

THE CITY OF NAPLES, FLORIDA
Comprehensive Annual Financial Report
September 30, 2003
(With Independent Auditors' Report Thereon)

Prepared By:
FINANCE DEPARTMENT

CITY OF NAPLES, FLORIDA

PRINCIPAL OFFICIALS

SEPTEMBER 30, 2003

MAYOR

BONNIE R. MACKENZIE

VICE-MAYOR

GARY GALLEBERG

CITY COUNCIL

JOSEPH HERMS

BILL R. MAC ILVAINE

CLARK RUSSELL

PENNY TAYLOR

TAMELA WISEMAN

CITY ATTORNEY

ROBERT D. PRITT

CITY CLERK

TARA NORMAN

CITY MANAGER

ROBERT E. LEE

FINANCE DIRECTOR

ANN MARIE RICARDI

DEPARTMENT OFFICIALS

CHIEF OF POLICE & EMERGENCY SERVICES	STEVE MOORE
PLANNING DIRECTOR	RON LEE
COMMUNITY SERVICES DIRECTOR	DAVE LYKINS
PUBLIC WORKS DIRECTOR	DAN MERCER
HUMAN RESOURCES DIRECTOR	DENISE PEREZ
DEVELOPMENT SERVICES DIRECTOR	RON WALLACE

CITY OF NAPLES, FLORIDA

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KPMG LLP
Suite 1700
100 North Tampa Street
Tampa, FL 33602

Independent Auditors' Report

Honorable Mayor and Members of the City Council
City of Naples, 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 Naples, Florida, as of and for the year ended September 30, 2003, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Naples, Florida's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes 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, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Naples, Florida, as of September 30, 2003 and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in note M to the financial statements, the City of Naples, Florida implemented a new financial reporting model, as required by the provisions of Governmental Accounting Standards Board Statement (GASB) No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, effective October 1, 2002. Concurrent with the new reporting model, the City of Naples, Florida implemented GASB Statement No. 37, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus*, GASB Statement No. 38, *Certain Financial Statement Note Disclosures*, and Interpretation No. 6, *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 16, 2004 on our consideration of the City of Naples, Florida's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.



The management's discussion and analysis and schedules of funding progress and contributions on pages 13 through 22 and 90 through 92, respectively are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Naples's basic financial statements. The introductory section, combining and individual nonmajor fund financial statements and schedules, other supplemental information and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements and schedules, and the other supplemental information have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

KPMG LLP

January 16, 2004

THE CITY OF NAPLES, FLORIDA

Management's Discussion and Analysis

September 30, 2003

The City of Naples's (the City) management's discussion and analysis is designed to (a) assist the reader in focusing on significant financial issues, (b) provide an overview of the City's financial activities (c) identify changes in the City's financial position and its ability to address the next and subsequent year challenges (d) identify any material deviations from the financial plan (the approved budget), and (e) identify individual fund issues or concerns for the fiscal year ended September 30, 2003.

Financial Highlights

- The assets of the City of Naples exceeded its liabilities at September 30, 2003 by \$130.0 million (net assets). Of this amount, \$40.1 million of unrestricted net assets may be used to meet the government's ongoing obligations to citizens and creditors.
- The City's total net assets increased by \$6.7 million.
- As of September 30, 2003, the City of Naples's governmental funds reported a combined ending fund balance of \$25.8 million. This is an increase of \$1.3 million from the prior year. Approximately 28% of this total is unrestricted.
- The City of Naples total debt decreased by \$3.1 million during the current fiscal year. This decrease is discussed further in debt administration.

Using this Annual Report

The new financial statement's focus (implemented this year) is on both the City as a whole (government-wide) and on the major individual funds. Both perspectives (government-wide and major fund) allow the user to address relevant questions, broaden a basis for comparison (year to year or government to government) and enhance the City's accountability.

The Statement of Net Assets (page 24) and **the Statement of Activities** (page 26) provide information about the activities of the City as a whole and present a longer-term view of the City's finances. The statements separate governmental from business-type activities but both are measured and reported using the economic resource measurement focus and full accrual basis of accounting. They are designed to be corporate-like in structure, which combine governmental activities and business-type activities.

The Fund Financial Statements, which report by individual fund, begin on page 28. Traditional users of governmental financial statements will find the Fund Financial Statements presentation more familiar. The governmental funds measure and report activities using the current financial resources measurement focus and the modified accrual basis of accounting. Therefore you will find the reconciliation on page 34 that converts this data to an economic resource measurement focus and the accrual basis of accounting for use in the government-wide financial statements. The Fund Financial Statements present information in more detail than the government-wide financial statements. Major funds are reflected separately and nonmajor funds are combined into "other funds" and are reflected in detail in the combined and individual fund financial statements and schedules section of this report. The Governmental Accounting Standards Board (GASB) Statement No. 34 provides the authoritative guidance on the governmental financial reporting model.

The Total columns on the Proprietary Fund Financial Statements (pages 38 – 45) is the same as the Business-type activities column at the Government-wide Financial Statements and does not require a reconciliation because of using the same measurement focus (economic resources measurement focus and accrual basis of accounting).

THE CITY OF NAPLES, FLORIDA

Management's Discussion and Analysis

September 30, 2003

The Government-Wide Financial Statements

The Statement of Net Assets and the Statement of Activities

Government-wide financial statements are designed to be corporate-like in structure, which combine governmental activities and business-type activities together. They are intended to allow the reader to assess the government's operational accountability. Operational accountability is defined as the extent to which the government has met its operating objectives efficiently and effectively, using all resources available for that purpose, and whether it can continue to meet its objectives for the foreseeable future. The statements separate governmental from business-type activities. For the purpose of these statements, both types are measured and reported using the economic resource measurement focus and the accrual basis of accounting.

