 through 46, respectively, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Marathon's basic financial statements. The introductory section, combining fund financial statements and schedules and statistical tables listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements of the City. Similarly, the accompanying schedule of expenditures of federal awards and state financial assistance 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 Organization*; and Chapter 10.550, Rules of the Auditor General, and is not a required part of the basic financial statements. The combining fund financial statement and schedules and the schedule of expenditures of federal awards and state financial assistance 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 information shown in the introductory and statistical sections listed in the table of contents has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Rachlin LLP

Miami, Florida
March 25, 2008

MANAGEMENT'S DISCUSSION AND ANALYSIS
(MD&A)

CITY OF MARATHON, FLORIDA

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the City of Marathon, 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, 2007. We encourage readers to consider the information presented here in conjunction with the additional information that we have furnished in our letter of transmittal, which can be found on pages i-iv of this report.

Fund-based financial reporting and government-wide reporting are not viewed as being in conflict; however, they are not comparable. A significant portion of this analysis focuses on the changes in the government-wide statements, while still providing information on the City's fund-based comparative changes.

Financial Highlights

- The assets of the City of Marathon exceeded its liabilities at the close of the most recent fiscal year by \$38,686,169 (net assets), as compared with \$33,921,028 for the previous year. Of this amount, \$5,084,741 (unrestricted net assets) may be used to meet the City's ongoing obligations to citizens and creditors as compared with \$5,863,652 for the previous year.
- The City's total net assets increased by \$4,765,141 or 14% during the current fiscal year. Included in the total net assets are governmental net assets that increased by \$1,809,781 and business-type activities net assets that increased by \$2,955,360.
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$11,118,809, a decrease of \$5,092,340 in comparison with the prior year. Approximately 99% (\$10,980,958), of this total amount is available for spending at the City's discretion (unreserved fund balance). However, only 48% (\$5,266,938) of this amount is available in the City's General Fund.
- The City's total debt increased by \$11,533,411 (111%) during the current fiscal year. The primary factor for this increase was the issuance of \$11,500,000 in debt through the Florida Rural Utility Financing Commission for the continuing construction of the City's wastewater and stormwater utility infrastructure.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City of Marathon's basic financial statements. The City's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements and 3) notes to the basic financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

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 manner similar to a private-sector business.

The *statement of net assets* presents information on all 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 result in cash flows in future fiscal periods (e.g., earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City of Marathon 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, community services (public works, bridge, parks & recreation), public safety (fire, police), and community development (planning, building, code). The business-type activities of the City include a full-service marina, a wastewater utility and a stormwater utility.

The government-wide financial statements can be found on pages 15-16 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 Marathon, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City of Marathon can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental funds. *Governmental funds* are used to account for essentially the same functions reported 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 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 presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the City'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 the comparison between *governmental funds* and *governmental activities*.

The City of Marathon maintains several individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, capital infrastructure fund, and street maintenance fund which are considered to be major funds. Data from the other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of *combining statements* on pages 47-50 of this report.

The City of Marathon adopts an annual appropriated budget for its general fund, four special revenue funds and the debt service fund. A budgetary comparison schedule has been provided for the general fund to demonstrate compliance with this budget (page 42). A budgetary comparison schedule has also been provided for the major special revenue funds, which are the capital infrastructure fund (page 43) and the street maintenance fund (page 44).

The governmental fund financial statements can be found on pages 17-19 of this report.

Proprietary funds. The City of Marathon maintains one type of proprietary fund. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City uses enterprise funds to account for its wastewater utility, its stormwater utility and its marina.

Proprietary funds provide the same type of information as the government-wide statements, only in more detail. The proprietary fund financial statements provide information for the wastewater and stormwater utilities and the marina (nonmajor).

The proprietary fund financial statements can be found on pages 20-22 of this report. Data from the only nonmajor proprietary fund, the Marina Enterprise Fund, is also included in this presentation

Fiduciary Funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the City. 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 accounting used for fiduciary funds is much like that used for proprietary funds. The Firefighters' Pension Plan and Trust Fund is the only fiduciary fund for the City.

The basic fiduciary fund financial statements can be found on pages 23-24 of this report.

Notes to the Basic 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 25-41 of this report.

Other Information

In addition to the basic financial statements and the accompanying notes, this report also presents certain *required supplementary information*, concerning the City of Marathon's budgetary comparison schedules for the major funds and the progress in funding its obligation to provide pension benefits to its firefighters.

Required supplementary information can be found on pages 42-46 of this report.

The combining statements referred to earlier in connection with nonmajor governmental funds are presented immediately following the required supplementary information. Combining and individual fund statements and schedules can be found on pages 47-50 of this report.

Government-wide Financial Analysis

Net Assets

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City of Marathon, assets exceeded liabilities by \$38,686,169 at the close of the most recent fiscal year, compared to net assets of \$33,921,028 in the prior year.

City of Marathon's Net Assets

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
Current and other assets	\$ 13,173,959	\$ 18,077,627	\$ 11,283,134	\$ 1,556,322	\$ 24,457,093	\$ 19,633,949
Capital assets	<u>28,043,675</u>	<u>21,983,030</u>	<u>12,471,218</u>	<u>5,094,011</u>	<u>40,514,893</u>	<u>27,077,041</u>
Total assets	<u>41,217,634</u>	<u>40,060,657</u>	<u>23,754,352</u>	<u>6,650,333</u>	<u>64,971,986</u>	<u>46,710,990</u>
Long-term liabilities	8,838,673	9,535,594	13,069,417	839,085	21,908,090	10,374,679
Other liabilities	<u>1,955,447</u>	<u>1,911,330</u>	<u>2,422,280</u>	<u>503,953</u>	<u>4,377,727</u>	<u>2,415,283</u>
Total liabilities	<u>10,794,120</u>	<u>11,446,924</u>	<u>15,491,697</u>	<u>1,343,038</u>	<u>26,285,817</u>	<u>12,789,962</u>
Net assets:						
Invested in capital assets, net of related debt	19,339,970	15,638,541	9,528,390	5,094,011	28,868,360	20,732,552
Restricted	4,733,068	7,324,824	-	-	4,733,068	7,324,824
Unrestricted	<u>6,350,476</u>	<u>5,650,368</u>	<u>(1,265,735)</u>	<u>213,284</u>	<u>5,084,741</u>	<u>5,863,652</u>
Total net assets	<u>\$ 30,423,514</u>	<u>\$ 28,613,733</u>	<u>\$ 8,262,655</u>	<u>\$ 5,307,295</u>	<u>\$ 38,686,169</u>	<u>\$ 33,921,028</u>

The largest portion of the City's net assets (75%) reflects its investment in capital assets (e.g. land, building, and equipment), less any related debt used to acquire those assets that is still outstanding. This investment in capital assets reflects a 39% increase from the prior year. The City uses its capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in capital assets is reported net of related debt, it should 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.

An additional portion of the City's net assets, \$ 4,733,068 (12%), represents resources that are subject to external restrictions on how they may be used. This represents a decrease of 35% from the previous year's balance of \$7,324,824. The remaining balance of unrestricted net assets \$ 5,084,741 (13%) may be used to meet the City's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the City of Marathon is able to report positive balances in all three categories of net assets, for the government as a whole. For governmental activities, all three categories of net assets have positive balances; for the City's business-type activities, investment in capital assets (net of related debt) is positive, while the unrestricted net assets reported a negative balance of \$1,265,735. This is due to timing differences in the recording of expenditures and the receipt of proceeds from certain grants and construction loans related to stormwater and wastewater projects. For the prior fiscal year, the City had positive balances in all three categories of net assets, for both its governmental and business-type activities.

Changes in Net Assets

Governmental activities and business-type activities increased the City's net assets by \$4,765,141 from the previous fiscal year. The relevant revenue and expense categories and their effect on net assets is summarized in the table below. The information presented in this table will be used in the subsequent discussion of governmental and business-type activities:

City of Marathon's Changes in Net Assets

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
Revenues:						
Program revenues:						
Charges for services	\$ 3,395,163	\$ 3,529,394	\$ 457,657	\$ 354,332	\$ 3,852,820	\$ 3,883,726
Operating grants and contributions	624,697	4,402,251	53,595	39,272	678,292	4,441,523
Capital grants and contributions	2,879,187	4,674,802	2,627,827	2,002,836	5,507,014	6,677,638
General revenues:						
Property taxes	4,776,651	4,365,919	-	-	4,776,651	4,365,919
Other taxes	633,305	669,856	-	-	633,305	669,856
State shared revenues	367,701	464,835	-	-	367,701	464,835
Investment earnings	595,386	658,527	106,412	25,855	701,798	684,382
Miscellaneous	492,630	426,252	- (1)	2,229,275	492,630	2,655,527
Total revenues	<u>13,764,720</u>	<u>19,191,836</u>	<u>3,245,491</u>	<u>4,651,570</u>	<u>17,010,211</u>	<u>23,843,406</u>
Expenses:						
General government	3,867,901	7,907,757	-	-	3,867,901	7,907,757
Public safety	3,645,846	4,737,074	-	-	3,645,846	4,737,074
Community services	2,050,244	1,880,765	-	-	2,050,244	1,880,765
Community development	1,576,341	1,335,976	-	-	1,576,341	1,335,976
Interest on long-term debt	390,607	372,885	-	-	390,607	372,885
Marina	-	-	622,185	537,316	622,185	537,316
Wastewater	-	-	52,230	10,826	52,230	10,826
Stormwater	-	-	39,716	10,694	39,716	10,694
Total expenses	<u>11,530,939</u>	<u>16,234,457</u>	<u>714,131</u>	<u>558,836</u>	<u>12,245,070</u>	<u>16,782,599</u>
Increase (decrease) in net assets before transfers	2,233,781	2,957,379	2,531,360	4,092,734	4,765,141	7,050,113
Transfers	(424,000)	(555,000)	424,000	555,000	-	-
Increase (decrease) in net assets	1,809,781	2,402,378	2,955,360	4,647,734	4,765,141	7,050,112
Net assets, October 1	28,613,733	26,211,355	5,307,295	659,561	33,921,028	26,870,916
Net assets, September 30	<u>\$ 30,423,514</u>	<u>\$ 28,613,733</u>	<u>\$ 8,262,655</u>	<u>\$ 5,307,295</u>	<u>\$ 38,686,169</u>	<u>\$ 33,921,028</u>

Note (1) Special assessment revenue included in program revenues (capital contributions) for 2007

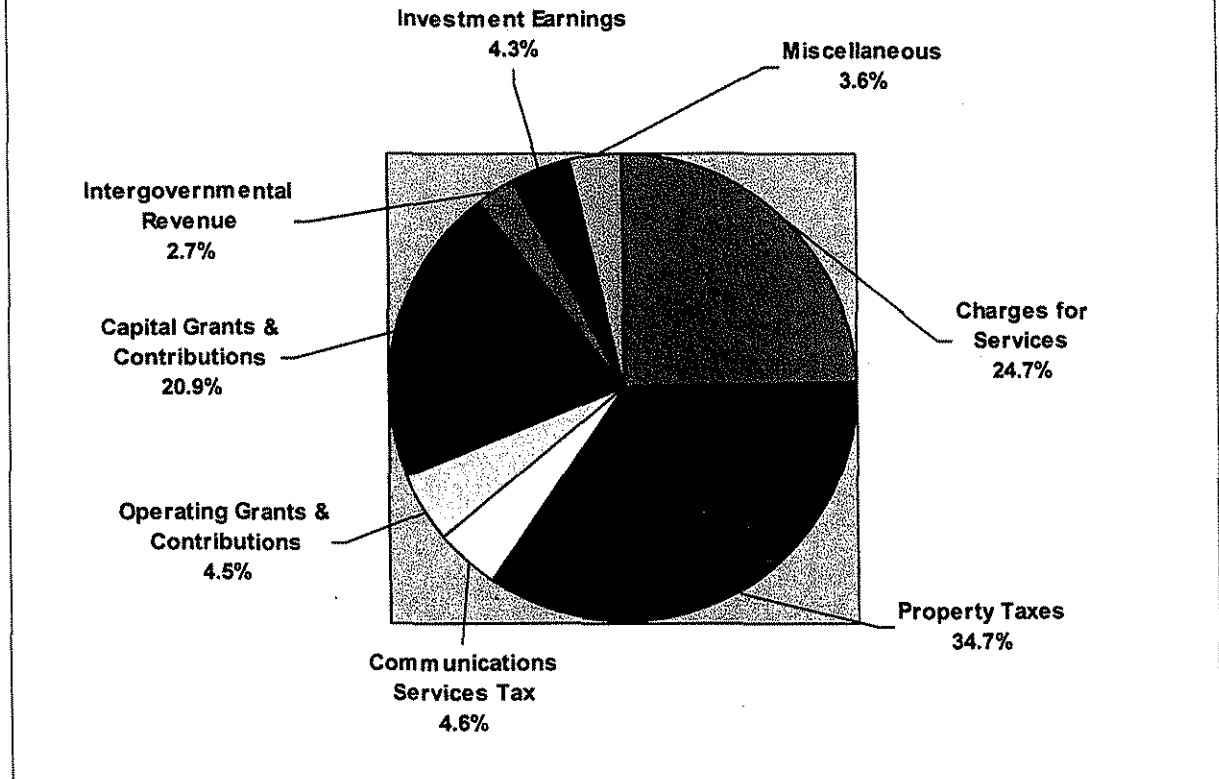
Governmental Activities

Governmental activities increased the City of Marathon's net assets by \$1,809,871 as compared to \$2,402,378 in the prior fiscal year. Key elements of this increase are as follows:

- Property tax revenues increased by \$410,372 (9%) from the prior year. This is due to an increase in assessed valuations and the addition of new construction. The City adopted the millage rate of 1.7896 per \$1,000 for fiscal year 2007.
- Transfers out to support the Marina were reduced by \$71,000 from the prior fiscal year's amount.

Program revenues, comprised of charges for services as well as operating and capital grants, and contributions represent 50% of the governmental activities total revenues. Property taxes, which represent 35% of total revenues for governmental activities, are non-program specific and are used to fund all activities not covered by program revenues.

Revenue Sources - Governmental Activities



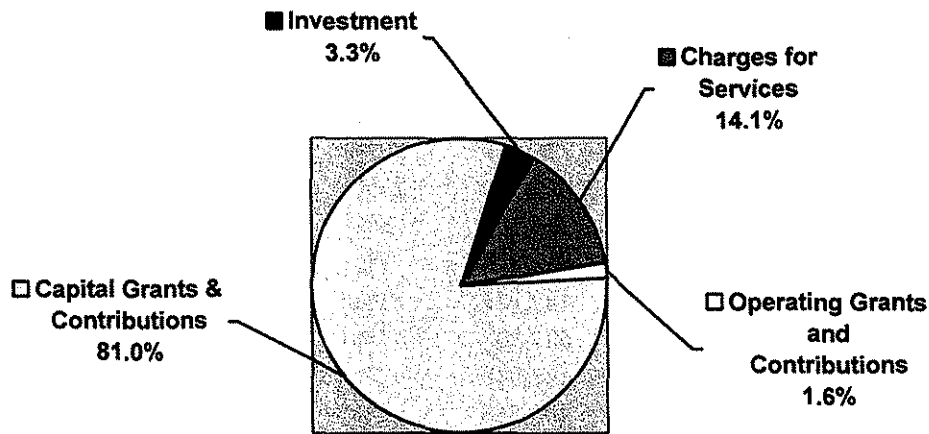
Business-type Activities

Business-type activities increased the City of Marathon's net assets by \$ 2,955,360. This increase in net assets is due principally to the fact that capital grants and contributions, including special capital assessments, directly increase capital assets in the wastewater and stormwater utilities and are not used for operating expenses.

This is the fourth year of operation for the Marina Enterprise Fund, and the second year of operation for the Wastewater and Stormwater Utility Enterprise Funds.

- In total, the City's Business-type activities reflected an operating loss of \$191,447. This is primarily due to the Marina Fund's operating loss of \$ 164,528. This Marina Fund operating loss is 10% less than its operating loss from the previous year due to an increase in charges for services to Marina customers.
- Grants and contributions, both operating and capital, represent 83% of the total business-type revenues. There are no miscellaneous revenues in business-type activities for 2007; this is because special assessments that were reported in miscellaneous revenues in 2006 have been classified as capital contributions for 2007.

Revenue Sources - Business-type Activities



Financial Analysis of the Government's Funds

As noted earlier, the City of Marathon uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds

The focus of the City's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the City's financing requirements. In particular, *unreserved fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the City of Marathon's governmental funds reported combined ending fund balances of \$11,118,809, a decrease of \$5,092,340 in comparison with the prior year. This decrease is primarily due to expenditures in the Capital Infrastructure fund for the construction of a fire station. Approximately 99% of this total amount (\$10,980,958) constitutes *unreserved fund balance*, which is available for spending at the City's discretion. The remainder of fund balance (\$137,851) is *reserved* to indicate that it is not available for new spending because it is already committed for a variety of restricted purposes.

General Fund

The general fund is the main operating fund of the City of Marathon. At the end of the current fiscal year, unreserved and undesignated fund balance of the general fund was \$5,266,938 while total fund balance was \$5,404,789. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved and undesignated fund balance represents 54% of total general fund expenditures, while total fund balance represents 55% of that same amount.

The fund balance of the City of Marathon's general fund increased by \$668,187 during the current fiscal year. Total general fund expenditures decreased 26% while total revenues decreased 29%.

