

CITY OF MARATHON, FLORIDA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FISCAL YEAR ENDED SEPTEMBER 30, 2011

Prepared by the
Finance Department

CITY OF MARATHON, FLORIDA
COMPREHENSIVE ANNUAL
FINANCIAL REPORT
FOR THE YEAR ENDED SEPTEMBER 30, 2011

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INTRODUCTORY SECTION



CITY OF MARATHON, FLORIDA

9805 Overseas Highway, Marathon, Florida 33050

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

March 23, 2012

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, 2011.

State law requires that all general-purpose local governments publish within nine months of the close of each fiscal year a complete set of financial statements presented in conformity with generally accepted accounting principles (GAAP) and audited in accordance with 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, 2011, are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unqualified opinion that the City of Marathon's financial statements for the fiscal year ended September 30, 2011, are fairly presented in conformity with GAAP. The independent auditor's report is presented as the first component of the financial section of this report.

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 8,316 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 pages 51 and 52 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 53 and 54. 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 60 and 61.

Factors Affecting Financial Condition

Local Economy

The Florida Keys are often referred to as the “American Caribbean” and Marathon is known as “The Heart of the Keys.” 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 engine. The local environment 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. In addition to tourism, commercial seafood harvesting is a significant piece of the local economy as the Florida Keys are one of the largest providers of seafood products in the country, serving both national and international markets.

The City of Marathon’s economic outlook reflects some of the uncertainties present in the national economy as a whole. For the last several years, the economy has been flat, due to the effects of the national recession. Property tax values decreased and certain revenues decreased. The pace of growth and development also slowed significantly throughout the City and surrounding areas. However, the tourism industry in the Florida Keys proved extremely resilient during the recession and the middle Keys in particular experienced increases in tourism revenue during 2011. This increase in tourism revenue was driven in part by the recent expansion and rebuilding of two major resorts. Additionally, the City’s ongoing work on the wastewater and stormwater utility projects has pumped millions of dollars into the local economy over the last several years. These two projects will be completed in 2012 and the City will see revenues increase due to the required hookup to the City’s wastewater utility system. The City is also experiencing growth in the commercial and residential sector with new restaurants, businesses and single family residences coming online. In September 2011, the area’s unemployment rate was 6.2%, compared with the statewide rate of 9.7%.

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 significant grant funding in order to lessen the cost burden on the local community.

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 is particularly proud of its accomplishments in improving the near shore water quality of the surrounding waters through the timely completion of these projects. With the completion of these necessary infrastructure projects, the City is now poised to begin the process of redevelopment of older amenities and plans to focus on creating sufficient modern accommodations to make Marathon the family fun destination of the Florida Keys.

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. In December of 2011, the executive director of the Florida Department of Economic Opportunity reported to the Florida Cabinet, which oversees the work plan for the Florida Keys area of critical state concern, that Marathon completed 94% of the assigned task targeted for completion by the City for 2011 and additionally had completed six tasks scheduled for completion in 2012 ahead of schedule. 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

On January 18, 2012, the Governor and Cabinet of the State of Florida formally commended Marathon for the City's accomplishments with regard to the wastewater and stormwater infrastructure projects as well as the completion of substantially all of its work plan objectives. In recognition, the City was awarded up to 200 entitlements for the construction of new hotel rooms in the City of Marathon.

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, 2010. This was the eighth 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, 2011 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, 2011

CITY COUNCIL

Pete Worthington, Mayor
Dick Ramsay, Vice-Mayor

Ginger Snead, Councilwoman
Richard Keating, 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, 2010

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



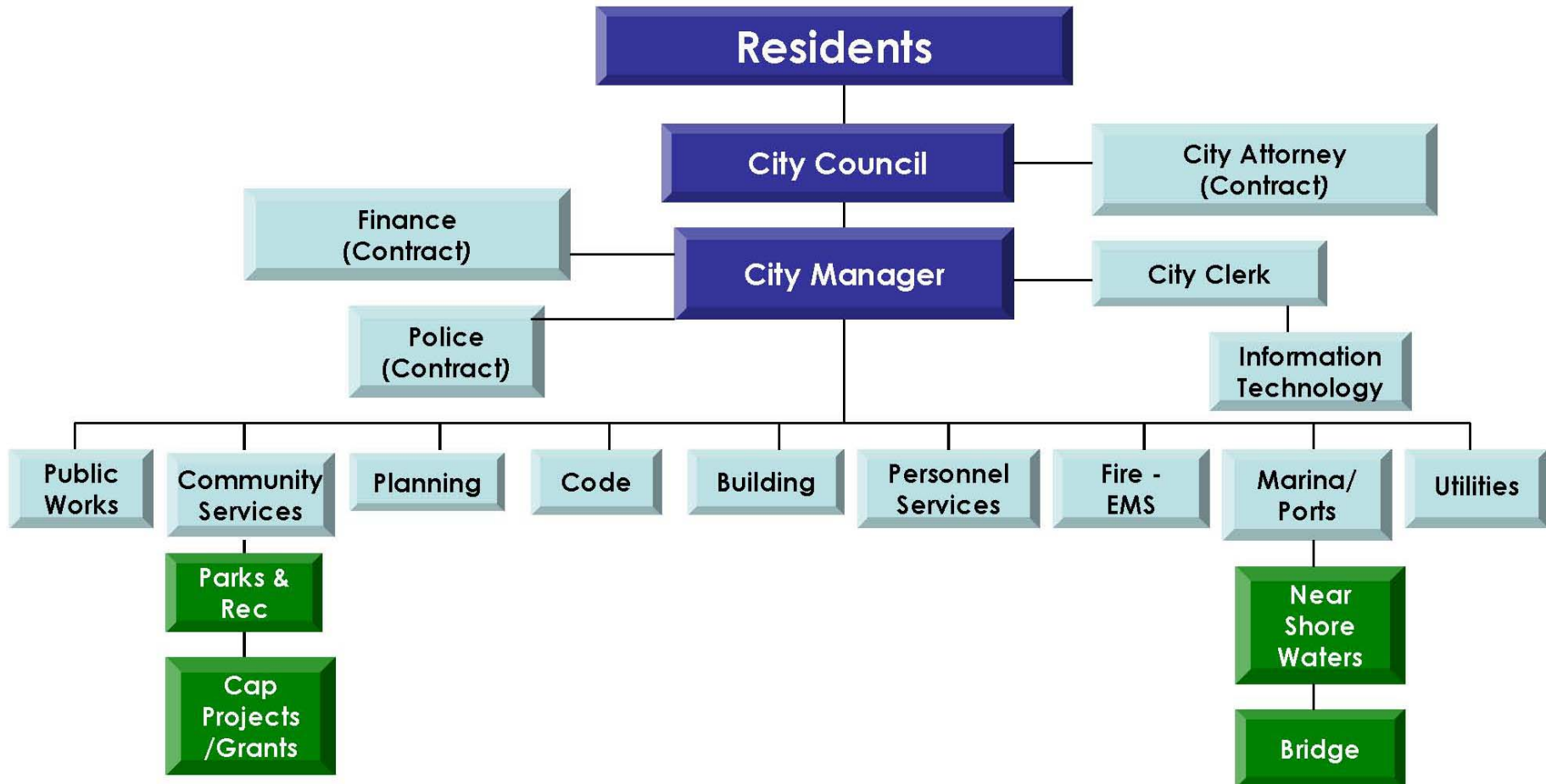
Linda C. Davidson

President

Jeffrey R. Enen

Executive Director

City of Marathon FY11 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, 2011, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes 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, 2011 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 23, 2012, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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 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 56 and 57, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's 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 them.

KEEFE, MCCULLOUGH & CO., LLP

Fort Lauderdale, Florida
March 23, 2012

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

CITY OF MARATHON, FLORIDA
MANAGEMENT'S DISCUSSION AND ANALYSIS
September 30, 2011

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, 2011. 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 \$ 90,497,015 (net assets), as compared with \$ 85,464,037 for the previous year. Of this amount, \$ 16,236,043 (unrestricted net assets) may be used to meet the City's ongoing obligations to citizens and creditors as compared with \$ 5,556,572 for the previous year.
- The City's total net assets increased by \$ 5,032,978 or 5.89% during the current fiscal year. Included in the total net assets are governmental net assets that decreased by \$ 119,552 and business-type activities net assets that increased by \$ 5,152,530.
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$ 8,247,223, a decrease of \$ 2,081,638 in comparison with the prior year. \$ 2,042,757 (24.77%), of this total amount is available for spending at the City's discretion (unassigned fund balance in the general fund).
- The City's total debt increased by \$ 14,347,274 (20.26%) during the current fiscal year. The primary factor of the increase was 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, 2011

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.

During fiscal year 2011 the City of Marathon implemented Governmental Accounting and Financial Standards Board (GASB) Statement No. 54 *Fund Balance Reporting and Governmental Fund Type Definitions*. The objective of Statement No. 54 is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. Fund balances are now presented in the following classifications:

Non-Spendable Fund Balance – Amounts that are not in a spendable form (for example, inventory, long-term portion of loans, prepaid expenses, and notes receivable), or are required to be maintained intact (for example, the principal of an endowment fund).

Restricted Fund Balance – Amounts that can be spent only for the specific purposes stipulated by external resource providers (i.e. grant providers), constitutionally, or through enabling legislation (legislation that creates a new revenue source and restricts its use). Effectively, a restriction may be changed or lifted only with the consent of resource providers.

Committed Fund Balance – Amounts that can be used only for the specific purposes determined by a formal action of the government's highest level of decision-making authority (i.e. City Council). Commitments may be changed or lifted only by the government taking the same formal action that imposed the constraint originally.

Assigned Fund Balance – Amounts intended to be used by the government for a specific purpose. Intent can be expressed by the governing body or by an official or body to which the governing body delegates the authority (the authority for making an assignment is not required to be the government's highest level of decision making authority).

Unassigned Fund Balance – the residual classification for the general fund and includes all amounts not contained in other classifications. Unassigned amounts are technically available for any purpose.

With the implementation of GASB Statement No. 54 the City's vehicle replacement fund was reclassified from a special revenue fund to the general fund with the net assets of the vehicle replacement fund being considered as *committed* fund balance of the general fund.

CITY OF MARATHON, FLORIDA
MANAGEMENT'S DISCUSSION AND ANALYSIS
September 30, 2011

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 58 and 59 of this report.

The City of Marathon adopts an annual appropriated budget for its general fund, four 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 (pages 51 and 52). A budgetary comparison schedule has also been provided for the major special revenue funds, which are the capital infrastructure fund (page 53) and the street maintenance fund (page 54).

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

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

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

The proprietary fund financial statements can be found on pages 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 50 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.

CITY OF MARATHON, FLORIDA
MANAGEMENT'S DISCUSSION AND ANALYSIS
September 30, 2011

Required supplementary information can be found on pages 51 through 57 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 58 through 61 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 \$ 90,497,015 at the close of the most recent fiscal year, compared to net assets of \$ 85,464,037 in the prior year.

City of Marathon's Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2011	2010	2011	2010	2011	2010
Current and other assets	\$ 11,250,135	\$ 11,537,611	\$ 22,951,263	\$ 18,144,359	\$ 34,201,398	\$ 29,681,970
Capital assets (net)	32,972,288	32,635,688	115,264,861	99,344,789	148,237,149	131,980,477
Total assets	44,222,423	44,173,299	138,216,124	117,489,148	182,438,547	161,662,447
Current and other liabilities	3,939,628	3,054,466	14,841,590	3,267,149	18,781,218	6,321,615
Long term liabilities	5,168,036	5,884,522	67,992,278	63,992,273	73,160,314	69,876,795
Total liabilities	9,107,664	8,938,988	82,833,868	67,259,422	91,941,532	76,198,410
Net assets:						
Invested in capital assets, net of related debt	27,231,548	26,154,207	43,132,708	50,378,894	70,364,256	76,533,101
Restricted	3,896,716	3,374,364	-	-	3,896,716	3,374,364
Unrestricted (deficit)	3,986,495	5,705,740	12,249,548	(149,168)	16,236,043	5,556,572
Total net assets	\$ 35,114,759	\$ 35,234,311	\$ 55,382,256	\$ 50,229,726	\$ 90,497,015	\$ 85,464,037

The largest portion of the City's net assets (77.75%) reflects its investment in capital assets (e.g. land, building, and equipment), less any related debt used to acquire those assets that is still outstanding. This investment in capital assets reflects an 8.06% decrease 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, \$ 3,896,716 (4.31%), represents resources that are subject to external restrictions on how they may be used. This represents an increase of 15.48% from the previous year's balance of \$ 3,374,364. The remaining balance of unrestricted net assets \$ 16,236,043 (17.94%) may be used to meet the City's ongoing obligations to citizens and creditors.