The statement of net assets presents information on all the City's assets and liabilities, with the difference being 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 not.

The statement of activities presents the information showing how the City's net assets changed during the fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods such as uncollected taxes and earned but unused employee leave.

Both of these financial statements distinguish the primary types of functions of the City as defined below:

- Governmental activities – Most of the City's basic services are reported here, including the police, fire, community development, planning, parks and recreation, building and code enforcement and general administration. Major revenues supporting these activities are ad valorem taxes, sales and gas taxes, franchise, utility and communications service taxes, as well as lesser revenues from building permits, fees, grants and investments.
- Business-type activities – The City's Utilities (Water and Sewer, Solid waste, Stormwater) and "Other Nonmajor" types such as Beach Parking, City Dock and Tennis are reported here. These services are supported primarily from user fees. Financing of major capital is usually necessary. Both user fees and impact fees support debt service.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain financial control over resources that have been segregated for specific activities or objectives. The City, 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 can be divided into three categories:

- Governmental funds – account for most, if not all, of the City's tax-supported activities. These include the General fund, the Debt Service fund, the Capital Projects fund, the Community Redevelopment fund, the Streets and Traffic fund and other Nonmajor funds consisting of the Building and Zoning fund, the Community Development Block Grant fund, the Improvement fund, the Confiscated Properties fund, the Land Conservation Trust fund and the maintenance dredging funds for the East Naples Bay District and Moorings Bay District. These funds focus on how money flows into and out of the funds, and the balances left at year-end. The accounting method used is called modified accrual accounting, which measures cash

THE CITY OF NAPLES, FLORIDA

Management's Discussion and Analysis

September 30, 2003

and all other financial assets that can readily be converted to cash (usually 60 day focus). The two criteria used are that the revenue is measurable and available. Examples of the difference between this and the economic resources measurement focus are that debt financing is considered current revenue, and purchases of capital assets are considered expenditures whereas depreciation is not since there is no outlay of cash. In a highly regulatory environment, fund accounting serves a very important purpose, in that funds received for specific purposes are identified as such.

- Proprietary funds – are used to account for the business-type activities of the City. There are two types: enterprise funds and internal service funds. The City's enterprise funds are the Water and Sewer fund, the Solid Waste fund, the Stormwater fund, and nonmajor enterprise funds consisting of the Naples Beach fund, the City Dock fund and the Tennis fund and the internal service funds which include the Equipment Services fund, Risk Management fund, Health Benefits fund and the Information Systems fund. All proprietary funds use the full accrual basis of accounting and the economic resources measurement focus. Fees or charges for services are the primary revenue sources for proprietary funds.
- Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the City's own programs. The accounting method used for fiduciary funds is similar to Proprietary funds.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes can be found beginning on page 51.

Required Supplementary Information

Generally accepted accounting principles (GAAP) call for certain unaudited information to accompany the audited basic financial statements and accompanying footnotes. This information is called required supplementary information (RSI) and includes this analysis, (the MD&A), and trend data on pension funding.

THE CITY OF NAPLES, FLORIDA

Management's Discussion and Analysis

September 30, 2003

The City as a Whole

The City's combined net assets as of September 30, 2003 were \$130.0 million. The City's combined revenues, including contributions, grants, charges for services and taxes were \$64.8 million. Total expenses, citywide were \$58.7 million. Table 1 reflects the summary statement of net assets for the current year. As this is the City's first year of implementing GASB Statement 34, comparative data for the previous year is not available. Comparisons will begin with the fiscal year ending September 30, 2004.

Table 1

Net Assets

(In thousands)

	Governmental activities	Business- type activities	Total Primary Government
Current and other assets	\$ 35,183	24,567	59,750
Capital assets	56,128	93,313	149,441
Total assets	91,311	117,880	209,191
Long term debt outstanding	27,507	43,191	70,698
Other liabilities	4,580	3,912	8,492
Total liabilities	32,087	47,103	79,190
Net assets:			
Invested in capital assets net of debt	31,962	49,578	81,540
Restricted	2,411	5,955	8,366
Unrestricted	24,851	15,244	40,095
Total net assets	\$ 59,224	70,777	130,001

The largest portion of the City's net assets (63%) reflects its investment in capital assets (land, buildings, plants, and equipment) less outstanding debt used to acquire those assets. The City uses these assets to provide services to citizens; consequently these assets are not available for future spending. It is also important to recognize that other resources will be required to repay the outstanding debt on capital assets. Restricted net assets (representing 6% of the total net assets) are subject to external restrictions on how they may be used. The remaining 31% of unrestricted net assets, \$40.1 million may be used to meet the City's ongoing obligations to the citizens and creditors.

THE CITY OF NAPLES, FLORIDA

Management's Discussion and Analysis

September 30, 2003

Table 2 reflects the summary statement of activities for the current year. As this is the City's first year of implementing GASB Statement 34, comparative data for the previous year is not available. Comparisons will begin with the fiscal year ending September 30, 2004.