The amount of General Fund revenue by type, their percent of the total and the amount of change compared to last fiscal year are shown in the following schedule:

	2007 <u>Amount</u>	Percent of <u>Total</u>	2006 <u>Amount</u>	Percent of <u>Total</u>	Increase (Decrease) from 2006	Percent of Increase (Decrease)
Revenues:						
Property taxes	\$4,776,651	50%	\$4,365,919	32%	\$410,732	9%
Intergovernmental	2,235,530	23%	6,085,406	45%	(3,849,876)	-63%
Licenses and permits	785,569	8%	1,176,781	9%	(391,212)	-33%
Charges for services	632,979	7%	549,810	4%	83,169	15%
Fines and forfeitures	142,341	1%	115,809	1%	26,532	23%
Communication services taxes	633,305	7%	669,856	5%	(36,551)	-5%
Interest	196,948	2%	194,812	1%	2,136	1%
Miscellaneous	193,566	2%	415,331	3%	(221,765)	-53%
Total revenues	<u>\$ 9,596,889</u>	<u>100%</u>	<u>\$ 13,573,724</u>	<u>100%</u>	<u>\$ (3,976,835)</u>	<u>-29%</u>

- Property taxes revenue increased 9% due to higher assessed property values and new construction.
- Intergovernmental revenue decreased 63%. This is due to the fact that last year's intergovernmental revenue included approximately \$3.8 million in funds received from the Federal Emergency Management Agency (FEMA) for reimbursement of hurricane expenses incurred during Hurricane Wilma and other hurricane events. There were no hurricane events or significant hurricane related revenues during fiscal year 2007.
- Licenses and permits decreased 33% due to a decrease in building permit activity, which was high during the prior year due to rebuilding activity from hurricane damage.
- Fines and forfeitures revenue increased 23% due to an increase in traffic court fines revenue.
- Miscellaneous revenue decreased 53%; this primarily due to the fact that the prior year's miscellaneous revenue included one time receipt of insurance proceeds associated with loss/damages from Hurricane Wilma.

Expenditures in the General Fund are shown in the following schedule:

	2007 <u>Amount</u>	of <u>Total</u>	2006 <u>Amount</u>	of <u>Total</u>	(Decrease) from 2006	of Increase (Decrease)
Expenditures						
City Council	\$ 450,315	5%	\$ 422,165	3%	\$ 28,150	7%
Administration	1,917,545	20%	1,765,664	13%	151,881	9%
Legal	470,262	5%	690,707	5%	(220,445)	-32%
Non-departmental	2,024	>1%	4,448,341	34%	(4,446,317)	-100%
Police Services	1,423,371	15%	1,331,868	10%	91,503	7%
Fire/EMS	2,723,712	28%	2,166,998	16%	556,714	26%
Public Works	208,141	2%	155,535	1%	52,606	34%
Parks and Recreation	904,640	9%	788,902	6%	115,738	15%
Bridge	115,908	1%	122,202	1%	(6,294)	-5%
Community Development	1,552,091	16%	1,349,940	10%	202,151	15%
Total expenditures	<u>\$ 9,768,009</u>	<u>100%</u>	<u>\$ 13,242,322</u>	<u>100%</u>	<u>\$ (3,474,313)</u>	<u>-26%</u>

- Public safety (Police and Fire/EMS) accounts for approximately 43% of the General Fund expenditures.
- Legal expenditures decreased 32% due to a decrease in litigation expenditures and the negotiation of a cap on general legal service expenses.
- Non-departmental expenditures decreased by essentially 100% from the prior year. This is because the fiscal 2006 non-departmental expenditures of \$4,448,341 were for hurricane expenses from Hurricane Wilma which occurred in October 2005, as well as completion of cleanup from Hurricanes Dennis, Katrina and Rita. There were no significant hurricane events or hurricane cleanup related expenditures in fiscal year 2007.
- Fire/EMS expenditures increased 26% due to purchase of vehicles to replace apparatus that was destroyed due to hurricanes as well as increased staffing and associated personnel costs.
- Public works expenditures increased 34% due to the addition of a new position and maintenance equipment capital purchases.
- Parks and recreation expenditures increased 15% due to the addition of a new staff position and the purchase of playground equipment.
- Community Development expenditures increased 15% due to the addition of a new staff position and increased professional services, including grant administration and GIS mapping.

Other governmental funds

Significant items pertaining to other governmental funds are as follows:

- The Capital Infrastructure Fund decreased its fund balance by \$6,191,967 as construction of the City's new Fire Station neared completion.
- The Street Maintenance Fund increased its fund balance by \$474,969 due to deferral of several capital projects to future years.
- The remaining special revenue funds decreased their fund balances by a total of \$43,529, in part due to the transfer and expenditure of vehicle replacement funds.

Proprietary Funds

In addition to the items already addressed in the discussion of the City's business-type activities, other significant items pertaining to the City's business-type activities are as follows:

Wastewater Fund

- The City is continuing its design and construction of a City-wide wastewater collection and treatment system. During the current fiscal year, this construction activity resulted in an increase in the Wastewater Utility investment in capital assets (net of related debt) of \$3,833,989.

Stormwater Fund

- The City is continuing its design and construction of City-wide stormwater collection and treatment infrastructure, in conjunction with its City-wide wastewater utility project. During the current fiscal year, this construction activity resulted in an increase in the Stormwater Utility investment in capital assets of \$1,257,943.

Marina Fund

- Transfers made to the Marina Fund totaled \$265,111 which included capital assets totaling \$231,111 and cash of \$34,000.
- The cash transfer from the General Fund to the Marina is 68% lower than in the prior fiscal year. The General Fund will continue to subsidize the Marina until it is fully operational and is self-supporting.

General Fund Budgetary Highlights

Differences between the original budget and the final amended budget resulted in a \$501,384 increase to total appropriations. The significant changes to the individual departments (budgetary level of control for the general fund) from the original to the final amended budget can be briefly summarized as follows:

- \$121,700 in decreases allocated to administration, primarily for decreased computer equipment purchases by the City Clerk and lower Information Technology maintenance costs than originally anticipated.
- \$750,060 in increases allocated to the Fire/EMS department for equipment/vehicle purchases necessitated by Hurricane Wilma that were deferred from fiscal 2006, as well as increased retirement benefit expenditures from an insurance premium tax pass through.

Even with these adjustments, actual expenditures were \$471,834 below final budget amounts. The significant variances can be summarized as follows:

- Expenditures for City administration were \$97,992 under the final budgeted amount due to lower than anticipated expenditures for personnel costs (due to vacant positions) and ordinance codification costs.
- Fire/EMS expenses were \$125,129 under the final budgeted amount due to lower than anticipated expenditures for personnel costs and employee benefits due to vacant positions.
- Parks and recreation department expenditures were \$97,750 under the final budgeted amount due to lower than anticipated costs for utilities and maintenance of facilities.

Resources available for appropriations were \$40,618 under the final budgeted amount. The significant variance was in charges for services, which was \$174,821 under the final budgeted amount. This was due to an adjustment to current year revenues to update the allowance for doubtful accounts currently in collection for Emergency Medical Services fees.

Capital Assets and Debt Administration

Capital assets

The City of Marathon's investment in capital assets for its governmental and business-type activities as of September 30, 2007, amounts to \$40,514,893 (net of accumulated depreciation). This investment in capital assets includes land, buildings and improvements, furniture and equipment, and park facilities. The investment does not include governmental infrastructure assets acquired prior to 2004, as GASB 34 does not require Phase III governments to report infrastructure retroactively. The total increase in the City's investment in capital assets for the current fiscal year was 49.6% (\$13,437,852) as compared to 28.1% (\$5,942,247) in the prior year.

Major capital asset events during the current fiscal year included the following:

- The investment in construction in progress increased in the area of governmental activities by \$5,975,502 as the construction of the new Fire Station neared completion.
- The investment in construction in progress in business-type activities increases by \$5,268,243 due to the continuing construction on City-wide wastewater and stormwater projects.
- Investment in fire equipment and vehicles increased \$628,765 due to the purchase of two new Fire engines.

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
Capital assets: (net of depreciation)						
Land	\$ 8,829,954	\$ 9,209,260	\$ 1,919,433	\$ -	\$ 10,749,387	\$ 9,209,260
Construction in progress	6,739,421	763,919	9,383,361	4,115,118	16,122,782	4,879,037
Buildings	3,877,100	3,772,886	833,147	778,011	4,710,247	4,550,897
Leasehold improvements	39,056	41,744	-	-	39,056	41,744
Improvement other than buildings	5,713,510	6,092,413	19,247	22,117	5,732,757	6,114,530
Fire equipment and vehicles	2,027,885	1,399,120	221,945	108,654	2,249,830	1,507,774
Furniture and equipment	816,749	703,689	94,085	70,111	910,834	773,800
Total	<u>\$ 28,043,675</u>	<u>\$ 21,983,030</u>	<u>\$ 12,471,218</u>	<u>\$ 5,094,011</u>	<u>\$ 40,514,893</u>	<u>\$ 27,077,041</u>

Additional information on the City's capital assets can be found in Note 6 on pages 33-34 of this report.

Long-term debt

At the end of the current fiscal year, the City of Marathon had improvement revenue bond debt outstanding of \$ 8,703,703. This debt is secured by the City's local discretionary sales surtax revenues. The City also had State Revolving Fund debt outstanding of \$1,558,380 in the Wastewater Enterprise fund, and \$11,500,000 in Florida Rural Utility Financing Commission Revenue Note debt outstanding for wastewater and stormwater improvements, split between the Wastewater Enterprise Fund (\$6,700,000) and the Stormwater Enterprise Fund (\$4,800,000). The State Revolving Fund debt is secured by the pledge of future non-ad valorem capital assessments for utility construction, and the Florida Rural Utility Financing Commission Revenue Note is a 'bridge loan' for cash flow purposes, to be repaid by permanent financing provided by the State Revolving Fund.

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
Long-term debt						
Improvement Revenue Bonds	\$ 8,703,703	\$ 9,444,444	\$ -	\$ -	\$ 8,703,703	\$ 9,444,444
State Revolving Fund loan	-	-	1,558,380	832,168	1,558,380	832,168
FRUFC Revenue Note, 2007	-	-	11,500,000	-	11,500,000	-
Compensated absences	134,970	91,150	11,037	6,917	146,007	98,067
Total	<u>\$ 8,838,673</u>	<u>\$ 9,535,594</u>	<u>\$ 13,069,417</u>	<u>\$ 839,085</u>	<u>\$ 21,908,090</u>	<u>\$ 10,374,679</u>

The City of Marathon's total debt increased \$11,533,411 (111%) during the current fiscal year, primarily due to issuance of the Florida Rural Utility Commission bond in the amount of \$11,500,000 for continuing construction of wastewater and stormwater utility capital improvements. The City also drew down an additional \$726,212 against State Revolving Fund loans for wastewater capital improvements in the Wastewater Utility Enterprise Fund.

Additional information on the City of Marathon's long-term debt can be found in Note 7 on pages 35-36 of this report.

Economic Factors and Next Year's Budgets and Rates

The unemployment rate for the City of Marathon is currently 3.0%, which is an increase from a rate of 2.5% a year ago. The rate still compares favorably to the state's average unemployment rate of 4.4%.

During the current fiscal year, unreserved, undesignated fund balance in the general fund increased to \$5,266,938. Increased property values allowed the City to reduce the millage rate to 1.4243 for fiscal year 2008, as compared to 1.7896 in fiscal year 2007 with a minimal planned decrease (approximately \$84,000 or 1.5%) in this fund balance.

The marina fund has reported operating losses for the fourth consecutive year; however this operating loss has been significantly reduced. Increases in rates and other revenue sources are anticipated to further reduce the amount of subsidy that the general fund provides to the marina fund in FY 2008.

During fiscal year 2008, the City will be working on the following programs/projects:

- Completion of the construction on the new fire station and emergency operations facility
- Continued construction on a city-wide wastewater collection and treatment system
- Construction of various stormwater drainage projects in conjunction with the wastewater project
- Completion of additional mooring buoys, a service building and wastewater improvements at the City Marina
- Design and construction of additional City boat ramps

All of these factors were considered in preparing the City of Marathon's budget for the 2008 fiscal year.

Requests for Information

This financial report is designed to provide a general overview of the City of Marathon's finances for all those with an interest in the City's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Finance Director, City of Marathon, 9805 Overseas Highway, Marathon, Florida 33050.

BASIC FINANCIAL STATEMENTS

CITY OF MARATHON, FLORIDA

STATEMENT OF NET ASSETS

SEPTEMBER 30, 2007

	Governmental <u>Activities</u>	Business- type <u>Activities</u>	<u>Total</u>
<u>ASSETS</u>			
Cash and cash equivalents	\$ 4,121,489	\$ 645,122	\$ 4,766,611
Investments	4,118,659	-	4,118,659
Receivables, net	316,600	2,358	318,958
Interest receivable	141,554	-	141,554
Internal balances	3,200,000	(3,200,000)	-
Due from other governments	1,183,047	2,271,476	3,454,523
Restricted asset - note proceeds	-	11,555,948	11,555,948
Prepays	92,610	8,230	100,840
Capital assets not being depreciated	15,569,375	11,302,794	26,872,169
Capital assets, being depreciated	<u>12,474,300</u>	<u>1,168,424</u>	<u>13,642,724</u>
Total assets	<u>41,217,634</u>	<u>23,754,352</u>	<u>64,971,986</u>
<u>LIABILITIES</u>			
Accounts payable and accrued liabilities	1,952,063	2,422,280	4,374,343
Due to other governments	3,384	-	3,384
Noncurrent liabilities:			
Due within one year	569,052	1,104	570,156
Due in more than one year	<u>8,269,621</u>	<u>13,068,313</u>	<u>21,337,934</u>
Total liabilities	<u>10,794,120</u>	<u>15,491,697</u>	<u>26,285,817</u>
<u>NET ASSETS</u>			
Invested in capital assets, net of related debt	19,339,970	9,528,390	28,868,360
Restricted for:			
Capital infrastructure	1,838,600	-	1,838,600
Street maintenance	2,849,227	-	2,849,227
Police education	27,671	-	27,671
Tree mitigation	17,570	-	17,570
Unrestricted	<u>6,350,476</u>	<u>(1,265,735)</u>	<u>5,084,741</u>
Total net assets	<u>\$ 30,423,514</u>	<u>\$ 8,262,655</u>	<u>\$ 38,686,169</u>

See notes to basic financial statements.

CITY OF MARATHON, FLORIDA

STATEMENT OF ACTIVITIES

FISCAL YEAR ENDED SEPTEMBER 30, 2007

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expense) Revenue and Changes in Net Assets</u>		<u>Total</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Governmental Activities</u>	<u>Business- type Activities</u>	
Governmental activities:							
General government	\$ 3,867,901	\$ 1,391,936	\$ 100,982	\$ -	\$ (2,374,983)	\$ -	\$ (2,374,983)
Public safety	3,645,846	740,365	399,161	-	(2,506,320)	-	(2,506,320)
Community services	2,050,244	516,645	124,554	2,709,330	1,300,285	-	1,300,285
Community development	1,576,341	746,217	-	169,857	(660,267)	-	(660,267)
Interest on long-term debt	390,607	-	-	-	(390,607)	-	(390,607)
Total governmental activities	<u>11,530,939</u>	<u>3,395,163</u>	<u>624,697</u>	<u>2,879,187</u>	<u>(4,631,892)</u>	<u>-</u>	<u>(4,631,892)</u>
Business-type activities:							
Wastewater	52,230	-	-	1,888,234	-	1,836,004	1,836,004
Marina	622,185	457,657	53,595	231,111	-	120,178	120,178
Stormwater	39,716	-	-	508,482	-	468,766	468,766
Total business-type activities	<u>714,131</u>	<u>457,657</u>	<u>53,595</u>	<u>2,627,827</u>	<u>-</u>	<u>2,424,948</u>	<u>2,424,948</u>
Total	<u>\$ 12,245,070</u>	<u>\$ 3,852,820</u>	<u>\$ 678,292</u>	<u>\$ 5,507,014</u>	<u>(4,631,892)</u>	<u>2,424,948</u>	<u>(2,206,944)</u>
General revenues:							
Property taxes					4,776,651	-	4,776,651
Communications services tax					633,305	-	633,305
Unrestricted intergovernmental revenue					367,701	-	367,701
Unrestricted investment earnings					595,386	106,412	701,798
Miscellaneous					492,630	-	492,630
Transfers					(424,000)	424,000	-
Total general revenues					<u>6,441,673</u>	<u>530,412</u>	<u>6,972,085</u>
Change in net assets					1,809,781	2,955,360	4,765,141
Net assets, beginning					<u>28,613,733</u>	<u>5,307,295</u>	<u>33,921,028</u>
Net assets, ending					<u>\$ 30,423,514</u>	<u>\$ 8,262,655</u>	<u>\$ 38,686,169</u>

See notes to basic financial statements.