CITY OF MARATHON, FLORIDA
MANAGEMENT'S DISCUSSION AND ANALYSIS
September 30, 2011

Changes in Net Assets

Governmental activities and business-type activities increased the City's net assets by \$ 5,032,978 from the previous fiscal year. The relevant revenue and expense categories and their effect on net assets is summarized in the table below. The information presented in this table will be used in the subsequent discussion of governmental and business-type activities:

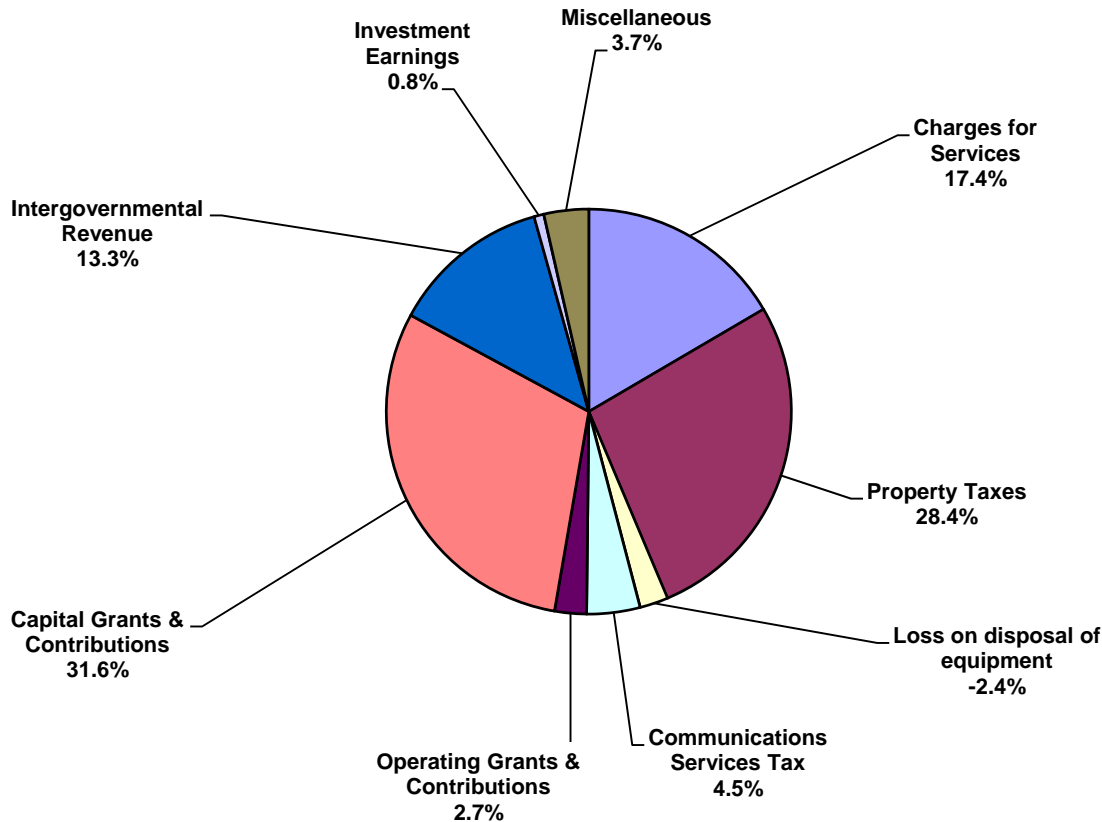
City of Marathon's Changes in Net Assets						
	Governmental Activities		Business-Type Activities		Total	
	2011	2010	2011	2010	2011	2010
Revenues:						
Program revenues:						
Charges for services	\$ 2,189,660	\$ 2,011,346	\$ 2,909,642	\$ 1,687,055	\$ 5,099,302	\$ 3,698,401
Operating grants and contributions	336,415	1,250,302	16,921	52,421	353,336	1,302,723
Capital grants and contributions	3,988,661	2,973,949	6,754,484	20,000,850	10,743,145	22,974,799
General revenues:						
Property taxes	3,580,301	3,746,062	-	-	3,580,301	3,746,062
Other taxes	562,218	591,504	-	-	562,218	591,504
State shared revenues	1,684,366	1,575,835	-	-	1,684,366	1,575,835
Investment earnings	103,927	194,189	167,282	299,205	271,209	493,394
Loss on disposal of equipment	(299,876)	-	-	-	(299,876)	-
Miscellaneous	473,615	170,699	275,000	-	748,615	170,699
Total revenues	<u>12,619,287</u>	<u>12,513,886</u>	<u>10,123,329</u>	<u>22,039,531</u>	<u>22,742,616</u>	<u>34,553,417</u>
Expenses:						
General government	3,930,619	3,646,885	-	-	3,930,619	3,646,885
Public safety	4,524,285	4,580,076	-	-	4,524,285	4,580,076
Community services	2,850,714	2,577,772	-	-	2,850,714	2,577,772
Community development	860,053	941,914	-	-	860,053	941,914
Interest on long-term debt	266,465	298,339	-	-	266,465	298,339
Marina	-	-	714,940	688,583	714,940	688,583
Wastewater	-	-	3,903,661	2,126,390	3,903,661	2,126,390
Stormwater	-	-	658,901	274,878	658,901	274,878
Total expenses	<u>12,432,136</u>	<u>12,044,986</u>	<u>5,277,502</u>	<u>3,089,851</u>	<u>17,709,638</u>	<u>15,134,837</u>
Increase in net assets before transfers	187,151	468,900	4,845,827	18,949,680	5,032,978	19,418,580
Transfers	<u>(306,703)</u>	<u>(464,950)</u>	<u>306,703</u>	<u>464,950</u>	<u>-</u>	<u>-</u>
Increase in net assets	(119,552)	3,950	5,152,530	19,414,630	5,032,978	19,418,580
Net assets, October 1	<u>35,234,311</u>	<u>35,230,361</u>	<u>50,229,726</u>	<u>30,815,096</u>	<u>85,464,037</u>	<u>66,045,457</u>
Net assets, September 30	<u>\$ 35,114,759</u>	<u>\$ 35,234,311</u>	<u>\$ 55,382,256</u>	<u>\$ 50,229,726</u>	<u>\$ 90,497,015</u>	<u>\$ 85,464,037</u>

Governmental activities decreased the City of Marathon's net assets by \$ 119,552 as compared to an increase in net assets of \$ 3,950 in the prior fiscal year.

Program revenues, comprised of charges for services as well as operating and capital grants, and contributions represent 51.7% of the governmental activities total revenues. Property taxes, which represent 28.4% 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, 2011

Revenue Sources - Governmental Activities



Business-Type Activities

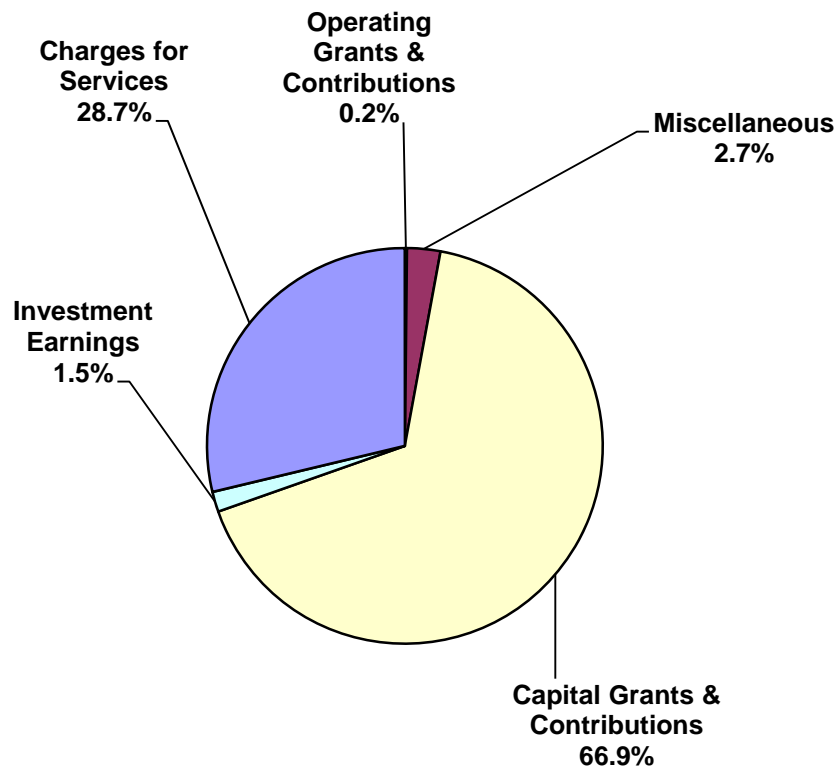
Business-type activities increased the City of Marathon's net assets by \$ 5,152,530. This increase in net assets is due principally to the fact that capital grants and contributions, including special capital assessments, directly increase capital assets in the wastewater and stormwater utilities and are not used for operating expenses.

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

- In total, the City's business-type activities reflected an operating loss of \$ 1,493,909 This is primarily due to:
 - The Wastewater Fund's operating loss of \$ 970,710. This wastewater operating loss is down from the previous year's operating loss of \$ 1,105,640 mainly due to additional properties hooking up to the City's wastewater system.
 - The Marina Fund's operating loss is \$ 71,512. This operating loss is \$ 54,259 more than its operating loss from the previous year due to a decrease in mooring ball revenues, and due to a timing difference between an expense incurred to inspect the marina's mooring balls, and the receipt of intergovernmental funding for the inspection project.
- Grants and contributions, both operating and capital, represent 67.1% of the total business-type revenues.

CITY OF MARATHON, FLORIDA
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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, *unassigned fund balance* may serve as a useful measure of a government's 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 \$ 8,247,223 a decrease of \$ 2,081,638 in comparison with the prior year. This decrease is primarily due to a \$ 2,000,000 legal settlement payout from the General Fund. \$ 2,042,757 (24.77%) of this total amount constitutes *unassigned fund balance*, which is available for spending at the City's discretion. The remainder of fund balance: \$ 33,974 is restricted for police education, \$ 2,440,688 is restricted for capital projects, \$ 1,418,886 is restricted for street maintenance projects, \$ 134,177 is *nonspendable fund balance* for prepaid items, \$ 431,980 is assigned for use in the subsequent years budget, and \$ 1,744,764 is *committed fund balance* 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, 2011

General Fund

The General Fund is the main operating fund of the City of Marathon. At the end of the current fiscal year, unassigned fund balance of the General Fund was \$ 2,042,757 while total fund balance was \$ 3,886,794. As a measure of the General Fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 18.96% of total general fund expenditures, while total fund balance represents 36.07% of that same amount.

The fund balance of the City of Marathon's General Fund decreased by \$ 2,594,633 during the current fiscal year. Total General Fund expenditures increased 22.88% while total revenues decreased 4.19%.

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:

	2011 Amount	Percentage of Total	2010 Amount	Percentage of Total	Increase (Decrease) From 2010	Percentage of Increase (Decrease)
Revenues:						
Property taxes	\$ 3,580,301	46%	\$ 3,746,062	46%	\$ (165,761)	-4%
Intergovernmental	1,854,322	24%	2,111,506	26%	(257,184)	-12%
Licenses and permits	631,917	8%	580,463	7%	51,454	9%
Charges for services	897,555	12%	811,580	10%	85,975	11%
Fines and forfeitures	122,385	2%	94,318	1%	28,067	30%
Communication						
services taxes	562,218	7%	591,504	7%	(29,286)	-5%
Interest	67,780	1%	103,248	1%	(35,468)	-34%
Miscellaneous	76,206	1%	94,719	1%	(18,513)	-20%
Total revenues	<u>\$ 7,792,684</u>	<u>100%</u>	<u>\$ 8,133,400</u>	<u>100%</u>	<u>\$ (340,716)</u>	<u>-4%</u>

- Property taxes revenue decreased 4% 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 decreased 12% due to a decrease in grant revenues.
- Interest revenue decreased 34% due to lower interest rates and cash balances during the year.
- License and permit revenue increased 9% 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 30% due to an increase in code enforcement fines.
- Miscellaneous revenue decreased 20%; this is primarily due to an insurance recovery payment received during the prior fiscal year for damage to fire equipment items.

CITY OF MARATHON, FLORIDA
MANAGEMENT'S DISCUSSION AND ANALYSIS
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Expenditures in the General Fund are shown in the following schedule:

	2011 Amount	Percentage of Total	2010 Amount	Percentage of Total	Increase (Decrease) From 2008	Percentage of Increase (Decrease)
Expenditures:						
City Council	\$ 474,509	4%	\$ 451,257	5%	\$ 23,252	5%
Administration	1,589,356	15%	1,677,011	19%	(87,655)	-5%
Legal	2,685,397	25%	356,845	4%	2,328,552	653%
Police services	1,314,499	12%	1,363,972	16%	(49,473)	-4%
Fire/EMS	2,800,368	26%	2,824,069	32%	(23,701)	-1%
Public Works	91,931	1%	181,978	2%	(90,047)	-49%
Parks and recreation	956,103	9%	959,273	11%	(3,170)	0%
Bridge	42,066	0%	42,693	0%	(627)	-1%
Community development	820,110	8%	911,026	10%	(90,916)	-10%
Total expenditures	<u>\$ 10,774,339</u>	<u>100%</u>	<u>\$ 8,768,124</u>	<u>100%</u>	<u>\$ 2,006,215</u>	<u>23%</u>

- Legal expenditures increased 653% due to a legal settlement payment.
- Public safety (Police and Fire/EMS) accounts for approximately 38% of the General Fund expenditures.
- Public works expenses decreased 49% due to decreased personnel costs.
- Community development expenditures decreased 10% 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 increased its fund balance by \$ 200,518 due to an increase in grant revenues.
- The Street Maintenance Fund increased its fund balance by \$ 316,382 due to decreased expenditures from the conclusion of several ongoing capital projects for improvements to the City's streets that have been in progress over the previous year.

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 a decrease in the Wastewater Utility unrestricted net assets of \$ 515,031 and an increase in investment in capital assets (net of related debt) of \$ 4,751,941.

CITY OF MARATHON, FLORIDA
MANAGEMENT'S DISCUSSION AND ANALYSIS
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Stormwater Fund

- The City is continuing its design and construction of City-wide stormwater collection and treatment infrastructure, in conjunction with its City-wide wastewater utility project. During the current fiscal year, this construction activity resulted in an increase in the Stormwater Utility unrestricted net assets of \$ 12,950,962 and a decrease in investment in capital assets (net of related debt) of \$ 11,934,813.

Marina Fund

- The activities at the City's marina resulted in an decrease in unrestricted net assets of \$ 37,215 and a decrease in investment in capital assets (net of related debt) of \$ 63,314.

General Fund Budgetary Highlights

Differences between the original budget and the final amended budget resulted in a \$ 2,138,249 increase to total appropriations, and an \$ 115,565 decrease 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:

- \$ 2,240,000 in increases allocated to the legal department for expenditures related to the settlement of a legal issue.
- \$ 160,000 in increases allocated to the fire/EMS department for increased retirement benefit, and personnel expenditures.
- \$ 90,000 in decreases allocated to the police department for expenditures being less than originally anticipated.
- \$ 55,168 in decreases allocated to the parks and recreation department for expenditures being less than originally anticipated.
- \$ 104,678 in decreased EMS service fee revenues.
- \$ 51,351 in decreased interest revenues.
- \$ 44,181 in increased code fine revenues.