Table 2

Changes in Net Assets

(In thousands)

	Governmental activities	Business- type activities	Total Primary Government
Revenues:			
Program revenues:			
Charges for services	\$ 5,001	28,097	33,098
Operating grants and contributions	1,790	390	2,180
Capital grants and contributions	1,133	1,688	2,821
General revenues:			
Property taxes	11,675	—	11,675
Other taxes	10,877	—	10,877
Intergovernmental revenues	3,343	—	3,343
Unrestricted investment earnings	731	403	1,134
Other	93	126	219
Total revenues	<u>34,643</u>	<u>30,704</u>	<u>65,347</u>
Expenses:			
General government	2,621	—	2,621
Public safety	14,256	—	14,256
Physical and economic environment	1,343	—	1,343
Transportation	3,700	—	3,700
Cultural and recreation	5,384	—	5,384
Interest and fiscal charges	1,255	—	1,255
Water and wastewater	—	20,152	20,152
Solid waste	—	4,812	4,812
Stormwater	—	1,506	1,506
Other enterprises	—	3,654	3,654
Total expenses	<u>28,559</u>	<u>30,124</u>	<u>58,683</u>
Increase in net assets	6,084	580	6,664
Net assets – beginning	<u>53,140</u>	<u>70,197</u>	<u>123,337</u>
Net assets – ending	<u>\$ 59,224</u>	<u>70,777</u>	<u>130,001</u>

THE CITY OF NAPLES, FLORIDA

Management's Discussion and Analysis

September 30, 2003

Governmental Activities

Table 3 presents the cost of each of the City's four largest programs as well as each program's net cost (total cost less revenues, excluding taxes, generated by the activities). The net cost represents the portion of each program that is supported by various taxes.

The cost of all governmental activities this year was \$28.6 million. This is the first year of implementing GASB Statement 34. Comparisons will begin with fiscal year ending September 30, 2004. As shown in the statement of activities on page 26, the net cost that was ultimately paid through taxes was \$22.6 million. The \$6.0 million of the cost of governmental activities not covered by taxes was provided by:

- \$5.0 million in charges for services – \$2.6 million for building fees, \$0.9 million for police and fire services, \$0.7 million for recreation fees and \$0.8 million from various fees for transportation and general government services.
- \$1.8 million in operating grants and contributions – \$1.1 million from Collier County's share of Community Redevelopment; \$0.25 million from a Community Development Block grant; and \$0.45 million from various operating grants and contributions of which \$0.14 million was for street maintenance, public safety equipment grants, and community policing.
- \$1.1 million in capital grants and contributions – \$0.41 from impact fees and special assessments; \$0.46 million in contributions for parks and recreation centers; and \$0.23 million police from communication grants.

Table 3

Governmental Activities

(In thousands)

	Total cost of service 2003	Net cost of service 2003
Public safety	\$ 14,256	10,213
Physical and economic environment	1,343	(193)
Transportation	3,700	3,229
Cultural and recreation	5,384	4,171
All others	3,876	3,214
Totals	<u>\$ 28,559</u>	<u>20,634</u>

Business-type activities

Revenues of the City's business-type activities (see Table 2) totaled \$30.7 million.

The Water and Sewer fund represents 82% of the business-type activities net assets. In January 2003 the City took back the billing from Collier County Utilities for an estimated 5,600 customer accounts. The City now bills those customers for City water and County sewer through an interlocal agreement with the County. Total

THE CITY OF NAPLES, FLORIDA

Management's Discussion and Analysis

September 30, 2003

operating revenues were down \$494,700 from last year. Total operating expenses were also down \$608,800 from last year. Interest expense on debt was also down \$507,000 due primarily to the refunding of bond issues during the previous two years. A three-tier rate charge was approved by City Council in June to be effective in October 2003 to further encourage water conservation.

Solid Waste fees are adjusted annually in an amount equal to the Public Service Commission Price Index of 2.33% for the fiscal year.

The City's Funds

General Fund Budgetary Highlights

Differences between the General Fund's appropriations in the original and final amended budget was approximately \$612,000, of which \$289,000 was appropriated from fund balance to fund expenditures for the old City Manager's severance, the new City Manager's search, and attorney fees for the Wilkinson House, Hamilton Harbor, labor attorney, codification of the City's ordinances, and West Naples Bay legal matters.

In addition, \$193,000 was appropriated for grants obtained from FEMA for a Coastal Flood insurance restudy and for police vests in the police department. Charges for services also increased \$130,000 to fund Police overtime services under the contract with TSA at the City Airport, Utility billing services, and for resale items at the recreational facilities.

General government expenditures were \$594,996 under budget (9%) and culture and recreation expenditures were \$368,426 under budget (7%).

Capital Assets and Debt Administration

Capital Assets

The City as of year-end had \$149.4 million invested in a variety of capital assets, as reflected in the following table. The asset category infrastructure is separately reported for the first time. Prior year's infrastructure was previously reported in the category of improvements other than buildings. The City has been recording infrastructure such as streets, sidewalks, bridges, lighting and storm drainage since 1980.