CITY OF MARATHON, FLORIDA

BALANCE SHEET GOVERNMENTAL FUNDS

SEPTEMBER 30, 2007

	<u>General</u>	<u>Capital Infrastructure</u>	<u>Street Maintenance</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<u>ASSETS</u>					
Cash and cash equivalents	\$ 1,887,889	\$ 1,067,095	\$ 749,970	\$ 416,535	\$ 4,121,489
Investments	1,492,898	61,919	1,963,842	600,000	4,118,659
Receivables, net	316,600	-	-	-	316,600
Interest receivable	33,372	74,379	24,145	9,658	141,554
Due from other funds	1,300,000	1,900,000	-	-	3,200,000
Due from other governments	778,386	208,840	195,821	-	1,183,047
Prepaid items	92,610	-	-	-	92,610
Total assets	<u>\$ 5,901,755</u>	<u>\$ 3,312,233</u>	<u>\$ 2,933,778</u>	<u>\$ 1,026,193</u>	<u>\$ 13,173,959</u>

LIABILITIES AND FUND BALANCES

Liabilities:

Accounts payable and accrued liabilities	\$ 468,258	\$ 1,399,254	\$ 84,551	\$ -	\$ 1,952,063
Due to other governments	3,384	-	-	-	3,384
Deferred revenue	25,324	74,379	-	-	99,703
Total liabilities	<u>496,966</u>	<u>1,473,633</u>	<u>84,551</u>	<u>-</u>	<u>2,055,150</u>

Fund balances:

Reserved for:					
Police education	27,671	-	-	-	27,671
Prepaid items	92,610	-	-	-	92,610
Tree mitigation	17,570	-	-	-	17,570
Unreserved, undesignated reported in:					
General fund	5,266,938	-	-	-	5,266,938
Capital infrastructure fund	-	1,838,600	-	-	1,838,600
Street maintenance fund	-	-	2,849,227	-	2,849,227
Special revenue funds	-	-	-	1,026,193	1,026,193
Total fund balances	<u>5,404,789</u>	<u>1,838,600</u>	<u>2,849,227</u>	<u>1,026,193</u>	<u>11,118,809</u>
Total liabilities and fund balances	<u>\$ 5,901,755</u>	<u>\$ 3,312,233</u>	<u>\$ 2,933,778</u>	<u>\$ 1,026,193</u>	

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	28,043,675
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore not reported in the funds	(8,838,673)
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds	99,703
Net assets of governmental activities	<u>\$ 30,423,514</u>

See notes to basic financial statements.

CITY OF MARATHON, FLORIDA

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES GOVERNMENTAL FUNDS

FISCAL YEAR ENDED SEPTEMBER 30, 2007

	<u>General</u>	<u>Capital Infrastructure</u>	<u>Street Maintenance</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:					
Property taxes	\$ 4,776,651	\$ -	\$ -	\$ -	\$ 4,776,651
Intergovernmental	2,235,530	2,575,040	677,578	-	5,488,148
Licenses and permits	785,569	-	-	-	785,569
Charges for services	632,979	-	10,019	-	642,998
Fines and forfeitures	142,341	-	-	-	142,341
Communications services tax	633,305	-	-	-	633,305
Impact fees	-	-	-	207,692	207,692
Interest	196,948	236,737	117,693	44,008	595,386
Miscellaneous	193,566	199,125	-	236	392,927
Total revenues	<u>9,596,889</u>	<u>3,010,902</u>	<u>805,290</u>	<u>251,936</u>	<u>13,665,017</u>
Expenditures:					
Current:					
General government	2,812,485	9,864	-	-	2,822,349
Public safety	3,481,477	-	-	-	3,481,477
Community services	1,195,969	-	241,188	-	1,437,157
Community development	1,547,317	-	-	-	1,547,317
Capital outlay	730,761	7,056,870	89,133	36,945	7,913,709
Debt service:					
Principal	-	-	-	740,741	740,741
Interest and fiscal charges	-	-	-	390,607	390,607
Total expenditures	<u>9,768,009</u>	<u>7,066,734</u>	<u>330,321</u>	<u>1,168,293</u>	<u>18,333,357</u>
Excess (deficiency) of revenues over expenditures	<u>(171,120)</u>	<u>(4,055,832)</u>	<u>474,969</u>	<u>(916,357)</u>	<u>(4,668,340)</u>
Other financing sources (uses):					
Transfers in	914,787	-	-	1,422,828	2,337,615
Transfers out	<u>(75,480)</u>	<u>(2,136,135)</u>	<u>-</u>	<u>(550,000)</u>	<u>(2,761,615)</u>
Total other financing sources (uses)	<u>839,307</u>	<u>(2,136,135)</u>	<u>-</u>	<u>872,828</u>	<u>(424,000)</u>
Net change in fund balances	668,187	(6,191,967)	474,969	(43,529)	(5,092,340)
Fund balances, beginning	<u>4,736,602</u>	<u>8,030,567</u>	<u>2,374,258</u>	<u>1,069,722</u>	<u>16,211,149</u>
Fund balances, ending	<u>\$ 5,404,789</u>	<u>\$ 1,838,600</u>	<u>\$ 2,849,227</u>	<u>\$ 1,026,193</u>	<u>\$ 11,118,809</u>

See notes to basic financial statements.

CITY OF MARATHON, FLORIDA

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

FISCAL YEAR ENDED SEPTEMBER 30, 2007

Amounts reported for governmental activities in the statement of activities (Page 16) are different because:

Net change in fund balances - total governmental funds (Page 18)	\$ (5,092,340)
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Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.

The details of the difference are as follows:

Capital outlay	\$ 7,205,686	
Depreciation expense	<u>(858,001)</u>	
Net adjustment		6,347,685

Revenues in the statement of activities that do not provide current financial resources are not reported as revenue in the funds	99,703
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Statement of activities reports losses arising from disposal of existing capital assets, conversely, governmental funds do report any gain or loss on disposal of capital assets.	(55,929)
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Transfers of capital assets to business-type activities from governmental activities decrease net assets of governmental activities in the statement of activities, but are not reported in the governmental funds because they are not financial resources.	(231,111)
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The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds.

The details of the difference are as follows:

Loan principal payments	<u>740,741</u>	
Net adjustment		740,741

Some expenses or adjustments to expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds:

Compensated absences	(43,820)
Payable to pension plan	<u>44,852</u>

Change in net assets of governmental activities (Page 16)	<u>\$ 1,809,781</u>
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See notes to basic financial statements.

CITY OF MARATHON, FLORIDA

STATEMENT OF NET ASSETS PROPRIETARY FUND

SEPTEMBER 30, 2007

<u>ASSETS</u>	Business-type Activities <u>Enterprise Funds</u>			Total Enterprise Funds
	<u>Wastewater</u>	<u>Stormwater</u>	Marina (a Nonmajor Fund)	
Current assets:				
Cash and cash equivalents	\$ 238,242	\$ 405,940	\$ 940	\$ 645,122
Receivables, net	-	-	2,358	2,358
Restricted asset - note proceeds, current portion	5,174,424	1,091,706	-	6,266,130
Prepaid expenses	-	-	8,230	8,230
Due from other governments	2,258,918	3,918	8,640	2,271,476
Total current assets	<u>7,671,584</u>	<u>1,501,564</u>	<u>20,168</u>	<u>9,193,316</u>
Noncurrent assets:				
Restricted asset - note proceeds, net of current portion	1,558,026	3,731,792	-	5,289,818
Capital assets not being depreciated	8,993,387	2,241,633	67,774	11,302,794
Capital assets, net of accumulated depreciation	29,048	6,279	1,133,097	1,168,424
Total noncurrent assets	<u>10,580,461</u>	<u>5,979,704</u>	<u>1,200,871</u>	<u>17,761,036</u>
Total assets	<u>18,252,045</u>	<u>7,481,268</u>	<u>1,221,039</u>	<u>26,954,352</u>
 <u>LIABILITIES</u>				
Current liabilities:				
Accounts payable and accrued liabilities	1,759,783	632,529	29,968	2,422,280
Due to other funds	3,200,000	-	-	3,200,000
Current portion of compensated absences	-	-	1,104	1,104
Total current liabilities	<u>4,959,783</u>	<u>632,529</u>	<u>31,072</u>	<u>5,623,384</u>
Noncurrent liabilities:				
Compensated absences, net of current portion	-	-	9,933	9,933
Loan payable	8,258,380	4,800,000	-	13,058,380
Total noncurrent liabilities	<u>8,258,380</u>	<u>4,800,000</u>	<u>9,933</u>	<u>13,068,313</u>
Total liabilities	<u>13,218,163</u>	<u>5,432,529</u>	<u>41,005</u>	<u>18,691,697</u>
 <u>NET ASSETS</u>				
Invested in capital assets, net of related debt	6,465,190	1,862,329	1,200,871	9,528,390
Unrestricted	(1,431,308)	186,410	(20,837)	(1,265,735)
Total net assets	<u>\$ 5,033,882</u>	<u>\$ 2,048,739</u>	<u>\$ 1,180,034</u>	<u>\$ 8,262,655</u>

See notes to basic financial statements.

CITY OF MARATHON, FLORIDA

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS PROPRIETARY FUND

FISCAL YEAR ENDED SEPTEMBER 30, 2007

	Business-type Activities Enterprise Funds			Total Enterprise Funds
	Wastewater	Stormwater	Marina (a Nonmajor Fund)	
Operating revenues:				
Charges for services	\$ -	\$ -	\$ 457,657	\$ 457,657
Operating expenses:				
Personnel costs	-	-	354,487	354,487
Operating expenses	4,165	22,754	206,475	233,394
Depreciation	-	-	61,223	61,223
Total operating expenses	4,165	22,754	622,185	649,104
Operating loss	(4,165)	(22,754)	(164,528)	(191,447)
Nonoperating revenues (expenses):				
Interest income	48,065	57,772	575	106,412
Special assessment	627,083	508,482	-	1,135,565
Grants	1,261,151	-	53,595	1,314,746
Interest expense	(48,065)	(16,962)	-	(65,027)
Total nonoperating revenues (expenses)	1,888,234	549,292	54,170	2,491,696
Income before transfers and capital contributions	1,884,069	526,538	(110,358)	2,300,249
Transfers in	-	500,000	34,000	534,000
Transfers out	(60,000)	(50,000)	-	(110,000)
Contribution of capital assets	-	-	231,111	231,111
	(60,000)	450,000	265,111	655,111
Change in net assets	1,824,069	976,538	154,753	2,955,360
Net assets, beginning	3,209,813	1,072,201	1,025,281	5,307,295
Net assets, ending	\$ 5,033,882	\$ 2,048,739	\$ 1,180,034	\$ 8,262,655

See notes to basic financial statements.

CITY OF MARATHON, FLORIDA

STATEMENT OF CASH FLOWS PROPRIETARY FUND

FISCAL YEAR ENDED SEPTEMBER 30, 2007

	Business-type Activities Enterprise Funds			Total Enterprise Funds
	Wastewater	Stormwater	Marina (a Nonmajor Fund)	
Cash flows from operating activities:				
Receipts from customers and users	\$ -	\$ -	\$ 455,559	\$ 455,559
Payments to employees	-	-	(353,858)	(353,858)
Payments to suppliers	(4,165)	(22,754)	(222,527)	(249,446)
Net cash used by operating activities	(4,165)	(22,754)	(120,826)	(147,745)
Cash flows from non-capital financing activities:				
Operating grants proceeds	-	-	55,688	55,688
Transfers from other funds	-	500,000	34,000	534,000
Transfers to other funds	(60,000)	(50,000)	-	(110,000)
Net cash provided (used) by non-capital financing activities	(60,000)	450,000	89,688	479,688
Cash flows from capital and related financing activities:				
Acquisition of capital assets	(4,170,367)	(1,166,115)	(6,218)	(5,342,700)
Assessment income	169,313	508,427	-	677,740
Proceeds from capital grants	2,258,405	100,000	-	2,358,405
Proceeds from capital debt	1,426,226	-	-	1,426,226
Advance from other funds	250,000	-	-	250,000
Net cash used by capital and related financing activities	(66,423)	(557,688)	(6,218)	(630,329)
Cash flows from capital and investing activities:				
Interest received	15,615	34,274	575	50,464
Net cash provided by investing activities	15,615	34,274	575	50,464
Net decrease in cash and cash equivalents	(114,973)	(96,168)	(36,781)	(247,922)
Cash and cash equivalents, beginning	353,215	502,108	37,721	893,044
Cash and cash equivalents, ending	\$ 238,242	\$ 405,940	\$ 940	\$ 645,122
Reconciliation of operating loss to net cash used by operating activities:				
Operating loss	\$ (4,165)	\$ (22,754)	\$ (164,528)	\$ (191,447)
Adjustments to reconcile operating loss to net cash used by operating activities:				
Depreciation	-	-	61,223	61,223
Loss on disposal of capital assets	-	-	1,491	1,491
Changes in operating assets and liabilities:				
(Increase) decrease in:				
Receivables	-	-	(2,092)	(2,092)
Due from other governments	-	-	-	-
Prepaid expenses	-	-	(8,230)	(8,230)
Increase (decrease) in:				
Accounts payable	-	-	(12,810)	(12,810)
Compensated absences	-	-	4,120	4,120
Total adjustments	-	-	43,702	43,702
Net cash used by operating activities	\$ (4,165)	\$ (22,754)	\$ (120,826)	\$ (147,745)
Supplemental disclosure of noncash investing and financing activities:				
Contributions of capital assets from capital infrastructure	\$ -	\$ -	\$ 231,111	\$ 231,111
Capital debt issued but no proceeds received	\$ 6,700,000	\$ 4,800,000	\$ -	\$ 11,500,000

See notes to basic financial statements.

CITY OF MARATHON, FLORIDA
STATEMENT OF FIDUCIARY NET ASSETS
PENSION TRUST FUND
SEPTEMBER 30, 2007

ASSETS

Cash	\$ 38,365
Investments:	
Bond fund	356,821
Equity funds	<u>529,140</u>
Total investments	885,961
Receivables:	
Plan members	6,361
City (including State)	<u>152,786</u>
Total receivables	159,147
Total assets	1,083,473

LIABILITIES

Liabilities	<u>-</u>
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NET ASSETS

Held in trust for pension benefits	<u>\$ 1,083,473</u>
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See notes to basic financial statements.

CITY OF MARATHON, FLORIDA

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS PENSION TRUST FUND

FISCAL YEAR ENDED SEPTEMBER 30, 2007

ADDITIONS

Contributions:

Plan members	\$ 49,548
City (including State)	<u>324,992</u>
Total contributions	374,540

Investment earnings:

Net appreciation in fair value of investments	<u>73,912</u>
Total additions	448,452

DEDUCTIONS

Benefits paid	17,164
Administrative expenses	<u>9,862</u>
Total deductions	27,026

Change in net assets	421,426
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Net assets, beginning	<u>662,047</u>
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Net assets, ending	<u>\$ 1,083,473</u>
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See notes to basic financial statements.

NOTES TO BASIC FINANCIAL STATEMENTS

CITY OF MARATHON, FLORIDA

NOTES TO BASIC FINANCIAL STATEMENTS

FISCAL YEAR ENDED SEPTEMBER 30, 2007

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Marathon (the City) is a municipal corporation organized pursuant to Chapter 99-427, Laws of Florida and is located in Monroe County (the County). The City was incorporated on November 30, 1999. The City operates under the Council-Manager form of government. The City's major operations include general government and community development.

The financial statements of the City have been prepared in conformity with accounting principles generally accepted in the United States (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the City's accounting policies are described below:

1. Financial Reporting Entity

The financial statements were prepared in accordance with GASB pronouncements for *The Financial Reporting Entity*, which establishes standards for defining and reporting on the financial reporting entity. The definition of the financial reporting entity is based upon the concept that elected officials are accountable to their constituents for their actions. One of the objectives of financial reporting is to provide users of financial statements with a basis for assessing the accountability of the elected officials. The financial reporting entity consists of the City, organizations for which the City is financially accountable, and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. The City is financially accountable for a component unit if it appoints a voting majority of the organization's governing board and it is able to impose its will on that organization or there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the City. Based upon the application of these criteria, there were no organizations that met the criteria for component units described above.

2. 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 of the non-fiduciary activities of the City. For the most part, the effect of interfund activity has been removed from these statements.

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.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are 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 MARATHON, FLORIDA

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2. Government-Wide and Fund Financial Statements (Continued)

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

3. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are 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.

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 are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures as well as expenditures related to compensated absences are recorded only when payment is due.

Property taxes, franchise fees and other taxes, licenses, 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. Revenues for expenditure driven grants are recognized when the qualifying expenditures are incurred. 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.

The *Capital Infrastructure Fund* accounts for revenues derived from local government infrastructure surtax levied in the County. Funds can only be expended to finance, plan and construct infrastructure and to acquire land for public recreation, conservation or protection of natural resources.

CITY OF MARATHON, FLORIDA

NOTES TO BASIC FINANCIAL STATEMENTS

(Continued)

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3. Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)

The *Street Maintenance Fund* is used to account for revenues derived from a portion of state shared revenues, and the local option gas tax. Funds can only be used for road construction and maintenance.

The City reports the following major proprietary funds:

The *Wastewater Fund* accounts for the provision of wastewater services to City residents and businesses.

The *Stormwater Fund* accounts for the provision of stormwater management services to City residents and businesses.

Additionally, the City reports the following fiduciary fund type:

The *Firefighters' Pension Fund* is used to account for the City's single-employer defined benefit pension plan covering its firefighters.

Private-sector standards of accounting 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. The City has 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. Exceptions to this general rule are charges between the City's marina fund and the general fund. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

When an expense is incurred for purposes for which both unrestricted and restricted net assets are available, it is the City's policy to first apply restricted resources.

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. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Marina fund are charges to customers for services. Operating expenses for enterprise funds include the costs of services, personnel costs, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

CITY OF MARATHON, FLORIDA

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

4. Deposits and Investments

The City's cash and cash equivalents are considered to be cash on hand and short-term investments. Deposits include cash on hand and certificates of deposit.

City administration is authorized to invest in those instruments authorized by the Florida Statutes. Investments include the Local Government Surplus Funds Trust Fund. Investment in the Local Government Surplus Funds Trust Fund administered by the State Board of Administration is reported at its fair value of its position in the pool, which is the same as the value of the pool shares.

5. 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 "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".

