

**CITY OF MARATHON, FLORIDA**  
**COMPREHENSIVE ANNUAL FINANCIAL REPORT**  
**FISCAL YEAR ENDED SEPTEMBER 30, 2010**

Prepared by the  
Finance Department

CITY OF MARATHON, FLORIDA  
COMPREHENSIVE ANNUAL  
FINANCIAL REPORT  
FOR THE YEAR ENDED SEPTEMBER 30, 2010

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## INTRODUCTORY SECTION



## CITY OF MARATHON, FLORIDA

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9805 Overseas Highway, Marathon, Florida 33050  
Phone: (305) 743-0033 Fax: (305) 743-3667

March 24, 2011

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

It is our pleasure to submit to you the Comprehensive Annual Financial Report of the City of Marathon, Florida for the fiscal year ended September 30, 2010.

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.

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 Keefe, McCullough & Co. 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, 2010, are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unqualified opinion that the City of Marathon's financial statements for the fiscal year ended September 30, 2010, 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 addition to meeting the requirements set forth above, the independent audit was also designed to meet the special needs of federal and state grantor agencies as provided for in the Federal Single Audit Act, Office of Management and Budget (OMB) Circular A-133 and Florida Single Audit Act in accordance with Chapter 10.550, Rules of the Auditor General. These standards require the independent auditor to report not only on the fair presentation of the basic financial statements, but also on the audited government's internal controls and compliance with legal requirements, with special emphasis on internal controls and legal requirements involving the administration of federal and state awards. These reports are presented in the compliance 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 Governments*, 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 independent auditor's report on the basic financial statements.

## **Profile of the Government**

The City of Marathon, incorporated November 30, 1999, with a population of 10,321 residents, 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, fire protection, and emergency medical services; 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 48 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 Supplementary Information following the notes to the basic financial statements on pages 49 and 50. 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, on pages 56 and 67.

## **Factors Affecting Financial Condition**

### **Local Economy**

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 Florida Keys have continually ranked among the top tourist destinations in the Country.

The City of Marathon’s economic outlook reflects some of the uncertainties present in the national economy as a whole. Due to the current economic condition, the outlook is flat. Property tax values decreased and revenues decreased. The pace of growth and development has also slowed significantly throughout the City and surrounding areas. This slow down has led to decreased building permit revenues, however, the City expects these revenues to increase in future years due to the required hookup to the City’s wastewater utility system. In September 2010, the area’s unemployment rate was 8.6%, better than the statewide rate of 12.1%.

During 2007, the State of Florida mandated caps on the amount of money that could be collected through property taxes by local governments. In January, 2008, a constitutional amendment was approved by the electorate which provided for doubling the homestead exemption to \$50,000, exempted the first \$25,000 of business tangible personal property, limited the annual increase in the assessed value of commercial property to 10%, and allowed homeowners to take savings of their current property from having assessed value increases limited to no more than 3% annually (Save Our Homes constitutional amendment passed in 1993) regardless of market value and have that savings (market value less assessed value) applied to the assessed value of a newly purchased homestead property. When taken together, these measures limit the amount of property tax revenues the City can generate to fund operations.

These financial constraints have been and will continue to be major factors in the City's budgeting process. In consideration of these factors, City Council has focused efforts on controlling expenditures, while minimizing the impact to the level of services provided.

### **Long-term Financial Planning and Relevant Financial Policies**

As discussed further under the major initiatives section, the City has developed a comprehensive financial plan to pay for the cost, operation and maintenance of its wastewater and stormwater utility systems. As part of this process the City engaged experts to assist in the development of assessment methodology and to perform utility rate studies. The resulting assessment and rate ordinances adopted by the City will allow the City to pay for the improvements over a period of time that is significantly shorter than the estimated useful lives of the utility assets.

The City has also been successful in securing below market rate loans through the state revolving loan fund program and has aggressively sought and is receiving significant grant funding in order to lessen the cost burden on the local community.

The City strives to maintain an unreserved fund balance in the general fund at a level sufficient to provide for temporary financing of unforeseen needs of an emergency nature and to permit the orderly adjustment to changes resulting from the decline in a revenue source. The City's "informal" policy is that the unreserved fund balance in the general fund should equal or exceed six (6) months of operating expenditures. At September 30, 2010 the City had approximately seven (7) months of operating expenditures in the general fund unreserved fund balance.

The City has adopted a cash management policy that is designed to maintain earnings free from risk, maintain adequate liquidity to meet the City's obligations, and maximize investment return. To ensure the safety of the City's funds, all investments are with depositories that are qualified under Florida law and thus are fully collateralized in accordance with Chapter 280 of the State statutes.

### **Major Initiatives**

The Florida Legislature has identified the Florida Keys as an area of critical state concern due in part to pollution and questionable water quality resulting from the absence of adequate wastewater treatment throughout the Florida Keys. Over the past several years the City has devoted significant amounts of time, energy and resources to the construction of a City wide wastewater collection and treatment utility. Numerous improvements continue to be made to various stormwater systems throughout the City as well. The purpose of the stormwater system is to reduce flooding in the public right of way and reduce discharges through surface runoff and through existing stormwater outfalls by collecting and treating stormwater.

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, 2010 the construction continued for the implementation of City-wide wastewater treatment and stormwater management utilities. The City also continues to devote resources to transportation and traffic issues and concerns. Included are various roadway and intersection improvements, roadway beautification efforts and resurfacing of local roads. Other major projects currently included in the Five Year Capital Improvement Plan are:

- The construction of a fire station on Grassy Key
- The continued implementation of the Fire Safety Program
- Continuing improvements to City parks, beaches, and roadways



## Awards and Acknowledgements

The Government Finance Officers Association of the United States and Canada (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, 2009. This was the seventh consecutive year that the City of Marathon achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that the September 30, 2010 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 other City departments 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, Keefe, McCullough & Co., 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,



Roger Hernstadt  
City Manager



Peter Rosasco  
Finance Director

# **CITY OF MARATHON, FLORIDA**

## **LIST OF PRINCIPAL OFFICIALS**

SEPTEMBER 30, 2010

### **CITY COUNCIL**

Ginger Snead, Mayor  
Dick Ramsay, Vice-Mayor

Richard Keating, Councilman  
Pete Worthington, Councilman  
Mike Cinque, Councilman

### **CITY MANAGER**

Roger Hernstadt

### **CITY CLERK**

Diane Clavier

### **CITY ATTORNEY**

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

### **FINANCE DIRECTOR**

Peter L. Rosasco, CPA

### **CITY AUDITORS**

Keefe, McCullough & Co., LLP  
Accountants ▪ Advisors

# 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, 2009

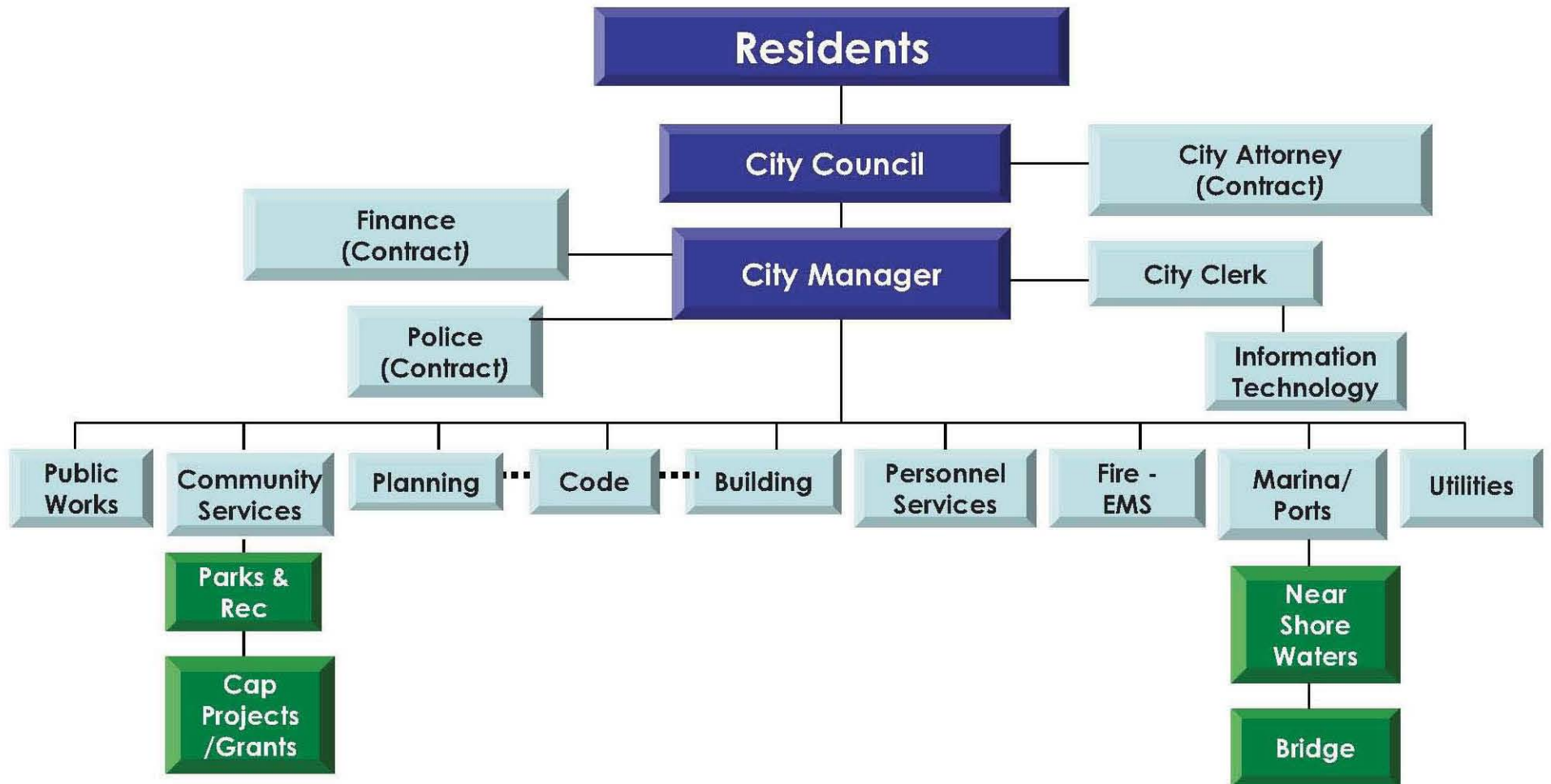
A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards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



President

Executive Director

## City of Marathon FY10 Department Organizational Chart



## FINANCIAL SECTION

## INDEPENDENT AUDITORS' REPORT



## INDEPENDENT AUDITORS' REPORT

Honorable Mayor and City Council  
City of Marathon, Florida  
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 and for the year ended September 30, 2010, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the City as of September 30, 2010 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 of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 24, 2011 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the schedules of funding progress on pages 3 through 15 and pages 52 and 53, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

City of Marathon, Florida

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's financial statements as a whole. The introductory section, budgetary comparison information, other financial information and statistical section, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*, and is also not a required part of the financial statements. The budgetary comparison information, other financial information and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole. The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

*Keefe, McCullough & Co., LLP*

KEEFE, MCCULLOUGH & CO., LLP

Fort Lauderdale, Florida  
March 24, 2011



# MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

**CITY OF MARATHON, FLORIDA**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
September 30, 2010

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, 2010. 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 through v 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 \$ 85,464,037 (net assets), as compared with \$ 66,045,457 for the previous year. Of this amount, \$ 5,556,572 (unrestricted net assets) may be used to meet the City's ongoing obligations to citizens and creditors as compared with \$ 8,467,806 for the previous year.
- The City's total net assets increased by \$ 19,418,580 or 29% during the current fiscal year. Included in the total net assets are governmental net assets that increased by \$ 3,950 and business-type activities net assets that increased by \$ 19,414,630.
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$ 10,328,861, a decrease of \$ 674,375 in comparison with the prior year. \$ 10,189,921 (99%), of this total amount is available for spending at the City's discretion (unreserved fund balance). \$ 4,970,012 (48%) of this amount is available in the City's general fund.
- The City's total debt increased by \$ 5,282,456 (8%) during the current fiscal year. The primary factor of the increase were additional draws from the State Revolving Fund loans to fund the continuing construction of wastewater and stormwater utility capital improvements.

### **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 contain 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).

CITY OF MARATHON, FLORIDA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
September 30, 2010

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, street and bridge maintenance, parks and recreation), public safety (fire, EMS, 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 16 and 17 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 54 through 57 of this report.

The City of Marathon adopts an annual appropriated budget for its general fund, five of its 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 48). A budgetary comparison schedule has also been provided for the major special revenue funds, which are the capital infrastructure fund (page 49) and the street maintenance fund (page 50).

The governmental fund financial statements can be found on pages 18 through 21 of this report.

CITY OF MARATHON, FLORIDA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
September 30, 2010

***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 22 through 25 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 26 and 27 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 28 through 47 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 48 through 53 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 54 through 57 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 \$ 85,464,037 at the close of the most recent fiscal year, compared to net assets of \$ 66,045,457 in the prior year.

**CITY OF MARATHON, FLORIDA**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
September 30, 2010

**City of Marathon's Net Assets**

	Governmental Activities		Business-Type Activities		Total	
	2010	2009	2010	2009	2010	2009
Current and other assets	\$ 11,537,611	\$ 12,054,886	\$ 18,144,359	\$ 31,853,601	\$ 29,681,970	\$ 43,908,487
Capital assets (net)	32,635,688	31,603,684	99,344,789	65,802,370	131,980,477	97,406,054
Total assets	44,173,299	43,658,570	117,489,148	97,655,971	161,662,447	141,314,541
Current and other liabilities	3,054,466	1,807,695	3,267,149	8,672,572	6,321,615	10,480,267
Long term liabilities	5,884,522	6,620,514	63,992,273	58,168,303	69,876,795	64,788,817
Total liabilities	8,938,988	8,428,209	67,259,422	66,840,875	76,198,410	75,269,084
Net assets:						
Invested in capital assets, net of related debt	26,154,207	24,381,462	50,378,894	29,001,944	76,533,101	53,383,406
Restricted	3,374,364	4,194,245	-	-	3,374,364	4,194,245
Unrestricted (deficit)	5,705,740	6,654,654	(149,168)	1,813,152	5,556,572	8,467,806
Total net assets	\$ 35,234,311	\$ 35,230,361	\$ 50,229,726	\$ 30,815,096	\$ 85,464,037	\$ 66,045,457

The largest portion of the City's net assets (89.5%) 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 43% 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, \$ 3,374,364 (4%), represents resources that are subject to external restrictions on how they may be used. This represents a decrease of 20% from the previous year's balance of \$ 4,194,245. The remaining balance of unrestricted net assets \$ 5,556,572 (6.5%) 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 had positive balances in all three categories of net assets, for its governmental activities, and the City's business-type activities, investment in capital assets (net of related debt) was positive, while the unrestricted net assets reported a negative balance of \$ 149,168. This was due to timing differences in the recording of expenditures and the receipt of proceeds from certain grants and construction loans related to the stormwater and wastewater projects and business-type activities. For the prior fiscal year, the City of Marathon was able to report positive balances in all three categories of net assets, for the City as a whole. For governmental activities and for business-type activities, all three categories of net assets had positive balances.