Actual expenditures were \$ 124,086 below the final budgeted amounts. The significant variances can be summarized as follows:

- Expenditures for City administration were \$ 27,365 under the budgeted amount due to lower than anticipated expenditures for personnel costs.
- Expenditures for community services were \$ 23,035 under the budgeted amount due to lower than anticipated expenditures for personnel costs, and professional services contract costs.
- Community development expenditures were \$ 40,455 under the budgeted amount due to lower than anticipated expenditures for personnel and professional services contract costs.
- City attorney expenditures were \$ 50,397 over the budgeted amount due to higher than anticipated costs for professional service expenditures related to a settlement of a legal matter.
- Police expenditures were \$ 74,074 under the budgeted amount due to lower than anticipated costs for professional services contract costs.

CITY OF MARATHON, FLORIDA
MANAGEMENT'S DISCUSSION AND ANALYSIS
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Resources available for appropriations were \$ 23,449 over the budgeted amount. The significant variances can be summarized as follows:

- Charges for services were \$ 19,578 over the budgeted amount as a result of collections being higher than anticipated.
- Intergovernmental revenues were \$ 6,195 over the budgeted amount as a result of an increase in sales tax revenues.
- Fines and forfeitures revenues were \$ 3,617 under the budgeted amount as a result of collections being less than anticipated for traffic court fines.
- Property tax revenues were \$ 1,932 under the budgeted amount as a result of the collections being less than anticipated.

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, 2011, amounts to \$ 148,237,149 (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 \$ 16,256,672 (12%) as compared to \$ 35,574,423 (35%) 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 \$ 725,610 as ongoing street, sidewalk, beach and park improvement projects are completed.
- The investment in construction in progress in business-type activities increased by \$ 16,180,189 primarily due to the ongoing construction of the City-wide wastewater and stormwater treatment plants and collection systems during the year.

	Governmental Activities		Business-Type Activities		Total	
	2011	2010	2011	2010	2011	2010
Capital assets, net of depreciation:						
Land	\$ 8,930,788	\$ 8,930,788	\$ 2,957,857	\$ 2,667,687	\$ 11,888,645	\$ 11,598,475
Intangibles	11,422	3,822	1,613,745	720,399	1,625,167	724,221
Construction in progress	539,307	1,264,917	55,177,780	38,997,591	55,717,087	40,262,508
Buildings	10,890,195	11,236,094	14,510,203	15,216,789	25,400,398	26,452,883
Leasehold improvements	30,094	33,678	-	-	30,094	33,678
Improvement other than buildings	9,687,451	8,554,774	39,902,045	40,560,244	49,589,496	49,115,018
Fire equipment and vehicles	1,866,249	1,630,239	382,025	412,386	2,248,274	2,042,625
Furniture and equipment	1,016,782	981,376	721,206	769,693	1,737,988	1,751,069
Total	<u>\$ 32,972,288</u>	<u>\$ 32,635,688</u>	<u>\$ 115,264,861</u>	<u>\$ 99,344,789</u>	<u>\$ 148,237,149</u>	<u>\$ 131,980,477</u>

Additional information on the City's capital assets can be found in Note 7 on pages 39 through 41 of this report.

CITY OF MARATHON, FLORIDA
MANAGEMENT'S DISCUSSION AND ANALYSIS
September 30, 2011

Long-term debt

At the end of the current fiscal year, the City of Marathon had governmental activities improvement revenue bond debt outstanding of \$ 5,740,740. This debt is secured by the City's local discretionary sales surtax revenues. The City also had State Revolving Fund debt outstanding of \$ 39,429,612 split between the wastewater enterprise fund (\$ 26,605,064) and the stormwater enterprise fund (\$ 12,824,548). 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 \$ 29,806,380 Series 2009 Florida Utility System Revenue Bond split between the Wastewater Enterprise Fund (\$ 22,354,785) and Stormwater Enterprise Fund (\$ 7,451,595) 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	
	2011	2010	2011	2010	2011	2010
Long-term debt:						
Improvement						
Revenue Bonds	\$ 5,740,740	\$ 6,481,481	\$ -	\$ -	\$ 5,740,740	\$ 6,481,481
State Revolving						
Fund loan	-	-	39,429,612	24,171,550	39,429,612	24,171,550
Wastewater System						
Revenue Bonds	-	-	39,806,380	40,000,000	39,806,380	40,000,000
Compensated absences	184,012	159,757	15,255	15,937	199,267	175,694
Total	<u>\$ 5,924,752</u>	<u>\$ 6,641,238</u>	<u>\$ 79,251,247</u>	<u>\$ 64,187,487</u>	<u>\$ 85,175,999</u>	<u>\$ 70,828,725</u>

The City of Marathon's total debt increased \$ 14,347,274 (20.26%) 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.

Additional information on the City of Marathon's long-term debt can be found in Note 8 on pages 41 through 44 of this report.

Economic Factors and Next Year's Budgets and Rates

The unemployment rate for Monroe County is currently 6.2%, which is a decrease from a rate of 8.6% a year ago. The rate still compares favorably to the state's average unemployment rate of 9.7%.

During the current fiscal year unassigned fund balance in the General Fund decreased to \$ 2,042,757. 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 2.0188. For the fiscal year 2012, the City adopted a final millage rate of 1.9999 mills which is .94% below the roll back rate, as compared to 1.8458 in fiscal year 2011.

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 eight consecutive years, however, subsequent to fiscal year 2011 the City Council approved increases to the marina's fees charged for services.

During fiscal year 2012, the City will be working on the following programs/projects:

- Completion of the City-wide wastewater collection and treatment system
- Construction of various stormwater drainage projects
- Construction of a fire station on Grassy Key

CITY OF MARATHON, FLORIDA
MANAGEMENT'S DISCUSSION AND ANALYSIS
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- Continued implementation of the Fire Safety Program
- Various beach and park improvements
- Various street/transportation/bridge improvements

All of these factors were considered in preparing the City of Marathon's budget for the 2012 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, 2011

	Governmental Activities	Business- type Activities	Total
ASSETS:			
Cash and cash equivalents	\$ 9,862,237	\$ 22,614,678	\$ 32,476,915
Investments	31,124	-	31,124
Receivables, net	483,688	158,381	642,069
Due from other governments	738,909	80,933	819,842
Prepays	134,177	23,562	157,739
Deferred charges	-	73,709	73,709
Capital assets not being depreciated	9,481,517	59,749,382	69,230,899
Capital assets, being depreciated	23,490,771	55,515,479	79,006,250
	<u>44,222,423</u>	<u>138,216,124</u>	<u>182,438,547</u>
LIABILITIES:			
Accounts payable and accrued liabilities	2,978,344	3,582,621	6,560,965
Due to other governments	24,568	-	24,568
Net OPEB obligation	180,000	-	180,000
Noncurrent liabilities:			
Due within one year	756,716	11,258,969	12,015,685
Due in more than one year	5,168,036	67,992,278	73,160,314
	<u>9,107,664</u>	<u>82,833,868</u>	<u>91,941,532</u>
COMMITMENTS AND CONTINGENCIES (NOTE 9)	-	-	-
NET ASSETS:			
Invested in capital assets, net of related debt	27,231,548	43,132,708	70,364,256
Restricted for:			
Capital projects	2,440,688	-	2,440,688
Street maintenance	1,422,054	-	1,422,054
Police education	33,974	-	33,974
Unrestricted	3,986,495	12,249,548	16,236,043
	<u>35,114,759</u>	<u>55,382,256</u>	<u>90,497,015</u>
Total net assets	\$ 35,114,759	\$ 55,382,256	\$ 90,497,015

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, 2011

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	\$ 3,930,619	\$ 195,765	\$ -	\$ -	\$ (3,734,854)	\$ -	\$ (3,734,854)
Public safety	4,524,285	927,827	163,118	-	(3,433,340)	-	(3,433,340)
Community services	2,850,714	569,458	173,297	3,923,652	1,815,693	-	1,815,693
Community development	860,053	496,610	-	65,009	(298,434)	-	(298,434)
Interest on long-term debt	266,465	-	-	-	(266,465)	-	(266,465)
Total governmental activities	12,432,136	2,189,660	336,415	3,988,661	(5,917,400)	-	(5,917,400)
Business-type activities:							
Wastewater	3,903,661	2,266,214	-	5,650,006	-	4,012,559	4,012,559
Stormwater	658,901	-	-	1,100,604	-	441,703	441,703
Marina	714,940	643,428	16,921	3,874	-	(50,717)	(50,717)
Total business-type activities	5,277,502	2,909,642	16,921	6,754,484	-	4,403,545	4,403,545
Total	\$ 17,709,638	\$ 5,099,302	\$ 353,336	\$ 10,743,145	(5,917,400)	4,403,545	(1,513,855)
General revenues:							
Property taxes					3,580,301	-	3,580,301
Communications services tax					562,218	-	562,218
Unrestricted intergovernmental revenue					1,684,366	-	1,684,366
Unrestricted investment earnings					103,927	167,282	271,209
Miscellaneous					473,615	275,000	748,615
Loss on disposal of equipment					(299,876)	-	(299,876)
Transfers					(306,703)	306,703	-
Total general revenues					5,797,848	748,985	6,546,833
Change in net assets					(119,552)	5,152,530	5,032,978
Net assets, beginning					35,234,311	50,229,726	85,464,037
Net assets, ending					\$ 35,114,759	\$ 55,382,256	\$ 90,497,015

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

CITY OF MARATHON, FLORIDA
BALANCE SHEET
GOVERNMENTAL FUNDS
September 30, 2011

	General Fund	Capital Infrastructure Fund	Street Maintenance Fund	Other Nonmajor Governmental Funds	Total Governmental Funds
ASSETS:					
Cash and cash equivalents	\$ 5,477,766	\$ 2,247,751	\$ 1,698,843	\$ 437,877	\$ 9,862,237
Investments	20,357	1,357	9,410	-	31,124
Receivables, net	423,688	-	-	60,000	483,688
Due from other governments	362,197	299,648	77,064	-	738,909
Prepaid items	<u>131,006</u>	<u>-</u>	<u>3,171</u>	<u>-</u>	<u>134,177</u>
Total assets	<u>\$ 6,415,014</u>	<u>\$ 2,548,756</u>	<u>\$ 1,788,488</u>	<u>\$ 497,877</u>	<u>\$ 11,250,135</u>
LIABILITIES AND FUND BALANCES:					
Liabilities:					
Accounts payable and accrued liabilities	\$ 2,503,842	\$ 108,068	\$ 366,434	\$ -	\$ 2,978,344
Due to other governments	<u>24,378</u>	<u>-</u>	<u>-</u>	<u>190</u>	<u>24,568</u>
Total liabilities	<u>2,528,220</u>	<u>108,068</u>	<u>366,434</u>	<u>190</u>	<u>3,002,912</u>
COMMITMENTS AND CONTINGENCIES (NOTE 9)	-	-	-	-	-
Fund balances:					
Nonspendable:					
Prepaid items	131,006	-	3,171	-	134,177
Restricted for:					
Capital projects	-	2,440,688	-	-	2,440,688
Street maintenance	-	-	1,418,883	-	1,418,883
Police education	33,974	-	-	-	33,974
Committed to:					
Vehicle replacement	1,247,077	-	-	-	1,247,077
Infrastructure improvements	-	-	-	260,821	260,821
Affordable housing	-	-	-	137,379	137,379
Restoration projects	-	-	-	99,487	99,487
Assigned for:					
Subsequent year's budget	431,980	-	-	-	431,980
Unassigned	<u>2,042,757</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,042,757</u>
Total fund balances	<u>3,886,794</u>	<u>2,440,688</u>	<u>1,422,054</u>	<u>497,687</u>	<u>8,247,223</u>
Total liabilities and fund balances	<u>\$ 6,415,014</u>	<u>\$ 2,548,756</u>	<u>\$ 1,788,488</u>	<u>\$ 497,877</u>	<u>\$ 11,250,135</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, 2011

**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	\$ 8,247,223
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Capital assets used in governmental activities are not financial resources
and therefore are not reported in the governmental funds:

Governmental capital assets	39,813,965
Less accumulated depreciation	(6,841,677)

Certain liabilities are not due and payable in the current period
and therefore are not reported in the funds:

Net OPEB obligation	(180,000)
Compensated absences payable	(184,012)
Governmental revenue bonds payable	<u>(5,740,740)</u>

NET ASSETS OF GOVERNMENTAL ACTIVITIES, PAGE 16	\$ <u><u>35,114,759</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 REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS
For the Year Ended September 30, 2011

	General Fund	Capital Infrastructure Fund	Street Maintenance Fund	Other Nonmajor Governmental Funds	Total Governmental Funds
REVENUES:					
Property taxes	\$ 3,580,301	\$ -	\$ -	\$ -	\$ 3,580,301
Intergovernmental	1,854,322	3,271,462	1,303,349	-	6,429,133
Licenses and permits	631,917	-	-	982	632,899
Charges for services	897,555	-	-	-	897,555
Fines and forfeitures	122,385	-	-	-	122,385
Communications services tax	562,218	-	-	-	562,218
Impact fees	-	-	-	100,609	100,609
Special assessments	-	-	12,461	-	12,461
Interest	67,780	16,484	15,246	4,417	103,927
Miscellaneous	76,206	401,382	-	87	477,675
Total revenues	7,792,684	3,689,328	1,331,056	106,095	12,919,163
EXPENDITURES:					
Current:					
General government	4,749,262	-	-	-	4,749,262
Public safety	4,114,867	-	-	-	4,114,867
Community services	1,090,100	-	287,423	-	1,377,523
Community development	820,110	-	-	-	820,110
Capital outlay	-	1,937,853	717,277	-	2,655,130
Debt service:					
Principal	-	-	-	740,741	740,741
Interest and fiscal charges	-	-	-	266,465	266,465
Total expenditures	10,774,339	1,937,853	1,004,700	1,007,206	14,724,098
Excess (deficiency) of revenues over expenditures	(2,981,655)	1,751,475	326,356	(901,111)	(1,804,935)
OTHER FINANCING SOURCES (USES):					
Sale of capital asset	-	30,000	-	-	30,000
Transfers in	1,038,936	761,914	-	1,007,206	2,808,056
Transfers out	(651,914)	(2,342,871)	(9,974)	(110,000)	(3,114,759)
Total other financing sources (uses)	387,022	(1,550,957)	(9,974)	897,206	(276,703)
Net change in fund balances	(2,594,633)	200,518	316,382	(3,905)	(2,081,638)
FUND BALANCES, beginning, as restated Note 2	6,481,427	2,240,170	1,105,672	501,592	10,328,861
FUND BALANCES, ending	\$ 3,886,794	\$ 2,440,688	\$ 1,422,054	\$ 497,687	\$ 8,247,223