This year's major additions are:

Governmental activities:		
Park Shore and Harbour Drive Bridge	\$	2,463,488
River Park Community Center		2,066,677
Fire Pumper Truck		240,000
Mooringline Drive traffic calming		191,000
Business-type activities:		
Electronic water meters	\$	420,607
Sand Tightening Project		288,058
Bar Screen at Wastewater Treatment Plant		207,197

THE CITY OF NAPLES, FLORIDA
Management's Discussion and Analysis
September 30, 2003

Table 4
Capital Assets at Year End
(In thousands)

	<u>Governmental activities</u>		<u>Business-type activities</u>		<u>Total</u>	
	<u>2003</u>	<u>2002</u>	<u>2003</u>	<u>2002</u>	<u>2003</u>	<u>2002</u>
Land	\$ 11,957	11,729	2,866	2,866	14,823	14,595
Buildings	26,694	24,892	59,078	58,990	85,772	83,882
Improvements other than buildings	20,948	20,052	25,612	23,658	46,560	43,710
Infrastructure	20,234	17,201	57,068	57,068	77,302	74,269
Machinery and equipment	11,297	10,287	15,236	14,798	26,533	25,085
Construction in progress	1,631	2,480	546	97	2,177	2,577
Less accumulated depreciation	<u>(36,633)</u>	<u>(33,964)</u>	<u>(67,093)</u>	<u>(60,501)</u>	<u>(103,726)</u>	<u>(94,465)</u>
Total net capital assets	<u>\$ 56,128</u>	<u>52,677</u>	<u>93,313</u>	<u>96,976</u>	<u>149,441</u>	<u>149,653</u>

Debt Outstanding

As of year-end, the City had \$68,041,813 in debt (bonds, notes, etc.) outstanding compared to \$71,115,210 in 2002, a 4.3% decrease.

During the fiscal year, 2003 Redevelopment Revenue and Refunding Bonds were issued in the amount of \$5,925,000. This paid off the 1998 Tax Increment Revenue Bonds in the amount of \$2,925,000 and provided new funds in the amount of \$2,981,000 (after costs of the bond issue) for various projects within the Community Redevelopment District.

The City also paid off the 1998 Public Service Tax Bonds in the amount of \$1,857,927, which were used to purchase the "Historical House".

THE CITY OF NAPLES, FLORIDA
Management's Discussion and Analysis
September 30, 2003

Table 5
Outstanding Debt, at Year-end

	<u>2003</u>	<u>2002</u>
Governmental:		
General obligation	\$ 7,410,000	7,850,000
Public service tax revenue	10,971,090	13,552,345
Redevelopment	5,925,000	2,975,000
Sub-total	<u>24,306,090</u>	<u>24,377,345</u>
Business-type:		
Water/Wastewater Revenue	16,596,297	18,731,024
State Revolving Loan – Wastewater	23,711,243	24,559,442
State Revolving Loan – Stormwater	2,916,602	2,948,408
City Dock Public Service Tax	83,590	110,029
City Tennis Public Service Tax	605,000	605,000
Unamortized original issue premium	188,697	226,270
Unamortized deferred loss on refunding	(365,706)	(442,308)
Sub-total	<u>43,735,723</u>	<u>46,737,865</u>
Totals	<u>\$ 68,041,813</u>	<u>71,115,210</u>

Economic Factors and Next Year's Budget and Rates

While revenues have continued to increase, the budget anticipates that current expenses are increasing at a higher rate. The city management is aware of the concerns that are nationwide and will remain diligent to protect the reserves the City has built up over the last twenty years and to continue to match current revenues with current expenditures. The following factors were considered in developing the budget for fiscal year 2004.

- Population increased approximately 1.3% from last year to 22,343
- The year 2000 per capita income for the City of Naples is \$61,141 compared to the 2000 Collier County per capita income of \$40,121
- Taxable value of commercial and residential properties increased \$1.46 billion (17%) from the previous fiscal year; of these increase 13% was related to new construction and 87% was related to market appreciation
- The unemployment rate was 4.5% in fiscal year 2003 reflects an increase in the unemployment from the fiscal year 2002 rate of 4.4%
- Building permits issued this fiscal year were 1,070 compared to 1,090 issued in fiscal year 2002
- The change in the Consumer Price Index from the previous fiscal year was 2.32%

Requests for Information

This financial report is designed to provide a general overview of the City of Naples finances to all users (citizens, taxpayers, customers, investors and creditors). If you have questions regarding this report or need additional financial information, contact the Finance Director at City Hall, 735 8th Street S., Naples, Florida 34102, and telephone (239) 213-1820.

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CITY OF NAPLES, FLORIDA

Statement of Net Assets

September 30, 2003

Assets	Primary Government		
	Governmental activities	Business-type activities	Total
Cash and investments	\$ 30,486,229	12,826,806	43,313,035
Receivables (net, where applicable, of allowance for uncollectible)	2,603,518	5,622,970	8,226,488
Internal balances	573,692	(573,692)	—
Inventories	114,403	309,147	423,550
Prepaid items	26,905	—	26,905
Restricted assets:			
Cash and investments	—	6,233,841	6,233,841
Prepaid items	—	15,278	15,278
Net pension assets	1,200,655	—	1,200,655
Deferred charges	177,950	132,410	310,360
Capital assets:			
Land and land improvements	11,957,292	2,866,150	14,823,442
Buildings and utility plants	26,694,526	59,077,543	85,772,069
Improvements other than buildings	20,947,668	25,612,447	46,560,115
Infrastructure	20,234,455	57,068,076	77,302,531
Equipment	11,296,984	15,236,343	26,533,327
Accumulated depreciation	(36,633,481)	(67,093,464)	(103,726,945)
Construction in progress	1,630,559	546,187	2,176,746
Net capital assets	56,128,003	93,313,282	149,441,285
Total assets	\$ 91,311,355	117,880,042	209,191,397