6. Capital Assets

Capital assets, which include property, plant and equipment, and certain infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital 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. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Certain infrastructure acquired prior to the implementation of GASB 34 has not been reported.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the asset constructed.

Capital assets of the City are depreciated using the straight line method over the following estimated useful lives:

Capital assets of the City are depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	25-50
Improvements other than buildings	10-50
Fire equipment and vehicles	5-25
Furniture and equipment	5-10

CITY OF MARATHON, FLORIDA

NOTES TO BASIC FINANCIAL STATEMENTS

(Continued)

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

7. Compensated Absences

It is the City's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. There is no liability for unpaid accumulated sick leave since the City does not have a policy to pay any amounts when employees separate from service with the government. All vacation pay is accrued when incurred in the government-wide and proprietary 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 or retirements.

8. Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. In the fund financial statements, governmental fund types recognize the face amount of debt issued as an other financing source.

9. 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, where noted, represent tentative management plans that are subject to change.

Unreserved, undesignated fund balance of the general fund is the portion of fund equity available for any lawful use. Fund balance of the governmental funds are restricted for the intended use of the fund, and are identified as such.

10. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Although these estimates are based on management's knowledge of current events and actions it may undertake in the future, they may ultimately differ from actual results.

NOTE 2. DEPOSITS AND INVESTMENTS

Deposits

In addition to insurance provided by the Federal Depository Insurance Corporation, deposits which consist of cash on hand and certificates of deposit are held in banking institutions approved by the State Treasurer of the State of Florida to hold public funds. Under Florida Statutes Chapter 280, *Florida Security for Public Deposits Act*, the State Treasurer requires all Florida qualified public depositories to deposit with the Treasurer or another banking institution eligible collateral. In the event of a failure of a qualified public depository, the remaining public depositories would be responsible for covering any resulting losses. Therefore, all amounts presented as deposits at September 30, 2007 are insured or collateralized.

CITY OF MARATHON, FLORIDA

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

NOTE 2. DEPOSITS AND INVESTMENTS (Continued)

Investments

The City is authorized to invest in obligations of the U.S. Treasury, its agencies, instrumentalities and the Local Government Surplus Funds Trust Fund administered by the State Board of Administration. The investments follow the investment rules defined in Florida Statutes Chapter 215. The investment policy defined in the statutes attempts to promote, through state assistance, the maximization of net interest earnings on invested surplus funds of local units of governments while limiting the risk to which the funds are exposed.

The Local Government Surplus Funds Trust Fund is governed by Ch. 19-7 of the Florida Administrative Code, which identifies the Rules of the State Board of Administration. These rules provide guidance and establish the general operating procedures for the administration of the Local Government Surplus Funds Trust Fund. Additionally, the Office of the Auditor General performs the operational audit of the activities and investments of the State Board of Administration. The Local Government Surplus Funds Trust Fund is not a registrant with the Securities and Exchange Commission (SEC); however, the Board has adopted operating procedures consistent with the requirements for a 2a-7 fund (See Note 11).

Investments – City

Credit Risk

The City has an investment policy that limits investments to the highest ratings by a nationally recognized statistical rating organizations (NRSRO). Excess funds are also sent daily to the Florida State Board of Administration (SBA) for their investment. The SBA does not have a rating from a NRSRO. This is the only external investment pool that the City can invest in.

Investments – Firefighters' Pension Plan

As of September 30, 2007, the City's Pension Plan had the following debt securities and its corresponding maturities in its portfolio:

<u>Investment</u>	<u>Average Maturities</u>	<u>Fair Value</u>
Bond fund	Less than 1 year	<u>\$ 356,821</u>

Interest Rate Risk

Interest rate risk refers to the portfolio's exposure to fair value losses arising from increasing interest rates. The Plan does not have a formal investment policy that limits investment maturities as means of managing its exposure to market value losses arising from increasing interest rates.

CITY OF MARATHON, FLORIDA

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

NOTE 2. DEPOSITS AND INVESTMENTS (Continued)

Investments – Firefighters' Pension Plan (Continued)

Credit Risk

The Plan's investment policy limits investments in the FMIvT investment portfolio to the top ratings issued by nationally recognized statistical rating organizations of the United States. FMIvT fixed income funds was rated AAA/VI by Fitch.

Concentration of Credit Risk

The Plan's investment policy does not stipulate any limit on the percentage that can be invested in any one issuing company. As of September 30, 2007, the value of each position held in the Plan's portfolio comprised less than 5% of the Plan's investment assets.

Risks and Uncertainties

The Plan invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the statement of plan net assets. The Plan, through its investment advisor, monitors the Plan's investment and the risks associated therewith on a regular basis which the Plan believes minimizes these risks.

Plan contributions are made and the actuarial present value of accumulated plan benefits are reported based on certain assumptions pertaining to interest rates, inflation rates and employee demographics, all of which are subject to change. Due to uncertainties inherent in the estimations and assumptions process, it is at least reasonably possible that changes in these estimates and assumptions in the near term would be material to the financial statements.

NOTE 3. PROPERTY TAXES

Property values are assessed on a county-wide basis by the Monroe County Property Appraiser as of January 1, the lien date, of each year and are due the following November 1st (levy date). Taxable value of property within the City is certified by the Property Appraiser and the City levies a tax millage rate upon the taxable value, which will provide revenue required for the fiscal year beginning October 1 (see Note 11).

Property taxes levied each November 1 by the City and all other taxing authorities within the County, are centrally billed and collected by Monroe County, with remittances to the City of their proportionate share of collected taxes. Taxes for the fiscal year beginning October 1 are billed in the month of November, subject to a 1% per month discount for the periods November through February, and are due no later than March 31. On April 1, unpaid amounts become delinquent with interest and penalties added thereafter. Beginning June 1, tax certificates representing delinquent taxes with interest and penalties are sold by the County, with remittance to the City for its share of those receipts. At September 30, 2007, there were no significant delinquent taxes.

CITY OF MARATHON, FLORIDA

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

NOTE 4. RECEIVABLES

Receivables for the City's individual major funds, nonmajor funds and fiduciary funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

	<u>General</u>	<u>Capital Infrastructure</u>	<u>Street Maintenance</u>	<u>Wastewater</u>	<u>Stormwater</u>	<u>Nonmajor Funds</u>	<u>Pension Trust Fund</u>	<u>Total</u>
Customers billed	\$ 631,003	\$ -	\$ -	\$ -	\$ -	\$ 2,358	\$ -	\$ 633,361
Property taxes	453	-	-	-	-	-	-	453
Intergovernmental	777,933	208,840	195,821	2,258,918	3,918	8,640	-	3,454,070
Interest	33,372	74,379	24,145	-	-	9,658	-	141,554
Miscellaneous	1,199	-	-	-	-	-	-	1,199
Contributions	-	-	-	-	-	-	159,147	159,147
Gross receivables	1,443,960	283,219	219,966	2,258,918	3,918	20,656	159,147	4,389,784
Less allowance for uncollectibles	(315,602)	-	-	-	-	-	-	(315,602)
Net total receivables	<u>\$1,128,358</u>	<u>\$ 283,219</u>	<u>\$ 219,966</u>	<u>\$2,258,918</u>	<u>\$ 3,918</u>	<u>\$ 20,656</u>	<u>\$ 159,147</u>	<u>\$4,074,182</u>

Receivables consist of the following:

Receivables (including pension trust fund)	\$ 619,659
Due from other governments	<u>3,454,523</u>
Net total receivables	<u>\$4,074,182</u>

NOTE 5. INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

The composition of interfund balances as of September 30, 2007 is as follows:

Due from/to Other Funds

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Wastewater	\$ 1,300,000
Capital Infrastructure	Wastewater	<u>1,900,000</u>
		<u>\$3,200,000</u>

The outstanding balances between funds result mainly from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

CITY OF MARATHON, FLORIDA

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

NOTE 5. INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

Interfund Transfers

	Transfers In			
	General Fund	Stormwater Fund	Nonmajor Funds	Total
Transfers out:				
General Fund	\$ -	\$ -	\$ 75,480	\$ 75,480
Capital Infrastructure Fund	254,787	500,000	1,381,348	2,136,135
Wastewater Fund	60,000	-	-	60,000
Stormwater Fund	50,000	-	-	50,000
Nonmajor Fund	550,000	-	-	550,000
Total transfers out	<u>\$914,787</u>	<u>\$ 500,000</u>	<u>\$1,456,828</u>	<u>\$2,871,615</u>

- A transfer from the Capital Infrastructure Fund to the General Fund was made in accordance with the 10% exception under Florida Statutes allowing the use of Local Government Infrastructure Surtax proceeds and accrued interest for any public purpose.
- Transfers were made from the Wastewater and Stormwater Utility Enterprise Funds to the General Fund to support general wastewater/stormwater project administration costs.
- A transfer of \$550,000 from the Vehicle and Equipment Replacement Fund (nonmajor) to the General Fund to support procurement of a replacement Fire Department vehicle.
- A transfer was made from the Capital Infrastructure Fund to the Stormwater Utility Enterprise Fund (\$500,000) to support stormwater capital projects
- Transfers to nonmajor funds include the transfer of \$34,000 from the General Fund to the Marina Enterprise Fund to subsidize operations, as well as regular ongoing transfers for debt service and vehicle replacement.

NOTE 6. CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2007 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 9,209,260	\$ -	\$ (379,306)	\$ 8,829,954
Construction in progress	763,919	6,148,526	(173,024)	6,739,421
Total capital assets, not being depreciated	<u>9,973,179</u>	<u>6,148,526</u>	<u>(552,330)</u>	<u>15,569,375</u>
Capital assets, being depreciated:				
Buildings	4,133,309	275,200	(22,000)	4,386,509
Leasehold improvements	53,759	-	-	53,759
Improvements other than buildings	6,641,733	30,835	-	6,672,568
Fire equipment and vehicles	1,768,003	790,287	(15,900)	2,542,390
Furniture and equipment	1,066,116	282,057	(82,154)	1,266,019
Total capital assets, being depreciated	<u>13,662,920</u>	<u>1,378,379</u>	<u>(120,054)</u>	<u>14,921,245</u>

CITY OF MARATHON, FLORIDA

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

NOTE 6. CAPITAL ASSETS (Continued)

	Beginning Balance	Increases	Decreases	Ending Balance
Less accumulated depreciation for:				
Buildings	(360,423)	(159,986)	11,000	(509,409)
Leasehold improvements	(12,015)	(2,688)	-	(14,703)
Improvements other than buildings	(549,320)	(409,738)	-	(959,058)
Fire equipment and vehicles	(368,883)	(159,147)	13,525	(514,505)
Furniture and equipment	(362,428)	(126,442)	39,600	(449,270)
Total accumulated depreciation	<u>(1,653,069)</u>	<u>(858,001)</u>	<u>64,125</u>	<u>(2,446,945)</u>
Total capital assets, being depreciated, net	<u>12,009,851</u>	<u>520,378</u>	<u>(55,929)</u>	<u>12,474,300</u>
Governmental activities capital assets, net	<u>\$ 21,983,030</u>	<u>\$ 6,668,904</u>	<u>\$ (608,259)</u>	<u>\$ 28,043,675</u>
Business-type activities:				
Capital assets, not being depreciated:				
Land	\$ -	\$ 1,919,433	\$ -	\$ 1,919,433
Construction in progress	<u>4,115,118</u>	<u>5,286,460</u>	<u>(18,217)</u>	<u>9,383,361</u>
Total capital assets, not being depreciated	<u>\$ 4,115,118</u>	<u>\$ 7,205,893</u>	<u>\$ (18,217)</u>	<u>\$ 11,302,794</u>
Capital assets, being depreciated:				
Buildings	829,629	89,265	-	918,894
Improvements other than buildings	28,363	-	(1,417)	26,946
Equipment	100,347	35,326	(1,366)	134,307
Vehicles	<u>153,006</u>	<u>127,654</u>	<u>-</u>	<u>280,660</u>
Total capital assets, being depreciated	<u>1,111,345</u>	<u>252,245</u>	<u>(2,783)</u>	<u>1,360,807</u>
Less accumulated depreciation for:				
Buildings	(51,618)	(34,129)	-	(85,747)
Improvements other than buildings	(6,246)	(1,925)	472	(7,699)
Equipment	(30,236)	(10,806)	820	(40,222)
Vehicles	<u>(44,352)</u>	<u>(14,363)</u>	<u>-</u>	<u>(58,715)</u>
Total accumulated depreciation	<u>(132,452)</u>	<u>(61,223)</u>	<u>1,292</u>	<u>(192,383)</u>
Total capital assets, being depreciated, net	<u>978,893</u>	<u>191,022</u>	<u>(1,491)</u>	<u>1,168,424</u>
Business-type activities capital assets, net	<u>\$ 5,094,011</u>	<u>\$ 7,396,915</u>	<u>\$ (19,708)</u>	<u>\$ 12,471,218</u>

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

Governmental activities:	
General government	\$ 62,521
Public safety	153,369
Community services	613,087
Community Development	29,024
Total depreciation expenses - governmental activities	<u>\$ 858,001</u>
Business-type activities:	
Marina	<u>\$ 61,223</u>

CITY OF MARATHON, FLORIDA

NOTES TO BASIC FINANCIAL STATEMENTS

(Continued)

NOTE 7. LONG-TERM DEBT

The following is a summary of changes in long-term liabilities of the City's for governmental activities for the year ended September 30, 2007:

	Beginning Balance	Increases	Decreases	Ending Balance	Due Within One Year
Governmental activities:					
Improvement revenue bonds, Series 2004	\$ 9,444,444	\$ -	\$ (740,741)	\$ 8,703,703	\$ 555,556
Compensated absences	91,150	46,099	(2,279)	134,970	13,496
Governmental activities long-term liabilities	<u>\$ 9,535,594</u>	<u>\$ 46,099</u>	<u>\$ (743,020)</u>	<u>\$ 8,838,673</u>	<u>\$ 569,052</u>

Improvement Revenue Bonds

On July 20, 2004, the City issued Improvement Revenue Bonds, Series 2004, for an amount of up to \$10,000,000 to be drawn down over an 18 month period that expired in January 2006. The issuance was established similar to bond anticipation notes where the principal amount is the lesser of \$10,000,000 or the advances made under the bond. As of September 30, 2006, the City had drawn down the total \$10,000,000. Bond proceeds were used to finance several projects under the City's capital infrastructure plan, as well as to pay off the commercial paper loan. The bond carries a tax-exempt bank qualified rate of 4.30% and matures on July 1, 2019.

The amortization of the entire \$10,000,000 obligation is as follows:

	Principal	Interest	Total
Fiscal year ending September 30:			
2008	\$ 555,556	\$ 274,722	\$ 830,278
2009	740,741	338,426	1,079,167
2010	740,741	306,574	1,047,315
2011	740,741	274,722	1,015,463
2012	740,741	242,870	983,611
2013-2017	3,703,701	736,574	4,440,275
2018-2019	1,481,482	71,667	1,553,149
	<u>\$ 8,703,703</u>	<u>\$ 2,245,555</u>	<u>\$ 10,949,258</u>

The following is a summary of changes in long-term liabilities of the City's for business-type activities for the year ended September 30, 2007:

	Beginning Balance	Increases	Decreases	Ending Balance	Due Within One Year
Business-type activities:					
State Revolving Fund Loans	\$ 832,168	\$ 726,212	\$ -	\$ 1,558,380	\$ -
FRUFC Revenue Note, Series 2007	-	11,500,000	-	11,500,000	-
Compensated absences	6,917	4,267	(147)	11,037	1,104
Business-type activities long-term liabilities	<u>\$ 839,085</u>	<u>\$ 12,230,479</u>	<u>\$ (147)</u>	<u>\$ 13,069,417</u>	<u>\$ 1,104</u>

CITY OF MARATHON, FLORIDA

NOTES TO BASIC FINANCIAL STATEMENTS

(Continued)

NOTE 7. LONG-TERM DEBT (Continued)

State Revolving Fund Loan(s)

As of September 30, 2007, the City has entered into four revolving loan agreements with the State of Florida Department of Environmental Protection Clean Water State Revolving Fund Loan program to finance its wastewater and stormwater utility capital projects. Through September 30, 2007, the City has borrowed a total of \$1,558,380 under these agreements. The breakdown as of September 30, 2007 of the total amounts authorized, the fixed weighted average interest rate, the repayment start dates and the amounts drawn to date on each loan is as follows:

<u>SRF Loan Agreement No.</u>	<u>Total Loan Amount Authorized</u>	<u>Interest Rate</u>	<u>Repayment Start Date</u>	<u>Total Funds Borrowed through September 30, 2007</u>
WW 63702P	\$ 8,746,211	2.31%	February 15, 2010	\$ 964,322
WW 63705P	848,654	2.46%	July 15, 2009	594,058
SW 63703	395,302	2.46%	July 15, 2009	-
SW 63704	253,923	2.46%	July 15, 2009	-
Total	<u>\$10,244,090</u>			<u>\$ 1,558,380</u>

The amounts of the semiannual payments for each loan will be calculated based on the actual amount of the principal drawn under the agreement, as well as associated capitalized interest and loan issuance fees. These amounts will not be determined until project completion; therefore, amortization schedules are not available for these loan agreements at this time.

Florida Rural Utility Financing Commission Revenue Note Series 2007

On August 24, 2007, the City entered into a 'bridge' loan agreement with the Florida Rural Utility Financing Commission program in a total principal amount of \$11,500,000 for the financing of wastewater and stormwater utility capital construction. The revenue note carries a fixed interest rate of 4.0% and matures on September 1, 2010. There are no principal payments due during the term of the loan. The loan is secured by the pledge of permanent financing to be provided by the State Revolving Fund Loan program. The note proceeds and associated interest earnings are held by the Commission in restricted accounts on behalf of the City of Marathon. Loan funds are disbursed to the City upon submittal of construction contract progress payment applications. As of September 30, 2007 the City had applied for disbursements of \$998,865.