### Changes in Net Assets

Governmental activities and business-type activities increased the City's net assets by \$ 19,418,580 from the previous fiscal year. The relevant revenue and expense categories and their effect on nets 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, FLORIDA**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
September 30, 2010

**City of Marathon's Changes in Net Assets**

	Governmental Activities		Business-Type Activities		Total	
	2010	2009	2010	2009	2010	2009
Revenues:						
Program revenues:						
Charges for services	\$ 2,011,346	\$ 1,821,026	\$ 1,687,055	\$ 1,162,659	\$ 3,698,401	\$ 2,983,685
Operating grants and contributions	1,250,302	288,829	52,421	93,172	1,302,723	382,001
Capital grants and contributions	2,973,949	3,581,347	20,000,850	16,213,258	22,974,799	19,794,605
General revenues:						
Property taxes	3,746,062	4,079,688	-	-	3,746,062	4,079,688
Other taxes	591,504	590,167	-	-	591,504	590,167
State shared revenues	1,575,835	1,526,669	-	-	1,575,835	1,526,669
Investment earnings	194,189	341,774	299,205	151,372	493,394	493,146
Miscellaneous	170,699	43,328	-	120,000	170,699	163,328
Total revenues	12,513,886	12,272,828	22,039,531	17,740,461	34,553,417	30,013,289
Expenses:						
General government	3,646,885	2,519,857	-	-	3,646,885	2,519,857
Public safety	4,580,076	4,363,860	-	-	4,580,076	4,363,860
Community services	2,577,772	3,343,066	-	-	2,577,772	3,343,066
Community development	941,914	1,091,795	-	-	941,914	1,091,795
Interest on long-term debt	298,339	330,414	-	-	298,339	330,414
Marina	-	-	688,583	680,851	688,583	680,851
Wastewater	-	-	2,126,390	541,667	2,126,390	541,667
Stormwater	-	-	274,878	14,138	274,878	14,138
Total expenses	12,044,986	11,648,992	3,089,851	1,236,656	15,134,837	12,885,648
Increase in net assets before transfers	468,900	623,836	18,949,680	16,503,805	19,418,580	17,127,641
Transfers	(464,950)	(530,555)	464,950	530,555	-	-
Increase in net assets	3,950	93,281	19,414,630	17,034,360	19,418,580	17,127,641
Net assets, October 1	35,230,361	35,137,080	30,815,096	13,780,736	66,045,457	48,917,816
Net assets, September 30	\$ 35,234,311	\$ 35,230,361	\$ 50,229,726	\$ 30,815,096	\$ 85,464,037	\$ 66,045,457

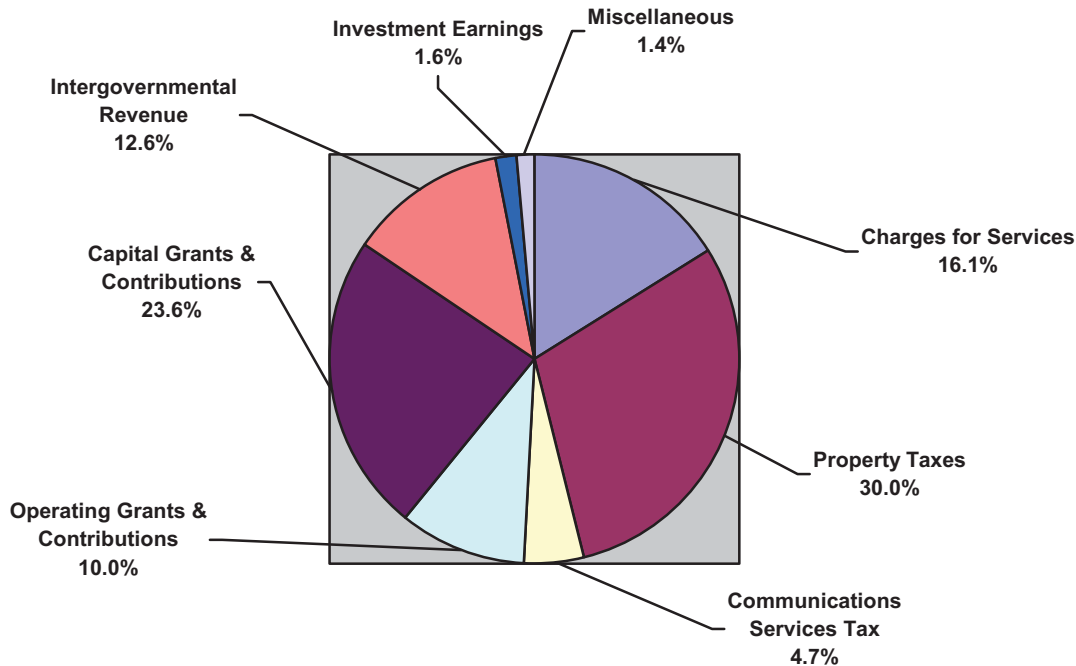
**Governmental Activities**

Governmental activities increased the City of Marathon's net assets by \$ 3,950 as compared to \$ 93,281 in the prior fiscal year.

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 30% of total revenues for governmental activities, are non-program specific and are used to fund all activities not covered by program revenues.

**CITY OF MARATHON, FLORIDA**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
September 30, 2010

**Revenue Sources - Governmental Activities**



**Business-Type Activities**

Business-type activities increased the City of Marathon's net assets by \$ 19,414,630. 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.

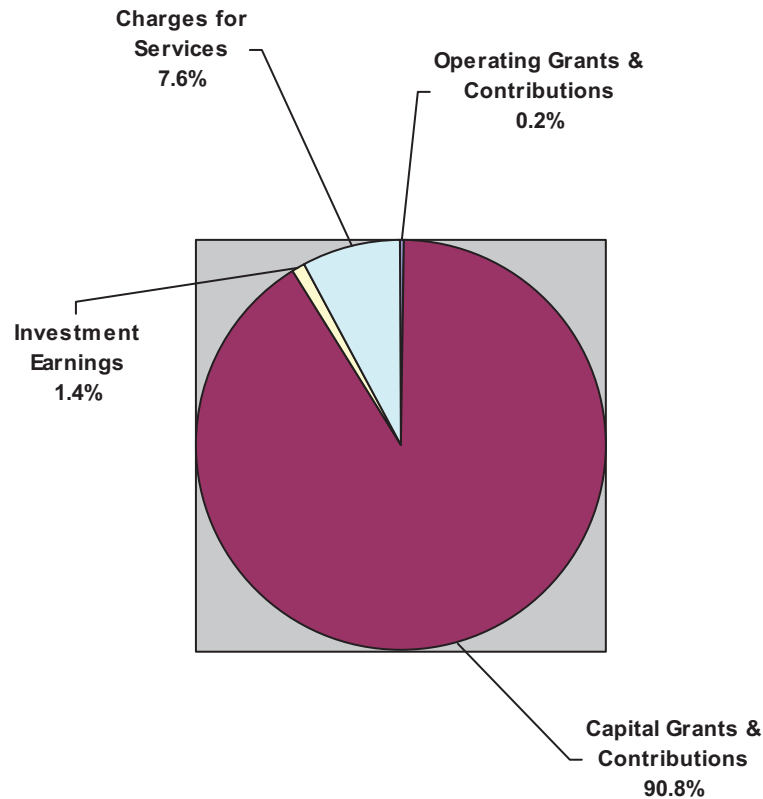
This is the seventh year of operation for the marina enterprise fund, and the fifth year of operation for the wastewater and stormwater utility enterprise funds.

- In total, the City's business-type activities reflected an operating loss of \$ 1,396,096 This is primarily due to:
  - The wastewater fund's operating loss of \$ 1,105,640. This wastewater operating loss is down from the previous year's operating income of \$ 72,417 mainly due to depreciation expense of \$1,044,894. During the year, two of the wastewater treatment plants and collection systems came online and started being depreciated.
  - The marina fund's operating loss is \$ 17,253. This operating loss is 47% 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 91% of the total business-type revenues.



CITY OF MARATHON, FLORIDA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
September 30, 2010

**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 \$ 10,328,861 a decrease of \$ 674,375 in comparison with the prior year. This decrease is primarily due to the decline in property tax revenues. \$ 10,189,921 (99%) of this total amount constitutes *unreserved fund balance*, which is available for spending at the City's discretion. The remainder of fund balance, \$ 138,940, is *reserved* to indicate that it is not available for new spending because it is already committed for a variety of restricted purposes.



**CITY OF MARATHON, FLORIDA**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
September 30, 2010

*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 \$ 4,970,012 while total fund balance was \$ 5,108,952. 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 57% of total general fund expenditures, while total fund balance represents 58% of that same amount.

The fund balance of the City of Marathon's general fund decreased by \$ 263,822 during the current fiscal year. Total general fund expenditures increased 1% while total revenues increased 1%.

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

	<u>2010 Amount</u>	<u>Percentage of Total</u>	<u>2009 Amount</u>	<u>Percentage of Total</u>	<u>Increase (Decrease) From 2009</u>	<u>Percentage of Increase (Decrease)</u>
Revenues:						
Property taxes	\$ 3,746,062	46%	\$ 4,079,688	51%	\$ (333,626)	-8%
Intergovernmental	2,111,506	26%	1,729,230	21%	382,276	22%
Licenses and permits	580,463	7%	567,528	7%	12,935	2%
Charges for services	811,580	10%	814,226	10%	(2,646)	0%
Fines and forfeitures	94,318	1%	88,277	1%	6,041	7%
Communication						
services taxes	591,504	7%	590,167	7%	1,337	0%
Interest	103,248	1%	148,382	2%	(45,134)	-30%
Miscellaneous	94,719	1%	43,173	1%	51,546	119%
Total revenues	<u>\$ 8,133,400</u>	<u>100%</u>	<u>\$ 8,060,671</u>	<u>100%</u>	<u>\$ 72,729</u>	<u>1%</u>

- Property taxes revenue decreased 8 % due to the City assessing a millage rate below the roll back rate, which is the tax rate that would bring in the same amount of dollars from the previous year, and due to lower assessed property values.
- Intergovernmental revenues increased 22% due to an increase in half cent sales tax collections, and increased federal grant revenues.
- Interest revenue decreased 30% due to lower interest rates and cash balances during the year.
- License and permit revenue increased 2% due to an increase in building permit activity, primarily as a result of businesses and individuals hooking up to the City sewer system.
- Fines and forfeitures revenue increased 7% due to an increase in parking fines revenue.
- Miscellaneous revenue increased 119%; this is primarily due to an insurance recovery payment received during the year for damage to fire equipment items.

**CITY OF MARATHON, FLORIDA**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
September 30, 2010

Expenditures in the general fund are shown in the following schedule:

	2010 Amount	Percentage of Total	2009 Amount	Percentage of Total	Increase (Decrease) From 2008	Percentage of Increase (Decrease)
Expenditures:						
City Council	\$ 451,257	5%	\$ 423,645	5%	\$ 27,612	7%
Administration	1,677,011	19%	1,646,495	19%	30,516	2%
Legal	356,845	4%	417,712	5%	(60,867)	-15%
Police services	1,363,972	16%	1,356,965	16%	7,007	1%
Fire/EMS	2,824,069	32%	2,628,584	30%	195,485	7%
Public Works	181,978	2%	229,711	3%	(47,733)	-21%
Parks and recreation	959,273	11%	926,606	11%	32,667	4%
Bridge	42,693	0%	93,161	1%	(50,468)	-54%
Community development	911,026	10%	998,048	11%	(87,022)	-9%
Total expenditures	<u>\$ 8,768,124</u>	<u>100%</u>	<u>\$ 8,720,927</u>	<u>100%</u>	<u>\$ 47,197</u>	<u>1%</u>

- Legal expenditures decreased 15% due to a decrease in litigation.
- Public safety (Police and Fire/EMS) accounts for approximately 48% of the general fund expenditures.
- Fire/EMS expenditures increased 7% due to an increased contribution from the City to the firefighters defined benefit pension plan, and increased personnel costs.
- Public works expenses decreased 21% due to decreased personnel costs.
- Bridge expenses decreased 54% due to decreased personnel costs.
- Community development expenditures decreased 9% due to lower personnel and professional services contract costs.

*Other governmental funds*

Significant items pertaining to other governmental funds are as follows:

- The capital infrastructure fund decreased its fund balance by \$ 127,326 due to a decrease in grant revenues.
- The street maintenance fund decreased its fund balance by \$ 687,745 due to several ongoing capital projects for improvements to the City's streets.

**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 unrestricted net assets of \$ 9,807,773 and an increase in investment in capital assets (net of related debt) of \$ 7,870,850.

**CITY OF MARATHON, FLORIDA**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
September 30, 2010

*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 a decrease in the Stormwater Utility unrestricted net assets of \$ 9,963,764 and an increase in investment in capital assets (net of related debt) of \$ 11,647,888.

*Marina Fund*

- Transfers made to the marina fund totaled \$ 41,943 which was made up of capital assets.
- There was a \$ 25,000 cash transfer to the general fund for services provided to the marina by the general fund.

**General Fund Budgetary Highlights**

Differences between the original budget and the final amended budget resulted in a \$ 127,490 increase to total appropriations, and a \$ 268,200 increase to revenues. 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:

- \$ 214,000 in increases allocated to the Fire/EMS department for increased retirement benefit expenditures.
- \$ 92,510 in decreases allocated to the Police department for expenditures being less than originally anticipated.
- \$ 136,100 in decreased building permit fee revenues.
- \$ 345,590 in increased federal grant revenues.
- \$ 89,180 in increased half cent sales tax revenues.
- \$ 30,160 in decreased communication service tax revenues.

Actual expenditures were \$ 311,995 below the final budgeted amounts. The significant variances can be summarized as follows:

- Expenditures for City administration were \$ 110,551 under the budgeted amount due to lower than anticipated expenditures for personnel costs.
- Expenditures for community services were \$ 59,656 under the budgeted amount due to lower than anticipated expenditures for personnel costs, and professional services contract costs.
- Community development expenditures were \$ 123,627 under the budgeted amount due to lower than anticipated expenditures for personnel and professional services contract costs.
- City attorney expenditures were \$ 38,155 under the budgeted amount due to lower than anticipated costs for professional services contract costs.

**CITY OF MARATHON, FLORIDA**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
September 30, 2010

Resources available for appropriations were \$ 38,511 under the budgeted amount. The significant variances can be summarized as follows:

- Charges for services were \$ 100,303 under the budgeted amount as a result of collections being less than anticipated.
- Intergovernmental revenues were \$ 17,339 over the budgeted amount as a result of an increase in sales tax revenues.
- Fines and Forfeitures revenues were \$ 20,738 over the budgeted amount as a result of collections being higher than anticipated for traffic court fines, and local ordinance parking fines.
- Miscellaneous revenues were \$ 20,719 over the budgeted amount as a result of the unanticipated insurance recovery payment received during the year.

### 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, 2010, amounts to \$ 131,980,477 (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 \$ 34,574,423 (35%) as compared to \$ 37,317,887 (62%) in the prior year.

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

- The investment in construction in progress decreased in the area of governmental activities by \$ 439,614 as ongoing street, sidewalk, beach and park improvement projects are completed.
- The investment in construction in progress in business-type activities decreased by \$ 21,716,149 primarily due to portions of the City-wide wastewater and stormwater treatment plants and collection systems coming on line during the year.

	Governmental Activities		Business-Type Activities		Total	
	2010	2009	2010	2009	2010	2009
Capital assets, net of depreciation:						
Land	\$ 8,930,788	\$ 8,962,454	\$ 2,667,687	\$ 1,919,433	\$ 11,598,475	\$ 10,881,887
Intangibles	3,822	-	720,399	-	724,221	-
Construction in progress	1,264,917	1,704,531	38,997,591	60,713,740	40,262,508	62,418,271
Buildings	11,236,094	11,593,851	15,216,789	2,811,033	26,452,883	14,404,884
Leasehold improvements	33,678	37,261	-	-	33,678	37,261
Improvement other than buildings	8,554,774	6,493,701	40,560,244	78,834	49,115,018	6,572,535
Fire equipment and vehicles	1,726,523	1,956,790	412,386	135,824	2,138,909	2,092,614
Furniture and equipment	885,092	855,096	769,693	143,506	1,654,785	998,602
Total	\$ 32,635,688	\$ 31,603,684	\$ 99,344,789	\$ 65,802,370	\$ 131,980,477	\$ 97,406,054

Additional information on the City's capital assets can be found in Note 6 on pages 37 through 39 of this report.

**CITY OF MARATHON, FLORIDA**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
September 30, 2010

**Long-term debt**

At the end of the current fiscal year, the City of Marathon had governmental activities improvement revenue bond debt outstanding of \$ 6,481,481. This debt is secured by the City's local discretionary sales surtax revenues. The City also had State Revolving Fund debt outstanding of \$ 24,171,550 split between the wastewater enterprise fund (\$ 20,096,357) and the stormwater enterprise fund (\$ 4,075,193). In addition, the City has a \$ 10,000,000 Series 2008 Wastewater System Revenue Bond for wastewater improvements in the wastewater enterprise fund, and a \$ 30,000,000 Series 2009 Florida Utility System Revenue Bond split between the wastewater enterprise fund (\$ 22,500,000) and stormwater enterprise fund (\$ 7,500,000) for wastewater and stormwater improvements. The State Revolving Fund debt is secured by the pledge of future non-ad valorem capital assessments for utility construction.

	Governmental Activities		Business-Type Activities		Total	
	2010	2009	2010	2009	2010	2009
Long-term debt:						
Improvement						
Revenue Bonds	\$ 6,481,481	\$ 7,222,222	\$ -	\$ -	\$ 6,481,481	\$ 7,222,222
State Revolving						
Fund loan	-	-	24,171,550	13,005,645	24,171,550	13,005,645
Wastewater System						
Revenue Bonds	-	-	40,000,000	40,000,000	40,000,000	40,000,000
FRUFC Revenue						
Note, 2007	-	-	-	5,150,000	-	5,150,000
Compensated absences	159,757	154,337	15,937	14,065	175,694	168,402
Total	<u>\$ 6,641,238</u>	<u>\$ 7,376,559</u>	<u>\$ 64,187,487</u>	<u>\$ 58,169,710</u>	<u>\$ 70,828,725</u>	<u>\$ 65,546,269</u>

The City of Marathon's total debt increased \$ 5,282,456 (8%) during the current fiscal year, primarily due to additional draws from the State Revolving Fund loans to fund the continuing construction of wastewater and stormwater utility capital improvements. Furthermore, the City repaid \$5,150,000 of the wastewater and stormwater enterprise funds 'bridge loan' from the Florida Rural Utility Financing Commission.