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
For the Year Ended September 30, 2011

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

Net change in fund balances - total governmental funds, page 20	\$ (2,081,638)
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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	2,179,912
Less current year provision for depreciation	(1,513,436)

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:

Proceeds from sale of capital asset	(30,000)
Loss on disposal of capital asset	(299,876)

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

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	(91,000)
Change in compensated absences payable	(24,255)
Change in loss contingency	<u>1,000,000</u>

CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES,
PAGE 17

\$ (119,552)

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, 2011

	Business-type Activities Enterprise Funds			
	Major Funds		Nonmajor Fund	Total
	Wastewater Fund	Stormwater Fund	Marina Fund	Enterprise Funds
ASSETS:				
Current assets:				
Cash and cash equivalents	\$ 18,632,181	\$ 3,751,484	\$ 231,013	\$ 22,614,678
Receivables, net	158,381	-	-	158,381
Prepays	10,924	1,833	10,805	23,562
Due from other funds	734,608	-	-	734,608
Due from other governments	33,706	4,088	43,139	80,933
Total current assets	<u>19,569,800</u>	<u>3,757,405</u>	<u>284,957</u>	<u>23,612,162</u>
Noncurrent assets:				
Deferred charges	56,037	17,672	-	73,709
Capital assets not being depreciated	46,444,047	13,224,166	81,169	59,749,382
Capital assets, net of accumulated depreciation	<u>41,171,522</u>	<u>12,411,382</u>	<u>1,932,575</u>	<u>55,515,479</u>
Total noncurrent assets	<u>87,671,606</u>	<u>25,653,220</u>	<u>2,013,744</u>	<u>115,338,570</u>
Total assets	<u>107,241,406</u>	<u>29,410,625</u>	<u>2,298,701</u>	<u>138,950,732</u>
LIABILITIES				
Current liabilities:				
Accounts payable and accrued liabilities	2,736,064	786,546	60,011	3,582,621
Due to other funds	-	734,608	-	734,608
Current portion of loans payable	10,914,649	342,726	-	11,257,375
Current portion of compensated absences	<u>211</u>	<u>71</u>	<u>1,312</u>	<u>1,594</u>
Total current liabilities	<u>13,650,924</u>	<u>1,863,951</u>	<u>61,323</u>	<u>15,576,198</u>
Noncurrent liabilities:				
Compensated absences, net of current portion	2,797	2,879	7,985	13,661
Loans payable	<u>48,045,199</u>	<u>19,933,418</u>	<u>-</u>	<u>67,978,617</u>
Total noncurrent liabilities	<u>48,047,996</u>	<u>19,936,297</u>	<u>7,985</u>	<u>67,992,278</u>
Total liabilities	<u>61,698,920</u>	<u>21,800,248</u>	<u>69,308</u>	<u>83,568,476</u>
NET ASSETS				
Invested in capital assets, net of related debt	34,817,260	6,301,704	2,013,744	43,132,708
Unrestricted	<u>10,725,226</u>	<u>1,308,673</u>	<u>215,649</u>	<u>12,249,548</u>
Total net assets	<u>\$ 45,542,486</u>	<u>\$ 7,610,377</u>	<u>\$ 2,229,393</u>	<u>\$ 55,382,256</u>

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, 2011

	Business-Type Activities Enterprise Funds			Total Enterprise Funds
	Major Funds		Nonmajor Fund	
	Wastewater Fund	Stormwater Fund	Marina Fund	
OPERATING REVENUES:				
Charges for services	\$ 2,266,214	\$ -	\$ 643,428	\$ 2,909,642
Total operating revenues	<u>2,266,214</u>	<u>-</u>	<u>643,428</u>	<u>2,909,642</u>
OPERATING EXPENSES:				
Personnel costs	30,543	23,999	368,493	423,035
Operating expenses	1,749,280	90,930	222,286	2,062,496
Provision for depreciation and amortization	<u>1,457,101</u>	<u>336,758</u>	<u>124,161</u>	<u>1,918,020</u>
Total operating expenses	<u>3,236,924</u>	<u>451,687</u>	<u>714,940</u>	<u>4,403,551</u>
Operating income (loss)	<u>(970,710)</u>	<u>(451,687)</u>	<u>(71,512)</u>	<u>(1,493,909)</u>
NONOPERATING REVENUES (EXPENSES):				
Interest income	163,132	1,262	2,888	167,282
Miscellaneous	275,000	-	-	275,000
Interest expense	<u>(666,737)</u>	<u>(207,214)</u>	<u>-</u>	<u>(873,951)</u>
Total nonoperating revenues (expenses)	<u>(228,605)</u>	<u>(205,952)</u>	<u>2,888</u>	<u>(431,669)</u>
Income (loss) before capital contributions	<u>(1,199,315)</u>	<u>(657,639)</u>	<u>(68,624)</u>	<u>(1,925,578)</u>
CAPITAL CONTRIBUTIONS				
Special assessments	4,256,660	1,011,680	-	5,268,340
Grants	500,000	88,924	16,921	605,845
Contribution of capital assets	<u>893,346</u>	<u>-</u>	<u>3,874</u>	<u>897,220</u>
Total capital contributions	<u>5,650,006</u>	<u>1,100,604</u>	<u>20,795</u>	<u>6,771,405</u>
Income before transfers	<u>4,450,691</u>	<u>442,965</u>	<u>(47,829)</u>	<u>4,845,827</u>
TRANSFERS				
Transfers in	-	650,000	-	650,000
Transfers out	<u>(213,781)</u>	<u>(76,816)</u>	<u>(52,700)</u>	<u>(343,297)</u>
Total transfers	<u>(213,781)</u>	<u>573,184</u>	<u>(52,700)</u>	<u>306,703</u>
Change in net assets	4,236,910	1,016,149	(100,529)	5,152,530
NET ASSETS, beginning	<u>41,305,576</u>	<u>6,594,228</u>	<u>2,329,922</u>	<u>50,229,726</u>
NET ASSETS, ending	<u>\$ 45,542,486</u>	<u>\$ 7,610,377</u>	<u>\$ 2,229,393</u>	<u>\$ 55,382,256</u>

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, 2011

	Business-type Activities Enterprise Funds			
	Major Funds		Nonmajor Fund	Total Enterprise Funds
	Wastewater Fund	Stormwater Fund	Marina Fund	
CASH FLOWS FROM OPERATING ACTIVITIES:				
Receipts from customers and users	\$ 2,244,561	\$ -	\$ 643,428	\$ 2,887,989
Payments to employees	(26,029)	(20,257)	(383,384)	(429,670)
Payments to suppliers	<u>(1,712,579)</u>	<u>(83,516)</u>	<u>(162,293)</u>	<u>(1,958,388)</u>
Net cash provided by (used in) operating activities	<u>505,953</u>	<u>(103,773)</u>	<u>97,751</u>	<u>499,931</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES				
Operating grant proceeds	-	-	21,793	21,793
Transfers to other funds	<u>(213,781)</u>	<u>(76,816)</u>	<u>(52,700)</u>	<u>(343,297)</u>
Net cash used in non-capital and related financing activities	<u>(213,781)</u>	<u>(76,816)</u>	<u>(30,907)</u>	<u>(321,504)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:				
Acquisition of capital assets	(12,465,927)	(3,070,138)	(54,651)	(15,590,716)
Proceeds from capital grants	972,860	88,924	-	1,061,784
Proceeds from capital assessments	4,256,660	1,016,956	-	5,273,616
Proceeds from settlement	275,000	-	-	275,000
Proceeds from capital debt	7,439,063	8,776,909	-	16,215,972
Transfers from other funds	4,068,035	(3,418,035)	-	650,000
Repayments of capital debt	(1,075,572)	(75,958)	-	(1,151,530)
Interest paid	<u>(1,436,114)</u>	<u>(368,038)</u>	<u>-</u>	<u>(1,804,152)</u>
Net cash provided by (used in) capital and related financing activities	<u>2,034,005</u>	<u>2,950,620</u>	<u>(54,651)</u>	<u>4,929,974</u>
CASH FLOWS FROM INVESTING ACTIVITIES:				
Interest received	<u>163,132</u>	<u>1,262</u>	<u>2,888</u>	<u>167,282</u>
Net cash provided by investing activities	<u>163,132</u>	<u>1,262</u>	<u>2,888</u>	<u>167,282</u>
Net increase in cash and cash equivalents	2,489,309	2,771,293	15,081	5,275,683
CASH AND CASH EQUIVALENTS, beginning	<u>16,142,872</u>	<u>980,191</u>	<u>215,932</u>	<u>17,338,995</u>
CASH AND CASH EQUIVALENTS, ending	<u>\$ 18,632,181</u>	<u>\$ 3,751,484</u>	<u>\$ 231,013</u>	<u>\$ 22,614,678</u>

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, 2011

	Business-type Activities Enterprise Funds			Total Enterprise Funds
	Major Funds		Nonmajor Fund	
	Wastewater Fund	Stormwater Fund	Marina Fund	
RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES:				
Operating loss	\$ <u>(970,710)</u>	\$ <u>(451,687)</u>	\$ <u>(71,512)</u>	\$ <u>(1,493,909)</u>
ADJUSTMENTS TO RECONCILE OPERATING LOSS TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES:				
Provision for depreciation and amortization	1,457,101	336,758	124,161	1,918,020
(Increase) decrease in:				
Receivables	(21,653)	-	-	(21,653)
Prepays	(4,962)	(329)	(2,351)	(7,642)
Increase (decrease) in:				
Accounts payable and accrued liabilities	45,284	9,240	51,273	105,797
Compensated absences	<u>893</u>	<u>2,245</u>	<u>(3,820)</u>	<u>(682)</u>
Total adjustments	<u>1,476,663</u>	<u>347,914</u>	<u>169,263</u>	<u>1,993,840</u>
Net cash provided by (used in) operating activities	\$ <u><u>505,953</u></u>	\$ <u><u>(103,773)</u></u>	\$ <u><u>97,751</u></u>	\$ <u><u>499,931</u></u>
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING ACTIVITIES:				
Contributions of capital assets	\$ <u><u>893,346</u></u>	\$ <u><u>-</u></u>	\$ <u><u>3,874</u></u>	\$ <u><u>897,220</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, 2011

ASSETS	
Cash	\$ <u>51,692</u>
Investments:	
Bond fund	1,582,349
Equity funds	<u>1,237,736</u>
Total investments	<u>2,820,085</u>
Receivables:	
Plan members	8,239
City (including State)	<u>166,404</u>
Total receivables	<u>174,643</u>
Total assets	<u>3,046,420</u>
LIABILITIES	<u>-</u>
NET ASSETS:	
Net assets held in trust for pension benefits	\$ <u><u>3,046,420</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, 2011

ADDITIONS:

Contributions:

Plan members	\$ 65,817
City (including State)	<u>550,833</u>

Total contributions	<u>616,650</u>
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Investment income:

Net depreciation in fair value of investments	<u>(8,138)</u>
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Total additions	<u>608,512</u>
-----------------	----------------

DEDUCTIONS:

Administrative expenses	12,390
Distributions	<u>9,721</u>

Total deductions	<u>22,111</u>
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Change in net assets	586,401
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NET ASSETS, beginning	<u>2,460,019</u>
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NET ASSETS, ending	<u><u>\$ 3,046,420</u></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, 2011

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, 2011

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.

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.

CITY OF MARATHON, FLORIDA
NOTES TO BASIC FINANCIAL STATEMENTS
September 30, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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."

CITY OF MARATHON, FLORIDA
NOTES TO BASIC FINANCIAL STATEMENTS
September 30, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 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, 2011

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 another 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:

During the year, the City adopted GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. This statement requires that governmental fund financial statements present fund balances based on classifications that comprise a hierarchy that is based primarily on the extent to which the City is bound to honor constraints on the specific purposes for which amounts in the respective governmental funds can be spent.

The classifications used in the governmental fund financial statements are as follows:

Nonspendable: This classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) are legally or contractually required to be maintained intact. "Not in spendable form" includes items that are not expected to be converted to cash (such as inventories and prepaid amounts) and items such as long-term amount of loans and notes receivable, as well as property acquired for resale. The corpus (or principal) of a permanent fund is an example of an amount that is legally or contractually required to be maintained intact.

Restricted: This classification includes amounts for which constraints have been placed on the use of the resources either (a) externally imposed by creditors (such as through a debt covenant), grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation.

Committed: This classification includes amounts that can be used only for specific purposes pursuant to constraints imposed by formal action of the City Commission. These amounts cannot be used for any other purpose unless the Commission removes or changes the specified use by taking the same type of action (ordinance or resolution) that was employed when the funds were initially committed. Resources accumulated pursuant to stabilization arrangements sometimes are reported in this category.

Assigned: This classification includes amounts that are constrained by the City's intent to be used for a specific purpose but are neither restricted nor committed. This intent can be expressed by the Commission or through the Commission delegating this responsibility to City management.

Unassigned: This classification includes the residual fund balance for the General Fund. This classification represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the General Fund. Unassigned fund balance may also include negative balances for any governmental fund if expenditures exceed amounts restricted, committed or assigned for those specific purposes.

CITY OF MARATHON, FLORIDA
NOTES TO BASIC FINANCIAL STATEMENTS
September 30, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the City considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the City considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds.

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.

When an expenditure is incurred for purposes for which both restricted and unrestricted net assets are available, the City considers restricted funds to have been spent first.

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 \$ 595,252 is established for EMS receivables based on historical collection rates.

Date of management review:

Subsequent events were evaluated through March 23, 2012, which is the date the financial statements were available to be issued.

NOTE 2 - IMPLEMENTATION OF NEW GOVERNMENTAL ACCOUNTING STANDARD BOARD PRONOUNCEMENT AND RESTATEMENT OF FUND EQUITY

During 2011, the City implemented Governmental Accounting Standard Board (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. GASB Statement No. 54 enhances the usefulness of fund balance information by providing clearer fund balance classification that can be more consistently applied and by clarifying the existing governmental fund type definitions. GASB 54 specifies that transferred-in resources do not provide the foundation of restricted or committed revenues required for a special revenue fund. Since the main source of revenue for the Vehicle Replacement Fund was transfers, the City was required to combine this fund with the General Fund.