NOTE 8. COMMITMENTS AND CONTINGENCIES

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; injuries to employees; and natural disasters for which the City purchases commercial insurance. There was no reduction in insurance coverage from coverages in the prior year. There were no settlements that exceeded insurance coverage for each of the past three years.

CITY OF MARATHON, FLORIDA

NOTES TO BASIC FINANCIAL STATEMENTS

(Continued)

NOTE 8. COMMITMENTS AND CONTINGENCIES (Continued)

Litigation

The City is involved in legal proceedings incidental to its operations, the outcome of which, in the opinion of management and legal counsel, would not have a material adverse effect on the financial condition of the City.

Grant Contingency

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies, principally the federal government and the State of Florida. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds.

The amount, if any, of expenditures that may be disallowed by the grantor cannot be determined at this time, although the City expects such amounts, if any, to be immaterial.

Construction Commitment

At September 30, 2007, the City had outstanding construction contract commitments of the governmental and enterprise funds consisting of:

- Completion of the Fire Station construction in the amount of \$496,485 by Biltmore Construction.
- Completion of the Service Area 4 & 6 Wastewater, Stormwater and Water Re-Use Collection System in the amount of \$17,717,126 by GlobeTec Construction.

Operating Leases

As of September 30, 2007, the City did not have any non-cancelable operating lease commitments.

NOTE 9. DEFINED CONTRIBUTION PLAN

The City as a single-employer contributes to the City of Marathon Money Purchase Plan, which is a defined contribution plan created in accordance with Internal Revenue Code Section 401(a). Under the Plan, the City contributes 10% for all full-time employees, except the City Manager, for whom the City contributes 15%. Normal retirement is defined as age 57-1/2. The employees are not required to make contributions and are fully vested on day one. Employer contributions for the fiscal year ended September 30, 2007 were \$186,429. Amendments to the Plan must be authorized by the City Council.

NOTE 10. FIREFIGHTERS' PENSION PLAN

Plan Description

The City established The City of Marathon Firefighters' Pension Plan and Trust Fund (the Plan) as a Local Law Plan in accordance with Chapter 175, Florida Statutes on October 1, 2005 as per a City adopted ordinance. The Plan is a single-employer, defined benefit plan that

CITY OF MARATHON, FLORIDA

NOTES TO BASIC FINANCIAL STATEMENTS

(Continued)

NOTE 10. FIREFIGHTERS' PENSION PLAN (Continued)

Plan Description (Continued)

covers all full-time and volunteer firefighters. This replaces the previous Firefighters Pension Fund first created on December 9, 2003 and is treated as a newly created plan from an actuarial standpoint. From a financial statement perspective, the ending net assets of the old plan became the beginning net assets of the new Plan on October 1, 2005. The administrative duties for this Fund are handled through the Florida Municipal Pension Trust Retirement Services. A more detailed description of the Plan appears in the ordinances constituting the Plan and in the Summary Plan Description. The Plan does not issue a stand-alone financial report, but is included in the reporting entity of the City as a pension trust fund. Amendments to the plan document can only be authorized by the City Council.

At October 1, 2006 (date of the latest actuarial valuation), the Plan's membership consisted of:

Retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them	-
Current employees:	
Vested	-
Non-vested	22
Total	22

Basis of Accounting

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. Employer contributions are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the Plans. Administrative costs of the Plan are financed through investment earnings.

Method Used to Value Investments

Investments are reported at fair value. Short-term investments are reported at cost, which approximates fair value. Securities traded on a national exchange are valued at the last reported sales price. Net appreciation in fair value of investments includes realized and unrealized gains and losses. Interest and dividends are reported in investment earnings. Realized gains and losses are determined on the basis of specific cost. Purchases and sales are recorded on the trade-date basis.

Contributions and Funding Policy

Firefighters are required to contribute 5% of their salary to the Plan. Contributions from the State of Florida are based on the amount of fire insurance premiums written by private insurers on property within City limits. The City is required to contribute if there is any shortfall between the State's contributions and funding requirements of the Plan.

CITY OF MARATHON, FLORIDA

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

NOTE 10. FIREFIGHTERS' PENSION PLAN (Continued)

Contributions and Funding Policy

The Plan's funding policy provides for actuarially determined periodic employer contributions sufficient to pay the benefits provided by the Plan when they become due. The actuarial cost method used for determining the contribution requirements of the Plan is the aggregate actuarial cost method. The aggregate actuarial cost method does not identify or separately amortized unfunded actuarial accrued liabilities. In accordance with Governmental Accounting Standards Board (GASB) Statement No. 25, when the aggregate actuarial cost method is used, a schedule of funding progress is not required, and has not been provided.

The required contribution to the Plan as determined by the actuarial valuation was approximately \$250,700 for the year ended September 30, 2007. Contributions from the State totaled approximately \$266,464 which was complemented by City contributions of approximately \$55,094. State contributions are recognized as both revenue and expenditure during the period in the general fund. As determined by the Actuarial Valuation Report, no additional contributions for the Plan Year 2007 are due from the City to the Pension Plan during FY 2008.

The annual required contribution for fiscal year 2007 was determined as part of the October 1, 2006 actuarial valuation. The actuarial assumptions included (a) 8% investment rate of return, net of administrative expenses, (b) projected salary increases of 5% per year, (c) includes inflation at 3.5% and (d) includes a cost of living adjustment of 3%. The asset valuation method is market value.

Pension Benefits

Normal retirement is defined by the plan as the attainment of age 55 with 6 years of credited service or 20 years of credited service with no age requirement. Upon normal retirement, participants are entitled to 3.5% of their average final compensation for each year of credited service. Benefit options include a ten year certain payout or a life annuity. Early retirement is defined by the plan as the attainment of age 50 with 6 years of credited service. Upon early retirement, accrued benefits are reduced by 3% per year.

Annual Pension Cost and Net Pension Obligation

The City's annual pension cost and net pension obligation (asset) of the Plan for the current year were as follows:

Annual required contribution	\$ 250,700
Interest on net pension obligation	-
Adjustment to annual required contribution	-
Annual pension cost	250,700
Contributions made	250,700
Change in net pension obligation	-
Net pension obligation at beginning of year	-
Net pension obligation at end of year	\$ -

CITY OF MARATHON, FLORIDA

NOTES TO BASIC FINANCIAL STATEMENTS

(Continued)

NOTE 10. FIREFIGHTERS' PENSION PLAN (Continued)

Annual Pension Cost and Net Pension Obligation

<u>Fiscal Year Ending</u>	<u>Trend Information</u>		
	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
9/30/06	\$ 271,754	100%	\$ -
9/30/07	250,700	100%	-

NOTE 11. SUBSEQUENT EVENTS

State Board of Administration (SBA) Investment Pool

At September 30, 2007, the City had \$1,518,659 invested in the State Board of Administration's Local Government Surplus Funds Trust Fund Investment Pool (Pool) (as discussed in Note 2). On November 29, 2007, the State Board of Administration implemented a temporary freeze on the assets held in the Pool due to an unprecedented amount of withdrawals from the Fund coupled with the absence of market liquidity for certain securities within the Pool. The significant amount of withdrawals followed reports that the Pool held asset-backed commercial paper that was subject to sub prime mortgage risk. On December 4, 2007, based on recommendations from an outside financial advisor, the State Board of Administration restructured the Pool into two separate pools. Pool A consisted of all money market appropriate assets, which was approximately \$12 billion or 86% of Pool assets. Pool B consisted of assets that either defaulted on a payment, paid more slowly than expected, and/or had any significant credit and liquidity risk, which was approximately \$2 billion or 14% of Pool assets. At the time of the restructuring, all current pool participants had their existing balances proportionately allocated into Pool A and Pool B.

Currently, Pool A participants may withdraw 15% of their balance or \$2 million, whichever is greater, without penalty. Withdrawals from Pool A in excess of the above limit are subject to a 2% redemption fee. New investments in Pool A are not subject to the redemption fee or withdrawal restrictions. Future withdrawal provisions from Pool A will be subject to further evaluation based on the maturities of existing investments and the liquidity requirements of the Pool. On December 21, 2007, Standard and Poor's Ratings Services assigned its "AAAM" principal stability fund rating to Pool A.

Currently, Pool B participants are prohibited from withdrawing any amount from the Pool and a formal withdrawal policy has not yet been developed. Market valuations of the assets held in Pool B are not readily available. In addition, full realization of the principle value of Pool B assets is not readily determinable.

CITY OF MARATHON, FLORIDA

NOTES TO BASIC FINANCIAL STATEMENTS (Continued)

NOTE 11. SUBSEQUENT EVENTS (Continued)

State Board of Administration (SBA) Investment Pool (Continued)

As of February 28, 2008, the City has \$2,240 and \$157,449 invested in Pool A and B, respectively. Additional information regarding the Local Government Surplus Funds Trust Fund may be obtained from the State Board of Administration.

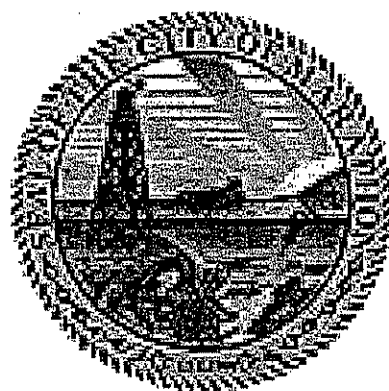
Property Tax Reform Legislation

On January 29, 2008, the Florida electorate approved an amendment to the Florida Constitution relative to property taxation. This amendment (referred to as Amendment 1) was placed on the ballot by the Florida Legislature at a special session held in October 2007. With respect to homestead property, Amendment 1 increases the current \$25,000 homestead exemption by another \$25,000 (for property values between \$50,000 - \$75,000), except for school district taxes. Since the new \$25,000 homestead exemption does not apply to school district taxes, this effectively amounts to a \$15,000 increase to the existing homestead exemption, resulting in an estimated annual savings of \$240 for an average homeowner. Amendment 1 also allows property owners to transfer (make portable) up to \$500,000 of their Save Our Homes benefits to their next homestead when they move. Save Our Homes became effective in 1995 and limits (caps) the annual increase in assessed value for homestead property to three percent (3%) or the percentage change in the Consumer Price Index, whichever is less.

With respect to non-homestead property, Amendment 1 limits (caps) the annual increase in assessed value for non-homestead property (businesses, industrial property, rental property, second homes, etc.) to ten percent (10%), except for school district taxes. The Amendment also provides a \$25,000 exemption for tangible personal property.

Amendment 1 becomes effective on October 1, 2008, with the exception of the ten percent (10%) assessment cap on non-homestead property which becomes effective on January 1, 2009.

Based on information received from the Monroe County Property Appraiser's Office, the estimated decrease in taxable property value for the City of Marathon from the additional homestead exemption and the \$25,000 exemption for tangible personal property is approximately 6-8%. At present, there is no accurate way to determine the impact of the portability and assessment cap on non-homestead property provisions in terms of potential loss of taxable property value. The effect of this decrease in taxable property value on the City's ad valorem tax revenues is also undetermined. Although the City Council has the authority to levy a 'rolled-back' property tax rate which produces at least the amount of revenue generated by property taxes in the prior year, the final levy of property taxes in subsequent years is dependent upon the City Council's deliberations during its annual budget and Truth In Millage (TRIM) compliance process, and may be affected by subsequent legislation.



REQUIRED SUPPLEMENTARY INFORMATION

CITY OF MARATHON, FLORIDA

REQUIRED SUPPLEMENTARY INFORMATION

BUDGETARY COMPARISON SCHEDULE GENERAL FUND

FISCAL YEAR ENDED SEPTEMBER 30, 2007

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance with Final Budget - Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	
Revenues:				
Property taxes	\$ 4,869,653	\$ 4,776,196	\$ 4,776,651	\$ 455
Intergovernmental	1,919,300	2,162,704	2,235,530	72,826
Licenses and permits	990,100	726,442	785,569	59,127
Charges for services	763,000	807,800	632,979	(174,821)
Fines and forfeitures	113,850	141,181	142,341	1,160
Communications services taxes	686,702	632,708	633,305	597
Interest	175,000	196,948	196,948	-
Miscellaneous	91,000	193,528	193,566	38
Total revenues	<u>9,608,605</u>	<u>9,637,507</u>	<u>9,596,889</u>	<u>(40,618)</u>
Expenditures:				
Current:				
General government:				
Elected officials	463,409	463,409	450,315	13,094
Administration	2,137,237	2,015,537	1,917,545	97,992
City Attorney	555,000	531,000	470,262	60,738
Non-Departmental	-	2,024	2,024	-
Total general government	<u>3,155,646</u>	<u>3,011,970</u>	<u>2,840,146</u>	<u>171,824</u>
Public safety:				
Police	1,421,911	1,424,911	1,423,371	1,540
Fire/EMS	2,098,781	2,848,841	2,723,712	125,129
Total public safety	<u>3,520,692</u>	<u>4,273,752</u>	<u>4,147,083</u>	<u>126,669</u>
Community services:				
Public works	230,047	230,047	208,141	21,906
Parks and recreation	1,032,390	1,002,390	904,640	97,750
Bridge	176,046	138,046	115,908	22,138
Total community services	<u>1,438,483</u>	<u>1,370,483</u>	<u>1,228,689</u>	<u>141,794</u>
Community development	<u>1,623,638</u>	<u>1,583,638</u>	<u>1,552,091</u>	<u>31,547</u>
Total expenditures	<u>9,738,459</u>	<u>10,239,843</u>	<u>9,768,009</u>	<u>471,834</u>
Excess (deficiency) of revenues over expenditures	<u>(129,854)</u>	<u>(602,336)</u>	<u>(171,120)</u>	<u>431,216</u>
Other financing sources (uses):				
Transfers out	(41,480)	(75,480)	(75,480)	-
Transfers in	374,000	914,000	914,787	787
Appropriation of prior years' fund balance	(202,666)	(236,184)	-	236,184
Total other financing sources and uses	<u>129,854</u>	<u>602,336</u>	<u>839,307</u>	<u>236,971</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 668,187</u>	<u>\$ 668,187</u>

See notes to budgetary comparison schedule.

CITY OF MARATHON, FLORIDA

REQUIRED SUPPLEMENTARY INFORMATION

BUDGETARY COMPARISON SCHEDULE CAPITAL INFRASTRUCTURE FUND

FISCAL YEAR ENDED SEPTEMBER 30, 2007

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance</u>
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	<u>with</u> <u>Final</u> <u>Budget -</u> <u>Positive</u> <u>(Negative)</u>
Revenues:				
Intergovernmental	\$ 5,583,277	\$ 5,583,277	\$ 2,575,040	\$ (3,008,237)
Interest	100,000	100,000	236,737	136,737
Miscellaneous	-	-	199,125	199,125
Total revenues	<u>5,683,277</u>	<u>5,683,277</u>	<u>3,010,902</u>	<u>(2,672,375)</u>
Expenditures:				
Capital outlay	11,770,320	11,770,320	7,056,870	4,713,450
General and administrative	<u>41,200</u>	<u>41,200</u>	<u>9,864</u>	<u>31,336</u>
Total expenditures	<u>11,811,520</u>	<u>11,811,520</u>	<u>7,066,734</u>	<u>4,744,786</u>
Excess (deficiency) of revenues over expenditures	<u>(6,128,243)</u>	<u>(6,128,243)</u>	<u>(4,055,832)</u>	<u>2,072,411</u>
Other financing sources (uses):				
Bonds issued	1,250,000	1,250,000	-	(1,250,000)
Transfers out	(2,170,945)	(2,170,945)	(2,136,135)	34,810
Appropriation of prior years' fund balance	<u>7,049,188</u>	<u>7,049,188</u>	<u>-</u>	<u>(7,049,188)</u>
Total other financing sources and uses	<u>6,128,243</u>	<u>6,128,243</u>	<u>(2,136,135)</u>	<u>(8,264,378)</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (6,191,967)</u>	<u>\$ (6,191,967)</u>

See notes to budgetary comparison schedule.

CITY OF MARATHON, FLORIDA

REQUIRED SUPPLEMENTARY INFORMATION

BUDGETARY COMPARISON SCHEDULE STREET MAINTENANCE FUND

FISCAL YEAR ENDED SEPTEMBER 30, 2007

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance with Final Budget - Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	
Revenues:				
Intergovernmental	\$ 1,257,289	\$ 1,257,289	\$ 677,578	\$ (579,711)
Charges for services	9,727	9,727	10,019	292
Interest	50,000	50,000	117,693	67,693
Miscellaneous	20,000	20,000	-	(20,000)
Total revenues	<u>1,337,016</u>	<u>1,337,016</u>	<u>805,290</u>	<u>(531,726)</u>
Expenditures:				
Current:				
Community services	594,624	594,624	241,188	353,436
Capital outlay	<u>1,246,000</u>	<u>1,246,000</u>	<u>89,133</u>	<u>1,156,867</u>
Total expenditures	<u>1,840,624</u>	<u>1,840,624</u>	<u>330,321</u>	<u>1,510,303</u>
Excess (deficiency) of revenues over expenditures	(503,608)	(503,608)	474,969	978,577
Other financing sources:				
Transfers in	108,426	108,426	-	(108,426)
Appropriation of prior years' fund balance	<u>395,182</u>	<u>395,182</u>	<u>-</u>	<u>(395,182)</u>
Total other financing sources	<u>503,608</u>	<u>503,608</u>	<u>-</u>	<u>(503,608)</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 474,969</u>	<u>\$ 474,969</u>

See notes to budgetary comparison schedule.