CITY OF NAPLES, FLORIDA

Statement of Net Assets

September 30, 2003

Liabilities	Primary Government		
	Governmental activities	Business-type activities	Total
Accounts payable and other current liabilities	\$ 4,067,892	1,238,477	5,306,369
Due to other governments	—	411,452	411,452
Deferred revenue	511,580	602,928	1,114,508
Customer deposits	150	21,704	21,854
Liabilities payable from restricted assets:			
Customer deposits	—	295,945	295,945
Current maturities of long-term debt	—	895,125	895,125
Accrued interest payable	—	445,763	445,763
Noncurrent liabilities:			
Revenue bonds payable, net of unamortized discounts and premiums:			
Due within one year	1,083,379	2,850,548	3,933,927
Due in more than one year	23,082,744	39,990,047	63,072,791
Compensated absences:			
Due within one year	216,325	52,497	268,822
Due in more than one year	1,219,887	298,193	1,518,080
Claims payable:			
Due within one year	1,129,001	—	1,129,001
Due in more than one year	775,999	—	775,999
Total noncurrent liabilities	27,507,335	43,191,285	70,698,620
Total liabilities	32,086,957	47,102,679	79,189,636
Net Assets			
Invested in capital assets, net of related debt	31,961,883	49,577,562	81,539,445
Restricted for:			
Debt service	1,210,197	5,019,677	6,229,874
Renewal and replacement	—	936,575	936,575
Other purposes	1,200,655	—	1,200,655
Unrestricted	24,851,663	15,243,549	40,095,212
Total net assets	\$ 59,224,398	70,777,363	130,001,761

See accompanying notes to financial statements.

CITY OF NAPLES, FLORIDA

Statement of Activities

Year ended September 30, 2003

	<u>Expenses</u>	<u>Indirect expenses allocation</u>	<u>Charges for services</u>
Functions/programs:			
Governmental activities:			
General government	\$ 6,396,874	(3,775,750)	636,232
Public safety	14,037,488	218,100	3,547,146
Physical and economic environment	1,248,370	94,900	15,405
Transportation	3,313,398	386,200	128,521
Culture and recreation	5,384,033	—	674,188
Interest	1,254,318	—	—
Total governmental activities	<u>31,634,481</u>	<u>(3,076,550)</u>	<u>5,001,492</u>
Business-type activities:			
Water and wastewater	18,020,929	2,130,700	18,236,793
Solid waste	4,476,067	335,500	5,484,007
Stormwater	1,327,626	177,900	1,375,177
Beach	1,248,727	277,700	753,252
Dock	1,540,440	132,700	1,780,935
Tennis	433,012	22,050	467,090
Total business-type activities	<u>27,046,801</u>	<u>3,076,550</u>	<u>28,097,254</u>
Total primary government	<u>\$ 58,681,282</u>	<u>—</u>	<u>33,098,746</u>
General revenues:			
Property taxes			
Franchise, utility and payments in lieu of taxes			
Motor fuel taxes			
Occupational licenses			
Intergovernmental revenues			
Unrestricted investment earnings			
Miscellaneous revenues			
Gain on sale of capital assets			
Total general revenues and transfers			

See accompanying notes to financial statements.

Program revenues		Net (expense) revenue and change in net assets		
Operating grants and contributions	Capital grants and contributions	Governmental activities	Business-type activities	Totals
6,975	18,626	(1,959,291)	—	(1,959,291)
43,305	451,736	(10,213,401)	—	(10,213,401)
1,520,759	—	192,894	—	192,894
142,213	200,000	(3,228,864)	—	(3,228,864)
76,514	462,738	(4,170,593)	—	(4,170,593)
—	—	(1,254,318)	—	(1,254,318)
<u>1,789,766</u>	<u>1,133,100</u>	<u>(20,633,573)</u>	<u>—</u>	<u>(20,633,573)</u>
—	806,368	—	(1,108,468)	(1,108,468)
—	—	—	672,440	672,440
—	—	—	(130,349)	(130,349)
390,000	881,747	—	498,572	498,572
—	—	—	107,795	107,795
—	—	—	12,028	12,028
<u>390,000</u>	<u>1,688,115</u>	<u>—</u>	<u>52,018</u>	<u>52,018</u>
<u>2,179,766</u>	<u>2,821,215</u>	<u>(20,633,573)</u>	<u>52,018</u>	<u>(20,581,555)</u>
		11,674,715	—	11,674,715
		8,592,174	—	8,592,174
		2,044,949	—	2,044,949
		239,422	—	239,422
		3,343,425	—	3,343,425
		730,500	402,726	1,133,226
		20,265	—	20,265
		72,636	125,781	198,417
		<u>26,718,086</u>	<u>528,507</u>	<u>27,246,593</u>
Change in net assets		6,084,513	580,525	6,665,038
Net assets – beginning		<u>53,139,885</u>	<u>70,196,838</u>	<u>123,336,723</u>
Net assets – ending		<u>\$ 59,224,398</u>	<u>70,777,363</u>	<u>130,001,761</u>