CITY OF MARATHON, FLORIDA
NOTES TO BASIC FINANCIAL STATEMENTS
September 30, 2011

NOTE 2 – IMPLEMENTATION OF NEW GOVERNMENTAL ACCOUNTING STANDARD BOARD PRONOUNCEMENT AND RESTATEMENT OF FUND EQUITY (continued)

The implementation of GASB Statement No. 54 had the following effect on fund balances of the General Fund and Vehicle Replacement Fund:

	<u>General Fund</u>	<u>Vehicle Replacement</u>
Fund balance at September 30, 2010	\$ 5,108,952	\$ 1,372,475
GASB 54 change in fund structure	<u>1,372,475</u>	<u>(1,372,475)</u>
Restated fund balance at September 30, 2010	<u>\$ 6,481,427</u>	<u>\$ -</u>

NOTE 3 - 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.

CITY OF MARATHON, FLORIDA
NOTES TO BASIC FINANCIAL STATEMENTS
September 30, 2011

NOTE 3 - DEPOSITS AND INVESTMENTS (continued)

Investments – City:

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

	<u>Fair Value</u>	<u>Investment Maturities (In Years)</u>
Florida PRIME	\$ 4,739	Less than 1
Fund B	<u>26,385</u>	4-10
	<u>\$ 31,124</u>	

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 38 days. The weighted average life of the securities held by Fund B is 4.82 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:

The Firefighters' Pension Plan is part of the Florida Municipal Pension Trust Fund which is a trust established for the purpose of funding the individually designed employee pension plans of the participating Florida municipalities. FMIVT is an external investment pool open to eligible units of local governments to invest in one or more investment portfolios under the direct and daily supervision of an investment advisor. FMIVT is not subject to SEC or other regulatory oversight. The FMIVT Board of Trustees provides oversight. The fair value of the positions in the FMIVT portfolios is the same as the value of the portfolio shares. The Florida League of Cities, Inc. serves as Administrator for both the Fund and FMIVT.

The Board of Trustees adopted an investment policy authorizing investments in a variety of fixed income and domestic and international equity instruments. Among the types of instruments the Fund is authorized to invest in are: common stock, preferred and convertible preferred stocks, repurchase agreements, commingled governmental trusts, no-load investment funds, no-load mutual funds, FMIVT portfolios, obligations of the United States of America, its agencies and instrumentalities, corporate debt obligations, asset-backed securities and money market instruments and/or funds.

CITY OF MARATHON, FLORIDA
NOTES TO BASIC FINANCIAL STATEMENTS
September 30, 2011

NOTE 3 - DEPOSITS AND INVESTMENTS (continued)

As of September 30, 2011, the City's Firefighters' Pension Plan (the "Plan") had the following investments:

FMIvT Broad Market High Quality Bond Fund	\$ 1,237,736
FMIvT High Quality Growth Fund	201,024
FMIvT Diversified Small to Mid Cap	295,793
FMIvT Russell 1000 Enhanced Index	620,304
FMIvT International Blend	255,588
FMIvT Diversified Value	209,640
	<hr/>
	\$ 2,820,085
	<hr/>

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 5.11 years and a weighted average maturity of 6.74 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.

Foreign credit risk:

This category applies only if a government's deposits or investments are exposed to foreign currency risk. The Plan's investments in the FMIvT are not subject to foreign currency risk.

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.

CITY OF MARATHON, FLORIDA
NOTES TO BASIC FINANCIAL STATEMENTS
September 30, 2011

NOTE 4 - 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, 2011, there were no significant delinquent taxes.

NOTE 5 - 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	\$ 981,187	\$ -	\$ -	\$ -
Intergovernmental	362,197	299,648	77,064	-
Loans	-	-	-	60,000
Miscellaneous	37,753	-	-	-
Contributions	-	-	-	-
Gross receivables	1,381,137	299,648	77,064	60,000
Less allowance for uncollectibles	(595,252)	-	-	-
Net receivables	<u>\$ 785,885</u>	<u>\$ 299,648</u>	<u>\$ 77,064</u>	<u>\$ 60,000</u>

	<u>Wastewater</u>	<u>Stormwater</u>	<u>Marina</u>	<u>Pension Trust Fund</u>	<u>Total</u>
Customers billed	\$ 158,381	\$ -	\$ -	\$ -	\$ 1,139,568
Intergovernmental	33,706	4,088	43,139	-	819,842
Loans	-	-	-	-	60,000
Miscellaneous	-	-	-	-	37,753
Contributions	-	-	-	174,643	174,643
Gross receivables	192,087	4,088	43,139	174,643	2,231,806
Less allowance for uncollectibles	-	-	-	-	(595,252)
Net receivables	<u>\$ 192,087</u>	<u>\$ 4,088</u>	<u>\$ 43,139</u>	<u>\$ 174,643</u>	<u>\$ 1,636,554</u>

CITY OF MARATHON, FLORIDA
NOTES TO BASIC FINANCIAL STATEMENTS
September 30, 2011

NOTE 5 – RECEIVABLES AND PAYABLES (continued)

Receivables consist of the following:

Receivables (including pension trust fund)	\$ 816,712
Due from other governments	<u>819,842</u>
Net total receivables	<u><u>\$ 1,636,554</u></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	\$ 314,183	\$ 64,134	\$ 3,270	\$ 520,857	\$ 20,070	\$ 51,884	\$ 974,398
Payroll liabilities	189,659	-	4,683	5,011	2,883	8,127	210,363
Settlement	2,000,000	-	-	-	-	-	2,000,000
Retainage	-	43,934	358,481	2,127,446	763,593	-	3,293,454
Accrued interest	-	-	-	82,750	-	-	82,750
Total	<u>\$ 2,503,842</u>	<u>\$ 108,068</u>	<u>\$ 366,434</u>	<u>\$ 2,736,064</u>	<u>\$ 786,546</u>	<u>\$ 60,011</u>	<u>\$ 6,560,965</u>

NOTE 6 – INTERFUND BALANCES AND TRANSFERS

The composition of interfund transfers is as follows:

Transfer Out	Transfer In				Total
	General Fund	Capital Infrastructure Fund	Non-Major Governmental Funds	Stormwater Fund	
General Fund	\$ -	\$ 651,914	\$ -	\$ -	\$ 651,914
Capital Infrastructure Fund	685,665	-	1,007,206	650,000	2,342,871
Street Maintenance Fund	9,974	-	-	-	9,974
Nonmajor Governmental Funds	-	110,000	-	-	110,000
Marina Fund	52,700	-	-	-	52,700
Stormwater Fund	76,816	-	-	-	76,816
Wastewater Fund	213,781	-	-	-	213,781
Total	<u>\$ 1,038,936</u>	<u>\$ 761,914</u>	<u>\$ 1,007,206</u>	<u>\$ 650,000</u>	<u>\$ 3,458,056</u>

A transfer from the Capital Infrastructure Fund to the General Fund was made in accordance with the 10% exception under Florida Statutes allowing the use of Local Government Infrastructure Surtax proceeds and accrued interest for any public purpose.

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

Transfers totaling \$ 500,231 were made from the Capital Infrastructure, Street Maintenance and Enterprise Funds to the General Fund in order to set aside funds for the purchase of new City vehicles.

CITY OF MARATHON, FLORIDA
NOTES TO BASIC FINANCIAL STATEMENTS
September 30, 2011

NOTE 6 - INTERFUND BALANCES AND TRANSFERS (continued)

Transfers totaling \$ 110,000 were made from the Impact Fee Fund to the Capital Infrastructure Fund 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 \$ 1,007,206 was made from the Capital Infrastructure Fund to the Debt Service Fund in order to satisfy debt service requirements.

At September 30, 2011, the Stormwater Fund owes the Wastewater Fund \$ 734,608. This temporary borrowing has been paid back during the following fiscal year.

NOTE 7 - CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2011 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 8,930,788	\$ -	\$ -	\$ 8,930,788
Intangibles	3,822	7,600	-	11,422
Construction-in-progress	1,264,917	288,688	1,014,298	539,307
Total capital assets not being depreciated	10,199,527	296,288	1,014,298	9,481,517
Capital assets being depreciated:				
Buildings	12,583,664	12,155	-	12,595,819
Leasehold Improvements	58,235	-	-	58,235
Improvements other than buildings	10,898,156	1,867,150	-	12,765,306
Fire equipment and vehicles	2,643,917	728,894	550,000	2,822,811
Furniture and equipment	1,873,254	217,023	-	2,090,277
Total capital assets being depreciated	28,057,226	2,825,222	550,000	30,332,448
Total capital assets	38,256,753	3,121,510	1,564,298	39,813,965
Less accumulated depreciation:				
Buildings	1,347,570	358,054	-	1,705,624
Leasehold Improvements	24,557	3,584	-	28,141
Improvements other than buildings	2,343,382	734,473	-	3,077,855
Fire equipment and vehicles	1,013,678	235,708	292,824	956,562
Furniture and equipment	891,878	181,617	-	1,073,495
Total accumulated depreciation	5,621,065	1,513,436	292,824	6,841,677
Total capital assets being depreciated, net	22,436,161	1,311,786	257,176	23,490,771
Governmental activities capital assets, net	\$ 32,635,688	\$ 1,608,074	\$ 1,271,474	\$ 32,972,288

CITY OF MARATHON, FLORIDA
NOTES TO BASIC FINANCIAL STATEMENTS
September 30, 2011

NOTE 7 - CAPITAL ASSETS (continued)

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

Governmental activities:	
General government	\$ 75,894
Public safety	397,378
Community services	1,003,287
Community development	<u>36,877</u>
 Total provision for depreciation - governmental activities	 \$ <u><u>1,513,436</u></u>

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Business-type activities:				
Capital assets not being depreciated:				
Land	\$ 2,667,687	\$ 290,170	\$ -	\$ 2,957,857
Intangibles	720,399	893,346	-	1,613,745
Construction-in-progress	<u>38,997,591</u>	<u>16,180,189</u>	<u>-</u>	<u>55,177,780</u>
 Total capital assets not being depreciated	<u>42,385,677</u>	<u>17,363,705</u>	<u>-</u>	<u>59,749,382</u>
 Capital assets being depreciated:				
Buildings	15,998,162	49,860	-	16,048,022
Improvements other than buildings	41,292,774	384,509	-	41,677,283
Equipment	868,626	13,290	-	881,916
Vehicles	<u>508,715</u>	<u>11,662</u>	<u>-</u>	<u>520,377</u>
 Total capital assets being depreciated	<u>58,668,277</u>	<u>459,321</u>	<u>-</u>	<u>59,127,598</u>
 Total capital assets	<u>101,053,954</u>	<u>17,823,026</u>	<u>-</u>	<u>118,876,980</u>
 Less accumulated depreciation:				
Buildings	781,373	756,446	-	1,537,819
Improvements other than buildings	732,530	1,042,708	-	1,775,238
Equipment	98,933	61,777	-	160,710
Vehicles	<u>96,329</u>	<u>42,023</u>	<u>-</u>	<u>138,352</u>
 Total accumulated depreciation	<u>1,709,165</u>	<u>1,902,954</u>	<u>-</u>	<u>3,612,119</u>
 Total capital assets, being depreciated, net	<u>56,959,112</u>	<u>(1,443,633)</u>	<u>-</u>	<u>55,515,479</u>
 Business activities capital assets, net	<u>\$ 99,344,789</u>	<u>\$ 15,920,072</u>	<u>\$ -</u>	<u>\$ 115,264,861</u>

CITY OF MARATHON, FLORIDA
NOTES TO BASIC FINANCIAL STATEMENTS
September 30, 2011

NOTE 7 - CAPITAL ASSETS (continued)

Business-type activities:	
Enterprise - Wastewater	\$ 1,444,291
Enterprise - Stormwater	334,502
Enterprise - Marina	<u>124,161</u>
Total provision for depreciation - business-type activities	<u>\$ 1,902,954</u>

NOTE 8 - 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, 2011:

	Balance October 1, 2010	Increases	Decreases	Balance September 30, 2011	Due Within One Year
Governmental activities:					
Bonds payable:					
Series 2004	\$ 6,481,481	\$ -	\$ 740,741	\$ 5,740,740	\$ 740,740
Compensated absences payable	<u>159,757</u>	<u>48,144</u>	<u>23,889</u>	<u>184,012</u>	<u>15,976</u>
Governmental activities, long-term debt	<u>\$ 6,641,238</u>	<u>\$ 48,144</u>	<u>\$ 764,630</u>	<u>\$ 5,924,752</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, 2011, the outstanding principal balance on the bonds was \$ 5,740,740.

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

Year Ending September 30,	Principal	Interest	Total
2012	\$ 740,740	\$ 234,907	\$ 975,647
2013	740,740	203,056	943,796
2014	740,740	171,204	911,944
2015	740,740	139,352	880,092
2016	740,740	107,500	848,240
2017-2019	<u>2,037,040</u>	<u>131,395</u>	<u>2,168,435</u>
	<u>\$ 5,740,740</u>	<u>\$ 987,414</u>	<u>\$ 6,728,154</u>

CITY OF MARATHON, FLORIDA
NOTES TO BASIC FINANCIAL STATEMENTS
September 30, 2011

NOTE 8 - 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, 2011:

	Balance October 1, 2010	Increases	Decreases	Balance September 30, 2011	Due Within One Year
Business-type activities:					
Bonds payable:					
Series 2008	\$ 10,000,000	\$ -	\$ -	\$ 10,000,000	\$ 10,000,000
Series 2009	30,000,000	-	193,620	29,806,380	1,169,620
State Revolving Fund Loan Program	24,171,550	17,070,163	1,812,101	39,429,612	87,755
Compensated absences payable	15,937	5,372	6,054	15,255	1,594
Business-type activities, long-term debt	<u>\$ 64,187,487</u>	<u>\$ 17,075,535</u>	<u>\$ 2,011,775</u>	<u>\$ 79,251,247</u>	<u>\$ 11,258,969</u>

State Revolving Fund Loans:

As of September 30, 2011, 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. It is estimated that 100% of the pledged revenue will cover debt service to maturity. Through September 30, 2011, the City has borrowed a total of \$ 39,429,612 under these agreements. As of September 30, 2011, repayments have begun on all loan agreements except for WW637060, which is currently scheduled for repayment beginning in September 2012. The breakdown as of September 30, 2011 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:

<u>SRF Loan Agreement</u>	<u>Total Loan Authorized Amount</u>	<u>Interest Rate</u>	<u>Semi-Annual Payment Amount</u>	<u>Total Obligation September 30, 2011</u>
WW 63702P *	\$ 31,308,211	2.25-2.54%	\$ 1,014,626	\$ 23,129,640
WW 637090 *	10,000,000	2.66%	330,459	7,225,873
WW 637060*	16,918,808	2.37-2.73%	560,407	6,957,414
WW 63705P	848,654	2.46%	29,602	897,046
SW 637070	519,195	2.37%	17,447	545,066
SW 63703P	395,302	2.46%	13,555	410,768
SW 63704P	<u>253,923</u>	2.46%	<u>8,705</u>	<u>263,805</u>
Total	<u>\$ 60,244,093</u>		<u>\$ 1,974,801</u>	<u>\$ 39,429,612</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 will not be finalized for these loan agreements until project completion.