CITY OF MARATHON, FLORIDA

NOTES TO BUDGETARY COMPARISON SCHEDULES

FISCAL YEAR ENDED SEPTEMBER 30, 2007

NOTE 1. BUDGETS AND BUDGETARY ACCOUNTING

An annual appropriated budget is adopted for the general fund (a major fund), the capital infrastructure fund and the street maintenance fund (major special revenue funds), the two nonmajor special revenue funds and the debt service fund on a basis consistent with accounting principles generally accepted in the United States. The City follows these procedures in establishing the budgetary data reflected in the financial statements.

- a. Annually, the City Manager submits to the City Council a proposed operating budget for the fiscal year commencing the following October 1st. The operating budget includes proposed expenditures and the means of financing them.
- b. Public hearings are conducted to obtain taxpayer comments.
- c. Prior to October 1st, the budget is legally enacted through passage of a resolution.
- d. The City Council, by motion, may make supplemental appropriations for the year up to the amount of revenues in excess of those estimated. During fiscal year ended September 30, 2007, there were supplemental appropriations of \$501,384 in the general fund.
- e. The City Manager is authorized to transfer budget amounts within the departments within any fund. However, any revisions that alter the total appropriations of any department must be approved by the City Council. Therefore, the legal level of control is at the department level.
- f. Formal budgetary integration is employed as a management control device during the year for all budgeted funds. The final budget, as amended by City Council, includes adjustments, some of which were material in relation to the original appropriation. Original appropriations were transferred between departments of the General Fund.
- g. Appropriations which are neither expended nor specifically designated to be carried over, lapse at the end of the fiscal year.

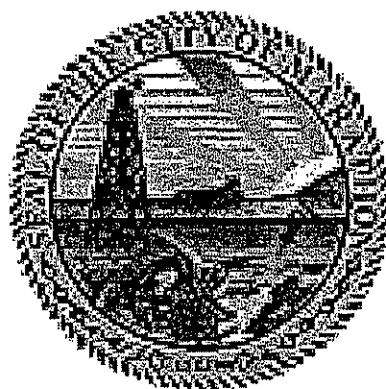
CITY OF MARATHON, FLORIDA
REQUIRED SUPPLEMENTARY INFORMATION
PENSION TRUST FUND
SCHEDULE OF EMPLOYER CONTRIBUTIONS
FISCAL YEAR ENDED SEPTEMBER 30, 2007

Fiscal Year Ended <u>September 30,</u>	Annual Required <u>Contribution</u>	<u>Percentage Contributed</u>
2006	\$ 271,754	100%
2007	250,700	100%

The information presented in the required supplemental schedule was determined as part of the actuarial valuation at the date indicated. Additional information as of the latest actuarial valuation follows.

Valuation date	10/1/06
Actuarial cost method	Aggregate
Amortization method	N/A
Remaining amortization	N/A
Asset valuation method	Market value
Actuarial assumptions:	
Investment rate of return*	8.0%
Projected salary increases*	5.0%
Cost of living adjustment	3.0%
*Includes inflation at	3.5%

N/A - not applicable



COMBINING STATEMENTS

NONMAJOR GOVERNMENTAL FUNDS

Special Revenue Funds

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

Vehicle Replacement Fund – This fund is used to account for reserves for the replacement of City vehicles.

Impact Fees Fund – This fund is used to account for transportation, parks and public safety projects. Revenues are derived from impact fees collected during the building permit process.

Debt Service Fund

Debt Service Fund – This fund is used to account for the payment of principal, interest and expenditures on the long-term debt of the governmental funds.

CITY OF MARATHON, FLORIDA

COMBINING BALANCE SHEET NONMAJOR GOVERNMENTAL FUNDS

SEPTEMBER 30, 2007

	<u>Special Revenue Funds</u>		<u>Debt Service Fund</u>	<u>Total Nonmajor Governmental Funds</u>
	<u>Vehicle Replacement</u>	<u>Impact Fees</u>	<u>Debt Service</u>	
<u>ASSETS</u>				
Cash	\$ 334,986	\$ 81,549	\$ -	\$ 416,535
Investments	300,000	300,000	-	600,000
Interest receivable	4,829	4,829	-	9,658
Total assets	<u>\$ 639,815</u>	<u>\$ 386,378</u>	<u>\$ -</u>	<u>\$ 1,026,193</u>
<u>LIABILITIES AND FUND BALANCES</u>				
Liabilities	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Fund balances:				
Unreserved	<u>639,815</u>	<u>386,378</u>	<u>-</u>	<u>1,026,193</u>
Total fund balances	<u>639,815</u>	<u>386,378</u>	<u>-</u>	<u>1,026,193</u>
Total liabilities and fund balances	<u>\$ 639,815</u>	<u>\$ 386,378</u>	<u>\$ -</u>	<u>\$ 1,026,193</u>

CITY OF MARATHON, FLORIDA

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES NONMAJOR GOVERNMENTAL FUNDS

FISCAL YEAR ENDED SEPTEMBER 30, 2007

	<u>Special Revenue Funds</u>		<u>Debt Service Fund</u>	<u>Total Nonmajor Governmental Funds</u>
	<u>Vehicle Replacement</u>	<u>Impact Fees</u>	<u>Debt Service</u>	
Revenues:				
Impact fees	\$ -	\$ 207,692	\$ -	\$ 207,692
Interest	28,972	15,036	-	44,008
Miscellaneous	-	236	-	236
Total revenues	<u>28,972</u>	<u>222,964</u>	<u>-</u>	<u>251,936</u>
Expenditures:				
Capital outlay	-	36,945	-	36,945
Debt service:				
Principal	-	-	740,741	740,741
Interest and fiscal charges	-	-	390,607	390,607
Total expenditures	<u>-</u>	<u>36,945</u>	<u>1,131,348</u>	<u>1,168,293</u>
Excess (deficiency) of revenues over expenditures	<u>28,972</u>	<u>186,019</u>	<u>(1,131,348)</u>	<u>(916,357)</u>
Other financing sources (uses):				
Transfers in	291,480	-	1,131,348	1,422,828
Transfers out	<u>(550,000)</u>	<u>-</u>	<u>-</u>	<u>(550,000)</u>
Total other financing sources (uses)	<u>(258,520)</u>	<u>-</u>	<u>1,131,348</u>	<u>872,828</u>
Net change in fund balances	(229,548)	186,019	-	(43,529)
Fund balances, beginning	<u>869,363</u>	<u>200,359</u>	<u>-</u>	<u>1,069,722</u>
Fund balances, ending	<u>\$ 639,815</u>	<u>\$ 386,378</u>	<u>\$ -</u>	<u>\$ 1,026,193</u>

CITY OF MARATHON, FLORIDA

SCHEDULE OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL NONMAJOR GOVERNMENTAL FUNDS

FISCAL YEAR ENDED SEPTEMBER 30, 2007

	Special Revenue Funds							
	<u>Vehicle Replacement Fund</u>				<u>Impact Fees</u>			
			<u>Actual</u> <u>Amounts</u>	Variance with Final Budget - Positive (Negative)			<u>Actual</u> <u>Amounts</u>	Variance with Final Budget - Positive (Negative)
	<u>Budgeted Amounts</u> <u>Original</u>	<u>Final</u>			<u>Budgeted Amounts</u> <u>Original</u>	<u>Final</u>		
Revenues:								
Impact fees	\$ -	\$ -	\$ -	\$ -	\$ 41,900	\$ 41,900	\$ 207,692	\$ 165,792
Interest	25,000	25,000	28,972	3,972	3,000	3,000	15,036	12,036
Miscellaneous	-	-	-	-	180	180	236	56
Total revenues	25,000	25,000	28,972	3,972	45,080	45,080	222,964	177,884
Expenditures:								
Capital outlay	-	-	-	-	-	36,945	36,945	-
Debt service:								
Principal	-	-	-	-	-	-	-	-
Interest and fiscal charges	-	-	-	-	-	-	-	-
Total expenditures	-	-	-	-	-	36,945	36,945	-
Excess (deficiency) of revenues over expenditures	25,000	25,000	28,972	3,972	45,080	8,135	186,019	177,884
Other financing sources (uses):								
Transfers in	291,480	291,480	291,480	-	-	-	-	-
Transfers out	(659,171)	(659,171)	(550,000)	109,171	(121,385)	(121,385)	-	121,385
Unappropriated surplus	342,691	342,691	-	(342,691)	76,305	113,250	-	(113,250)
Total other financing sources (uses)	(25,000)	(25,000)	(258,520)	(233,520)	(45,080)	(8,135)	-	8,135
Net change in fund balances	\$ -	\$ -	\$ (229,548)	\$ (229,548)	\$ -	\$ -	\$ 186,019	\$ 186,019

(Continued)

CITY OF MARATHON, FLORIDA

SCHEDULE OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL NONMAJOR GOVERNMENTAL FUNDS (Continued)

FISCAL YEAR ENDED SEPTEMBER 30, 2007

	Debt Service Fund			Variance with Final Budget - Positive (Negative)
	<u>Budgeted Amounts</u>		<u>Actual</u>	
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	
Revenues:				
Impact fees	\$ -	\$ -	\$ -	\$ -
Interest	-	-	-	-
Miscellaneous	-	-	-	-
Total revenues	-	-	-	-
Expenditures:				
Capital outlay	-	-	-	-
Debt service:				
Principal	740,741	740,741	740,741	-
Interest and fiscal charges	425,417	425,417	390,607	34,810
Total expenditures	1,166,158	1,166,158	1,131,348	34,810
Excess (deficiency) of revenues over expenditures	(1,166,158)	(1,166,158)	(1,131,348)	34,810
Other financing sources (uses):				
Transfers in	1,166,158	1,166,158	1,131,348	(34,810)
Net change in fund balances	\$ -	\$ -	\$ -	\$ -

STATISTICAL SECTION

City of Marathon, Florida

STATISTICAL SECTION

CURRENT YEAR AND PRIOR YEAR

This part of the City of Marathon'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.

<u>Contents</u>	<u>Page</u>
Financial Trends	51-55
These schedules contain trend information to help the reader understand how the City's financial performance and well-being have changed over time. These schedules include:	
Revenue Capacity	56-59
These schedules contain information to help the reader assess the City's most significant local revenue source, the property tax.	
Debt Capacity	60-61
These schedules present information to help the reader assess the affordability of the City's current levels of outstanding debt and the City's ability to issue additional debt in the future.	
Demographic and Economic Information	62-63
These schedules offer demographic and economic indicators to help the reader understand the environment within which the City's financial activities take place.	
Operating Information	64-66
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 City provides and the activities it performs.	

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

CITY OF MARATHON, FLORIDA

NET ASSETS BY COMPONENT

LAST FOUR FISCAL YEARS
(MODIFIED ACCRUAL BASIS OF ACCOUNTING)

	Fiscal Year			
	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
Governmental activities:				
Invested in capital assets, net of related debt	\$ 14,255,597	\$ 16,372,786	\$ 15,638,541	\$ 19,339,970
Restricted	4,373,475	5,039,914	7,324,824	4,733,068
Unrestricted	<u>4,024,147</u>	<u>4,798,655</u>	<u>5,650,368</u>	<u>6,350,476</u>
Total governmental activities net assets	<u>22,653,219</u>	<u>26,211,355</u>	<u>28,613,733</u>	<u>30,423,514</u>
Business-type activities:				
Invested in capital assets, net of related debt	790,069	669,008	5,094,011	9,528,390
Restricted	-	-	-	-
Unrestricted	<u>-</u>	<u>(9,447)</u>	<u>213,284</u>	<u>(1,265,735)</u>
Total business-type activities net assets	<u>790,069</u>	<u>659,561</u>	<u>5,307,295</u>	<u>8,262,655</u>
Total government:				
Invested in capital assets, net of related debt	15,045,666	17,041,794	20,732,552	28,868,360
Restricted	4,373,475	5,039,914	7,324,824	4,733,068
Unrestricted	<u>4,024,147</u>	<u>4,789,208</u>	<u>5,863,652</u>	<u>5,084,741</u>
Total government net assets	<u>\$ 23,443,288</u>	<u>\$ 26,870,916</u>	<u>\$ 33,921,028</u>	<u>\$ 38,686,169</u>

Note: Data not available prior to fiscal 2004 implementation of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*.

CITY OF MARATHON, FLORIDA

CHANGES IN NET ASSETS

**LAST FOUR FISCAL YEARS
(MODIFIED ACCRUAL BASIS OF ACCOUNTING)**

	Fiscal Year			
	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
Expenses:				
Governmental activities:				
General government	\$ 2,805,425	\$ 3,837,452	\$ 7,905,757	\$ 3,867,901
Public safety	2,832,115	2,997,230	4,737,074	3,645,846
Community services	1,270,051	1,417,715	1,880,765	2,050,244
Community development	1,309,166	1,365,876	1,335,976	1,576,341
Interest on long-term debt	14,801	90,515	372,885	390,607
Total governmental activities	<u>8,231,558</u>	<u>9,708,788</u>	<u>16,232,457</u>	<u>11,530,939</u>
Business-type activities:				
Wastewater	-	-	10,826	52,230
Marina	504,056	688,950	537,316	622,185
Stormwater	-	-	10,694	39,716
Total business-type activities	<u>504,056</u>	<u>688,950</u>	<u>558,836</u>	<u>714,131</u>
Total government expenses	<u>\$ 8,735,614</u>	<u>\$10,397,738</u>	<u>\$16,791,293</u>	<u>\$12,245,070</u>
Program Revenues:				
Governmental Activities:				
Charges for services:				
General government	\$ 1,399,886	\$ 1,354,431	\$ 1,407,360	\$ 1,391,936
Public safety	844,927	742,410	647,303	740,365
Community services	334,148	345,376	356,349	516,645
Community development	687,725	1,002,999	1,118,382	746,217
Operating grants and contributions	566,908	1,112,299	4,402,251	624,697
Capital grants and contributions	2,432,746	3,375,694	4,674,802	2,879,187
Total governmental activities program revenues	<u>6,266,340</u>	<u>7,933,209</u>	<u>12,606,447</u>	<u>6,899,047</u>
Business-type activities:				
Charges for services:				
Wastewater	-	-	-	-
Marina	263,165	310,057	354,332	457,657
Stormwater	-	-	-	-
Operating grants and contributions	-	45,076	39,272	53,595
Capital grants and contributions	-	23,360	2,002,836	2,627,827
Total business-type activities program revenues	<u>-</u>	<u>378,493</u>	<u>2,396,440</u>	<u>3,139,079</u>
Total program revenues	<u>\$ 6,266,340</u>	<u>\$ 8,311,702</u>	<u>\$15,002,887</u>	<u>\$10,038,126</u>

(Continued)

CITY OF MARATHON, FLORIDA

CHANGES IN NET ASSETS

**LAST FOUR FISCAL YEARS
(MODIFIED ACCRUAL BASIS OF ACCOUNTING)**

(Continued)

	Fiscal Year			
	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
Net (expense) revenue:				
Governmental activities	\$ (1,965,218)	\$ (1,775,579)	\$ (3,626,010)	\$ (4,631,892)
Business-type activities	<u>(504,056)</u>	<u>(310,457)</u>	<u>1,837,604</u>	<u>2,424,948</u>
Total net expense	<u>\$ (2,469,274)</u>	<u>\$ (2,086,036)</u>	<u>\$ (1,788,406)</u>	<u>\$ (2,206,944)</u>
General revenues:				
Governmental activities:				
Taxes:				
Property taxes	\$ 3,432,016	\$ 4,098,515	\$ 4,365,919	\$ 4,776,651
Other Taxes	566,267	601,859	669,856	633,305
State shared revenues	289,678	400,123	464,835	367,701
Investment earnings	104,434	280,744	658,527	595,386
Miscellaneous	162,385	127,489	426,251	492,630
Transfers	<u>(1,028,677)</u>	<u>(175,014)</u>	<u>(555,000)</u>	<u>(424,000)</u>
Total governmental activities	<u>3,526,103</u>	<u>5,333,716</u>	<u>6,030,388</u>	<u>6,441,673</u>
Business-type activities:				
Investment earnings	-	-	25,855	106,412
Miscellaneous (1)	2,283	4,935	2,229,275	-
Transfers	<u>1,028,677</u>	<u>175,014</u>	<u>555,000</u>	<u>424,000</u>
Total business-type activities	<u>1,030,960</u>	<u>179,949</u>	<u>2,810,130</u>	<u>530,412</u>
Total general revenues	<u>\$ 4,557,063</u>	<u>\$ 5,513,665</u>	<u>\$ 8,840,518</u>	<u>\$ 6,972,085</u>
Change in net assets:				
Governmental activities	\$ 1,560,885	\$ 3,558,137	\$ 2,404,378	\$ 1,809,781
Business-type activities	<u>526,904</u>	<u>(130,508)</u>	<u>4,647,734</u>	<u>2,955,360</u>
Total change in net assets	<u>\$ 2,087,789</u>	<u>\$ 3,427,629</u>	<u>\$ 7,052,112</u>	<u>\$ 4,765,141</u>

(1) Special assessment revenue included in program revenues for 2007

Note: Data not available prior to fiscal 2004 implementation of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*.