Additional information on the City of Marathon's long-term debt can be found in Note 7 on pages 39 through 41 of this report.

**Economic Factors and Next Year's Budgets and Rates**

The unemployment rate for Monroe County is currently 8.6%, which is an increase from a rate of 7.4% a year ago. The rate still compares favorably to the state's average unemployment rate of 12.1%.

During the current fiscal year, unreserved, undesignated fund balance in the general fund decreased to \$ 4,970,012. Decreased property values resulted in a roll back rate, which is the tax rate that would bring in the same amount of dollars from the previous year, of 1.8931. For the fiscal year 2011, the City adopted a final millage rate of 1.8458 which is 2.5% below the roll back rate, as compared to 1.6850 in fiscal year 2010.

The marina fund was in an operating income position before the effects of depreciation; however, after depreciation expense is taken into account the fund reported an operating loss. The fund has reported operating losses for seven consecutive years; yet this year's operating loss has been significantly reduced, and subsidy from the general fund has been eliminated due to increased rates charged for services provided. The marina fund also transferred \$ 25,000 to the general fund during the year to support general project administration costs.

**CITY OF MARATHON, FLORIDA**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
September 30, 2010

During fiscal year 2011, the City will be working on the following programs/projects:

- Continued construction on a City-wide wastewater collection and treatment system
- Construction of various stormwater drainage projects
- Continued implementation of the Fire Safety Program
- Various beach and park improvements
- Various street/transportation improvements

All of these factors were considered in preparing the City of Marathon's budget for the 2011 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, 2010

	Governmental Activities	Business- type Activities	Total
<b>ASSETS:</b>			
Cash and cash equivalents	\$ 10,022,702	\$ 17,338,995	\$ 27,361,697
Investments	46,719	-	46,719
Receivables, net	456,128	136,728	592,856
Due from other governments	900,062	563,940	1,464,002
Prepays	112,000	15,920	127,920
Deferred charges	-	88,776	88,776
Capital assets not being depreciated	10,199,527	42,385,677	52,585,204
Capital assets, being depreciated	22,436,161	56,959,112	79,395,273
	<u>44,173,299</u>	<u>117,489,148</u>	<u>161,662,447</u>
<b>Total assets</b>			
	<u>44,173,299</u>	<u>117,489,148</u>	<u>161,662,447</u>
<b>LIABILITIES:</b>			
Accounts payable and accrued liabilities	2,208,750	3,071,935	5,280,685
Net OPEB obligation	89,000	-	89,000
Noncurrent liabilities:			
Due within one year	756,716	195,214	951,930
Due in more than one year	5,884,522	63,992,273	69,876,795
	<u>8,938,988</u>	<u>67,259,422</u>	<u>76,198,410</u>
<b>Total liabilities</b>			
	<u>8,938,988</u>	<u>67,259,422</u>	<u>76,198,410</u>
<b>COMMITMENTS AND CONTINGENCIES (NOTE 8)</b>	-	-	-
<b>NET ASSETS:</b>			
Invested in capital assets, net of related debt	26,154,207	50,378,894	76,533,101
Restricted for:			
Capital infrastructure	2,240,170	-	2,240,170
Street maintenance	1,105,672	-	1,105,672
Police education	28,522	-	28,522
Unrestricted (deficit)	5,705,740	(149,168)	5,556,572
	<u>35,234,311</u>	<u>50,229,726</u>	<u>85,464,037</u>
<b>Total net assets</b>	<u>\$ 35,234,311</u>	<u>\$ 50,229,726</u>	<u>\$ 85,464,037</u>

The accompanying notes to the financial statements are an integral part of these statements.



**CITY OF MARATHON, FLORIDA**  
**STATEMENT OF ACTIVITIES**  
For the Year Ended September 30, 2010

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		Total
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business- type Activities	
Governmental activities:							
General government	\$ 3,646,885	\$ 173,716	\$ 345,591	\$ -	\$ (3,127,578)	\$ -	\$ (3,127,578)
Public safety	4,580,076	841,587	139,496	-	(3,598,993)	-	(3,598,993)
Community services	2,577,772	515,305	765,215	2,895,838	1,598,586	-	1,598,586
Community development	941,914	480,738	-	78,111	(383,065)	-	(383,065)
Interest on long-term debt	298,339	-	-	-	(298,339)	-	(298,339)
Total governmental activities	12,044,986	2,011,346	1,250,302	2,973,949	(5,809,389)	-	(5,809,389)
Business-type activities:							
Wastewater	2,126,390	1,015,725	-	18,606,783	-	17,496,118	17,496,118
Stormwater	274,878	-	-	1,352,124	-	1,077,246	1,077,246
Marina	688,583	671,330	52,421	41,943	-	77,111	77,111
Total business-type activities	3,089,851	1,687,055	52,421	20,000,850	-	18,650,475	18,650,475
Total	\$ 15,134,837	\$ 3,698,401	\$ 1,302,723	\$ 22,974,799	(5,809,389)	18,650,475	12,841,086
General revenues:							
Property taxes					3,746,062	-	3,746,062
Communications services tax					591,504	-	591,504
Unrestricted intergovernmental revenue					1,575,835	-	1,575,835
Unrestricted investment earnings					194,189	299,205	493,394
Miscellaneous					170,699	-	170,699
Transfers					(464,950)	464,950	-
Total general revenues					5,813,339	764,155	6,577,494
Change in net assets					3,950	19,414,630	19,418,580
Net assets, beginning					35,230,361	30,815,096	66,045,457
Net assets, ending					\$ 35,234,311	\$ 50,229,726	\$ 85,464,037

The accompanying notes to the financial statements are an integral part of these statements.

**CITY OF MARATHON, FLORIDA**  
**BALANCE SHEET**  
**GOVERNMENTAL FUNDS**  
September 30, 2010

	General Fund	Capital Infrastructure Fund	Street Maintenance Fund	Other Nonmajor Governmental Funds	Total Governmental Funds
<b>ASSETS:</b>					
Cash and cash equivalents	\$ 4,824,431	\$ 2,057,061	\$ 1,337,143	\$ 1,804,067	\$ 10,022,702
Investments	30,078	2,077	14,564	-	46,719
Receivables, net	386,128	-	-	70,000	456,128
Due from other governments	335,605	197,557	366,900	-	900,062
Prepaid items	<u>110,418</u>	<u>-</u>	<u>1,582</u>	<u>-</u>	<u>112,000</u>
Total assets	<u>\$ 5,686,660</u>	<u>\$ 2,256,695</u>	<u>\$ 1,720,189</u>	<u>\$ 1,874,067</u>	<u>\$ 11,537,611</u>
<b>LIABILITIES AND FUND BALANCES:</b>					
Liabilities:					
Accounts payable and accrued liabilities	\$ <u>577,708</u>	\$ <u>16,525</u>	\$ <u>614,517</u>	\$ <u>-</u>	\$ <u>1,208,750</u>
Total liabilities	<u>577,708</u>	<u>16,525</u>	<u>614,517</u>	<u>-</u>	<u>1,208,750</u>
<b>COMMITMENTS AND CONTINGENCIES (NOTE 8)</b>	-	-	-	-	-
Fund balances:					
Reserved for:					
Prepaid items	110,418	-	-	-	110,418
Police education	28,522	-	-	-	28,522
Unreserved, undesignated reported in:					
General Fund	4,970,012	-	-	-	4,970,012
Capital Infrastructure Fund	-	2,240,170	-	-	2,240,170
Street Maintenance Fund	-	-	1,105,672	-	1,105,672
Special Revenue Funds	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,874,067</u>	<u>1,874,067</u>
Total fund balances	<u>5,108,952</u>	<u>2,240,170</u>	<u>1,105,672</u>	<u>1,874,067</u>	<u>10,328,861</u>
Total liabilities and fund balances	<u>\$ 5,686,660</u>	<u>\$ 2,256,695</u>	<u>\$ 1,720,189</u>	<u>\$ 1,874,067</u>	<u>\$ 11,537,611</u>

The accompanying notes to the financial statements are an integral part of these statements.

CITY OF MARATHON, FLORIDA  
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF NET ASSETS  
September 30, 2010

AMOUNTS REPORTED FOR GOVERNMENTAL ACTIVITIES IN THE  
STATEMENT OF NET ASSETS ARE DIFFERENT BECAUSE:

Total fund balances of governmental funds in the balance sheet, page 18	\$ 10,328,861
Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds:	
Governmental capital assets	38,256,753
Less accumulated depreciation	(5,621,065)
Certain liabilities are not due and payable in the current period and therefore are not reported in the funds:	
Net OPEB obligation	(89,000)
Compensated absences payable	(159,757)
Governmental revenue bonds payable	(6,481,481)
Loss contingency	<u>(1,000,000)</u>
NET ASSETS OF GOVERNMENTAL ACTIVITIES, PAGE 16	<u><u>\$ 35,234,311</u></u>

The accompanying notes to the financial statements are an integral part of these statements.

**CITY OF MARATHON, FLORIDA**  
**STATEMENT OF REVENUES, EXPENDITURES**  
**AND CHANGES IN FUND BALANCES -**  
**GOVERNMENTAL FUNDS**  
For the Year Ended September 30, 2010

	General Fund	Capital Infrastructure Fund	Street Maintenance Fund	Other Nonmajor Governmental Funds	Total Governmental Funds
<b>REVENUES:</b>					
Property taxes	\$ 3,746,062	\$ -	\$ -	\$ -	\$ 3,746,062
Intergovernmental	2,111,506	2,401,218	1,607,198	-	6,119,922
Licenses and permits	580,463	-	-	49,710	630,173
Charges for services	811,580	-	-	-	811,580
Fines and forfeitures	94,318	-	-	-	94,318
Communications services tax	591,504	-	-	-	591,504
Impact fees	-	-	-	82,004	82,004
Special assessments	-	-	21,944	-	21,944
Interest	103,248	33,930	30,543	26,468	194,189
Miscellaneous	94,719	63,719	2,791	22,139	183,368
	<u>8,133,400</u>	<u>2,498,867</u>	<u>1,662,476</u>	<u>180,321</u>	<u>12,475,064</u>
Total revenues					
<b>EXPENDITURES:</b>					
Current:					
General government	2,485,113	-	-	-	2,485,113
Public safety	4,188,041	-	-	-	4,188,041
Community services	1,183,944	-	357,887	-	1,541,831
Community development	908,782	-	-	9,600	918,382
Capital outlay	2,244	871,295	2,040,588	-	2,914,127
Debt service:					
Principal	-	-	-	740,741	740,741
Interest and fiscal charges	-	-	-	298,339	298,339
	<u>8,768,124</u>	<u>871,295</u>	<u>2,398,475</u>	<u>1,048,680</u>	<u>13,086,574</u>
Total expenditures					
Excess (deficiency) of revenues over expenditures	<u>(634,724)</u>	<u>1,627,572</u>	<u>(735,999)</u>	<u>(868,359)</u>	<u>(611,510)</u>
<b>OTHER FINANCING SOURCES (USES):</b>					
Sale of capital asset	-	402,085	-	-	402,085
Transfers in	383,903	58,000	57,825	1,388,702	1,888,430
Transfers out	<u>(13,001)</u>	<u>(2,214,983)</u>	<u>(9,571)</u>	<u>(115,825)</u>	<u>(2,353,380)</u>
Total other financing sources (uses)	<u>370,902</u>	<u>(1,754,898)</u>	<u>48,254</u>	<u>1,272,877</u>	<u>(62,865)</u>
Net change in fund balances	(263,822)	(127,326)	(687,745)	404,518	(674,375)
FUND BALANCES, beginning	<u>5,372,774</u>	<u>2,367,496</u>	<u>1,793,417</u>	<u>1,469,549</u>	<u>11,003,236</u>
FUND BALANCES, ending	<u>\$ 5,108,952</u>	<u>\$ 2,240,170</u>	<u>\$ 1,105,672</u>	<u>\$ 1,874,067</u>	<u>\$ 10,328,861</u>

The accompanying notes to the financial statements are an integral part of these 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  
September 30, 2010

AMOUNTS REPORTED FOR GOVERNMENTAL ACTIVITIES IN THE  
STATEMENT OF ACTIVITIES ARE DIFFERENT BECAUSE:

Net change in fund balances - total governmental funds, page 20	\$ (674,375)
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Governmental funds report capital outlays as expenditures.  
However, in the statement of activities, the cost of those  
assets is depreciated over their estimated useful lives:

Expenditures for capital assets	2,765,701
Donated capital assets	38,823
Less current year provision for depreciation	(1,370,435)

In the statement of activities, only the gain on the disposal  
of capital assets is reported, whereas in the governmental  
funds, only the proceeds from the disposal are reported:

Sale of capital asset	(402,085)
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Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long term liabilities in the statement of net assets.	740,741
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Certain items reported in the statement of activities do not  
require the use of current financial resources and therefore  
are not reported as expenditures in the governmental funds:

Change in Net OPEB obligation	(89,000)
Change in compensated absences payable	(5,420)
Change in loss contingency	<u>(1,000,000)</u>

CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES, PAGE 17	\$ <u><u>3,950</u></u>
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The accompanying notes to the financial statements are an integral part of these statements.

**CITY OF MARATHON, FLORIDA**  
**STATEMENT OF NET ASSETS**  
**PROPRIETARY FUNDS**  
September 30, 2010

	Business-type Activities Enterprise Funds			
	Major Funds		Nonmajor Fund	Total
	Wastewater Fund	Stormwater Fund	Marina Fund	Enterprise Funds
<b>ASSETS:</b>				
Current assets:				
Cash and cash equivalents	\$ 16,142,872	\$ 980,191	\$ 215,932	\$ 17,338,995
Receivables, net	136,728	-	-	136,728
Prepays	5,962	1,504	8,454	15,920
Due from other funds	4,802,643	-	-	4,802,643
Due from other governments	506,566	9,364	48,010	563,940
Total current assets	21,594,771	991,059	272,396	22,858,226
Noncurrent assets:				
Deferred charges	68,848	19,928	-	88,776
Capital assets not being depreciated	32,237,777	10,070,605	77,295	42,385,677
Capital assets, net of accumulated depreciation	42,216,040	12,740,986	2,002,086	56,959,112
Total noncurrent assets	74,522,665	22,831,519	2,079,381	99,433,565
Total assets	96,117,436	23,822,578	2,351,777	122,291,791
<b>LIABILITIES</b>				
Current liabilities:				
Accounts payable and accrued liabilities	2,213,388	849,809	8,738	3,071,935
Due to other funds	-	4,802,643	-	4,802,643
Current portion of loans payable	145,215	48,405	-	193,620
Current portion of compensated absences	211	71	1,312	1,594
Total current liabilities	2,358,814	5,700,928	10,050	8,069,792
Noncurrent liabilities:				
Compensated absences, net of current portion	1,904	634	11,805	14,343
Loans payable	52,451,142	11,526,788	-	63,977,930
Total noncurrent liabilities	52,453,046	11,527,422	11,805	63,992,273
Total liabilities	54,811,860	17,228,350	21,855	72,062,065
<b>NET ASSETS</b>				
Invested in capital assets, net of related debt	30,065,319	18,236,517	2,077,058	50,378,894
Unrestricted (deficit)	11,240,257	(11,642,289)	252,864	(149,168)
Total net assets	\$ 41,305,576	\$ 6,594,228	\$ 2,329,922	\$ 50,229,726

The accompanying notes to the financial statements are an integral part of these statements.

**CITY OF MARATHON, FLORIDA**  
**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS**  
**PROPRIETARY FUNDS**  
For the Year Ended September 30, 2010

	Business-Type Activities Enterprise Funds			
	Major Funds		Nonmajor Fund	Total Enterprise Funds
	Wastewater Fund	Stormwater Fund	Marina Fund	
OPERATING REVENUES:				
Charges for services	\$ 1,015,725	\$ -	\$ 671,330	\$ 1,687,055
Total operating revenues	1,015,725	-	671,330	1,687,055
OPERATING EXPENSES:				
Personnel costs	26,153	7,826	373,461	407,440
Operating expenses	1,050,318	59,779	196,792	1,306,889
Provision for depreciation and amortization	1,044,894	205,598	118,330	1,368,822
Total operating expenses	2,121,365	273,203	688,583	3,083,151
Operating income (loss)	(1,105,640)	(273,203)	(17,253)	(1,396,096)
NONOPERATING REVENUES (EXPENSES):				
Interest income	288,017	8,716	2,472	299,205
Interest expense	(5,025)	(1,675)	-	(6,700)
Total nonoperating revenues (expenses)	282,992	7,041	2,472	292,505
Income (loss) before capital contributions	(822,648)	(266,162)	(14,781)	(1,103,591)
CAPITAL CONTRIBUTIONS				
Special assessments	8,212,667	1,052,124	-	9,264,791
Grants	9,673,717	300,000	52,421	10,026,138
Contribution of capital assets	720,399	-	41,943	762,342
Total capital contributions	18,606,783	1,352,124	94,364	20,053,271
Income before transfers	17,784,135	1,085,962	79,583	18,949,680
TRANSFERS				
Transfers in	-	650,000	-	650,000
Transfers out	(105,512)	(51,838)	(27,700)	(185,050)
Total transfers	(105,512)	598,162	(27,700)	464,950
Change in net assets	17,678,623	1,684,124	51,883	19,414,630
NET ASSETS, beginning	23,626,953	4,910,104	2,278,039	30,815,096
NET ASSETS, ending	\$ 41,305,576	\$ 6,594,228	\$ 2,329,922	\$ 50,229,726

The accompanying notes to the financial statements are an integral part of these statements.