CITY OF MARATHON, FLORIDA
NOTES TO BASIC FINANCIAL STATEMENTS
September 30, 2011

NOTE 8 - LONG-TERM DEBT (continued)

Annual debt service requirements of the State Revolving Fund loans that have reached project completion and amortization schedules are as follows:

<u>Year Ending September 30,</u>	<u>Principal</u>	<u>Interest</u>
2012	\$ 87,755	\$ 50,865
2013	89,907	48,713
2014	92,112	46,508
2016	94,370	44,250
2016	96,686	41,935
2017-2021	520,170	172,929
2022-2026	587,156	105,944
2027-2030	548,529	35,818
	<u>\$ 2,116,685</u>	<u>\$ 546,962</u>

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, 2011, the City is in compliance with those covenants. The outstanding balance at September 30, 2011 is \$ 29,806,380.

CITY OF MARATHON, FLORIDA
NOTES TO BASIC FINANCIAL STATEMENTS
September 30, 2011

NOTE 8 - LONG-TERM DEBT (continued)

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>
2012	\$ 11,169,620	\$ 658,656
2013	1,217,320	631,850
2014	1,266,880	603,953
2015	1,318,560	574,918
2016	1,372,220	544,700
2017-2019	<u>23,461,780</u>	<u>1,368,232</u>
	<u>\$ 39,806,380</u>	<u>\$ 4,382,309</u>

NOTE 9 - 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. During the year, the City settled a lawsuit for \$ 3,000,000. The amount of insurance available to cover this settlement was \$ 1,000,000. There were no other settlements that exceeded insurance coverage for each of the past three years.

Litigation:

The City is a defendant in various lawsuits including personal injury, property damage, and other miscellaneous claims. For one of these cases, 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.

CITY OF MARATHON, FLORIDA
NOTES TO BASIC FINANCIAL STATEMENTS
September 30, 2011

NOTE 9 - COMMITMENTS AND CONTINGENCIES (continued)

Construction commitment:

At September 30, 2011, 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, 2011	Contracts and Retainage Payable	Balance to Complete
Service Area 7 Wastewater/ Stormwater	\$ 5,981,181	\$ 3,426,087	\$ 504,553	\$ 2,050,541
Service Area 3 Wastewater/ Stormwater	4,547,111	1,411,479	210,071	2,925,561
Service Area 5 Wastewater/ Stormwater	24,952,378	23,420,513	596,792	935,073
Service Area 4 and 6 Wastewater/Stormwater	31,271,571	29,088,922	1,856,740	325,909
Service Area 1 and 3 Stormwater	2,307,678	2,226,366	45,436	35,876
Service Area 3 - Little Venice	2,972,646	1,479,127	164,347	1,329,172
	<u>\$ 72,032,565</u>	<u>\$ 61,052,494</u>	<u>\$ 3,377,939</u>	<u>\$ 7,602,132</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, 2012 are budgeted to be approximately \$ 1,430,000. Costs for police services for the year ended September 30, 2011 were \$ 1,314,499.

NOTE 10 - 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, 2011 were \$ 174,241. Amendments to the Plan must be authorized by the City Council.

CITY OF MARATHON, FLORIDA
NOTES TO BASIC FINANCIAL STATEMENTS
September 30, 2011

NOTE 11 - 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.

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.

CITY OF MARATHON, FLORIDA
NOTES TO BASIC FINANCIAL STATEMENTS
September 30, 2011

NOTE 11 - FIREFIGHTERS' PENSION PLAN (continued)

The required contribution including interest to the Plan as determined by the actuarial valuation was \$ 550,833 for the year ended September 30, 2011. Contributions from the State totaled \$ 163,117 which was complemented by City contributions of \$ 387,716. 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	\$ 550,833
Interest on net pension obligation	-
Adjustment to annual required contribution	-
Annual pension cost	<u>550,833</u>
Contributions made	<u>550,833</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>

Fiscal Year Ending	Trend Information		Net Pension (Asset) Obligation
	Annual Pension Cost (APC)	Percentage of APC Contributed	
9/30/2009	\$ 391,751	100 %	\$ -
9/30/2010	\$ 514,735	100 %	\$ -
9/30/2011	\$ 550,833	100 %	\$ -

CITY OF MARATHON, FLORIDA
NOTES TO BASIC FINANCIAL STATEMENTS
September 30, 2011

NOTE 11 - FIREFIGHTERS' PENSION PLAN (continued)

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)	Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a ÷ b)	Covered Payroll (c)	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 period	30 years
Asset valuation method	5-yr smoothed market value
Actuarial assumptions:	
Discount rate	7.50%
Projected salary increases	5.00%

NOTE 12 - 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.

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, 2011, there are no participating retirees in the group health program.

CITY OF MARATHON, FLORIDA
NOTES TO BASIC FINANCIAL STATEMENTS
September 30, 2011

NOTE 12 - OTHER POST-EMPLOYMENT HEALTH CARE BENEFITS (continued)

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, 2011 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, 2011	\$	96,000	
Employer contributions		<u>(5,000)</u>	
Increase in net OPEB obligation		91,000	
Net OPEB obligation, October 1, 2010		<u>89,000</u>	
Net OPEB obligation, September 30, 2011	\$	<u><u>180,000</u></u>	
Covered payroll		\$	2,943,000
Unfunded actuarial accrued liability as a percentage of covered payroll			8.7%

Fiscal Year Ending	Trend Information		
	Annual OPEB Cost	Percentage of APC Contributed	Net OPEB Obligation
9/30/2010	\$ 94,000	5.0%	\$ 89,000
9/30/2011	\$ 96,000	5.5%	\$ 180,000

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, which is 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.

CITY OF MARATHON, FLORIDA
NOTES TO BASIC FINANCIAL STATEMENTS
September 30, 2011

NOTE 12 - OTHER POST-EMPLOYMENT HEALTH CARE BENEFITS (continued)

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	October 1, 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%
Inflation rate	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

NOTE 13 - SUBSEQUENT EVENT

On March 13, 2012, the City Council approved a collective bargaining agreement between the City of Marathon and the professional firefighters of Marathon, International Association of Firefighters Local 4396. The agreement is effective through December 31, 2014 and shall be renewed on an annual basis thereafter, unless either party provides the other written notice of its intent to terminate or modify the agreement not less than ninety days prior to expiration date.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF MARATHON, FLORIDA
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
For the Year Ended September 30, 2011

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amounts</u>	<u>Variance</u>
REVENUES:				
Property taxes	\$ 3,553,369	\$ 3,582,233	\$ 3,580,301	\$ (1,932)
Intergovernmental	1,797,294	1,848,127	1,854,322	6,195
Licenses and permits	725,200	632,058	631,917	(141)
Charges for services	976,740	877,977	897,555	19,578
Fines and forfeitures	77,300	126,002	122,385	(3,617)
Communications services taxes	602,631	562,218	562,218	-
Interest	100,000	48,649	51,514	2,865
Miscellaneous	36,000	75,705	76,206	501
Total revenues	<u>7,868,534</u>	<u>7,752,969</u>	<u>7,776,418</u>	<u>23,449</u>
EXPENDITURES:				
Current:				
General government:				
Elected officials	476,673	476,673	474,509	2,164
Administration	1,693,359	1,616,721	1,589,356	27,365
City attorney	395,000	2,635,000	2,685,397	(50,397)
Total general government	<u>2,565,032</u>	<u>4,728,394</u>	<u>4,749,262</u>	<u>(20,868)</u>
Public safety:				
Police	1,478,573	1,388,573	1,314,499	74,074
Fire/EMS	2,647,758	2,807,758	2,800,368	7,390
Total public safety	<u>4,126,331</u>	<u>4,196,331</u>	<u>4,114,867</u>	<u>81,464</u>
Community services:				
Public works	106,911	98,930	91,931	6,999
Parks and recreation	1,021,269	966,101	956,103	9,998
Bridges	48,104	48,104	42,066	6,038
Total community services	<u>1,176,284</u>	<u>1,113,135</u>	<u>1,090,100</u>	<u>23,035</u>
Community development	<u>892,529</u>	<u>860,565</u>	<u>820,110</u>	<u>40,455</u>
Total expenditures	<u>8,760,176</u>	<u>10,898,425</u>	<u>10,774,339</u>	<u>124,086</u>
Excess (deficiency) of revenues over expenditures	<u>(891,642)</u>	<u>(3,145,456)</u>	<u>(2,997,921)</u>	<u>147,535</u>
OTHER FINANCING SOURCES (USES):				
Transfers in	538,705	538,705	538,705	-
Transfers out	(10,019)	(10,019)	(10,019)	-
Appropriation of prior year's fund balance	362,956	2,616,770	-	(2,616,770)
Total other financing sources (uses)	<u>891,642</u>	<u>3,145,456</u>	<u>528,686</u>	<u>(2,616,770)</u>
Net change in fund balance	\$ <u>-</u>	\$ <u>-</u>	\$ <u>(2,469,235)</u>	\$ <u>(2,469,235)</u>

CITY OF MARATHON, FLORIDA
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISION SCHEDULE - GENERAL FUND
(CONTINUED)
For the Year Ended September 30, 2011

EXPLANATION OF DIFFERENCES BETWEEN CHANGE IN
FUND BALANCE BUDGET TO ACTUAL AND STATEMENT OF
REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCE - GENERAL FUND

Net change in fund balance, Page 51	\$ (2,469,235)
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Amounts reported for budget to actual are different because:

The net change in fund balance in the City's Vehicle Replacement Fund are reported in the Vehicle Replacement Fund for budgetary purposes but in the General Fund for the purpose of the Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds:

Net change in fund balance - Vehicle Replacement Fund	<u>(125,398)</u>
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General Fund net change in fund balance per the Statement of Revenues Expenditures, and Changes in Fund Balances - Governmental Funds, Page 20	\$ <u><u>(2,594,633)</u></u>
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CITY OF MARATHON, FLORIDA
BUDGETARY COMPARISON SCHEDULE
CAPITAL INFRASTRUCTURE FUND
For the Year Ended September 30, 2011

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amounts</u>	<u>Variance</u>
REVENUES:				
Intergovernmental	\$ 4,265,303	4,265,303	\$ 3,271,462	\$ (993,841)
Interest	52,833	52,833	16,484	(36,349)
Miscellaneous	<u>200,000</u>	<u>200,000</u>	<u>401,382</u>	<u>201,382</u>
Total revenues	<u>4,518,136</u>	<u>4,518,136</u>	<u>3,689,328</u>	<u>(828,808)</u>
EXPENDITURES:				
Capital outlay	<u>3,397,273</u>	<u>3,397,273</u>	<u>1,937,853</u>	<u>1,459,420</u>
Excess (deficiency) of revenues over expenditures	<u>1,120,863</u>	<u>1,120,863</u>	<u>1,751,475</u>	<u>630,612</u>
OTHER FINANCING SOURCES (USES):				
Sale of capital asset	-	-	30,000	30,000
Transfers in	185,000	836,914	761,914	(75,000)
Transfers out	(2,343,165)	(2,343,165)	(2,342,871)	294
Appropriation of prior year's fund balance	<u>1,037,302</u>	<u>385,388</u>	<u>-</u>	<u>(385,388)</u>
Total other financing sources (uses)	<u>(1,120,863)</u>	<u>(1,120,863)</u>	<u>(1,550,957)</u>	<u>(430,094)</u>
Net change in fund balance \$	<u><u>-</u></u>	<u><u>-</u></u>	<u><u>200,518</u></u>	<u><u>200,518</u></u>

CITY OF MARATHON, FLORIDA
BUDGETARY COMPARISON SCHEDULE
STREET MAINTENANCE FUND
For the Year Ended September 30, 2011

	<u>Original and Final Budget</u>	<u>Actual Amounts</u>	<u>Variance</u>
REVENUES:			
Intergovernmental	\$ 678,478	\$ 1,303,349	\$ 624,871
Special assessments	7,690	12,461	4,771
Interest	20,000	15,246	(4,754)
Miscellaneous	<u>-</u>	<u>-</u>	<u>-</u>
Total revenues	<u>706,168</u>	<u>1,331,056</u>	<u>624,888</u>
EXPENDITURES:			
Current:			
Community services	413,056	287,423	125,633
Capital outlay	<u>1,060,813</u>	<u>717,277</u>	<u>343,536</u>
Total expenditures	<u>1,473,869</u>	<u>1,004,700</u>	<u>469,169</u>
Excess (deficiency) of revenues over expenditures	<u>(767,701)</u>	<u>326,356</u>	<u>1,094,057</u>
OTHER FINANCING SOURCES (USES):			
Transfers out	(84,974)	(9,974)	75,000
Appropriation of prior year's fund balance	<u>852,675</u>	<u>-</u>	<u>(852,675)</u>
Total other financing sources (uses)	<u>767,701</u>	<u>(9,974)</u>	<u>(777,675)</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ 316,382</u>	<u>\$ 316,382</u>

CITY OF MARATHON, FLORIDA
NOTE TO BUDGETARY COMPARISON SCHEDULES
September 30, 2011

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 \$ 2,138,249. Additionally, anticipated revenues were decreased by \$ 115,565.
- g. Expenditures exceeded appropriations by \$ 50,397 at the City Attorney Department in the General Fund. These over-expenditures were funded by available fund balance.
- h. 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, 2009 or 2011.