CITY OF NAPLES, FLORIDA

Balance Sheet

Governmental Funds

September 30, 2003

	<u>General</u>	<u>Debt service</u>	<u>Capital projects</u>	<u>Community redevelopment</u>
Assets:				
Cash and investments	\$ 4,922,362	1,749,357	8,102,795	4,253,643
Receivables (net, where applicable, of allowance for uncollectible):				
Accounts	455,443	—	265,399	—
Special assessments	—	—	351,224	—
Utility taxes	—	276,001	—	—
Miscellaneous	—	6,670	—	—
Due from other funds	200,191	—	657,328	200,190
Advances due from other funds	916,498	—	992,331	—
Due from other governments	281,243	—	581,769	—
Inventories	14,937	—	—	—
Prepaid items	26,905	—	—	—
Total assets	\$ 6,817,579	2,032,028	10,950,846	4,453,833
Liabilities:				
Accounts payable	\$ 350,036	15,278	563,511	4,801
Accrued payroll	467,492	—	—	2,474
Due to other funds	—	457,137	—	—
Advances payable to other funds	—	—	—	2,585,973
Deferred revenue	159,271	—	351,224	—
Customer deposits	150	—	—	—
Total liabilities	976,949	472,415	914,735	2,593,248
Fund balances:				
Reserved:				
Encumbrances	170,000	—	41,655	36,261
Advances	916,498	—	992,331	—
Inventories	14,937	—	—	—
Prepaid items	26,905	—	—	—
Debt service	—	1,210,197	—	—
Construction	—	—	6,485,298	3,526,658
Emergency	2,550,383	—	—	—
Other purposes	47,855	—	182,843	—
Unreserved	2,114,052	—	—	—
Unreserved:				
Reported in debt service funds	—	349,416	—	—
Reported in special revenue funds	—	—	—	—
Reported in capital projects funds	—	—	2,333,984	(1,702,334)
Total fund balances	5,840,630	1,559,613	10,036,111	1,860,585
Total liabilities and fund balances	\$ 6,817,579	2,032,028	10,950,846	4,453,833

See accompanying notes to financial statements.

Streets and traffic	Other governmental	Total
3,194,232	4,384,625	26,607,014
358	37,563	758,763
—	—	351,224
—	—	276,001
—	—	6,670
200,190	200,190	1,458,089
528,072	—	2,436,901
296,658	11,128	1,170,798
27,810	—	42,747
—	—	26,905
<u>4,247,320</u>	<u>4,633,506</u>	<u>33,135,112</u>
1,257,179	1,002,121	3,192,926
7,466	30,001	507,433
—	—	457,137
—	52,611	2,638,584
—	975	511,470
—	—	150
<u>1,264,645</u>	<u>1,085,708</u>	<u>7,307,700</u>
95,825	—	343,741
528,072	—	2,436,901
27,810	—	42,747
—	—	26,905
—	—	1,210,197
1,411,095	—	11,423,051
—	—	2,550,383
—	208,218	438,916
—	—	2,114,052
—	—	349,416
—	1,933,014	1,933,014
919,873	1,406,566	2,958,089
<u>2,982,675</u>	<u>3,547,798</u>	<u>25,827,412</u>
<u>4,247,320</u>	<u>4,633,506</u>	<u>33,135,112</u>

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CITY OF NAPLES, FLORIDA

Reconciliation of the Balance Sheet - Governmental Funds
To the Statement of Net Assets

Year ended September 30, 2003

Total fund balances governmental funds (page 28)	\$ 25,827,412
Total net assets reported for governmental activities in the Statement of Net Assets is different because:	
Capital assets used in governmental activities are not financial resources and, therefore are not reported in the funds. Total capital assets (\$56,128,003) less amounts included in the internal service funds (\$671,331).	55,456,672
Accrued long term debt interest expense is not a financial use and, therefore, is not reported in the funds.	(231,848)
Long term liabilities, including bonds payable and compensated absences are not due and payable in the current period and, therefore are not reported in the funds. Total long term liabilities (\$25,602,335) less amounts reported in the internal service funds (\$137,202).	(25,465,133)
Certain long term assets are not available to pay for current period expenditures and, therefore are not recorded in the funds.	1,378,605
Internal service funds are used by management to charge the costs of certain activities, such as fleet management, insurance and information services to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the Statement of Net Assets	<u>2,258,690</u>
Net assets of governmental activities (page 24)	<u>\$ 59,224,398</u>

See accompanying notes to financial statements.

CITY OF NAPLES, FLORIDA

Statement of Revenues, Expenditures and Changes in Fund Balances

Governmental Funds

Year ended September 30, 2003

	<u>General</u>	<u>Debt service</u>	<u>Capital Projects Fund</u>
Revenues:			
Taxes	\$ 13,691,165	4,420,958	—
Payments in lieu of taxes	1,658,026	—	—
Licenses and permits	263,867	—	—
Intergovernmental	3,196,706	—	145,710
Charges for services	1,307,385	—	—
Charges to other funds	4,459,952	—	—
Fines and forfeitures	369,694	—	—
Impact fees	—	—	210,760
Interest	198,292	34,694	236,040
Donations	—	—	—
Miscellaneous	18,838	—	451,000
Total revenues	<u>25,163,925</u>	<u>4,455,652</u>	<u>1,043,510</u>
Expenditures:			
Current:			
General government	6,213,569	91,900	237,500
Public safety	11,938,475	—	—
Physical and economic environment	710,549	—	—
Transportation	638,880	—	—
Culture and recreation	4,652,042	—	—
Capital projects	—	—	4,252,546
Debt service:			
Principal	—	1,213,329	—
Interest and fiscal charges	—	1,086,058	—
Total expenditures	<u>24,153,515</u>	<u>2,391,287</u>	<u>4,490,046</u>
Excess (deficiency) of revenues over expenditures	<u>1,010,410</u>	<u>2,064,365</u>	<u>(3,446,536)</u>
Other financing sources (uses):			
Transfers in	—	244,582	2,047,478
Transfers out	—	(5,028,832)	—
Proceeds from issuance of debt	—	5,925,000	—
Payments to refunded bond escrow agent	—	(2,965,529)	—
Proceeds from sale of capital assets	3,857	—	65,458
Total other financing sources (uses)	<u>3,857</u>	<u>(1,824,779)</u>	<u>2,112,936</u>
Change in fund balances	<u>1,014,267</u>	<u>239,586</u>	<u>(1,333,600)</u>
Fund balances – beginning of year	<u>4,826,363</u>	<u>1,320,027</u>	<u>11,369,711</u>
Fund balances – end of year	<u>\$ 5,840,630</u>	<u>1,559,613</u>	<u>10,036,111</u>

See accompanying notes to financial statements.