**CITY OF MARATHON, FLORIDA**  
**STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUNDS**  
For the Year Ended September 30, 2010

	Business-type Activities Enterprise Funds			
	Major Funds		Nonmajor Fund	Total
	Wastewater Fund	Stormwater Fund	Marina Fund	Enterprise Funds
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>				
Receipts from customers and users	\$ 919,845	\$ -	\$ 671,330	\$ 1,591,175
Payments to employees	(22,862)	(6,701)	(385,480)	(415,043)
Payments to suppliers	(940,941)	(58,959)	(214,382)	(1,214,282)
Net cash provided by (used in) operating activities	(43,958)	(65,660)	71,468	(38,150)
<b>CASH FLOWS FROM NON- CAPITAL FINANCING ACTIVITIES:</b>				
Operating grant proceeds	-	-	56,830	56,830
Transfers to other funds	(105,512)	(51,838)	(27,700)	(185,050)
Net cash provided by (used in) non-capital financing activities	(105,512)	(51,838)	29,130	(128,220)
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>				
Acquisition of capital assets	(20,364,982)	(2,674,621)	-	(23,039,603)
Proceeds from capital grants	10,663,942	300,000	-	10,963,942
Proceeds from capital assessments	4,226,633	1,046,834	-	5,273,467
Proceeds from capital debt	586,578	284,364	-	870,942
Transfers from other funds	(4,802,643)	5,452,643	-	650,000
Repayments of capital debt	(350,000)	(4,800,000)	-	(5,150,000)
Interest paid	(1,167,565)	(485,803)	-	(1,653,368)
Net cash used in capital and related financing activities	(11,208,037)	(876,583)	-	(12,084,620)
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>				
Interest received	288,017	8,716	2,472	299,205
Net cash provided by investing activities	288,017	8,716	2,472	299,205
Net increase (decrease) in cash and cash equivalents	(11,069,490)	(985,365)	103,070	(11,951,785)
<b>CASH AND CASH EQUIVALENTS, beginning</b>	<b>27,212,362</b>	<b>1,965,556</b>	<b>112,862</b>	<b>29,290,780</b>
<b>CASH AND CASH EQUIVALENTS, ending</b>	<b>\$ 16,142,872</b>	<b>\$ 980,191</b>	<b>\$ 215,932</b>	<b>\$ 17,338,995</b>

The accompanying notes to the financial statements are an integral part of these statements.



**CITY OF MARATHON, FLORIDA**  
**STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUNDS**  
(continued)  
For the Year Ended September 30, 2010

	Business-type Activities Enterprise Funds			
	Major Funds		Nonmajor Fund	Total Enterprise Funds
	Wastewater Fund	Stormwater Fund	Marina Fund	
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES:				
Operating income (loss)	\$ <u>(1,105,640)</u>	\$ <u>(273,203)</u>	\$ <u>(17,253)</u>	\$ <u>(1,396,096)</u>
ADJUSTMENTS TO RECONCILE OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES:				
Provision for depreciation and amortization	1,044,894	205,598	118,330	1,368,822
(Increase) decrease in:				
Receivables	(95,880)	-	-	(95,880)
Prepays	(5,962)	(1,504)	(8,454)	(15,920)
Increase (decrease) in:				
Accounts payable and accrued liabilities	116,515	2,744	(20,207)	99,052
Compensated absences	<u>2,115</u>	<u>705</u>	<u>(948)</u>	<u>1,872</u>
Total adjustments	<u>1,061,682</u>	<u>207,543</u>	<u>88,721</u>	<u>1,357,946</u>
Net cash provided by (used in) operating activities	\$ <u><u>(43,958)</u></u>	\$ <u><u>(65,660)</u></u>	\$ <u><u>71,468</u></u>	\$ <u><u>(38,150)</u></u>
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING ACTIVITIES:				
Contributions of capital assets from Capital Infrastructure Fund	\$ <u><u>720,399</u></u>	\$ <u><u>-</u></u>	\$ <u><u>41,943</u></u>	\$ <u><u>762,342</u></u>

The accompanying notes to the financial statements are an integral part of these statements.

CITY OF MARATHON, FLORIDA  
STATEMENT OF FIDUCIARY NET ASSETS  
FIREFIGHTERS' PENSION TRUST FUND  
September 30, 2010

ASSETS	
Cash	\$ <u>8,533</u>
Investments:	
Bond fund	806,404
Equity funds	<u>1,318,408</u>
Total investments	<u>2,124,812</u>
Receivables:	
Plan members	7,834
City (including State)	<u>318,840</u>
Total receivables	<u>326,674</u>
Total assets	<u>2,460,019</u>
LIABILITIES	<u>-</u>
NET ASSETS:	
Net assets held in trust for pension benefits	\$ <u><u>2,460,019</u></u>

The accompanying notes to the financial statements are an integral part of these statements.

CITY OF MARATHON, FLORIDA  
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS  
FIREFIGHTERS' PENSION TRUST FUND  
For the Year Ended September 30, 2010

ADDITIONS:

Contributions:

Plan members	\$ 66,376
City (including State)	<u>514,735</u>

Total contributions	<u>581,111</u>
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Investment income:

Net appreciation in fair value of investments	<u>161,290</u>
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Total additions	<u>742,401</u>
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DEDUCTIONS:

Administrative expenses	20,170
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Distributions	<u>6,828</u>
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Total deductions	<u>26,998</u>
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Change in net assets	715,403
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NET ASSETS, beginning	<u>1,744,616</u>
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NET ASSETS, ending	<u>\$ 2,460,019</u>
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The accompanying notes to the financial statements are an integral part of these statements.

## NOTES TO BASIC FINANCIAL STATEMENTS

CITY OF MARATHON, FLORIDA  
NOTES TO BASIC FINANCIAL STATEMENTS  
September 30, 2010

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 and provides the following services: general government, public safety, community services and community development. The City also operates three enterprise funds which provide wastewater, stormwater and marina services.

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:

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.

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  
September 30, 2010

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Separate financial statements are provided for governmental funds, the proprietary funds, 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 funds are reported as separate columns in the fund financial statements.

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 funds 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.

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.

CITY OF MARATHON, FLORIDA  
NOTES TO BASIC FINANCIAL STATEMENTS  
September 30, 2010

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 Proprietary Funds 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. 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.

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 interest bearing checking accounts.

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.

CITY OF MARATHON, FLORIDA  
NOTES TO BASIC FINANCIAL STATEMENTS  
September 30, 2010

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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."

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.

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:

Buildings	25-50 years
Leasehold improvements	5-20 years
Improvements other than buildings	10-50 years
Fire equipment and vehicles	5-25 years
Furniture and equipment	5-10 years

Prepays:

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

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. The General Fund has typically been used to liquidate such amounts.

Unearned/deferred revenue:

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. Unearned revenue in the enterprise fund represents prepayments on special assessments that were not yet levied. Unearned revenues at the government-wide level arise only when the City receives resources before it has a legal claim to them.



CITY OF MARATHON, FLORIDA  
NOTES TO BASIC FINANCIAL STATEMENTS  
September 30, 2010

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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. Debt issuance costs and bond premiums and discounts are deferred and amortized over the life of the debt. In the fund financial statements, governmental fund types recognize the face amount of debt issued as an other financing source. Issuance costs, whether or not withheld from the actual proceeds received, are reported as debt service expenditures. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuance are reported as other financing uses.

Fund balance:

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 balance 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.

Net assets:

Net assets of the government-wide and proprietary funds are categorized as invested in capital assets, net of related debt; restricted or unrestricted. Invested in capital assets, net of related debt, is that portion of net assets that relates to the City's capital assets reduced by accumulated depreciation and by any outstanding debt incurred to acquire, construct or improve those assets, excluding unexpended proceeds.

Restricted net assets is that portion of net assets that has been restricted for general use by external parties (creditors, grantors, contributors, or laws or regulations of other governments) or imposed by law through constitutional provisions or enabling legislation. Unrestricted net assets consist of all net assets that do not meet the definition of either of the other two components.

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.

Allowance for doubtful accounts:

The City's contracted service provider processes receivables associated with emergency medical services (EMS). An allowance account of \$ 536,449 is established for EMS receivables based on historical collection rates.

CITY OF MARATHON, FLORIDA  
NOTES TO BASIC FINANCIAL STATEMENTS  
September 30, 2010

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 interest bearing checking accounts 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 are insured or collateralized.

Investments:

The City is authorized to invest in obligations of the United States 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 investment earnings on invested surplus funds of local units of governments while limiting the risk to which the funds are exposed.

The City invests surplus funds in an external investment pool, the Local Government Surplus Funds Trust Fund (the "State Pool"). The State Pool is administered by the Florida State Board of Administration ("SBA"), who provides regulatory oversight. The SBA previously reported that the State Pool was exposed to potential risks due to indirect exposure in the sub-prime mortgage financial market. Consequently, the SBA placed some restrictions on how participants could access portions of their surplus funds and ultimately restructured the State Pool into two separate pools ("Florida PRIME" and "Fund B").

The Florida PRIME has adopted operating procedures consistent with the requirement for a 2a7-like fund. The City's investment in the Florida PRIME is reported at amortized cost. The fair value of the position in the pool is equal to the value of the pool shares.

The Fund B is reported at fair value, determined by the fair value per share of the pool's underlying portfolio.

Investments – City:

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

	Fair Value	Investment Maturities (In Years)
Florida PRIME	\$ 15,683	Less than 1
Fund B	31,036	6-10
	<u>\$ 46,719</u>	

CITY OF MARATHON, FLORIDA  
NOTES TO BASIC FINANCIAL STATEMENTS  
September 30, 2010

NOTE 2 - DEPOSITS AND INVESTMENTS (continued)

Interest rate risk:

The City has an investment policy of structuring the investment portfolio so that the securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities on the open market prior to maturity and investing operating funds primarily in short-term securities, money market mutual funds, or similar investment pools. The weighted average maturity of the securities held in Florida Prime is 52 days. The weighted average life of the securities held by Fund B is 7.49 years. However, because Fund B consists of restructured or defaulted securities, there is considerable uncertainty regarding the weighted average life.

Credit risk:

The City's investment policy limits investments to the highest ratings issued by a nationally recognized statistical rating organization (NRSRO). The Florida PRIME is rated AAAm by Standard and Poor's; the Fund B is not rated by an NRSRO.

Investments – Firefighters' Pension Plan:

As of September 30, 2010, the City's Firefighters' Pension Plan (the "Plan") had the following investments:

FMIvT Broad Market High	
Quality Bond Fund	\$ 806,404
FMIvT High Quality Growth Fund	174,935
FMIvT Diversified Small to Mid Cap	243,201
FMIvT Russell 1000 Enhanced Index	501,336
FMIvT International Blend	228,268
FMIvT Diversified Value	<u>170,668</u>
	<u>\$ 2,124,812</u>

Interest rate risk:

Interest rate risk refers to the portfolio's exposure to fair value losses arising from increasing interest rates. The FMIvT Broad Market High Quality Bond Fund has an effective duration of 3.70 years and a weighted average maturity of 4.90 years.

Credit risk:

Credit risk exists when there is a possibility the issuer or other counterparty to an investment may be unable to fulfill its obligations. The FMIvT Broad Market High Quality Bond Fund is rated AA/V4 by Fitch. The other investments are not rated.

Concentration risk:

The FMIvT is a Local Government Investment Pool and therefore considered an external investment pool which is excluded from concentration risk disclosure requirements.

**CITY OF MARATHON, FLORIDA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
September 30, 2010

**NOTE 2 - DEPOSITS AND INVESTMENTS (continued)**

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.

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, 2010, there were no significant delinquent taxes.

**NOTE 4 - RECEIVABLES AND PAYABLES**

Receivables for the City's individual major funds, nonmajor funds and fiduciary fund 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>Affordable Housing</u>
Customers billed	\$ 883,181	\$ -	\$ -	\$ -
Intergovernmental	335,605	197,557	366,900	-
Loans	-	-	-	70,000
Miscellaneous	39,396	-	-	-
Contributions	-	-	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
Gross receivables	1,258,182	197,557	366,900	70,000
Less allowance for uncollectibles	(536,449)	-	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
Net receivables	\$ 721,733	\$ 197,557	\$ 366,900	\$ 70,000
	<hr/>	<hr/>	<hr/>	<hr/>

**CITY OF MARATHON, FLORIDA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
September 30, 2010

**NOTE 4 – RECEIVABLES AND PAYABLES (continued)**

	Wastewater	Stormwater	Marina	Pension Trust Fund	Total
Customers billed	\$ 136,728	\$ -	\$ -	\$ -	\$ 1,019,909
Intergovernmental	506,566	9,364	48,010	-	1,464,002
Loans	-	-	-	-	70,000
Miscellaneous	-	-	-	-	39,396
Contributions	-	-	-	326,674	326,674
Gross receivables	643,294	9,364	48,010	326,674	2,919,981
Less allowance for uncollectibles	-	-	-	-	(536,449)
Net receivables	<u>\$ 643,294</u>	<u>\$ 9,364</u>	<u>\$ 48,010</u>	<u>\$ 326,674</u>	<u>\$ 2,383,532</u>

Receivables consist of the following:

Receivables (including pension trust fund)	\$ 919,530
Due from other governments	<u>1,464,002</u>
Net total receivables	<u>\$ 2,383,532</u>

Accounts payable and accrued liabilities for the City's individual major and nonmajor fund are as follows:

	General	Capital Infrastructure	Street Maintenance	Wastewater	Stormwater	Marina (Nonmajor Fund)	Total
Vendors	\$ 521,384	\$ 16,525	\$ 610,808	\$ 2,129,248	\$ 848,423	\$ 3,473	\$ 4,129,861
Payroll liabilities	56,324	-	3,709	1,390	1,386	5,265	68,074
Accrued interest	-	-	-	82,750	-	-	82,750
Total	<u>\$ 577,708</u>	<u>\$ 16,525</u>	<u>\$ 614,517</u>	<u>\$ 2,213,388</u>	<u>\$ 849,809</u>	<u>\$ 8,738</u>	<u>\$ 4,280,685</u>

**NOTE 5 – INTERFUND BALANCES AND TRANSFERS**

The composition of interfund transfers is as follows:

Transfers Out	Transfer In					Total
	General Fund	Capital Infrastructure Fund	Street Maintenance Fund	Non-Major Governmental Funds	Stormwater Fund	
General Fund	\$ -	\$ -	\$ -	\$ 13,001	\$ -	\$ 13,001
Capital Infrastructure Fund	208,903	-	-	1,356,080	650,000	2,214,983
Street Maintenance Fund	-	-	-	9,571	-	9,571
Impact Fee Fund	-	-	-	-	-	-
Nonmajor Governmental Funds	-	58,000	57,825	-	-	115,825
Marina Fund	25,000	-	-	2,700	-	27,700
Stormwater Fund	50,000	-	-	1,838	-	51,838
Wastewater Fund	100,000	-	-	5,512	-	105,512
Total	<u>\$ 383,903</u>	<u>\$ 58,000</u>	<u>\$ 57,825</u>	<u>\$ 1,388,702</u>	<u>\$ 650,000</u>	<u>\$ 2,538,430</u>

**CITY OF MARATHON, FLORIDA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
September 30, 2010

**NOTE 5 - INTERFUND BALANCES AND TRANSFERS (continued)**

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 Marina, Wastewater and Stormwater Utility Enterprise Funds to the General Fund to support general project administration costs.

Transfers totaling \$ 349,622 were made from the General, Capital Infrastructure, Street Maintenance and Enterprise Funds to the Vehicle Replacement Fund in order to set aside funds for the purchase of new City vehicles.

Transfers totaling \$ 115,825 were made from the Impact Fee Fund to the Capital Infrastructure and Street Maintenance Funds in order to use impact fees for their specified capital purpose.

A transfer of \$ 650,000 was made from the Capital Infrastructure Fund to the Stormwater Enterprise Fund to support stormwater projects.

A transfer of \$ 1,039,080 was made from the Capital Infrastructure Fund to the Debt Service Fund in order to satisfy debt service requirements.