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%

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.

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. These funds are also available to provide down payment assistance to qualified homebuyers.

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, 2011

	Special Revenue Funds			Debt Service Fund	Total Nonmajor Governmental Funds
	Impact Fees Fund	Affordable Housing Fund	Restoration Fund		
ASSETS:					
Cash and cash equivalents	\$ 261,011	\$ 77,379	\$ 99,487	\$ -	\$ 437,877
Receivables	<u>-</u>	<u>60,000</u>	<u>-</u>	<u>-</u>	<u>60,000</u>
Total assets	<u>\$ 261,011</u>	<u>\$ 137,379</u>	<u>\$ 99,487</u>	<u>\$ -</u>	<u>\$ 497,877</u>
LIABILITIES AND FUND BALANCES:					
Due to other governments	\$ <u>190</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>190</u>
COMMITMENTS AND CONTINGENCIES (NOTE 9)	-	-	-	-	-
Fund balances:					
Committed for:					
Infrastructure improvements	260,821	-	-	-	260,821
Affordable housing	-	137,379	-	-	137,379
Restoration projects	<u>-</u>	<u>-</u>	<u>99,487</u>	<u>-</u>	<u>99,487</u>
Total fund balances	<u>260,821</u>	<u>137,379</u>	<u>99,487</u>	<u>-</u>	<u>497,687</u>
Total liabilities and fund balances	<u>\$ 261,011</u>	<u>\$ 137,379</u>	<u>\$ 99,487</u>	<u>\$ -</u>	<u>\$ 497,877</u>

CITY OF MARATHON, FLORIDA
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
For the Year Ended September 30, 2011

	Special Revenue Funds				Total Nonmajor Governmental Funds
	Impact Fees Fund	Affordable Housing Fund	Restoration Fund	Debt Service Fund	
REVENUES:					
Licenses and permits	\$ -	\$ -	\$ 982	\$ -	\$ 982
Impact fees	100,609	-	-	-	100,609
Interest	2,770	665	982	-	4,417
Miscellaneous	87	-	-	-	87
	<u>103,466</u>	<u>665</u>	<u>1,964</u>	<u>-</u>	<u>106,095</u>
Total revenues					
	<u>103,466</u>	<u>665</u>	<u>1,964</u>	<u>-</u>	<u>106,095</u>
EXPENDITURES:					
Debt service:					
Principal	-	-	-	740,741	740,741
Interest and fiscal charges	-	-	-	266,465	266,465
	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,007,206</u>	<u>1,007,206</u>
Total expenditures					
	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,007,206</u>	<u>1,007,206</u>
Excess (deficiency) of revenues over expenditures	<u>103,466</u>	<u>665</u>	<u>1,964</u>	<u>(1,007,206)</u>	<u>(901,111)</u>
OTHER FINANCING SOURCES (USES):					
Transfers in	-	-	-	1,007,206	1,007,206
Transfers out	(110,000)	-	-	-	(110,000)
	<u>(110,000)</u>	<u>-</u>	<u>-</u>	<u>1,007,206</u>	<u>897,206</u>
Total other financing sources (uses)					
	<u>(110,000)</u>	<u>-</u>	<u>-</u>	<u>1,007,206</u>	<u>897,206</u>
Net change in fund balances	(6,534)	665	1,964	-	(3,905)
FUND BALANCES, beginning	<u>267,355</u>	<u>136,714</u>	<u>97,523</u>	<u>-</u>	<u>501,592</u>
FUND BALANCES, ending	<u>\$ 260,821</u>	<u>\$ 137,379</u>	<u>\$ 99,487</u>	<u>\$ -</u>	<u>\$ 497,687</u>

CITY OF MARATHON, FLORIDA
BUDGETARY COMPARISON SCHEDULES -
NONMAJOR GOVERNMENTAL FUNDS
For the Year Ended September 30, 2011

	<u>Special</u>		
	<u>Impact Fees</u>		
	<u>Original and Final Budget</u>	<u>Actual</u>	<u>Variance</u>
REVENUES:			
Impact fees	\$ 89,600	\$ 100,609	\$ 11,009
Interest	5,300	2,770	(2,530)
Miscellaneous	<u>-</u>	<u>87</u>	<u>87</u>
Total revenues	<u>94,900</u>	<u>103,466</u>	<u>8,566</u>
EXPENDITURES:			
Debt service:			
Principal	-	-	-
Interest and fiscal charges	<u>-</u>	<u>-</u>	<u>-</u>
Total expenditures	<u>-</u>	<u>-</u>	<u>-</u>
Excess (deficiency) of revenues over expenditures	<u>94,900</u>	<u>103,466</u>	<u>8,566</u>
OTHER FINANCING SOURCES (USES):			
Transfers in	-	-	-
Transfers out	(110,000)	(110,000)	-
Appropriation of prior years' fund balance	<u>15,100</u>	<u>-</u>	<u>(15,100)</u>
Total other financing sources (uses)	<u>(94,900)</u>	<u>(110,000)</u>	<u>(15,100)</u>
Net change in fund balances	\$ <u><u>-</u></u>	\$ <u><u>(6,534)</u></u>	\$ <u><u>(6,534)</u></u>

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.

Revenue Funds

Vehicle Replacement Fund

Original and Final Budget	Actual	Variance
\$ -	\$ -	\$ -
20,000	16,266	(3,734)
-	-	-
20,000	16,266	(3,734)
-	-	-
-	-	-
-	-	-
510,250	510,250	-
(651,914)	(651,914)	-
-	-	-
(141,664)	(141,664)	-
\$ (121,664)	\$ (125,398)	\$ (3,734)

Debt Service Fund

Original and Final Budget	Actual	Variance
\$ -	\$ -	\$ -
-	-	-
-	-	-
-	-	-
740,741	740,741	-
266,759	266,465	294
1,007,500	1,007,206	294
(1,007,500)	(1,007,206)	294
1,007,500	1,007,206	(294)
-	-	-
-	-	-
1,007,500	1,007,206	(294)
\$ -	\$ -	\$ -

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.

<u>CONTENTS</u>	<u>PAGE</u>
Financial Trends These schedules contain trend information to help the reader understand how the City's financial performance and well-being have changed over time.	62-66
Revenue Capacity These schedules contain information to help the reader assess the City's most significant local revenue source, the property tax.	67-70
Debt Capacity 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.	71-73
Demographic and Economic Information These schedules offer demographic and economic indicators to help the reader understand the environment within which the City's financial activities take place.	74-75
Operating Information These schedules contain service and infrastructure data to help the reader understand how the information in the City's financial report relates to the services the City provides and the activities it performs.	76-78

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 EIGHT FISCAL YEARS
(ACCRUAL BASIS OF ACCOUNTING)

	Fiscal Year							
	2004	2005	2006	2007	2008	2009	2010	2011
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	\$ 27,231,548
Restricted	4,373,475	5,039,914	7,324,824	4,733,068	8,026,767	4,194,245	3,374,364	3,896,716
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>	<u>3,986,495</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>	<u>35,114,759</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	43,132,708
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>	<u>12,249,548</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>	<u>55,382,256</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	70,364,256
Restricted	4,373,475	5,039,914	7,324,824	4,733,068	8,026,767	4,194,245	3,374,364	3,896,716
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>	<u>16,236,043</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>	<u>\$ 90,497,015</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 EIGHT FISCAL YEARS
(ACCRUAL BASIS OF ACCOUNTING)**

	Fiscal Year							
	2004	2005	2006	2007	2008	2009	2010	2011
EXPENSES:								
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	\$ 3,930,619
Public safety	2,832,115	2,997,230	4,737,074	3,645,846	4,069,335	4,363,860	4,580,076	4,524,285
Community services	1,270,051	1,417,715	1,880,765	2,050,244	2,041,301	3,343,066	2,577,772	2,850,714
Community development	1,309,166	1,365,876	1,335,976	1,576,341	1,395,694	1,091,795	941,914	860,053
Interest on long-term debt	14,801	90,515	372,885	390,607	361,961	330,414	298,339	266,465
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>	<u>12,432,136</u>
Business-type activities:								
Wastewater	-	-	10,826	52,230	340,016	541,667	2,126,390	3,903,661
Marina	504,056	688,950	537,316	622,185	695,938	671,407	688,583	658,901
Stormwater	-	-	10,694	39,716	264,150	14,138	274,878	714,940
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>	<u>5,277,502</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>	<u>\$ 17,709,638</u>
PROGRAM REVENUES:								
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	\$ 195,765
Public safety	844,927	742,410	647,303	740,365	760,546	851,446	841,587	927,827
Community services	334,148	345,376	356,349	516,645	559,447	373,299	515,305	569,458
Community development	687,725	1,002,999	1,118,382	746,217	743,533	441,225	480,738	496,610
Operating grants and contributions	566,908	1,112,299	4,402,251	624,697	496,996	288,829	1,250,302	336,415
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	3,988,661
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>	<u>6,514,736</u>
Business-type activities:								
Charges for services:								
Wastewater	-	-	-	-	-	524,084	1,015,725	2,266,214
Marina	263,165	310,057	354,332	457,657	615,247	638,575	671,330	643,428
Stormwater	-	-	-	-	-	-	-	-
Operating grants and contributions	-	45,076	39,272	53,595	55,646	93,172	52,421	16,921
Capital grants and contributions	-	23,360	2,002,836	2,627,827	5,202,199	16,213,258	20,000,850	6,754,484
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>	<u>9,681,047</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>	<u>\$ 16,195,783</u>

Continued on next page

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

	Fiscal Year							
	2004	2005	2006	2007	2008	2009	2010	2011
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)	(5,917,400)
Business-type activities	(504,056)	(310,457)	1,837,604	2,424,948	4,572,988	16,241,877	18,650,475	4,403,545
Total net expense	<u>\$ (2,469,274)</u>	<u>\$ (2,086,036)</u>	<u>\$ (1,788,406)</u>	<u>\$ (2,206,944)</u>	<u>\$ 2,439,685</u>	<u>\$ 10,284,087</u>	<u>\$ 12,841,086</u>	<u>(1,513,855)</u>
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	3,580,301
Other taxes	566,267	601,859	669,856	633,305	626,113	590,167	591,504	562,218
State shared revenues	289,678	400,123	464,835	367,701	1,709,756	1,526,669	1,575,835	1,684,366
Investment earnings	104,434	280,744	658,527	595,386	539,492	341,774	194,189	103,927
Miscellaneous	162,385	127,489	426,251	492,630	220,516	43,328	170,699	473,615
Loss on disposal of equipment	-	-	-	-	-	-	-	(299,876)
Transfers	(1,028,677)	(175,014)	(555,000)	(424,000)	(507,756)	(530,555)	(464,950)	(306,703)
Total governmental activities	<u>3,526,103</u>	<u>5,333,716</u>	<u>6,030,388</u>	<u>6,441,673</u>	<u>6,846,869</u>	<u>6,051,071</u>	<u>5,813,339</u>	<u>5,797,848</u>
Business-type activities:								
Investment earnings	-	-	25,855	106,412	437,337	151,372	299,205	167,282
Miscellaneous	2,283	4,935	2,229,275	-	-	120,000	-	275,000
Loss on disposal of equipment	-	-	-	-	-	(9,444)	-	-
Transfers	<u>1,028,677</u>	<u>175,014</u>	<u>555,000</u>	<u>424,000</u>	<u>507,756</u>	<u>530,555</u>	<u>464,950</u>	<u>306,703</u>
Total business-type activities	<u>1,030,960</u>	<u>179,949</u>	<u>2,810,130</u>	<u>530,412</u>	<u>945,093</u>	<u>792,483</u>	<u>764,155</u>	<u>748,985</u>
Total general revenues	<u>\$ 4,557,063</u>	<u>\$ 5,513,665</u>	<u>\$ 8,840,518</u>	<u>\$ 6,972,085</u>	<u>\$ 7,791,962</u>	<u>\$ 6,843,554</u>	<u>\$ 6,577,494</u>	<u>6,546,833</u>
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	(119,552)
Business-type activities	<u>526,904</u>	<u>(130,508)</u>	<u>4,647,734</u>	<u>2,955,360</u>	<u>5,518,081</u>	<u>17,034,360</u>	<u>19,414,630</u>	<u>5,152,530</u>
Total change in net assets	<u>\$ 2,087,789</u>	<u>\$ 3,427,629</u>	<u>\$ 7,052,112</u>	<u>\$ 4,765,141</u>	<u>\$ 10,231,647</u>	<u>\$ 17,127,641</u>	<u>\$ 19,418,580</u>	<u>5,032,978</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*

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

	Fiscal Year							
	2004	2005	2006	2007	2008	2009	2010	2011
General fund:								
Nonspendable	\$ 40,551	\$ 58,432	\$ 60,977	\$ 92,610	\$ 47,092	\$ 48,145	\$ 110,418	\$ 131,006
Restricted	40,085	19,955	80,932	45,241	31,657	33,332	28,522	33,974
Committed	-	-	-	-	-	-	-	1,247,077
Assigned	-	-	-	-	-	-	-	431,980
Unassigned	<u>3,581,989</u>	<u>4,175,293</u>	<u>4,594,693</u>	<u>5,266,938</u>	<u>5,630,951</u>	<u>5,291,297</u>	<u>4,970,012</u>	<u>2,042,757</u>
Total general fund	<u>3,662,625</u>	<u>4,253,680</u>	<u>4,736,602</u>	<u>5,404,789</u>	<u>5,709,700</u>	<u>5,372,774</u>	<u>5,108,952</u>	<u>3,886,794</u>
Special revenue funds:								
Nonspendable	-	-	-	-	-	-	1,582	3,171
Restricted	-	134,355	-	-	-	-	-	3,859,571
Committed	<u>4,639,429</u>	<u>5,430,480</u>	<u>11,474,547</u>	<u>5,714,020</u>	<u>9,457,677</u>	<u>5,630,462</u>	<u>5,218,327</u>	<u>497,687</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>	<u>4,360,429</u>
Total governmental funds	<u>\$ 8,302,054</u>	<u>\$ 9,818,515</u>	<u>\$ 16,211,149</u>	<u>\$ 11,118,809</u>	<u>\$ 15,167,377</u>	<u>\$ 11,003,236</u>	<u>\$ 10,328,861</u>	<u>\$ 8,247,223</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*.