Community Redevelopment Fund	Streets and Traffic Fund	Other governmental funds	Total
334,086	2,044,949	162,653	20,653,811
—	—	—	1,658,026
—	1,200	2,422,157	2,687,224
1,163,809	381,097	367,346	5,254,668
—	—	198,765	1,506,150
—	—	—	4,459,952
—	—	9,465	379,159
—	200,000	—	410,760
85,466	71,179	52,370	678,041
—	—	141,580	141,580
—	89,806	1,427	561,071
<u>1,583,361</u>	<u>2,788,231</u>	<u>3,355,763</u>	<u>38,390,442</u>
—	—	25,270	6,568,239
—	—	2,005,824	13,944,299
281,871	—	13,561	1,005,981
—	2,090,892	—	2,729,772
—	—	63,014	4,715,056
403,300	2,009,680	172,779	6,838,305
—	—	1,857,928	3,071,257
86,824	—	42,815	1,215,697
<u>771,995</u>	<u>4,100,572</u>	<u>4,181,191</u>	<u>40,088,606</u>
<u>811,366</u>	<u>(1,312,341)</u>	<u>(825,428)</u>	<u>(1,698,164)</u>
2,981,354	—	—	5,273,414
(180,340)	—	(64,242)	(5,273,414)
—	—	—	5,925,000
—	—	—	(2,965,529)
—	101	3,220	72,636
<u>2,801,014</u>	<u>101</u>	<u>(61,022)</u>	<u>3,032,107</u>
3,612,380	(1,312,240)	(886,450)	1,333,943
(1,751,795)	4,294,915	4,434,248	24,493,469
<u>1,860,585</u>	<u>2,982,675</u>	<u>3,547,798</u>	<u>25,827,412</u>

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CITY OF NAPLES, FLORIDA

Reconciliation of the Statement of Revenues,
Expenditures and Changes in Fund Balances of Governmental Funds
To the Statement of Activities

Year ended September 30, 2003

Net Change in Fund Balances – total governmental funds (page 32)	\$ 1,333,943
Amounts reported for governmental activities in the statement of activities (page 26) are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays (\$6,844,776) exceed depreciation (\$3,155,877) in the current period.	3,688,899
The net effect of various miscellaneous transactions involving capital assets (i.e., sales, trade-ins, and donations) is to decrease net assets	(47,657)
Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. Repayment of bond principal is an expenditure in governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. This is the amount by which repayments exceeded proceeds.	71,255
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.	(62,103)
Increases in the net pension asset in the statement of activities do not provide current financial resources and therefore are not reported in governmental funds.	384,707
Internal service funds are used by management to charge the costs of certain activities, such as fleet management, insurances and information systems. The net revenue (expense) of the internal service funds is reported with governmental activities.	<u>715,469</u>
Change in net assets of governmental activities (page 26)	<u>\$ 6,084,513</u>

See accompanying notes to financial statements.

CITY OF NAPLES, FLORIDA

General Fund

Statement of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual

Year ended September 30, 2003

	Original budget	Final budget	Actual	Variance with final budget positive (negative)
Revenues:				
Taxes:				
Ad valorem	\$ 10,255,021	10,255,021	10,346,126	91,105
Franchise	3,164,909	3,164,909	3,345,039	180,130
Payments in lieu of taxes	1,658,026	1,658,026	1,658,026	—
Licenses and permits	314,500	314,500	263,867	(50,633)
Intergovernmental	3,008,264	3,201,164	3,196,706	(4,458)
Charges for services	1,152,350	1,282,350	1,307,385	25,035
Charges to other funds	4,459,950	4,459,950	4,459,952	2
Fines and forfeitures	291,300	291,300	369,694	78,394
Interest	250,000	250,000	198,292	(51,708)
Miscellaneous	50,000	339,425	18,838	(320,587)
Total revenues	<u>24,604,320</u>	<u>25,216,645</u>	<u>25,163,925</u>	<u>(52,720)</u>
Expenditures:				
Current:				
General government:				
Mayor and City Council	204,936	204,936	200,555	4,381
City Attorney	450,022	545,022	497,745	47,277
City Clerk	407,852	407,852	391,834	16,018
City Manager	373,563	485,563	537,209	(51,646)
Planning	537,945	537,945	489,502	48,443
Finance	1,298,548	1,328,148	1,328,046	102
Nondepartmental	3,093,993	3,299,099	2,768,678	530,421
Total general government	<u>6,366,859</u>	<u>6,808,565</u>	<u>6,213,569</u>	<u>594,996</u>
Public Safety:				
Fire	4,207,969	4,207,969	4,359,533	(151,564)
Police	7,580,346	7,691,965	7,578,942	113,023
Total public safety	<u>11,788,315</u>	<u>11,899,934</u>	<u>11,938,475</u>	<u>(38,541)</u>
Physical and economic environment:				
Natural resources	183,099	183,099	151,031	32,068
Human resources	505,985	552,985	559,518	(6,533)
Total physical and economic environment	<u>689,084</u>	<u>736,084</u>	<u>710,549</u>	<u>25,535</u>
Transportation:				
Developmental services	750,594	750,594	638,880	111,714
Total transportation	<u>750,594</u>	<u>750,594</u>	<u>638,880</u>	<u>111,714</u>
Culture and recreation:				
Community services	5,009,468	5,021,468	4,652,042	369,426
Total culture and recreation	<u>5,009,468</u>	<u>5,021,468</u>	<u>4,652,042</u>	<u>369,426</u>
Total expenditures	<u>24,604,320</u>	<u>25,216,645</u>	<u>24,153,515</u>	<u>1,063,130</u>