At September 30, 2010, the Stormwater Fund owes the Wastewater Fund \$ 4,802,643. This temporary borrowing has been paid back during the following fiscal year.

**NOTE 6 - CAPITAL ASSETS**

Capital asset activity for the year ended September 30, 2010 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
<b>Governmental activities:</b>				
Capital assets not being depreciated:				
Land	\$ 8,962,454	\$ 370,419	\$ 402,085	\$ 8,930,788
Intangibles	-	3,822	-	3,822
Construction-in-progress	1,704,531	1,083,783	1,523,397	1,264,917
Total capital assets not being depreciated	10,666,985	1,458,024	1,925,482	10,199,527
Capital assets being depreciated:				
Buildings	12,583,664	-	-	12,583,664
Leasehold Improvements	58,235	-	-	58,235
Improvements other than buildings	8,222,128	2,676,028	-	10,898,156
Fire equipment and vehicles	2,643,917	-	-	2,643,917
Furniture and equipment	1,691,569	193,869	12,184	1,873,254
Total capital assets being depreciated	25,199,513	2,869,897	12,184	28,057,226
Total capital assets	35,866,498	4,327,921	1,937,666	38,256,753

**CITY OF MARATHON, FLORIDA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
September 30, 2010

**NOTE 6 - CAPITAL ASSETS (continued)**

	Beginning Balance	Increases	Decreases	Ending Balance
Less accumulated depreciation:				
Buildings	989,813	357,757	-	1,347,570
Leasehold Improvements	20,974	3,583	-	24,557
Improvements other than buildings	1,728,427	614,955	-	2,343,382
Fire equipment and vehicles	687,127	230,267	-	917,394
Furniture and equipment	836,473	163,873	12,184	988,162
Total accumulated depreciation	4,262,814	1,370,435	12,184	5,621,065
Total capital assets, being depreciated, net	20,936,699	1,499,462	-	22,436,161
Governmental activities capital assets, net	\$ 31,603,684	\$ 2,957,486	\$ 1,925,482	\$ 32,635,688
<b>Business-type activities:</b>				
Capital assets not being depreciated:				
Land	\$ 1,919,433	\$ 748,254	\$ -	\$ 2,667,687
Intangibles	-	720,399	-	720,399
Construction-in-progress	60,713,740	25,450,716	47,166,865	38,997,591
Total capital assets not being depreciated	62,633,173	26,919,369	47,166,865	42,385,677
Capital assets being depreciated:				
Buildings	3,006,966	12,991,196	-	15,998,162
Improvements other than buildings	91,331	41,201,443	-	41,292,774
Equipment	216,087	652,539	-	868,626
Vehicles	210,223	298,492	-	508,715
Total capital assets being depreciated	3,524,607	55,143,670	-	58,668,277
Total capital assets	66,157,780	82,063,039	47,166,865	101,053,954
Less accumulated depreciation:				
Buildings	195,933	585,440	-	781,373
Improvements other than buildings	12,497	720,033	-	732,530
Equipment	72,581	26,352	-	98,933
Vehicles	74,399	21,930	-	96,329
Total accumulated depreciation	355,410	1,353,755	-	1,709,165
Total capital assets, being depreciated, net	3,169,197	53,789,915	-	56,959,112
Business-type activities capital assets, net	\$ 65,802,370	\$ 80,709,284	\$ 47,166,865	\$ 99,344,789

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

**Governmental activities:**

General government	\$ 67,352
Public safety	392,035
Community services	887,516
Community development	23,532

Total provision for depreciation -  
governmental activities      \$ 1,370,435



**CITY OF MARATHON, FLORIDA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
September 30, 2010

**NOTE 6 - CAPITAL ASSETS (continued)**

Business-type activities:	
Enterprise - Wastewater	\$ 1,032,083
Enterprise - Stormwater	203,342
Enterprise - Marina	<u>118,330</u>
 Total provision for depreciation - business-type activities	 \$ <u><u>1,353,755</u></u>

**NOTE 7 - LONG-TERM DEBT**

The following is a summary of changes in long-term liabilities of the City for governmental activities for the year ended September 30, 2010:

	Balance October 1, 2009	Increases	Decreases	Balance September 30, 2010	Due Within One Year
<b>Governmental activities:</b>					
Bonds payable:					
Series 2004	\$ 7,222,222	\$ -	\$ 740,741	\$ 6,481,481	\$ 740,740
Compensated absences payable	<u>154,337</u>	<u>40,205</u>	<u>34,785</u>	<u>159,757</u>	<u>15,976</u>
Governmental activities, long-term debt	<u>\$ 7,376,559</u>	<u>\$ 40,205</u>	<u>\$ 775,526</u>	<u>\$ 6,641,238</u>	<u>\$ 756,716</u>

**Improvement Revenue Bonds, Series 2004:**

The City previously issued \$ 10,000,000 of Public Improvement Revenue Bonds, Series 2004 to finance the cost of acquisition and construction of certain capital projects under the City's capital infrastructure plan, as well as pay off an existing loan. Principal and interest are payable quarterly. The Bonds bear interest at 4.30% and are secured and payable from the local government one-cent sales tax revenues (local discretionary sales surtax). At September 30, 2010, the outstanding principal balance on the bonds was \$ 6,481,481.

Annual debt service requirements of the Public Improvement Revenue Bonds, Series 2004 are as follows:

Year Ending September 30,	Principal	Interest	Total
2011	\$ 740,740	\$ 274,722	\$ 1,015,462
2012	740,740	242,870	983,610
2013	740,740	211,019	951,759
2014	740,740	179,167	919,907
2015	740,740	147,315	888,055
2016-2019	<u>2,777,781</u>	<u>270,745</u>	<u>3,048,526</u>
	<u>\$ 6,481,481</u>	<u>\$ 1,325,838</u>	<u>\$ 7,807,319</u>



**CITY OF MARATHON, FLORIDA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
September 30, 2010

**NOTE 7 - LONG-TERM DEBT (continued)**

The following is a summary of changes in long-term liabilities of the City's business-type activities for the year ended September 30, 2010:

	Balance October 1, 2009	Increases	Decreases	Balance September 30, 2010	Due Within One Year
<b>Business-type activities:</b>					
Bonds payable:					
Series 2008	\$ 10,000,000	\$ -	\$ -	\$ 10,000,000	\$ -
Series 2009	30,000,000	-	-	30,000,000	193,620
Florida Rural Utility Commission Revenue Note, Series 2007	5,150,000	-	5,150,000	-	-
State Revolving Fund Loan Program	13,005,645	11,165,905	-	24,171,550	-
Compensated absences payable	14,065	5,494	3,622	15,937	1,594
Business-type activities, long-term debt	<u>\$ 58,169,710</u>	<u>\$ 11,171,399</u>	<u>\$ 5,153,622</u>	<u>\$ 64,187,487</u>	<u>\$ 195,214</u>

**State Revolving Fund Loans:**

As of September 30, 2010, the City has entered into seven 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. The loans are collateralized by a pledge of the wastewater and stormwater non-ad valorem assessments. For the current year, there were no debt service payments. It is estimated that 100% of the pledged revenue will cover debt service to maturity. Through September 30, 2010, the City has borrowed a total of \$ 24,171,550 under these agreements. The breakdown as of September 30, 2010 of the total amounts authorized, the fixed weighted average interest rates, the repayment start dates, the estimated semi-annual payment amount and the amounts drawn to date on each loan is as follows:

SRF Loan Agreement	Total Loan Authorized Amount	Interest Rate	Estimated Repayment Start Date	Estimated Semi-Annual Payment Amount	Total Obligation September 30, 2010
WW 637020	\$ 31,308,211	2.25-2.54%	February 2011	\$ 1,014,626	\$ 19,778,542
WW 637050	848,654	2.46%	February 2011	29,602	933,686
WW 637060	1,918,808	2.37%	July 2011	62,710	1,422,758
WW 637090	10,000,000	2.66%	June 2011	330,459	949,466
SW 637030	395,302	2.46%	February 2011	13,555	427,545
SW 637040	253,923	2.46%	February 2011	8,705	274,580
SW 637070	519,195	2.37%	July 2011	17,042	384,973
Total	<u>\$ 45,244,093</u>			<u>\$ 1,476,699</u>	<u>\$ 24,171,550</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 service fees. These amounts will not be determined until project completion; therefore, amortization schedules are not available for these loan agreements at this time.

CITY OF MARATHON, FLORIDA  
NOTES TO BASIC FINANCIAL STATEMENTS  
September 30, 2010

NOTE 7 - LONG-TERM DEBT (continued)

Wastewater System Revenue Bonds, Series 2008:

The City previously issued Wastewater System Revenue Bonds, Series 2008, for an amount of \$ 10,000,000 for the financing of the wastewater system capital construction. The bonds bear interest at a rate of 3.31% and mature on January 1, 2012. There are no principal payments due during the life of the bond. The bonds are collateralized by a pledge of proceeds of the permanent financing to be provided by the State Revolving Fund Loan program.

Utility System Revenue Bonds, Series 2009:

The City previously issued \$ 30,000,000 of Utility System Revenue Bonds, Series 2009 to finance a portion of wastewater and stormwater utility systems capital construction. The bonds bear interest at the London Interbank Offer Rate (LIBOR) plus 2.01% or 2.135%, whichever is greater. Interest only payments are due monthly through July 2011 with monthly principal and interest payments due thereafter through June 2019. A final principal payment of \$ 19,394,880 is due in July 2019. The bond is secured by and payable from the net revenues of the City's wastewater and stormwater utility systems plus wastewater and stormwater special assessments. Additionally, the bond is secured by the City's infrastructure sales surtax and a covenant to budget and appropriate from all legally available non ad-valorem revenues of the City. The bond indenture contains certain restrictive covenants. As of September 30, 2010, the City is in compliance with those covenants. The outstanding balance at September 30, 2010 is \$ 30,000,000.

Annual debt service requirements of the Wastewater System Revenue Bonds, Series 2008 and the Utility System Revenue Bonds, Series 2009 are as follows:

<u>Year Ending September 30,</u>	<u>Principal</u>	<u>Interest</u>
2011	\$ 193,620	\$ 636,938
2012	11,169,620	1,993,776
2013	1,217,320	1,849,170
2014	1,266,880	1,870,833
2015	1,318,560	1,893,478
2016-2019	<u>24,834,000</u>	<u>7,315,687</u>
	<u>\$ 40,000,000</u>	<u>\$ 15,559,882</u>

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**  
September 30, 2010

**NOTE 8 - COMMITMENTS AND CONTINGENCIES (continued)**

Litigation:

The City is a defendant in various lawsuits including personal injury, property damage, and other miscellaneous claims. For one of these cases, where it is probable that a liability has been incurred and the amount of the loss can be reasonably estimated, a loss contingency has been accrued at the government-wide level in the Statement of Net Assets of approximately \$ 1,000,000. For another case, where there is a reasonable possibility that a loss has been incurred, the City estimates its possible exposure could be between \$ 1,000,000 and \$ 2,000,000. Due to the uncertainty of the outcome, no liability has been recorded in the financial statements for this case. The remainder of the legal proceedings are incidental to the City's 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, 2010, the City had outstanding construction contract commitments of the governmental and enterprise funds consisting of the following:

Project	Total Project Authorization	Expended at September 30, 2010	Contracts and Retainage Payable	Balance to Complete
Service Area 7 Wastewater	\$ 3,571,229	\$ 301,015	\$ 33,446	\$ 3,236,768
Service Area 3 Wastewater	11,424,919	3,424,910	380,545	7,619,464
Service Area 5 Wastewater	21,485,769	19,565,495	602,279	1,317,995
Service Area 4 & 6 Wastewater and Stormwater	31,271,571	28,849,813	1,841,477	580,281
Service Area 1 Wastewater and Stormwater	2,221,908	1,580,900	175,656	465,352
Sombrero Beach Road Extension	954,372	690,324	76,703	187,345
La Palma Access Road	199,674	167,892	18,655	13,127
Avenue K	114,366	45,311	5,035	64,020
Service Area 3 - Little Venice	4,170,868	2,398,262	69,710	1,702,896
	<u>\$ 75,414,676</u>	<u>\$ 57,023,922</u>	<u>\$ 3,203,506</u>	<u>\$ 15,187,248</u>

Agreement for Police Services:

The City previously entered into a contract with Monroe County Sheriff's Office (the "Sheriff") to provide professional police services through September 2012. Pursuant to the agreement, the Sheriff will provide law enforcement coverage within the City. Services for the fiscal year ending September 30, 2011 are budgeted to be approximately \$ 1,478,600. Costs for police services for the year ended September 30, 2010 were \$ 1,363,972.

CITY OF MARATHON, FLORIDA  
NOTES TO BASIC FINANCIAL STATEMENTS  
September 30, 2010

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) which is administered by ICMA. Under the Plan, the City contributes 10% for all full-time employees. Normal retirement is defined as age 57-1/2. The employees are not required to make contributions and are fully vested on their first day of employment. Employer contributions for the fiscal year ended September 30, 2010 were \$ 191,870. 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 covers all full-time 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, 2010 (date of the latest actuarial valuation), the Plan's membership consisted of two deferred vested participants who are solely entitled to a refund of their employee contributions. Additionally, there were twenty-three active participants.

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 Plan. Administrative costs of the Plan are financed through investment earnings.

Method used to value investments:

Investments are reported at fair value. Securities traded on a national exchange are valued at the last reported sales price. Net appreciation/depreciation 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.

CITY OF MARATHON, FLORIDA  
NOTES TO BASIC FINANCIAL STATEMENTS  
September 30, 2010

NOTE 10 - FIREFIGHTERS' PENSION PLAN (continued)

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.

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 amortize 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, however, in accordance with GASB 50, a schedule of funding progress is required using a valuation method other than the aggregate method.

The required contribution including interest to the Plan as determined by the actuarial valuation was \$ 514,735 for the year ended September 30, 2010. Contributions from the State totaled \$ 139,496 which was complemented by City contributions of \$ 375,239. State contributions are recognized as both revenue and expenditure during the period in the General Fund.

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	\$	514,735
Interest on net pension obligation		-
Adjustment to annual required contribution		-
Annual pension cost		<u>514,735</u>
Contributions made		<u>514,735</u>
Change in net pension obligation		-
Net pension obligation at beginning of year		<u>-</u>
Net pension obligation at end of year	\$	<u><u>-</u></u>

**CITY OF MARATHON, FLORIDA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
September 30, 2010

**NOTE 10 - FIREFIGHTERS' PENSION PLAN (continued)**

Fiscal Year Ending	Trend Information		Net Pension (Asset) Obligation
	Annual Pension Cost (APC)	Percentage of APC Contributed	
9/30/2008	\$ 281,737	100 %	\$ -
9/30/2009	\$ 391,751	100 %	\$ -
9/30/2010	\$ 514,735	100 %	\$ -

Funded status and funding progress:

The funded status of the plan as of October 1, 2010, is as follows.

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a ÷ b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a) ÷ c)
October 1, 2010*	\$ 2,248,488	\$ 2,357,649	\$ 109,161	95.37 %	\$ 1,378,189	7.92 %

\*Actuarial accrued liability is calculated using the entry age normal cost method.

The Schedule of Funding Progress, presented as required supplementary information (RSI) following the notes to the basic financial statements, presents trend information about whether the actuarial value of plan assets are increasing or decreasing over time relative to the AAL for benefits.

Additional information as of the latest actuarial valuation follows:

Valuation date	10/1/10
Actuarial cost method	Aggregate
Amortization method	Level dollar open
Remaining amortization	30 years
Asset valuation method	5-yr smoothed market value
Actuarial assumptions:	
Discount rate	7.50%
Projected salary increases	5.00%



CITY OF MARATHON, FLORIDA  
NOTES TO BASIC FINANCIAL STATEMENTS  
September 30, 2010

NOTE 11 - OTHER POST-EMPLOYMENT HEALTH CARE BENEFITS

GASB Statement No. 45; Accounting and Financial Reporting by Employers for Post-Employment Benefits Other than Pensions ("OPEB"), established new accounting standards for post-retirement benefits. The new standard does not require funding of OPEB expense, but any difference between the annual required contribution ("ARC") and the amount funded during the year is required to be recorded in the employer's Statement of Net Assets as an increase (or decrease) in the OPEB obligation. The effective date to implement GASB 45 for the City is the current fiscal year and accordingly, the City did obtain an actuarial valuation in accordance with the standards of the statement.

Plan Description and Funding Policy:

Employees who retire from the City and their dependents are eligible to continue to participate ("single employer plan") in the City's health insurance plan currently offered through the City at the "blended" employee group rate which, is determined annually by the City. The retiree must continue to meet all participation requirements and pay all applicable premiums by the specified due date. As of September 30, 2010, there are no participating retirees in the group health program.