Note: The City implemented GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* in fiscal year 2011. Fiscal years 2004-2010 have been restated to conform to the new statement requirements

CITY OF MARATHON, FLORIDA
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
LAST EIGHT FISCAL YEARS
(MODIFIED ACCRUAL BASIS OF ACCOUNTING)

	Fiscal Year							
	2004	2005	2006	2007	2008	2009	2010	2011
REVENUES:								
Ad valorem taxes	\$ 3,432,016	\$ 4,098,515	\$ 4,365,919	\$ 4,776,651	\$ 4,258,748	\$ 4,079,688	\$ 3,746,062	\$ 3,580,301
Communication services taxes	566,267	601,859	669,856	633,305	626,113	590,167	591,504	562,218
Impact fees	n/a	n/a	56,384	207,692	242,602	69,422	82,004	100,609
Licenses and permits	736,597	1,035,052	1,176,781	785,569	890,063	577,528	630,173	632,899
Intergovernmental revenue	4,961,663	6,512,740	11,162,771	5,488,148	8,817,885	5,518,964	6,119,922	6,429,133
Charges for services	675,994	649,029	559,537	642,998	649,084	814,226	811,580	897,555
Fines and forfeitures	181,763	136,510	115,809	142,341	164,172	88,277	94,318	122,385
Special assessments	-	-	-	-	-	-	21,944	12,461
Interest	104,434	280,744	658,527	595,386	539,492	341,774	194,189	103,927
Miscellaneous	162,387	127,490	426,252	392,927	320,219	60,282	183,368	477,675
Total revenues	10,821,121	13,441,939	19,191,836	13,665,017	16,508,378	12,140,328	12,475,064	12,919,163
EXPENDITURES:								
Current:								
General government	2,857,781	3,630,608	7,359,947	2,822,349	2,796,344	2,472,219	2,485,113	4,749,262
Public safety	2,806,148	2,798,132	3,083,352	3,481,477	3,614,984	3,984,749	4,188,041	4,114,867
Community services	1,022,818	1,172,637	1,385,482	1,437,157	1,410,054	1,523,952	1,541,831	1,377,523
Community development	1,296,042	1,359,560	1,309,363	1,547,317	1,364,266	997,868	918,382	820,110
Capital outlay	1,624,068	5,234,411	4,080,526	7,205,686	1,663,704	5,723,971	2,914,127	2,655,130
Debt service:								
Principal	90,000	1,318,000	555,556	740,741	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	266,465
Total expenditures	9,729,474	15,606,223	18,147,111	17,625,334	11,952,054	15,773,914	13,086,574	14,724,098
Excess (deficiency) of revenues over expenditures	1,091,647	(2,164,284)	1,044,725	(3,960,317)	4,556,324	(3,633,586)	(611,510)	(1,804,935)
OTHER FINANCING SOURCES (USES):								
Sale of asset	-	-	-	-	-	-	402,085	30,000
Transfers in	693,071	1,934,956	1,511,921	2,337,615	2,107,155	2,174,125	1,888,430	2,808,056
Transfers out	(894,627)	(2,193,870)	(2,066,921)	(2,761,615)	(2,614,911)	(2,704,680)	(2,353,380)	(3,114,759)
Bonds Issued	75,000	4,018,000	5,907,000	-	-	-	-	-
Total other financing sources (uses)	(126,556)	3,759,086	5,352,000	(424,000)	(507,756)	(530,555)	(62,865)	(276,703)
Net change in fund balances	\$ 965,091	\$ 1,594,802	\$ 6,396,725	\$ (4,384,317)	\$ 4,048,568	\$ (4,164,141)	\$ (674,375)	\$ (2,081,638)
Debt service as a percentage of non-capital expenditures	1.51%	13.60%	6.60%	10.86%	10.72%	9.55%	10.11%	8.03%

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>
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	\$ 2,834,285,807	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
2011	2010	\$ 1,909,523,812	\$ 74,754,478	\$ 1,984,278,290	1.8458	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	
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
2011	2010	1.8458	3.3445	3.8235	0.2549	0.4596	0.3691	10.0974

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 NINE YEARS AGO**

2011			
Taxpayer	Net Assessed Value	Rank	Percent of Total City Net Assessed Value
BLUEGREEN RESORTS MANAGEMENT INC.	\$ 30,199,886	1	1.52%
CRE PROPERTIES INC	14,805,841	2	0.75%
FISHERMEN'S HOSPITAL INC	8,279,752	3	0.42%
KNIGHTS KEY CORPORATION	7,561,581	4	0.38%
HOME DEPOT USA INC #6302	7,038,530	5	0.35%
FLORIDA KEYS ELECTRIC COOPERATIVE ASSOCIATION INC	6,715,801	6	0.34%
JACKSON DAVID G & CHARLINE	6,390,058	7	0.32%
SUMMIT MARATHON LLC	6,252,689	8	0.32%
BOAT HOUSE ASSOCIATES LLC	6,096,574	9	0.31%
HAWKS NEST CONDO ASSOCIATION INC	5,969,176	10	0.30%
	<u>\$ 99,309,888</u>		<u>5.01%</u>
2002			
Taxpayer	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.

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
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%
2011	3,701,426	3,580,301	96.73%	-	3,580,301	96.73%

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			
2002	-	-	-	-	-	0.00%	-
2003	-	-	1,408,000	-	1,408,000	0.12%	136
2004	-	75,000	1,318,000	-	1,393,000	0.10%	134
2005	-	4,093,000	-	-	4,093,000	0.24%	385
2006	-	9,444,444	-	832,168	10,276,612	0.47%	969
2007	-	8,703,703	-	13,058,380	21,762,083	0.78%	2,093
2008	-	7,962,963	-	26,168,257	34,131,220	1.11%	3,380
2009	-	7,222,222	-	58,155,645	65,377,867	2.31%	6,350
2010	-	6,481,481	-	64,171,550	70,653,031	3.15%	6,846
2011	-	5,740,740	-	79,235,992	84,976,732	4.28%	10,218

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
COMPUTATION OF DIRECT AND ESTIMATED
OVERLAPPING GOVERNMENTAL ACTIVITIES DEBT
SEPTEMBER 30, 2011

	Debt Outstanding	Applicable to City of Marathon	
		Percentage	Amount
Direct debt:			
City of Marathon (1)	\$ -	100.00%	\$ -
Estimated overlapping debt:			
Monroe County, District School Board (2)	<u>17,117,000</u>	9.32%	(3) <u>1,596,052</u>
Total ad valorem tax supported debt	\$ <u><u>17,117,000</u></u>		\$ <u><u>1,596,052</u></u>
Ratios:			
Overall debt to 2011 taxable valuation			-
Overall debt per capita			\$ 192

Notes:

- (1) City of Marathon direct debt does not include revenue bonds.
- (2) Monroe County School Board debt is as of June 30, 2010, and does not include revenue bonds
- (3) Overlapping debt percentage was determined by a ratio of the assessed value of property subject to taxation in the City of Marathon to the total assessed value of property subject to taxation in the overlapping unit.

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
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
2011	2,448,373	4,229,285	3,290,999	(4,853,154)	5,115,502	2,717,333	1,936,248	1.10

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 commenced in February of 2011.

Repayment of three of the City's State Revolving Fund Loans commenced 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, and then monthly principal and interest payments commenced 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>
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%
2011	8,316 (c)	4,309,305 (b)	53,644 (b)	6.4%

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.
- (c) Data obtained from 2010 Federal census.

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 FIVE YEARS AGO**

Employer	2011		Percentage of Total City Employment
	Employees	Rank	
Monroe County	193	1	N/A
Monroe County School Board	151	2	N/A
Home Depot USA	150	3	N/A
Publix Supermarkets	90	4	N/A
Winn Dixie Supermarkets	93	5	N/A
Walgreens Co.	88	6	N/A
K-Mart Corporation	77	7	N/A
City of Marathon	56	8	N/A
Fishermen's Hospital	50	9	N/A
Florida Keys Aqueduct Authority	45	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'Asign 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 NINE FISCAL YEARS

Employees	2003	2004	2005	2006	2007	2008	2009	2010	2011
General Government	5	5	8	8	9	6	5	5	4
Public Safety	13	16	16	28	22	21	25	24	23
Community Development	7	13	13	15	16	17	15	11	10
Community Services	5	5	7	11	13	13	15	16	13
Marina	5	5	8	7	7	7	7	6	6
Total number of employees	<u>35</u>	<u>44</u>	<u>52</u>	<u>69</u>	<u>67</u>	<u>64</u>	<u>67</u>	<u>62</u>	<u>56</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	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Public safety:										
Police:										
Police personnel and officers	14	17	17	17	17	17	15	17	16	15
Police calls for service	30,788	31,366	30,964	30,792	24,292	22,411	20,273	20,533	25,801	43,898
Fire/EMS:										
Fire personnel	15	14	15	15	22	22	21	24	24	23
Fire / emergency calls answered	N/A	N/A	N/A	287	251	527	324	339	187	441
Emergency medical services calls	N/A	N/A	1,468	1,105	1,007	1,249	1,160	1,254	1,355	1,321
Community development:										
Business permits and occupational licenses issued										
Building permits issued	1,933	2,035	2,257	2,638	3,107	2,159	1,588	1,569	1,561	2,238
Commercial fire occupancy inspections	N/A	54	424	354	475	309	446	478	452	452
Community services:										
Transportation:										
Public right of way maintenance (miles)	64	64	64	64	64	64	66	66	63	63
Culture and recreation:										
Registrations for special events	N/A	10	10	23	35	32	25	34	24	27
Registrations for summer camp	N/A	N/A	N/A	N/A	N/A	125	109	79	104	109
Registrations for athletic programs	N/A	N/A	N/A	N/A	N/A	1,360	1,629	1,414	1,169	1,345
Registrations for cultural programs	N/A	N/A	N/A	N/A	N/A	227	1,375	1,041	6,304	5,720
Registrations for private events in public park areas	N/A	N/A	N/A	N/A	N/A	110	147	99	376	195
Marina:										
Mooring balls	25	64	64	64	64	226	226	226	226	226
Boat slips	5	5	5	5	13	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	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
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	66	66	66	66
Number of street lights	N/A	N/A	N/A	190	190	190	190	188	188	188
Number of traffic signals	N/A	N/A	N/A	8	8	8	8	8	8	8
Culture and recreation:										
Amphitheater	-	-	-	1	1	1	1	1	1	1
Parks	-	-	-	4	4	4	4	4	4	4
Parks acreage	-	-	-	45	45	45	45	45	45	45
Beaches	-	-	-	2	2	2	2	2	2	2
Community center	-	-	-	1	1	1	-	-	-	-
Picnic pavilions	-	-	-	16	16	16	18	18	18	18
In-line hockey rink	-	-	-	1	1	1	1	1	1	1
Soccer fields	-	-	-	2	2	2	2	2	2	2
Skate park	-	-	-	1	1	1	1	1	1	1
Basketball courts	-	-	-	4	4	4	3	3	3	3
Tennis courts	-	-	-	4	4	4	4	4	4	4
Baseball/softball fields	-	-	-	2	2	2	2	2	2	2
Utility system:										
Fire hydrants - City of Marathon	-	-	-	-	53	101	125	134	154	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

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, 2011, which collectively comprise the City's basic financial statements and have issued our report thereon dated March 23, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

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

Fort Lauderdale, Florida
March 23, 2012



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, 2011. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of 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, 2011.

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

Fort Lauderdale, Florida
March 23, 2012



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, 2011, and have issued our report thereon dated March 23, 2012.

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 23, 2012, should be considered in conjunction with this management letter.

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

Section 10.554(1)(i)1., Rules of the Auditor General, requires that we determine whether or not corrective actions have been taken to address findings and recommendations made in the preceding annual financial audit report. 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, 2011, filed with the Florida Department of Financial Services pursuant to Section 218.32(1)(a), Florida Statutes, is in agreement with the annual financial audit report for the fiscal year ended September 30, 2011. In connection with our audit, we determined that these two reports were in agreement.

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

Fort Lauderdale, Florida
March 23, 2012

CITY OF MARATHON, FLORIDA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Fiscal Year Ended September 30, 2011

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	-	\$ 404,300	-
Department of Environmental Protection:				
Congressionally Mandated Projects	66.202	XP96449906-0	213,920	-
Indirect Programs:				
Department of Homeland Security - Passed through State of Florida				
Division of Emergency Management:				
Disaster Grants - Public Assistance	97.036	09-PA-B9-11-54-00-598	238,230	-
	97.036	09-PA-00-11-54-13-518	98,564	-
			<u>336,794</u>	
Environmental Protection Agency - Passed through the Florida Department of Environmental Protection:				
Capitalization Grants for Clean Water				-
State Revolving Funds	* 66.458	WW637060	15,575,642	
State Revolving Funds - ARRA	* 66.458	WW637090	5,114,071	-
State Revolving Funds	* 66.458	WW63702P	2,844,196	-
State Revolving Funds	* 66.458	SW637070	155,758	-
			<u>23,689,667</u>	

CITY OF MARATHON, FLORIDA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
(continued)
For the Fiscal Year Ended September 30, 2011

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	164,229	-
Passed through the Florida Department of Transportation: Highway Planning and Construction	* 20.205	ARRA-478-B	605,691	-
	* 20.205	APW63	88,920	-
	* 20.205	APW68	80,000	-
			<u>774,611</u>	
Department of the Interior - Passed through the Florida Department of Environmental Protection: Clean Vessel Act	15.616	CVA07-493	<u>27,712</u>	<u>-</u>
Total Expenditures of Federal Awards			\$ <u><u>25,611,233</u></u>	\$ <u><u>-</u></u>

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, 2011

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:

Federal Program	Federal CFDA Number
Environmental Protection Agency - Capitalization Grants for Clean Water State Revolving Funds	66.458
Department of Transportation - Highway Planning and Construction	20.205
Recreational Trails Program	20.219

8. The threshold for distinguishing Type A and Type B projects was \$ 780,142 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, 2011

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.