CITY OF MARATHON, FLORIDA

FUND BALANCES OF GOVERNMENTAL FUNDS

LAST FOUR FISCAL YEARS
(MODIFIED ACCRUAL BASIS OF ACCOUNTING)

	Fiscal Year			
	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
General fund:				
Reserved	\$ 40,085	\$ 19,955	\$ 80,932	\$ 137,851
Unreserved	<u>3,622,540</u>	<u>4,233,725</u>	<u>4,655,670</u>	<u>5,266,937</u>
Total general fund	<u>3,662,625</u>	<u>4,253,680</u>	<u>4,736,602</u>	<u>5,404,788</u>
Special Revenue Funds:				
Reserved	4,639,429	134,355	-	-
Unreserved, reported in:				
Capital Infrastructure Fund	-	3,725,836	8,030,567	1,838,600
Street Maintenance Fund	-	1,159,768	2,374,258	2,849,227
Impact Fee Fund	-	-	200,359	386,378
Vehicle Replacement Fund	-	<u>544,876</u>	<u>869,363</u>	<u>639,815</u>
Total special revenue funds	<u>4,639,429</u>	<u>5,564,835</u>	<u>11,474,547</u>	<u>5,714,020</u>
Debt Service Funds:				
Reserved	-	-	-	-
Unreserved	-	-	-	-
Total debt service funds	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total all other governmental funds	<u>4,639,429</u>	<u>5,564,835</u>	<u>11,474,547</u>	<u>5,714,020</u>
Total governmental funds	<u>\$ 8,302,054</u>	<u>\$9,818,515</u>	<u>\$16,211,149</u>	<u>\$11,118,808</u>

Note: Data not available prior to fiscal 2004 implementation of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*.

CITY OF MARATHON, FLORIDA

CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS

**LAST FOUR FISCAL YEARS
(MODIFIED ACCRUAL BASIS OF ACCOUNTING)**

	Fiscal Year			
	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
Revenues:				
Ad valorem taxes	\$ 3,432,016	\$ 4,098,515	\$ 4,365,919	\$ 4,776,651
Franchise fees	-	-	-	-
Communication Services taxes	566,267	601,859	669,856	633,305
Impact fees	n/a	n/a	56,384	207,692
Licenses and permits	736,597	1,035,052	1,176,781	785,569
Intergovernmental revenue	4,961,663	6,512,740	11,162,771	5,488,148
Charges for services	675,994	649,029	559,537	642,998
Fines and forfeitures	181,763	136,510	115,809	142,341
Interest income	104,434	280,744	658,527	595,386
Miscellaneous	162,387	127,490	426,252	392,927
Total revenues	<u>10,821,121</u>	<u>13,441,939</u>	<u>19,191,836</u>	<u>13,665,017</u>
Expenditures:				
Current:				
General government	2,857,781	3,630,608	7,359,947	2,822,349
Public safety	2,806,148	2,798,132	3,083,352	3,481,477
Community Services	1,022,818	1,172,637	1,385,482	1,437,157
Community Development	1,296,042	1,359,560	1,309,363	1,547,317
Capital outlay	1,444,821	5,312,752	4,084,617	7,913,709
Debt service:				
Principal retirement	90,000	1,318,000	555,556	740,741
Interest and other fiscal charges	32,617	92,875	372,885	390,607
Total expenditures	<u>9,550,227</u>	<u>15,684,564</u>	<u>18,151,202</u>	<u>18,333,357</u>
Excess (deficiency) of revenues over expenditures	<u>1,270,894</u>	<u>(2,242,625)</u>	<u>1,040,634</u>	<u>(4,668,340)</u>
Other financing sources (uses):				
Transfers in	693,071	1,934,956	1,511,921	2,337,615
Transfers out	(894,627)	(2,193,870)	(2,066,921)	(2,761,615)
Bonds Issued	75,000	4,018,000	5,907,000	-
Total other financing sources (uses)	<u>(126,556)</u>	<u>3,759,086</u>	<u>5,352,000</u>	<u>(424,000)</u>
Net change in fund balances	<u>\$ 1,144,338</u>	<u>\$ 1,516,461</u>	<u>\$ 6,392,634</u>	<u>\$ (5,092,340)</u>
Debt service as a percentage of non-capital expenditures	1.54%	15.74%	7.07%	12.18%

Note: Data not available prior to fiscal 2004 implementation of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*.

CITY OF MARATHON, FLORIDA

**NET ASSESSED VALUE AND ESTIMATED ACTUAL VALUE OF TAXABLE PROPERTY
LAST SEVEN FISCAL YEARS**

(MODIFIED ACCRUAL BASIS OF ACCOUNTING)

Fiscal Year Ended September 30,	Tax Roll Year	Real Property	Personal Property	Total Net Assessed Value	Total Direct Tax Rate	Estimated Actual Value (2)	Estimated Actual Value as a Percentage of Net Assessed Value
2001	2000	\$ 899,256,852	\$ 71,566,362	\$ 970,823,214	13.7277	n/a	n/a
2002	2001	1,011,692,510	68,119,027	1,079,811,537	13.4553	n/a	n/a
2003	2002	1,128,078,626	67,353,235	1,195,431,861	12.9841	n/a	n/a
2004	2003	1,370,802,387	64,176,791	1,434,979,178	12.5700	n/a	n/a
2005	2004	1,621,112,010	70,100,880	1,691,212,890	11.6747	n/a	n/a
2006	2005	2,137,232,089	72,452,105	2,209,684,194	10.1741	n/a	n/a
2007	2006	2,693,641,765	81,397,661	2,775,039,426	8.6590	n/a	n/a

Note (1): The City of Marathon commenced operations on November 30, 1999. Property taxes were levied and collected for the first time in fiscal year ended September 30, 2001.

Note (2): Property in the City is reassessed each year. The Property Appraiser estimates a just (market) value for all types of real property. For non-homesteaded properties the just value is equal to the assessed value. For homesteaded properties, the just value is adjusted for both the Florida 'Save Our Homes' valuation cap and the homestead exemption amount to arrive at the assessed value. As a result, there is no formula available to estimate the relationship between overall just (actual) value and assessed value.

Source: Monroe County Property Appraiser's Office and the City of Marathon Finance Office.

CITY OF MARATHON, FLORIDA

PROPERTY TAX RATES - DIRECT AND OVERLAPPING GOVERNMENTS

**LAST TEN FISCAL YEARS
(MODIFIED ACCRUAL BASIS OF ACCOUNTING)**

		Direct Rate	Overlapping Rates (1)							
			FL Keys							
Fiscal Year	Tax Roll Year	City of Marathon	Monroe County	School Board	S.Florida Water Mgt District	Mosquito Control District	Other	Total Overlapping Rates	Total Applied Rate	
1998	1997	-	8.0073	5.9040	0.2840	0.6100	0.4130	15.2183	15.2183	
1999	1998	-	7.8439	6.0730	0.2840	0.6641	0.4130	15.2780	15.2780	
2000	1999	-	7.4413	5.6550	0.2840	0.6641	0.4130	14.4574	14.4574	
2001	2000	2.9645	4.2181	5.1840	0.2840	0.6641	0.4130	10.7632	13.7277	
2002	2001	2.9645	4.1407	4.9890	0.2840	0.6641	0.4130	10.4908	13.4553	
2003	2002	2.9645	3.9455	4.7130	0.2840	0.6641	0.4130	10.0196	12.9841	
2004	2003	2.4931	4.2938	4.4220	0.2840	0.6641	0.4130	10.0769	12.5700	
2005	2004	2.4931	3.9436	3.9320	0.2840	0.6090	0.4130	9.1816	11.6747	
2006	2005	2.0500	3.4361	3.3820	0.2840	0.6090	0.4130	8.1241	10.1741	
2007	2006	1.7896	2.5609	3.0610	0.2840	0.5505	0.4130	6.8694	8.6590	

Note: All millage rates are based on \$1 for every \$1,000 of assessed value.

Note: The City of Marathon commenced operations on November 30, 1999. Property taxes were levied and collected for the first time in fiscal year ended September 30, 2001.

Note (1) Overlapping rates are those of local and county governments that apply to property owners within the City of Marathon, Florida.

Sources: City of Marathon Finance Department and Monroe County Property Appraiser's Office.

CITY OF MARATHON, FLORIDA

PRINCIPAL PROPERTY TAXPAYERS

CURRENT YEAR AND FIVE YEARS AGO

Taxpayer	2007		
	Net Assessed <u>Value</u>	<u>Rank</u>	Percent of Total City Net Assessed
			<u>Value</u>
KEYS MARINA SOMBRERO LLC	\$ 47,807,644	1	1.72%
BLUEGREEN RESORTS MANAGEMENT INC.	32,308,289	2	1.16%
FL KEYS ELECTRIC CO-OP ASSN INC.	25,409,865	3	0.92%
FELLING MICHAEL	23,666,158	4	0.85%
KEY COLONY BAY DEVELOPMENT LLC	22,496,209	5	0.81%
KEYS MARINA MARATHON LLC	17,746,034	6	0.64%
FISHERMENS HOSPITAL INC.	15,404,154	7	0.56%
SANDLER AT GREATER MARATHON BAY LLC	13,304,234	8	0.48%
HOME DEPOT USA INC #6302	11,801,017	9	0.43%
SH MARATHON LTD (HOLIDAY INN/MARINA)	<u>11,274,507</u>	10	<u>0.41%</u>
	<u>\$221,218,111</u>		<u>7.98%</u>

Taxpayer	2002		
	Net Assessed <u>Value</u>	<u>Rank</u>	Percent of Total City Net Assessed
			<u>Value</u>
FL KEYS ELECTRIC CO-OP ASSN INC.	\$ 22,391,959	1	2.07%
FISHERMENS HOSPITAL INC.	12,024,671	2	1.11%
HOME DEPOT USA INC #6302	10,487,526	3	0.97%
BLUEGREEN RESORTS MANAGEMENT INC.	9,990,370	4	0.93%
BANANA BAY OF MARATHON, INC.	7,792,072	5	0.72%
SH MARATHON LTD (HOLIDAY INN/MARINA)	7,293,390	6	0.68%
BELLSOUTH TELECOMMUNICATIONS INC	7,164,142	7	0.66%
WHITE KEYS PARTNERS LLLP (KEY LIME)	6,684,253	8	0.62%
BIOSPHERE PROPERTIES INC (PUBLIX)	6,164,537	9	0.57%
MARATHON MANOR, INC.	<u>5,694,734</u>	10	<u>0.53%</u>
	<u>\$ 95,687,654</u>		<u>8.86%</u>

Source: Tax roll provided by Monroe County Property Appraisers Office.

CITY OF MARATHON, FLORIDA

PROPERTY TAX LEVIES AND COLLECTIONS

LAST SEVEN FISCAL YEARS

Fiscal Year Ended <u>September 30,</u>	Total Taxes Levied for Fiscal <u>Year</u>	Collected within the Fiscal Year of the Levy		Collections in Subsequent <u>Year's</u>	Total Collections to Date	
		<u>Amount</u>	<u>Percent of Levy</u>		<u>Amount</u>	<u>Percent of Levy</u>
2001	\$2,882,965	\$2,792,295	96.85%	\$ -	\$2,792,295	96.85%
2002	3,201,103	3,101,425	96.89%	-	3,101,425	96.89%
2003	3,543,859	3,445,101	97.21%	-	3,445,101	97.21%
2004	3,580,232	3,447,677	96.30%	-	3,447,677	96.30%
2005	4,223,307	4,093,781	96.93%	-	4,093,781	96.93%
2006	4,529,856	4,365,919	96.38%	-	4,365,919	96.38%
2007	4,869,653	4,776,651	98.09%	-	4,776,651	98.09%

Note (1): The City of Marathon commenced operations on November 30, 1999. Property taxes were levied and collected for the first time in fiscal year ended September 30, 2001.

Source: City of Marathon Finance Department and Monroe County Tax Collector's Office.

CITY OF MARATHON, FLORIDA

RATIOS OF OUTSTANDING DEBT BY TYPE

LAST EIGHT FISCAL YEARS

Fiscal Year Ended September 30,	Governmental Activities			Business-Type Activities		Percent of Net Assessed		Per Capita (1)
	General Obligation Bonds	Revenue Bonds	Loans Payable	Revenue Bonds	Total	Value (2)		
2000	\$ -	\$ -	\$ -	\$ -	\$ -	0.00%		0.00
2001	-	-	-	-	-	0.00%		0.00
2002	-	-	-	-	-	0.00%		0.00
2003	-	-	1,408,000	-	1,408,000	0.12%		136.16
2004	-	75,000	1,318,000	-	1,393,000	0.10%		134.06
2005	-	4,093,000	-	-	4,093,000	0.24%		385.19
2006	-	9,444,444	-	832,168	10,276,612	0.47%		969.03
2007	-	8,703,703	-	13,058,380	21,762,083	0.78%		2093.31

Note (1): The City of Marathon commenced operations on November 30, 1999.

Note (2): Total personal income amounts not available for the City of Marathon jurisdiction. Personal income data provided in demographics section is for all of Monroe County. Therefore, assessed taxable value was used as the relevant economic base.

Note: Details regarding the City's outstanding debt can be found in the notes to the financial statements

CITY OF MARATHON, FLORIDA

PLEDGED REVENUE COVERAGE

LAST EIGHT FISCAL YEARS

Fiscal Year Ended <u>September 30,</u>	Improvement Revenue Bonds					
	Local Govt. Infrastructure <u>Tax</u>	Less Operating <u>Expenses</u>	Net Available <u>Revenue</u>	Debt Service <u>Principal</u>	<u>Interest</u>	<u>Coverage</u>
2000	n/a	n/a	n/a	n/a	n/a	n/a
2001	n/a	n/a	n/a	n/a	n/a	n/a
2002	n/a	n/a	n/a	n/a	n/a	n/a
2003	n/a	n/a	n/a	n/a	n/a	n/a
2004	n/a	n/a	n/a	n/a	n/a	n/a
2005	n/a	n/a	n/a	n/a	n/a	n/a
2006	\$ 2,383,964	n/a	\$2,383,964	\$ 555,556	\$372,885	2.57
2007	2,405,183	n/a	2,405,183	740,741	390,607	2.13

Note (1): The City of Marathon commenced operations on November 30, 1999.

Note: Repayment of the City's Improvement Revenue Bond began in fiscal year ended September 30, 2006.

Note: Repayment of the City's State Revolving Fund Loans does not begin until July 2009.

Note: Payment on the FRUFC Revenue Note Series is not due until the maturity date of September 1, 2010.

Source: City of Marathon

CITY OF MARATHON, FLORIDA

DEMOGRAPHIC AND ECONOMIC STATISTICS

LAST TEN FISCAL YEARS

<u>Year</u>	<u>Population (1)</u>	Personal Income (Amounts Expressed in <u>Thousands</u>) (2)	Per Capita Personal <u>Income</u> (2)	Unemployment <u>Rate</u> (3)
1998	-	\$ -	\$ -	2.6%
1999	-	-	-	2.2%
2000	10,255	2,941,452	37,009	2.0%
2001	10,407	2,940,428	37,159	2.6%
2002	10,445	2,925,881	37,029	2.8%
2003	10,341	2,995,004	37,966	2.3%
2004	10,391	3,136,506	40,203	2.2%
2005	10,626	3,498,309	45,946	3.0%
2006	10,605 (a)	3,775,859 (b)	48,427	2.5%
2007	10,396 (a)	4,003,510 (b)	50,436	3.0%

Sources:

- (1) Office of Economic and Demographic Research, FL Legislature and City of Marathon Finance Dept.
 - (2) United States Census Bureau for all of Monroe County and Bureau of Economic and Business Research, University of FL.
 - (3) Florida Department of Labor, Agency for Workforce Innovation. Rates prior to 2000 are for the entire County of Monroe.
- (a) & (b) Monroe County-specific data was not available. Monroe County 2005 actual data as a percent of State of FL data was used as a base % and applied to 2006 & 2007 State data as provided by the Office of Economic and Demographic Research, FL Legislature

Note: When Marathon-specific data has not been available, Monroe County percentage projections were applied to Marathon's actual population figures from prior years.

CITY OF MARATHON, FLORIDA

PRINCIPAL EMPLOYERS

CURRENT YEAR AND PRIOR YEAR

Employer	2007		
	<u>Employees</u>	<u>Rank</u>	<u>Percentage of Total City Employment</u>
Home Depot USA	150	1	n/a
Publix Supermarkets	120	2	n/a
K-Mart Corporation	77	3	n/a
City of Marathon	67	4	n/a
Fishermen's Hospital	50	5	n/a
Office Depot, Inc.	45	6	n/a
Walgreen Co.	43	7	n/a
D'Ascanio Anthony A. Qual	35	8	n/a
Dot Palm Landscaping	25	9	n/a
Guidance Clinic of the Middle Keys	21	10	n/a

Employer	2006		
	<u>Employees</u>	<u>Rank</u>	<u>Percentage of Total City Employment</u>
Home Depot USA	150	1	n/a
Publix Supermarkets	101	2	n/a
K-Mart Corporation	77	3	n/a
City of Marathon	69	4	n/a
Fishermen's Hospital	50	5	n/a
Office Depot, Inc.	45	6	n/a
Walgreen Co.	38	7	n/a
D'Ascanio Anthony A. Qual	35	8	n/a
Dot Palm Landscaping	25	9	n/a
Marine Bank of the Florida Keys	20	10	n/a

Source: Data obtained from the Monroe County Tax Collector's Office Occupation License Department and City of Marathon Finance Department. The data provided does have one notable limitation. The Monroe County Tax Collector does not have employee data for the City's businesses in the following categories: overnight accommodations (hotels, motels, apartments), restaurants and bars, professional business services other than medical or banks. Therefore these businesses are not included in this ranking. The City does not have a method for collecting data relative to number of employees for any entity except the City itself.