The City provides no funding for any portion of the premiums after retirement. However, the City recognizes that there is an "implicit subsidy" arising as a result of the blended rate premium since retiree health care costs, on average are higher than active employee healthcare costs. The plan is not accounted for as a trust fund and an irrevocable trust has not been established to fund this plan. The plan does not issue a separate financial report. It is the City's current policy to fund the plan on a "pay-as-you-go" basis from the General Fund.

Funded Status:

The funded status of the Plan as of September 30, 2010 was as follows:

Development of Annual Required Contribution (ARC)

Actuarial accrued liability		\$	257,000
Actuarial value of assets		\$	-
Total ARC for fiscal year September 30, 2010	\$	94,000	
Employer contributions		(5,000)	
Increase in net OPEB obligation		89,000	
Net OPEB obligation, October 1, 2009		-	
Net OPEB obligation, September 30, 2010	\$	<u>89,000</u>	
Covered payroll		\$	2,943,000
Unfunded actuarial accrued liability as a percentage of covered payroll			8.7%

CITY OF MARATHON, FLORIDA  
NOTES TO BASIC FINANCIAL STATEMENTS  
September 30, 2010

NOTE 11 - OTHER POST-EMPLOYMENT HEALTH CARE BENEFITS (continued)

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events in the future. Amounts determined regarding the status of the plan and the annual required contributions of the City are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. The schedule of funding progress, usually presented as required supplementary information following the notes to the financial statements, highlights multi-year trend information that shows whether the actuarial value of the plan assets is increasing or decreasing over time relative to the actuarial liabilities for benefits. Since this is the first year of implementation, no prior year information is available.

Actuarial Methods and Assumptions:

Projections of benefits are based on the substantive plan and include the types of benefits in force at the time of valuation date and the pattern of sharing benefits between the City and the plan members at that point. Actuarial calculations reflect a long-term perspective and employ methods and assumptions that are designed to reduce the short-term volatility in actuarial accrued liabilities and the actuarial value of assets. Significant methods and assumptions used for the valuation are as follows:

Measurement date	September 30, 2010
Actuarial cost method	Projected unit credit
Amortization method	Level-dollar payment
Amortization period	10-year open period
Actuarial assumptions:	
Investment rate of return	4.00% (includes inflation at 2.75%)
Healthcare cost trend rate:	
Select rates	10.00% for 2010/11 graded to 6.00% for 2018/19
Ultimate rate	5.00% per annum



## REQUIRED SUPPLEMENTARY INFORMATION

**CITY OF MARATHON, FLORIDA**  
**BUDGETARY COMPARISON SCHEDULE**  
**GENERAL FUND**  
For the Year Ended September 30, 2010

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amounts</u>	<u>Variance</u>
<b>REVENUES:</b>				
Property taxes	\$ 3,668,402	\$ 3,746,002	\$ 3,746,062	\$ 60
Intergovernmental	1,706,282	2,094,167	2,111,506	17,339
Licenses and permits	748,100	585,775	580,463	(5,312)
Charges for services	899,683	911,883	811,580	(100,303)
Fines and forfeitures	73,580	73,580	94,318	20,738
Communications services taxes	621,664	591,504	591,504	-
Interest	150,000	95,000	103,248	8,248
Miscellaneous	36,000	74,000	94,719	20,719
Total revenues	<u>7,903,711</u>	<u>8,171,911</u>	<u>8,133,400</u>	<u>(38,511)</u>
<b>EXPENDITURES:</b>				
Current:				
General government:				
Elected officials	467,155	467,155	451,257	15,898
Administration	1,781,562	1,787,562	1,677,011	110,551
City attorney	395,000	395,000	356,845	38,155
Total general government	<u>2,643,717</u>	<u>2,649,717</u>	<u>2,485,113</u>	<u>164,604</u>
Public safety:				
Police	1,456,482	1,363,972	1,363,972	-
Fire/EMS	2,612,688	2,826,688	2,824,069	2,619
Total public safety	<u>4,069,170</u>	<u>4,190,660</u>	<u>4,188,041</u>	<u>2,619</u>
Community services:				
Public works	202,423	202,423	181,978	20,445
Parks and recreation	979,362	979,362	959,273	20,089
Bridges	61,815	61,815	42,693	19,122
Total community services	<u>1,243,600</u>	<u>1,243,600</u>	<u>1,183,944</u>	<u>59,656</u>
Community development	<u>1,034,653</u>	<u>1,034,653</u>	<u>911,026</u>	<u>123,627</u>
Total expenditures	<u>8,991,140</u>	<u>9,118,630</u>	<u>8,768,124</u>	<u>350,506</u>
Excess (deficiency) of revenues over expenditures	<u>(1,087,429)</u>	<u>(946,719)</u>	<u>(634,724)</u>	<u>311,995</u>
Other financing sources (uses):				
Transfers in	383,903	383,903	383,903	-
Transfers out	(13,000)	(13,000)	(13,001)	(1)
Appropriation of prior years' fund balance	716,526	575,816	-	(575,816)
Total other financing sources (uses)	<u>1,087,429</u>	<u>946,719</u>	<u>370,902</u>	<u>(575,817)</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (263,822)</u>	<u>\$ (263,822)</u>

CITY OF MARATHON, FLORIDA  
BUDGETARY COMPARISON SCHEDULE  
CAPITAL INFRASTRUCTURE FUND  
For the Year Ended September 30, 2010

	Original and Final Budget	Actual Amounts	Variance
REVENUES:			
Intergovernmental	\$ 4,531,319	\$ 2,401,218	\$ (2,130,101)
Interest	104,341	33,930	(70,411)
Miscellaneous	-	63,719	63,719
	<u>4,635,660</u>	<u>2,498,867</u>	<u>(2,136,793)</u>
Total revenues			
EXPENDITURES:			
Capital outlay	<u>4,259,510</u>	<u>871,295</u>	<u>3,388,215</u>
Excess (deficiency) of revenues over expenditures	<u>376,150</u>	<u>1,627,572</u>	<u>1,251,422</u>
OTHER FINANCING SOURCES (USES):			
Sale of asset	-	402,085	402,085
Transfers in	73,000	58,000	(15,000)
Transfers out	(2,215,255)	(2,214,983)	272
Loan proceeds	600,000	-	(600,000)
Appropriation of prior years' years' fund balance	<u>1,166,105</u>	<u>-</u>	<u>(1,166,105)</u>
Total other financing sources (uses)	<u>(376,150)</u>	<u>(1,754,898)</u>	<u>(1,378,748)</u>
Net change in fund balance	\$ <u>-</u>	\$ <u>(127,326)</u>	\$ <u>(127,326)</u>

**CITY OF MARATHON, FLORIDA**  
**BUDGETARY COMPARISON SCHEDULE**  
**STREET MAINTENANCE FUND**  
For the Year Ended September 30, 2010

	Original and Final Budget	Actual Amounts	Variance
<b>REVENUES:</b>			
Intergovernmental	\$ 2,260,835	\$ 1,607,198	\$ (653,637)
Special assessments	95,953	21,944	(74,009)
Interest	100,000	30,543	(69,457)
Miscellaneous	-	2,791	2,791
	<u>2,456,788</u>	<u>1,662,476</u>	<u>(794,312)</u>
<b>Total revenues</b>	<u>2,456,788</u>	<u>1,662,476</u>	<u>(794,312)</u>
<b>EXPENDITURES:</b>			
Current:			
Community services	454,126	357,887	96,239
Capital outlay	3,844,182	2,040,588	1,803,594
	<u>4,298,308</u>	<u>2,398,475</u>	<u>1,899,833</u>
<b>Total expenditures</b>	<u>4,298,308</u>	<u>2,398,475</u>	<u>1,899,833</u>
<b>Excess (deficiency) of revenues over expenditures</b>	<u>(1,841,520)</u>	<u>(735,999)</u>	<u>1,105,521</u>
<b>OTHER FINANCING SOURCES (USES):</b>			
Transfers in	57,825	57,825	-
Transfers out	(9,570)	(9,571)	(1)
Appropriation of prior years' fund balance	1,793,265	-	(1,793,265)
	<u>1,841,520</u>	<u>48,254</u>	<u>(1,793,266)</u>
<b>Total other financing sources (uses)</b>	<u>1,841,520</u>	<u>48,254</u>	<u>(1,793,266)</u>
<b>Net change in fund balance</b>	<u>\$ -</u>	<u>\$ (687,745)</u>	<u>\$ (687,745)</u>

**CITY OF MARATHON, FLORIDA**  
**NOTE TO BUDGETARY COMPARISON SCHEDULES**  
September 30, 2010

**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), two of the 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.
- 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 included an amendment by City Council to increase expenditures in the General Fund by \$ 127,490. Additionally, anticipated revenues were increased by \$ 268,200.
- 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**  
**(UNAUDITED)**  
**SCHEDULE OF FUNDING PROGRESS\***  
**FIREFIGHTERS' PENSION TRUST FUND**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a ÷ b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a) ÷ c)
October 1, 2005	\$ 342,824	\$ 342,824	\$ -	100.0%	\$ 748,200	0.0%
October 1, 2006	\$ 660,131	\$ 660,131	\$ -	100.0%	\$ 744,145	0.0%
October 1, 2008	\$ 1,249,350	\$ 1,084,546	\$ -	115.0%	\$ 1,056,666	0.0%
October 1, 2010	\$ 2,248,488	\$ 2,357,649	\$ 109,161	95.37%	\$ 1,378,189	7.92%

\*Actuarial accrued liability is calculated using the entry age normal cost method.

Note: This schedule of funding progress was prepared in accordance with the requirements of GASB 50 for plans that use the aggregate normal cost method. The schedule was prepared using the entry age normal cost method. The Plan did not prepare an actuarial valuation dated October 1, 2007 nor October 1, 2009.

**CITY OF MARATHON, FLORIDA**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**(UNAUDITED)**  
**SCHEDULE OF FUNDING PROGRESS**  
**OTHER POST-EMPLOYMENT HEALTH CARE BENEFITS**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a ÷ b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a) ÷ c)
October 1, 2010	\$ -	\$ 257,000	\$ 257,000	0.0%	\$ 2,943,000	8.7%

Note: Since this is the first year of implementation, no prior year information is available.

## 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.

**Affordable Housing Fund** – This fund is used to purchase land or homes to be used for affordable housing.

**Restoration Fund** – This fund is used for restoration and management activities of public resource protection and conservation lands.

### 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, 2010

	Special Revenue Funds					Debt Service Fund	Total Nonmajor Governmental Funds
	Vehicle Replacement Fund	Impact Fees Fund	Affordable Housing Fund	Restoration Fund			
ASSETS:							
Cash and cash equivalents	\$ 1,372,475	\$ 267,355	\$ 66,714	\$ 97,523	\$	-	\$ 1,804,067
Receivables	-	-	70,000	-		-	70,000
Total assets	<u>\$ 1,372,475</u>	<u>\$ 267,355</u>	<u>\$ 136,714</u>	<u>\$ 97,523</u>	\$	-	<u>\$ 1,874,067</u>
LIABILITIES AND FUND BALANCES:							
Liabilities	\$ -	\$ -	\$ -	\$ -	\$	-	\$ -
COMMITMENTS AND CONTINGENCIES (NOTE 8)	-	-	-	-		-	-
Fund balances:							
Unreserved	<u>1,372,475</u>	<u>267,355</u>	<u>136,714</u>	<u>97,523</u>		-	<u>1,874,067</u>
Total fund balances	<u>1,372,475</u>	<u>267,355</u>	<u>136,714</u>	<u>97,523</u>		-	<u>1,874,067</u>
Total liabilities and fund balances	<u>\$ 1,372,475</u>	<u>\$ 267,355</u>	<u>\$ 136,714</u>	<u>\$ 97,523</u>	\$	-	<u>\$ 1,874,067</u>

**CITY OF MARATHON, FLORIDA**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES**  
**AND CHANGES IN FUND BALANCES**  
**NONMAJOR GOVERNMENTAL FUNDS**  
**For the Year Ended September 30, 2010**

	Special Revenue Funds				Debt Service Fund	Total Nonmajor Governmental Funds
	Vehicle Replacement Fund	Impact Fees Fund	Affordable Housing Fund	Restoration Fund		
<b>REVENUES:</b>						
Licenses and permits	\$ -	\$ -	\$ -	\$ 49,710	-	\$ 49,710
Impact fees	-	82,004	-	-	-	82,004
Interest	19,368	5,062	1,240	798	-	26,468
Miscellaneous	-	139	22,000	-	-	22,139
Total revenues	19,368	87,205	23,240	50,508	-	180,321
<b>EXPENDITURES:</b>						
Community development	-	-	9,600	-	-	9,600
Debt service:						
Principal	-	-	-	-	740,741	740,741
Interest and fiscal charges	-	-	-	-	298,339	298,339
Total expenditures	-	-	9,600	-	1,039,080	1,048,680
Excess (deficiency) of revenues over expenditures	19,368	87,205	13,640	50,508	(1,039,080)	(868,359)
<b>OTHER FINANCING SOURCES (USES):</b>						
Transfers in	349,622	-	-	-	1,039,080	1,388,702
Transfers out	-	(115,825)	-	-	-	(115,825)
Total other financing sources (uses)	349,622	(115,825)	-	-	1,039,080	1,272,877
Net change in fund balances	368,990	(28,620)	13,640	50,508	-	404,518
<b>FUND BALANCES, beginning</b>	1,003,485	295,975	123,074	47,015	-	1,469,549
<b>FUND BALANCES, ending</b>	\$ 1,372,475	\$ 267,355	\$ 136,714	\$ 97,523	\$ -	\$ 1,874,067

**CITY OF MARATHON, FLORIDA**  
**BUDGETARY COMPARISON SCHEDULES -**  
**NONMAJOR GOVERNMENTAL FUNDS**  
For the Year Ended September 30, 2010

	Special Revenue Funds					
	Vehicle Replacement Fund			Impact Fees		
	Original and Final Budget	Actual	Variance	Original and Final Budget	Actual	Variance
REVENUES:						
Impact fees	\$ -	\$ -	\$ -	\$ 64,150	\$ 82,004	\$ 17,854
Interest	20,000	19,368	(632)	13,000	5,062	(7,938)
Miscellaneous	-	-	-	100	139	39
Total revenues	20,000	19,368	(632)	77,250	87,205	9,955
EXPENDITURES:						
Community development	-	-	-	-	-	-
Debt service:						
Principal	-	-	-	-	-	-
Interest and fiscal charges	-	-	-	-	-	-
Total expenditures	-	-	-	-	-	-
Excess (deficiency) of revenues over expenditures	20,000	19,368	(632)	77,250	87,205	9,955
OTHER FINANCING SOURCES (USES):						
Transfers in	349,620	349,622	2	-	-	-
Transfers out	(15,000)	-	15,000	(115,825)	(115,825)	-
Contribution to fund balance	(354,620)	-	354,620	-	-	-
Appropriation of prior years' fund balance	-	-	-	38,575	-	(38,575)
Total other financing sources (uses)	(20,000)	349,622	369,622	(77,250)	(115,825)	(38,575)
Net change in fund balances	\$ -	\$ 368,990	\$ 368,990	\$ -	\$ (28,620)	\$ (28,620)

Note: Budgetary comparison schedules are prepared and presented for the nonmajor special revenue governmental funds above. The City does not prepare budgets for the other nonmajor special revenue governmental funds, and therefore, budgetary comparison schedules are not presented.

Affordable Housing				Debt Service Fund		
Original Budget	Final Budget	Actual	Variance	Original and Final Budget	Actual	Variance
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	1,240	1,240	-	-	-
-	-	22,000	22,000	-	-	-
-	-	23,240	23,240	-	-	-
-	9,600	9,600	-	-	-	-
-	-	-	-	740,741	740,741	-
-	-	-	-	298,611	298,339	272
-	9,600	9,600	-	1,039,352	1,039,080	272
-	(9,600)	13,640	23,240	(1,039,352)	(1,039,080)	272
-	-	-	-	1,039,352	1,039,080	(272)
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	1,039,352	1,039,080	(272)
\$ -	\$ (9,600)	\$ 13,640	\$ 23,240	\$ -	\$ -	\$ -

## STATISTICAL SECTION

## STATISTICAL SECTION

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.

<b><u>CONTENTS</u></b>	<b><u>PAGE</u></b>
<b>Financial Trends</b> These schedules contain trend information to help the reader understand how the City's financial performance and well-being have changed over time.	58-62
<b>Revenue Capacity</b> These schedules contain information to help the reader assess the City's most significant local revenue source, the property tax.	63-66
<b>Debt Capacity</b> 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.	67-68
<b>Demographic and Economic Information</b> These schedules offer demographic and economic indicators to help the reader understand the environment within which the City's financial activities take place.	69-70
<b>Operating Information</b> 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.	71-73

*Sources: Unless otherwise 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 SEVEN FISCAL YEARS**  
**(ACCRUAL BASIS OF ACCOUNTING)**

	Fiscal Year						
	2004	2005	2006	2007	2008	2009	2010
Governmental activities:							
Invested in capital assets, net of related debt	\$ 14,255,597	\$ 16,372,786	\$ 15,638,541	\$ 19,339,970	\$ 20,098,109	\$ 24,381,462	\$ 26,154,207
Restricted	4,373,475	5,039,914	7,324,824	4,733,068	8,026,767	4,194,245	3,374,364
Unrestricted	<u>4,024,147</u>	<u>4,798,655</u>	<u>5,650,368</u>	<u>6,350,476</u>	<u>7,012,204</u>	<u>6,654,654</u>	<u>5,705,740</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>	<u>35,137,080</u>	<u>35,230,361</u>	<u>35,234,311</u>
Business-type activities:							
Invested in capital assets, net of related debt	790,069	669,008	5,094,011	9,528,390	18,060,264	29,001,944	50,378,894
Restricted	-	-	-	-	-	-	-
Unrestricted (deficit)	<u>-</u>	<u>(9,447)</u>	<u>213,284</u>	<u>(1,265,735)</u>	<u>(4,279,528)</u>	<u>1,813,152</u>	<u>(149,168)</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>	<u>13,780,736</u>	<u>30,815,096</u>	<u>50,229,726</u>
Total government:							
Invested in capital assets, net of related debt	15,045,666	17,041,794	20,732,552	28,868,360	38,158,373	53,383,406	76,533,101
Restricted	4,373,475	5,039,914	7,324,824	4,733,068	8,026,767	4,194,245	3,374,364
Unrestricted (deficit)	<u>4,024,147</u>	<u>4,789,208</u>	<u>5,863,652</u>	<u>5,084,741</u>	<u>2,732,676</u>	<u>8,467,806</u>	<u>5,556,572</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>	<u>\$ 48,917,816</u>	<u>\$ 66,045,457</u>	<u>\$ 85,464,037</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 SEVEN FISCAL YEARS**  
**(ACCRUAL BASIS OF ACCOUNTING)**

	Fiscal Year						
	2004	2005	2006	2007	2008	2009	2010
<b>EXPENSES:</b>							
Governmental activities:							
General government	\$ 2,805,425	\$ 3,837,452	\$ 7,905,757	\$ 3,867,901	\$ 3,319,061	\$ 2,519,857	\$ 3,646,885
Public safety	2,832,115	2,997,230	4,737,074	3,645,846	4,069,335	4,363,860	4,580,076
Community services	1,270,051	1,417,715	1,880,765	2,050,244	2,041,301	3,343,066	2,577,772
Community development	1,309,166	1,365,876	1,335,976	1,576,341	1,395,694	1,091,795	941,914
Interest on long-term debt	14,801	90,515	372,885	390,607	361,961	330,414	298,339
Total governmental activities	<u>8,231,558</u>	<u>9,708,788</u>	<u>16,232,457</u>	<u>11,530,939</u>	<u>11,187,352</u>	<u>11,648,992</u>	<u>12,044,986</u>
Business-type activities:							
Wastewater	-	-	10,826	52,230	340,016	541,667	2,126,390
Marina	504,056	688,950	537,316	622,185	695,938	671,407	688,583
Stormwater	-	-	10,694	39,716	264,150	14,138	274,878
Total business-type activities	<u>504,056</u>	<u>688,950</u>	<u>558,836</u>	<u>714,131</u>	<u>1,300,104</u>	<u>1,227,212</u>	<u>3,089,851</u>
Total government expenses	<u>\$ 8,735,614</u>	<u>\$ 10,397,738</u>	<u>\$ 16,791,293</u>	<u>\$ 12,245,070</u>	<u>\$ 12,487,456</u>	<u>\$ 12,876,204</u>	<u>\$ 15,134,837</u>
<b>PROGRAM REVENUES:</b>							
Governmental activities:							
Charges for services:							
General government	\$ 1,399,886	\$ 1,354,431	\$ 1,407,360	\$ 1,391,936	\$ 155,111	\$ 155,056	\$ 173,716
Public safety	844,927	742,410	647,303	740,365	760,546	851,446	841,587
Community services	334,148	345,376	356,349	516,645	559,447	373,299	515,305
Community development	687,725	1,002,999	1,118,382	746,217	743,533	441,225	480,738
Operating grants and contributions	566,908	1,112,299	4,402,251	624,697	496,996	288,829	1,250,302
Capital grants and contributions	2,432,746	3,375,694	4,674,802	2,879,187	6,338,416	3,581,347	2,973,949
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>	<u>9,054,049</u>	<u>5,691,202</u>	<u>6,235,597</u>
Business-type activities:							
Charges for services:							
Wastewater	-	-	-	-	-	524,084	1,015,725
Marina	263,165	310,057	354,332	457,657	615,247	638,575	671,330
Stormwater	-	-	-	-	-	-	-
Operating grants and contributions	-	45,076	39,272	53,595	55,646	93,172	52,421
Capital grants and contributions	-	23,360	2,002,836	2,627,827	5,202,199	16,213,258	20,000,850
Total business-type activities program revenues	<u>-</u>	<u>378,493</u>	<u>2,396,440</u>	<u>3,139,079</u>	<u>5,873,092</u>	<u>17,469,089</u>	<u>21,740,326</u>
Total program revenues	<u>\$ 6,266,340</u>	<u>\$ 8,311,702</u>	<u>\$ 15,002,887</u>	<u>\$ 10,038,126</u>	<u>\$ 14,927,141</u>	<u>\$ 23,160,291</u>	<u>\$ 27,975,923</u>

Continued on next page

**CITY OF MARATHON, FLORIDA**  
**CHANGES IN NET ASSETS**  
**LAST SEVEN FISCAL YEARS**  
**(ACCRUAL BASIS OF ACCOUNTING)**  
(continued)

	Fiscal Year						
	2004	2005	2006	2007	2008	2009	2010
NET (EXPENSE) REVENUE:							
Governmental activities	\$ (1,965,218)	\$ (1,775,579)	\$ (3,626,010)	\$ (4,631,892)	\$ (2,133,303)	\$ (5,957,790)	\$ (5,809,389)
Business-type activities	(504,056)	(310,457)	1,837,604	2,424,948	4,572,988	16,241,877	18,650,475
Total net expense	\$ (2,469,274)	\$ (2,086,036)	\$ (1,788,406)	\$ (2,206,944)	\$ 2,439,685	\$ 10,284,087	\$ 12,841,086
GENERAL REVENUES:							
Governmental activities:							
Taxes:							
Property taxes	\$ 3,432,016	\$ 4,098,515	\$ 4,365,919	\$ 4,776,651	\$ 4,258,748	\$ 4,079,688	\$ 3,746,062
Other taxes	566,267	601,859	669,856	633,305	626,113	590,167	591,504
State shared revenues	289,678	400,123	464,835	367,701	1,709,756	1,526,669	1,575,835
Investment earnings	104,434	280,744	658,527	595,386	539,492	341,774	194,189
Miscellaneous	162,385	127,489	426,251	492,630	220,516	43,328	170,699
Transfers	(1,028,677)	(175,014)	(555,000)	(424,000)	(507,756)	(530,555)	(464,950)
Total governmental activities	3,526,103	5,333,716	6,030,388	6,441,673	6,846,869	6,051,071	5,813,339
Business-type activities:							
Investment earnings	-	-	25,855	106,412	437,337	151,372	299,205
Miscellaneous	2,283	4,935	2,229,275	-	-	120,000	-
Loss on disposal of equipment	-	-	-	-	-	(9,444)	-
Transfers	1,028,677	175,014	555,000	424,000	507,756	530,555	464,950
Total business-type activities	1,030,960	179,949	2,810,130	530,412	945,093	792,483	764,155
Total general revenues	\$ 4,557,063	\$ 5,513,665	\$ 8,840,518	\$ 6,972,085	\$ 7,791,962	\$ 6,843,554	\$ 6,577,494
CHANGE IN NET ASSETS:							
Governmental activities	\$ 1,560,885	\$ 3,558,137	\$ 2,404,378	\$ 1,809,781	\$ 4,713,566	\$ 93,281	\$ 3,950
Business-type activities	526,904	(130,508)	4,647,734	2,955,360	5,518,081	17,034,360	19,414,630
Total change in net assets	\$ 2,087,789	\$ 3,427,629	\$ 7,052,112	\$ 4,765,141	\$ 10,231,647	\$ 17,127,641	\$ 19,418,580

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*

**CITY OF MARATHON, FLORIDA**  
**FUND BALANCES OF GOVERNMENTAL FUNDS**  
**LAST SEVEN FISCAL YEARS**  
**(MODIFIED ACCRUAL BASIS OF ACCOUNTING)**

	Fiscal Year						
	2004	2005	2006	2007	2008	2009	2010
General fund:							
Reserved	\$ 40,085	\$ 19,955	\$ 80,932	\$ 137,851	\$ 78,749	\$ 81,477	\$ 138,940
Unreserved	<u>3,622,540</u>	<u>4,233,725</u>	<u>4,655,670</u>	<u>5,266,937</u>	<u>5,630,951</u>	<u>5,291,297</u>	<u>4,970,012</u>
Total general fund	<u>3,662,625</u>	<u>4,253,680</u>	<u>4,736,602</u>	<u>5,404,788</u>	<u>5,709,700</u>	<u>5,372,774</u>	<u>5,108,952</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	4,509,246	2,367,496	2,240,170
Street maintenance fund	-	1,159,768	2,374,258	2,849,227	3,485,864	1,793,417	1,105,672
Impact fee fund	-	-	200,359	386,378	633,027	295,975	267,355
Vehicle replacement fund	-	544,876	869,363	639,815	672,331	1,003,485	1,372,475
Affordable housing	-	-	-	-	120,953	123,074	136,714
Restoration	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>36,256</u>	<u>47,015</u>	<u>97,523</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>	<u>9,457,677</u>	<u>5,630,462</u>	<u>5,219,909</u>
Debt service funds:							
Reserved	-	-	-	-	-	-	-
Unreserved	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total debt service funds	<u>-</u>	<u>-</u>	<u>-</u>	<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>	<u>9,457,677</u>	<u>5,630,462</u>	<u>5,219,909</u>
Total governmental funds	<u>\$ 8,302,054</u>	<u>\$ 9,818,515</u>	<u>\$ 16,211,149</u>	<u>\$ 11,118,808</u>	<u>\$ 15,167,377</u>	<u>\$ 11,003,236</u>	<u>\$ 10,328,861</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 SEVEN FISCAL YEARS**  
**(MODIFIED ACCRUAL BASIS OF ACCOUNTING)**

	Fiscal Year						
	2004	2005	2006	2007	2008	2009	2010
<b>REVENUES:</b>							
Ad valorem taxes	\$ 3,432,016	\$ 4,098,515	\$ 4,365,919	\$ 4,776,651	\$ 4,258,748	\$ 4,079,688	\$ 3,746,062
Communication services taxes	566,267	601,859	669,856	633,305	626,113	590,167	591,504
Impact fees	n/a	n/a	56,384	207,692	242,602	69,422	82,004
Licenses and permits	736,597	1,035,052	1,176,781	785,569	890,063	577,528	630,173
Intergovernmental revenue	4,961,663	6,512,740	11,162,771	5,488,148	8,817,885	5,518,964	6,119,922
Charges for services	675,994	649,029	559,537	642,998	649,084	814,226	811,580
Fines and forfeitures	181,763	136,510	115,809	142,341	164,172	88,277	94,318
Special assessments	-	-	-	-	-	-	21,944
Interest	104,434	280,744	658,527	595,386	539,492	341,774	194,189
Miscellaneous	162,387	127,490	426,252	392,927	320,219	60,282	183,368
Total revenues	<u>10,821,121</u>	<u>13,441,939</u>	<u>19,191,836</u>	<u>13,665,017</u>	<u>16,508,378</u>	<u>12,140,328</u>	<u>12,475,064</u>
<b>EXPENDITURES:</b>							
Current:							
General government	2,857,781	3,630,608	7,359,947	2,822,349	2,796,344	2,472,219	2,485,113
Public safety	2,806,148	2,798,132	3,083,352	3,481,477	3,614,984	3,984,749	4,188,041
Community services	1,022,818	1,172,637	1,385,482	1,437,157	1,410,054	1,523,952	1,541,831
Community development	1,296,042	1,359,560	1,309,363	1,547,317	1,364,266	997,868	918,382
Capital outlay	1,624,068	5,234,411	4,080,526	7,205,686	1,663,704	5,723,971	2,914,127
Debt service:							
Principal	90,000	1,318,000	555,556	740,741	740,741	740,741	740,741
Interest and other fiscal charges	32,617	92,875	372,885	390,607	361,961	330,414	298,339
Total expenditures	<u>9,729,474</u>	<u>15,606,223</u>	<u>18,147,111</u>	<u>17,625,334</u>	<u>11,952,054</u>	<u>15,773,914</u>	<u>13,086,574</u>
Excess (deficiency) of revenues over expenditures	<u>1,091,647</u>	<u>(2,164,284)</u>	<u>1,044,725</u>	<u>(3,960,317)</u>	<u>4,556,324</u>	<u>(3,633,586)</u>	<u>(611,510)</u>
<b>OTHER FINANCING SOURCES (USES):</b>							
Sale of asset	-	-	-	-	-	-	402,085
Transfers in	693,071	1,934,956	1,511,921	2,337,615	2,107,155	2,174,125	1,888,430
Transfers out	(894,627)	(2,193,870)	(2,066,921)	(2,761,615)	(2,614,911)	(2,704,680)	(2,353,380)
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>	<u>(507,756)</u>	<u>(530,555)</u>	<u>(62,865)</u>
Net change in fund balances	<u>\$ 965,091</u>	<u>\$ 1,594,802</u>	<u>\$ 6,396,725</u>	<u>\$ (4,384,317)</u>	<u>\$ 4,048,568</u>	<u>\$ (4,164,141)</u>	<u>\$ (674,375)</u>
Debt service as a percentage of non-capital expenditures							
	1.51%	13.60%	6.60%	10.86%	10.72%	9.55%	10.11%

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

<u>Fiscal Year Ended September 30,</u>	<u>Tax Roll Year</u>	<u>Real Property</u>	<u>Personal Property</u>	<u>Total Net Assessed Value</u>	<u>Total Direct Tax Rate</u>	<u>Estimated Actual Value (1)</u>	<u>Estimated Actual Value as a Percentage of Net Assessed Value (1)</u>
2001	2000	\$ 899,256,852	\$ 71,566,362	\$ 970,823,214	2.9645	N/A	N/A
2002	2001	\$ 1,011,692,510	\$ 68,119,027	\$ 1,079,811,537	2.9645	N/A	N/A
2003	2002	\$ 1,128,078,626	\$ 67,353,235	\$ 1,195,431,861	2.9645	N/A	N/A
2004	2003	\$ 1,370,802,387	\$ 64,176,791	\$ 1,434,979,178	2.4931	N/A	N/A
2005	2004	\$ 1,621,112,010	\$ 70,100,880	\$ 1,691,212,890	2.4931	N/A	N/A
2006	2005	\$ 2,137,232,089	\$ 72,452,105	\$ 2,209,684,194	2.0500	N/A	N/A
2007	2006	\$ 2,693,641,765	\$ 81,397,661	\$ 2,775,039,426	1.7896	N/A	N/A
2008	2007	\$ 2,991,200,387	\$ 87,126,504	\$ 3,078,326,891	1.4243	N/A	N/A
2009	2008	\$ 2,756,096,830	\$ 78,188,977	\$ 2,834,284,807	1.5000	N/A	N/A
2010	2009	\$ 2,165,777,278	\$ 76,633,829	\$ 2,242,411,107	1.6850	N/A	N/A

Note (1): 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)**

Fiscal Year	Tax Roll Year	City of Marathon	Overlapping Rates (1)					Total Direct and Overlapping Rates
			Monroe County	School Board	S. Florida Water Mgt District	FL Keys Mosquito Control District	Other	
2001	2000	2.9645	4.2181	5.1840	0.2840	0.6641	0.4130	13.7277
2002	2001	2.9645	4.1407	4.9890	0.2840	0.6641	0.4130	13.4553
2003	2002	2.9645	3.9455	4.7130	0.2840	0.6641	0.4130	12.9841
2004	2003	2.4931	4.2938	4.4220	0.2840	0.6641	0.4130	12.5700
2005	2004	2.4931	3.9436	3.9320	0.2840	0.6090	0.4130	11.6747
2006	2005	2.0500	3.4361	3.3820	0.2840	0.6090	0.4130	10.1741
2007	2006	1.7896	2.5609	3.0610	0.2840	0.5505	0.4130	8.6590
2008	2007	1.4243	2.2656	2.9460	0.2549	0.4175	0.3691	7.6774
2009	2008	1.5000	2.6883	2.9220	0.2549	0.3798	0.3691	8.1141
2010	2009	1.6850	3.0837	3.3870	0.2549	0.4262	0.3691	9.2059

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

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 EIGHT YEARS AGO**

Taxpayer	2010		
	Net Assessed Value	Rank	Percent of Total City Net Assessed Value
BLUEGREEN RESORTS MANAGEMENT INC.	\$ 45,082,254	1	2.01 %
FL KEYS ELECTRIC CO-OP ASSN INC.	29,231,938	2	1.30 %
ROBERT E SAMARA PE PA A FL CORP	17,188,530	3	0.77 %
FELLING, MICHAEL	15,862,537	4	0.71 %
BOAT HOUSE ASSOCIATES, INC	10,648,973	5	0.47 %
HOME DEPOT USA INC #6302	10,519,178	6	0.47 %
FISHERMEN'S HOSPITAL INC	10,381,429	7	0.46 %
SUMMIT MARATHON LLC	9,707,083	8	0.43 %
WATERS EDGE MARINA LLC	9,056,721	9	0.40 %
SH3 LTD	8,683,606	10	0.39 %
	<u>\$ 166,362,249</u>		<u>7.41 %</u>
Taxpayer	2002		
	Net Assessed Value	Rank	Percent of Total City Net Assessed Value
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.	5,694,734	10	0.53 %
	<u>\$ 95,687,654</u>		<u>8.86 %</u>

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

Note: City of Marathon commenced operations on November 30, 1999. There is no data prior to 2002.