CITY OF MARATHON, FLORIDA

FULL-TIME EQUIVALENT CITY GOVERNMENT EMPLOYEES BY FUNCTION

LAST EIGHT FISCAL YEARS

Employees	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
General Government	-	-	-	5	5	8	8	9
Public Safety	-	-	-	13	16	16	28	22
Community Development	-	-	-	7	13	13	15	16
Community Services	-	-	-	5	5	7	11	13
Marina	<u>-</u>	<u>-</u>	<u>-</u>	<u>5</u>	<u>5</u>	<u>8</u>	<u>7</u>	<u>7</u>
Total Number of Employees	<u>-</u>	<u>-</u>	<u>-</u>	<u>35</u>	<u>44</u>	<u>52</u>	<u>69</u>	<u>67</u>

Source: City of Marathon Finance Department

Note: City of Marathon commenced operations on November 30, 1999. Prior to Fiscal Year 2003, City of Marathon operations were provided under a contractual services arrangement and there were no direct City employees.

CITY OF MARATHON, FLORIDA

OPERATING INDICATORS BY FUNCTION/PROGRAM

LAST EIGHT FISCAL YEARS

<u>Function/Program</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
Public safety:								
Police:								
Police personnel and officers	n/a	n/a	14	17	17	17	17	17
Police calls for service	n/a	n/a	30,788	31,366	30,964	30,792	24,292	22,411
Fire/EMS:								
Fire personnel	15	15	15	14	15	15	22	22
Fire / Emergency calls answered	n/a	n/a	n/a	n/a	n/a	287	251	527
Emergency medical services calls	n/a	n/a	n/a	n/a	1,468	1,105	1,007	1,249
Community Development:								
Business permits & occupational licenses issued	<i>see notes</i>							
Building Permits Issued	8	327	1,933	2,035	2,257	2,638	3,107	2,159
Commercial Fire Occupancy Inspections	n/a	n/a	n/a	54	424	354	475	309
Community Services:								
Transportation:								
Public Right of Way Maintenance (miles)	64	64	64	64	64	64	64	64
Culture and recreation:								
Registrations for special events	n/a	n/a	n/a	10	10	23	35	32
Registrations for summer camp	n/a	n/a	n/a	n/a	n/a	n/a	n/a	125
Registrations for athletic programs	n/a	n/a	n/a	n/a	n/a	n/a	n/a	1,360
Registrations for cultural programs	n/a	n/a	n/a	n/a	n/a	n/a	n/a	227
Registrations for private events in public park areas	n/a	n/a	n/a	n/a	n/a	n/a	n/a	110
Marina:								
Mooring Balls	25	25	25	64	64	64	64	226
Boat Slips	5	5	5	5	5	5	13	13

n/a = not available

Sources: Various City Departments, Monroe County Sheriff's Office

Note (1): The City of Marathon commenced operations on November 30, 1999.

Note: Police Services are provided under contract with the Monroe County Sheriff's Department

Note: Utility Services are provided by Florida Keys Aqueduct Authority

Note: Business permits and Occupational Licenses are issued and regulated by Monroe County

Note: Solid Waste services are provided by an outside contractor through Monroe County

CITY OF MARATHON, FLORIDA

CAPITAL ASSET STATISTICS BY FUNCTION/PROGRAM

LAST EIGHT FISCAL YEARS

<u>Function/Program</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
General government:								
Number of general government buildings	-	-	-	-	-	-	-	-
Public safety:								
Police:								
Police stations	-	-	-	-	-	-	-	-
Fire:								
Fire stations	2	2	2	2	2	2	2	2
Transportation:								
Miles of streets	64	64	64	64	64	64	64	64
Number of street lights	n/a	n/a	n/a	n/a	n/a	190	190	190
Number of traffic signals	n/a	n/a	n/a	n/a	n/a	8	8	8
Culture and recreation:								
Amphitheater	-	-	-	-	-	1	1	1
Parks	-	-	-	-	-	4	4	4
Parks acreage	-	-	-	-	-	45	45	45
Beaches	-	-	-	-	-	2	2	2
Community center	-	-	-	-	-	1	1	1
Picnic Pavilions	-	-	-	-	-	16	16	16
In-line hockey rink	-	-	-	-	-	1	1	1
Soccer Fields	-	-	-	-	-	2	2	2
Skate Park	-	-	-	-	-	1	1	1
Basketball courts	-	-	-	-	-	4	4	4
Tennis courts	-	-	-	-	-	4	4	4
Baseball/softball fields	-	-	-	-	-	2	2	2
Utility system:								
Fire hydrants - City of Marathon	-	-	-	-	-	-	53	101
Solid waste:								
Collection trucks	-	-	-	-	-	-	-	-

Sources: Various City Departments

Note: The City of Marathon does not own any Administrative Buildings. The City leases office space for general government functions.

Note: The City of Marathon does not own any Police buildings. Police Services are contracted from Monroe County.

Note: The City of Marathon's water utility is operated by the independent Florida Keys Aqueduct Authority.

Note: The City of Marathon does not own any Solid Waste collection trucks. Solid waste services are contracted to a private company.

COMPLIANCE SECTION

**Report of Independent Certified Public Accountants 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***

Honorable Mayor, City Council and City Manager
City of Marathon, Florida

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Marathon, Florida (the City) as of September 30, 2007 and for the year then ended which collectively comprise the City's basic financial statements, and have issued our report dated March 25, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States 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 Marathon's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

A *control deficiency* 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 *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City's financial statements that is more than inconsequential will not be prevented or detected by the City's internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City's internal control.

Our consideration of internal control over financial reporting 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 financial reporting that we consider to be material weaknesses, as defined above.



Honorable Mayor, City Council and City Manager
City of Marathon, Florida
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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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 that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Mayor, City Council, management and regulatory agencies and is not intended to be and should not be used by anyone other than these specified parties.

Rachlin LLP

Miami, Florida
March 25, 2008

Management Letter in Accordance with the Rules of the Auditor General of the State of Florida

Honorable Mayor, City Council and City Manager
City of Marathon, Florida

We have audited the basic financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Marathon, Florida (the City) as of and for the year ended September 30, 2007, which collectively comprise the City's basic financial statements, and have issued our report thereon dated March 25, 2008.

We conducted our audit in accordance with auditing standards generally accepted in the United States; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*; and Chapter 10.550, Rules of the Auditor General. We have issued our Report of Independent Certified Public Accountants on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements, Report of Independent Certified Public Accountants on Compliance and Internal Control over Compliance Applicable to each Major Federal Awards Program and State Financial Assistance Project, and the Schedule of Findings and Questioned Costs. Disclosures in those reports and schedule, which are dated March 25, 2008, should be considered in conjunction with this management letter.

Additionally, our audit was conducted in accordance with the provisions of Chapter 10.550, Rules of the Auditor General, which govern the conduct of local governmental entity audits performed in the State of Florida and, unless otherwise required to be reported in the report on compliance and internal controls or schedule of findings and questioned costs, this letter is required to include the following information,

- Section 10.554(1)(i)1., Rules of the Auditor General, requires that we determine whether or not corrective actions have been taken to address significant findings and recommendations made in the preceding annual financial audit report. There were no significant findings and recommendations made in the preceding annual financial audit report.
- Section 10.554(1)(i)2., Rules of the Auditor General, requires our audit to include a review of the provisions of Section 218.415, Florida Statutes, regarding the investment of public funds. In connection with our audit, we determined that the City complied with section 218.415, Florida Statutes.
- Section 10.554(1)(i)3., Rules of the Auditor General, requires that we address in the management letter any recommendations to improve financial management, accounting procedures, and internal controls. In connection with our audit, we did not have any such recommendations.



- Section 10.554(1)(i)4., Rules of the Auditor General, requires that we address violations of provisions of contracts and grant agreements or abuse that have an effect on the financial statements that is less than material but more than inconsequential. In connection with our audit, we did not have any such findings.
- Section 10.554(1)(i)5., Rules of the Auditor General, requires based on professional judgment, the reporting of the following matters that are inconsequential to the financial statements, considering both quantitative and qualitative factors: (1) violations of laws, rules, regulations and contractual provisions or abuse that have occurred, or were likely to have occurred, and would have any immaterial effect on the financial statements; (2) improper expenditures or illegal acts that would have an immaterial effect on the financial statements; and (3) control deficiencies that are not significant deficiencies, including, but not limited to: (a) improper or inadequate accounting procedures (e.g., the omission of required disclosures from the financial statements); (b) failures to properly record financial transactions; and (c) other inaccuracies, shortages, defalcations, and instances of fraud discovered by, or that come to the attention of, the auditor. In connection with our audit, we did not have any such findings.
- Section 10.554(1)(i)6., Rules of the Auditor General, requires that the name or official title and legal authority for the primary government and each component unit of the reporting entity be disclosed in this management letter, unless disclosed in the notes to the financial statements. The City of Marathon was created by Laws of Florida 90-142. There were no component units related to the City.
- Section 10.554(1)(i)7.a., Rules of the Auditor General, requires a statement be included as to whether or not the local governmental entity has met one or more of the conditions described in Section 218.503(1), Florida Statutes, and identification of the specific condition(s) met. In connection with our audit, we determined that the City did not meet any of the conditions described in Section 218.503(1), Florida Statutes.
- Section 10.554(1)(i)7.b., Rules of the Auditor General, requires that we determine whether the annual financial report for the City for the fiscal year ended September 30, 2007, filed with the Florida Department of Financial Services, pursuant to Section 218.32(1)(a), Florida Statutes, is in agreement with the annual financial audit report for the fiscal year ended September 30, 2007. In connection with our audit, we determined that these two reports were in agreement.
- Section 10.554(1)(i)7.c. and 10.556(7), Rules of the Auditor General, require that we apply financial condition assessment procedures. In connection with our audit, we applied financial condition assessment procedures as of the fiscal year end. It is management's responsibility to monitor the entity's financial condition, and our financial condition assessment was based in part on representations made by management and the review of financial information provided by same.

Honorable Mayor, City Council and City Manager
City of Marathon, Florida
Page Three

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

Rachlin LLP

Miami, Florida
March 25, 2008

**Report of Independent Certified Public Accountants on
Compliance and Internal Control over Compliance Applicable to
Each Major Federal Awards Program and State Financial Assistance Project**

Honorable Mayor, City Council and City Manager
City of Marathon, Florida

Compliance

We have audited the compliance of the City of Marathon, Florida (the City) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement*, and the requirements described in the Executive Office of the Governor's State Projects compliance Supplement, that are applicable to its major federal awards program and its state financial assistance project for the fiscal year ended September 30, 2007. The City's major federal awards program and state financial assistance project 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 its major federal program and its state financial assistance project is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

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

In our opinion, the City complied, in all material aspects, with the requirements referred to above that are applicable to each of its major federal programs and its state financial assistance project for the fiscal year ended September 30, 2007.



Internal Control over Compliance

The management of the City is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs and state financial assistance projects. In planning and performing our audit, we considered the City's internal control over compliance with requirements that could have a direct and material effect on major federal and or state financial assistance projects programs 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'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 or state financial assistance project will not be prevented and detected by the City'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, as defined above.

This report is intended solely for the information and use of the Mayor, City Council, management and specific legislative or regulatory bodies and is not intended to be and should not be used by anyone other than these specified parties.

Rachlin LLP

Miami, Florida
March 25, 2008

CITY OF MARATHON, FLORIDA

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND STATE FINANCIAL ASSISTANCE

FISCAL YEAR ENDED SEPTEMBER 30, 2007

<u>Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>State CSFA Number</u>	<u>Contract/ Grant Number</u>	<u>Expenditures</u>
<u>Department of Homeland Security</u>				
Federal Emergency Management Agency				
Pass-through State of Florida Department of Community Affairs				
Disaster Relief Funding; Wilma	97.036		Various	\$ 50,665
<u>Environmental Protection Agency</u>				
Pass-through from:				
Florida Department of Environmental Protection				
Clean Water State Revolving Fund Loan Agreement	66.458		WW63702P	1,123,325
Clean Water State Revolving Fund Loan Agreement	66.458		WW63705P	594,058
Clean Water State Revolving Fund Loan Agreement	66.458		SW63703	653,293
Clean Water State Revolving Fund Loan Agreement	66.458		SW63704	177,747
Marina Wastewater	66.606		XP96449906-0	8,698
Total Environmental Protection Agency				<u>2,557,121</u>
<u>U.S. Department of Interior-National Park Service</u>				
Marathon Community Park Facilities (LWCF)	15.916		12-00491	31,257
Marathon Community Park Amenities (LWCF)	15.916		12-00537	13,825
Total U.S. Department of Interior				<u>45,082</u>
<u>U.S. Fish and Wildlife Service</u>				
Pass-through program from:				
Florida Department of Environmental Protection	15.616		DEP LE641/CVA 07-484	95,364
Total Expenditures of Federal Awards				<u>\$ 2,748,232</u>
<u>Florida Department of Environmental Protection</u>				
Direct Programs:				
Marathon Community Park (FRDAP) - 1	37.017		F06057	\$ 17,500
Marathon Community Park (FRDAP) - 2	37.017		F06062	16,750
Wastewater Grant	37.039		LP6116	1,033,151
Subtotal Direct Programs				1,067,401
Pass-through South Florida Water Management District				
Alternative Water Supply Funding Program	37.039		4600000532	114,000
Coco Plum Beach Park Enhancement Project	-		CZ719	7,395
Total Florida Department of Environmental Protection				<u>1,188,796</u>
Total Expenditures of State Financial Assistance				<u>\$ 1,188,796</u>

See Note to Schedule of Expenditures of Federal Awards and State Financial Assistance.

CITY OF MARATHON, FLORIDA

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND STATE FINANCIAL ASSISTANCE

FISCAL YEAR ENDED SEPTEMBER 30, 2007

NOTE 1. BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards and state financial assistance includes the federal and state grant activity of the City of Marathon and is presented on the 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*; and Chapter 10.550, Rules of the Auditor General. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the basic financial statements.

NOTE 2. SRF LOAN AGREEMENT EXPENDITURES

The expenditures presented on the Schedule of Expenditures of Federal Awards and State Financial Assistance for the City's Clean Water State Revolving Fund Loan Agreements WW63702P, SW63703 and SW63704 exceeds the amount of the funds drawn under these loan agreements in fiscal year ended September 30, 2007 (see Note 7 p. 35-36). The City will, however, have the option to draw down funds under these agreements in subsequent fiscal years for eligible expenditures that were incurred during the current fiscal year. These subsequent draws may take place based on completion of various contractual milestones and may also provide permanent financing to repay the Florida Rural Utility Financing Commission Revenue Note Series 2007 'bridge loan' described in Note 9 p. 36. As a result, all expenditures during the fiscal year ended September 30, 2007 which are eligible for future disbursements under the various State Revolving Fund Loan Agreements were included in the amount presented herein.

CITY OF MARATHON, FLORIDA

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

FISCAL YEAR ENDED SEPTEMBER 30, 2007

PRIOR YEAR FINANCIAL STATEMENT FINDINGS

None.

PRIOR YEAR FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

None.

PRIOR YEAR STATE FINANCIAL ASSISTANCE FINDINGS AND QUESTIONED COSTS

None.

CITY OF MARATHON, FLORIDA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FISCAL YEAR ENDED SEPTEMBER 30, 2007

SECTION I - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued:

Unqualified Opinion

Internal control over financial reporting:

Material weakness(es) identified?

_____ Yes X No

Significant deficiency(ies) identified not considered to be material weakness?

_____ Yes X None reported

Noncompliance material to financial statements noted?

_____ Yes X No

Federal Awards Programs and State Financial Assistance Projects

Internal control over major federal awards programs and state financial assistance projects:

Material weakness(es) identified?

_____ Yes X No

Significant deficiency(ies) identified not considered to be material weakness?

_____ Yes X None reported

Type of auditor's report issued on compliance for major federal awards programs and state financial assistance:

Unqualified Opinion

Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a) or Chapter 10.550, Rules of the Auditor General?

_____ Yes X No

Identification of major federal awards program and state financial assistance project:

Federal Program

CFDA No.

EPA – Clean Water State Revolving Fund Loan

66.458

State Program

CSFA No.

DEP Wastewater Grant

37.039

Dollar threshold used to distinguish between Type A and Type B programs:

Federal \$300,000

State \$300,000

Auditee qualified as a low-risk auditee for federal awards programs?

 X Yes _____ No

CITY OF MARATHON, FLORIDA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)

SECTION II – FINANCIAL STATEMENT FINDING

None.

SECTION III – FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

None.

SECTION IV – STATE FINANCIAL ASSISTANCE FINDINGS AND QUESTIONED COSTS

None.

SECTION V – NEW PRONOUNCEMENT

Governmental Accounting Standards Board Statement No. 45 – Accounting and Financial Reporting by Employers for Post-Employment Benefits Other than Pensions

The GASB has issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, which provides guidance on all aspects of OPEB reporting by employers. The requirements of this statement are effective for fiscal periods beginning after December 15, 2006, for governments with annual revenues of \$100 million or more; for fiscal periods beginning after December 15, 2007, for governments with total annual revenues of \$10 million or more but less than \$100 million; and for fiscal periods beginning after December 15, 2008, for governments with total annual revenues of less than \$10 million. For the City, this Statement is effective for the fiscal year ended September 30, 2010.

Recommendation

The contents of this statement are highly complex and will require significant lead time to implement on the respective implementation date. We would suggest that the City obtain a thorough understanding of the requirements and initiate planning for implementation in a prudent manner.