**CITY OF MARATHON, FLORIDA**  
**PROPERTY TAX LEVIES AND COLLECTIONS**  
**LAST TEN FISCAL YEARS**

Fiscal Year Ended September 30,	Total Taxes Levied for Fiscal Year	Collected within the Fiscal Year of the Levy		Collections in Subsequent Year's	Total Collections to Date	
		Amount	Percent of Levy		Amount	Percent of Levy
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%
2008	4,303,947	4,259,597	98.97%	-	4,259,597	98.97%
2009	4,294,698	4,079,688	94.99%	-	4,079,688	94.99%
2010	3,861,476	3,746,062	97.01%	-	3,746,062	97.01%

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



**CITY OF MARATHON, FLORIDA**  
**RATIOS OF OUTSTANDING DEBT BY TYPE**  
**LAST TEN FISCAL YEARS**

Fiscal Year Ended September 30,	Governmental Activities			Business-Type Activities	Total	Percent of Net Assessed Value (1)	Per Capita (1)
	General Obligation Bonds	Revenue Bonds	Loans Payable	Revenue Bonds			
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
2008	-	7,962,963	-	26,168,257	34,131,220	1.11%	3380.33
2009	-	7,222,222	-	58,155,645	65,377,867	2.31%	6350.45
2010	-	6,481,481	-	64,171,550	70,653,031	3.15%	6845.56

Note (1): 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 TEN FISCAL YEARS**

Fiscal Year Ended September 30,	Improvement Revenue Bonds							
	Local Govt. Infrastructure Tax	Wastewater Special Assessments	Utility Operating Revenues	Less Operating Expenses	Net Available Revenue	Debt Service Principal	Interest	Coverage
2001	\$ N/A	\$ N/A	\$ 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	N/A	N/A
2003	N/A	N/A	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	N/A	N/A
2005	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
2006	2,383,964	N/A	N/A	N/A	2,383,964	555,556	372,885	2.57
2007	2,405,183	N/A	N/A	N/A	2,405,183	740,741	390,607	2.13
2008	2,442,698	N/A	N/A	N/A	2,442,698	740,741	361,961	2.22
2009	2,209,299	4,859,306	1,037,897	(721,537)	7,384,965	740,741	719,025	5.06
2010	2,283,263	8,194,977	2,067,849	(2,556,784)	9,989,305	1,803,693	1,655,543	2.89

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

Note: Repayment of one of the City's State Revolving Fund Loans began in fiscal year ended September 30, 2010.  
Repayment of three of the City's State Revolving Fund Loans commences in February of 2011.  
Repayment of three of the City's State Revolving Fund Loans commences in June of 2011.

Note: Interest only payments until January 2012 on the City's Wastewater System Revenue Bonds, Series 2008.

Note: Interest only payments until July 2011 on the City's Wastewater System Revenue Bonds, Series 2009.

Source: City of Marathon Finance Department

**CITY OF MARATHON, FLORIDA  
DEMOGRAPHIC AND ECONOMIC STATISTICS  
LAST TEN FISCAL YEARS**

<u>Year</u>	<u>Population (1)</u>	<u>Personal Income (Amounts Expressed in Thousands) (2)</u>	<u>Per Capita Personal Income (2)</u>	<u>Unemployment Rate (3)</u>
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 (b)	2.5%
2007	10,396 (a)	4,003,510 (b)	50,436 (b)	3.0%
2008	10,097 (a)	4,263,716 (b)	51,759 (b)	5.5%
2009	10,295 (a)	4,184,821 (b)	52,690 (b)	7.4%
2010	10,321 (a)	4,232,833 (b)	52,982 (b)	8.6%

**Sources:**

- (1) Office of Economic and Demographic Research, FL Legislature.
  - (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 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 Florida data was used as a base % and applied to 2006, 2007, 2008, 2009 and 2010. 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 FOUR YEARS AGO**

Employer	2010		Percentage of Total City Employment
	Employees	Rank	
Monroe County	212	1	N/A
Monroe County School Board	151	2	N/A
Home Depot USA	150	3	N/A
Publix Supermarkets	127	4	N/A
Winn Dixie Supermarkets	93	5	N/A
K-Mart Corporation	77	6	N/A
City of Marathon	62	7	N/A
Fishermen's Hospital	50	8	N/A
Florida Keys Aqueduct Authority	45	9	N/A
Walgreens Co.	38	10	N/A

Employer	2006		Percentage of Total City Employment
	Employees	Rank	
Home Depot USA	150	1	N/A
Publix Supermarkets	101	2	N/A
K-Mart Corporation	77	3	N/A
City of Marathon	58	4	N/A
Fishermen's Hospital	50	5	N/A
Office Depot, Inc.	45	6	N/A
Walgreens Co.	38	7	N/A
D'Assign Source	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.

**Note:** No data was available from the Tax Collector's office for years prior to 2006.

**CITY OF MARATHON, FLORIDA**  
**FULL-TIME EQUIVALENT CITY GOVERNMENT EMPLOYEES BY FUNCTION**  
**LAST EIGHT FISCAL YEARS**

Employees	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
General Government	5	5	8	8	9	6	5	5
Public Safety	13	16	16	28	22	21	25	24
Community Development	7	13	13	15	16	17	15	11
Community Services	5	5	7	11	13	13	15	16
Marina	<u>5</u>	<u>5</u>	<u>8</u>	<u>7</u>	<u>7</u>	<u>7</u>	<u>7</u>	<u>6</u>
Total number of employees	<u><u>35</u></u>	<u><u>44</u></u>	<u><u>52</u></u>	<u><u>69</u></u>	<u><u>67</u></u>	<u><u>64</u></u>	<u><u>67</u></u>	<u><u>62</u></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 TEN FISCAL YEARS**

Function/Program	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Public safety:										
Police:										
Police personnel and officers	N/A	14	17	17	17	17	17	15	17	16
Police calls for service	N/A	30,788	31,366	30,964	30,792	24,292	22,411	20,273	20,533	25,801
Fire/EMS:										
Fire personnel	15	15	14	15	15	22	22	21	24	24
Fire / emergency calls answered	N/A	N/A	N/A	N/A	287	251	527	324	339	187
Emergency medical services calls	N/A	N/A	N/A	1,468	1,105	1,007	1,249	1,160	1,254	1,355
Community development:										
Business permits and occupational licenses issued										
Building permits issued	327	1,933	2,035	2,257	2,638	3,107	2,159	1,588	1,569	1,561
Commercial fire occupancy inspections	N/A	N/A	54	424	354	475	309	446	478	452
Community services:										
Transportation:										
Public right of way maintenance (miles)	64	64	64	64	64	64	64	66	66	63
Culture and recreation:										
Registrations for special events	N/A	N/A	10	10	23	35	32	25	34	24
Registrations for summer camp	N/A	N/A	N/A	N/A	N/A	N/A	125	109	79	104
Registrations for athletic programs	N/A	N/A	N/A	N/A	N/A	N/A	1,360	1,629	1,414	1,169
Registrations for cultural programs	N/A	N/A	N/A	N/A	N/A	N/A	227	1,375	1,041	6,304
Registrations for private events in public park areas	N/A	N/A	N/A	N/A	N/A	N/A	110	147	99	376
Marina:										
Mooring balls	25	25	64	64	64	64	226	226	226	226
Boat slips	5	5	5	5	5	13	13	13	13	13

N/A = not available

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

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 TEN FISCAL YEARS**

Function/Program	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
General government:										
Number of general government buildings	-	-	-	-	-	-	-	-	-	-
Public safety:										
Police:										
Police stations	-	-	-	-	-	-	-	-	-	-
Fire:										
Fire stations	2	2	2	2	2	2	2	2	2	2
Transportation:										
Miles of streets	64	64	64	64	64	64	64	66	66	66
Number of street lights	N/A	N/A	N/A	N/A	190	190	190	190	188	188
Number of traffic signals	N/A	N/A	N/A	N/A	8	8	8	8	8	8
Culture and recreation:										
Amphitheater	-	-	-	-	1	1	1	1	1	1
Parks	-	-	-	-	4	4	4	4	4	4
Parks acreage	-	-	-	-	45	45	45	45	45	45
Beaches	-	-	-	-	2	2	2	2	2	2
Community center	-	-	-	-	1	1	1	-	-	-
Picnic pavilions	-	-	-	-	16	16	16	18	18	18
In-line hockey rink	-	-	-	-	1	1	1	1	1	1
Soccer fields	-	-	-	-	2	2	2	2	2	2
Skate park	-	-	-	-	1	1	1	1	1	1
Basketball courts	-	-	-	-	4	4	4	3	3	3
Tennis courts	-	-	-	-	4	4	4	4	4	4
Baseball/softball fields	-	-	-	-	2	2	2	2	2	2
Utility system:										
Fire hydrants - City of Marathon	-	-	-	-	-	53	101	125	134	154
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

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





INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN  
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Honorable Mayor, and City Council  
City of Marathon, Florida  
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 City of Marathon, Florida (the "City") as of and for the year ended September 30, 2010, which collectively comprise the City's basic financial statements and have issued our report thereon dated March 24, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

### **Internal Control over Financial Reporting**

In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of City of Marathon, Florida's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

### **Compliance and Other Matters**

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

City of Marathon, Florida

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

*Keefe, McCullough & Co., LLP*

KEEFE, McCULLOUGH & CO., LLP

Fort Lauderdale, Florida  
March 24, 2011



INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS  
THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM  
AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB  
CIRCULAR A-133

To the Honorable Mayor, and City Council  
City of Marathon, Florida  
Marathon, Florida

**Compliance**

We have audited City of Marathon, Florida's (the "City") compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended September 30, 2010. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of City management. Our responsibility is to express an opinion on the City's compliance based on our audit.

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

In our opinion, the City complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2010.

**Internal Control over Compliance**

Management of City of Marathon, Florida is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered City of Marathon, Florida internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness City of Marathon, Florida's internal control over compliance.

City of Marathon, Florida

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

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

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

*Keefe, McCullough & Co., LLP*  
KEEFE, McCULLOUGH & CO., LLP

Fort Lauderdale, Florida  
March 24, 2011



## INDEPENDENT AUDITORS' REPORT TO CITY MANAGEMENT

To the Honorable Mayor, and City Council  
City of Marathon, Florida  
Marathon, Florida

We have audited the basic financial statements of the City of Marathon, Florida (the "City"), as of and for the year ended September 30, 2010, and have issued our report thereon dated March 24, 2011.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. We have issued our Independent Auditors' Report on Internal Control over Financial Reporting and Compliance and Other Matters, Independent Auditor's Report on Compliance with Requirements Applicable to Each Major Federal Program and on Internal Control Over Compliance and Schedule of Findings and Questioned Costs. Disclosures in those reports and schedule, which are dated March 24, 2011, should be considered in conjunction with this management letter.

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

Section 10.554(1)(i)1., Rules of the Auditor General, requires that we determine whether or not corrective actions have been taken to address findings and recommendations made in the preceding annual financial audit report. There were no 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 City of Marathon 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. 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 or grant agreements, or abuse that have occurred, or are likely to have occurred, that have an effect on the financial statements that is less than material but more than inconsequential. In connection with our audit, we did not have any such findings.

Section 10.554(1)(i)5., Rules of the Auditor General, provides that the auditor may, based on professional judgment, report the following matters that have an inconsequential effect on financial statements, considering both quantitative and qualitative factors: (1) violations of provisions of contracts or grant agreements, fraud, illegal acts or abuse and; (2) deficiencies in internal control that are not significant deficiencies. In connection with our audit, we did not have any such findings.

City of Marathon, Florida

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 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, 2010, 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, 2010. In connection with our audit, we determined that these two reports were in agreement.

Pursuant to Sections 10.554(1)(i)7.c. and 10.556(7), Rules of the Auditor General, we applied financial condition assessment procedures. It is management's responsibility to monitor the 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.

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

*Keefe, McCullough & Co., LLP*

KEEFE, McCULLOUGH & CO., LLP

Fort Lauderdale, Florida  
March 24, 2011

CITY OF MARATHON, FLORIDA  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
For the Fiscal Year Ended September 30, 2010

Federal Agency, Pass-through Entity Federal Program	CFDA Number	Contract/Grant Number	Expenditures	Transfers to Subrecipients
FEDERAL AGENCY NAME:				
Direct Programs:				
Department of Defense:				
State Memorandum of Agreement				
Program for the Reimbursement				
of Technical Services				
	* 12.113	-	\$ 9,769,424	-
Indirect Programs:				
Department of Homeland Security -				
Passed through State of Florida				
Division of Emergency Management:				
Disaster Grants - Public Assistance				
	97.036	06-PA-@G-11-54-02-516	65,118	-
	97.036	06-RT-&W11-54-02-520	71,659	-
	97.036	06-KT-B&-11-54-02-528	6,192	-
Environmental Protection Agency -				
Passed through the Florida Department				
of Environmental Protection:				
Capitalization Grants for Clean Water				
State Revolving Funds				
	* 66.458	WW63702P	15,719,571	-
	* 66.458	WW637090	2,314,350	-



CITY OF MARATHON, FLORIDA  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
(continued)  
For the Fiscal Year Ended September 30, 2010

Federal Agency, Pass-through Entity Federal Program	CFDA Number	Contract/Grant Number	Expenditures	Transfers to Subrecipients
Department of Transportation - Passed through the Florida Department of Environmental Protection: Recreational Trails Program	20.219	T2840	21,717	-
Passed through the Florida Department of Transportation: Highway Planning and Construction	20.205	ARRA-478-B	364,709	-
Department of the Interior - Passed through the Florida Department of Environmental Protection: Clean Vessel Act	15.616	LE649	37,906	-
	15.616	MV016	14,944	-
Total Expenditures of Federal Awards			\$ 28,385,590	\$ -

NOTE: This schedule was prepared on the accrual basis of accounting.

\* Denotes a major program



**CITY OF MARATHON, FLORIDA**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS -**  
**For the Year Ended September 30, 2010**

**A. SUMMARY OF AUDITORS' RESULTS**

1. The auditors' report expresses an unqualified opinion on the financial statements of City of Marathon, Florida.
2. No material weaknesses relating to the audit of the basic financial statements are reported in the Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*.
3. No instances of noncompliance material to the financial statements of City of Marathon, Florida were disclosed during the audit.
4. No material weaknesses relating to the audit of the major Federal programs are reported in the Independent Auditors' Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Federal Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133.
5. The auditors' report on compliance for the major Federal programs for City of Marathon, Florida expresses an unqualified opinion.
6. There are no findings relative to the major Federal programs for City of Marathon, Florida reported in Part C of this schedule.
7. The programs tested as major programs are as follows:

<b>Federal Program</b>	<b>Federal CFDA Number</b>
Environmental Protection Agency - Capitalization Grants for Clean Water State Revolving Funds	66.458
Department of Defense - State Memorandum of Agreement Program for the Reimbursement of Technical Services	12.113

8. The threshold for distinguishing Type A and Type B projects was \$ 300,000 for major Federal programs.
9. City of Marathon, Florida was determined to be a low risk auditee pursuant to OMB Circular A-133.

**B. FINDINGS - FINANCIAL STATEMENT AUDIT**

NONE

**C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL PROGRAMS**

NONE

**CITY OF MARATHON, FLORIDA**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS -**  
**FEDERAL PROGRAMS AND STATE PROJECT**  
For the Year Ended September 30, 2010

**D. OTHER ISSUES**

1. No summary schedule of prior audit findings is required because there were no prior audit findings related to Federal Programs.
2. No corrective action plan is required because there were no findings required to be reported under the Federal Single Audit Act.
3. A separate management letter was not issued.