CITY OF NAPLES, FLORIDA

General Fund

Statement of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual

Year ended September 30, 2003

	Original budget	Final budget	Actual	Variance with final budget positive (negative)
Excess of revenues over expenditures	\$ —	—	1,010,410	1,010,410
Other financing sources:				
Proceeds from sale of capital assets	—	—	3,857	3,857
Total other financing sources	—	—	3,857	3,857
Change in fund balance	—	—	1,014,267	1,014,267
Fund balance – beginning of year	4,826,363	4,826,363	4,826,363	—
Fund balance – end of year	\$ <u>4,826,363</u>	<u>4,826,363</u>	<u>5,840,630</u>	<u>1,014,267</u>

See accompanying notes to financial statements.

CITY OF NAPLES, FLORIDA

Statement of Net Assets

Proprietary Funds

September 30, 2003

Assets	<u>Business-type activities – Enterprise Funds</u>		
	<u>Water and Sewer Fund</u>	<u>Solid Waste Fund</u>	<u>Stormwater Fund</u>
Current assets:			
Cash and investments	\$ 9,394,254	2,058,596	847,388
Receivables (net, where applicable, of allowance for uncollectibles):			
Accounts	2,861,239	779,184	199,888
Special assessments	447,345	—	—
Miscellaneous	32,720	—	—
Advances due from other funds	52,611	—	149,072
Due from other governments	—	—	—
Inventories	295,767	—	—
Total current assets	<u>13,083,936</u>	<u>2,837,780</u>	<u>1,196,348</u>
Restricted assets:			
Cash and investments	6,109,004	—	117,117
Prepaid items	—	—	—
Total restricted assets	<u>6,109,004</u>	<u>—</u>	<u>117,117</u>
Deferred charges	<u>126,411</u>	<u>—</u>	<u>—</u>
Capital assets:			
Land	1,701,283	1,145,053	19,814
Buildings and utility plants	57,008,059	576,015	—
Improvements other than buildings	18,790,504	950,806	—
Infrastructure	50,247,584	—	6,820,492
Equipment	11,918,335	2,130,672	312,689
Accumulated depreciation	(58,572,612)	(2,315,052)	(2,005,542)
Construction in progress	9,751	—	77,176
Net capital assets	<u>81,102,904</u>	<u>2,487,494</u>	<u>5,224,629</u>
Total assets	<u>\$ 100,422,255</u>	<u>5,325,274</u>	<u>6,538,094</u>

See accompanying notes to financial statements.

Nonmajor funds	Total	Governmental activities – Internal Service Funds
526,568	12,826,806	3,879,215
35,441	3,875,752	—
—	447,345	—
607	33,327	39,826
—	201,683	—
1,266,546	1,266,546	236
13,380	309,147	71,656
<u>1,842,542</u>	<u>18,960,606</u>	<u>3,990,933</u>
7,720	6,233,841	—
15,278	15,278	—
<u>22,998</u>	<u>6,249,119</u>	<u>—</u>
<u>5,999</u>	<u>132,410</u>	<u>—</u>
—	2,866,150	—
1,493,469	59,077,543	303,932
5,871,137	25,612,447	—
—	57,068,076	—
874,647	15,236,343	1,358,163
(4,200,258)	(67,093,464)	(990,764)
459,260	546,187	—
<u>4,498,255</u>	<u>93,313,282</u>	<u>671,331</u>
<u>6,369,794</u>	<u>118,655,417</u>	<u>4,662,264</u>

(Continued)

CITY OF NAPLES, FLORIDA

Statement of Net Assets

Proprietary Funds

September 30, 2003

Liabilities	Business-Type Activities – Enterprise Funds		
	Water and Sewer Fund	Solid Waste Fund	Stormwater Fund
Current liabilities:			
Accounts payable	\$ 523,661	157,357	249,700
Accrued payroll and personal leave	115,271	28,994	7,665
Due to other funds	—	—	—
Intergovernmental payable	411,452	—	—
Deferred revenue	525,534	—	—
Customer deposits	—	—	—
Current portion compensated absences	35,740	10,990	490
Current maturities of long-term debt	2,682,119	—	171,747
Insurance claims payable	—	—	—
Total current liabilities	<u>4,293,777</u>	<u>197,341</u>	<u>429,602</u>
Current liabilities (payable from restricted assets):			
Customer deposits	295,945	—	—
Current maturities of long-term debt	815,102	—	64,618
Accrued interest payable	389,429	—	48,747
Total current liabilities (payable from restricted assets)	<u>1,500,476</u>	<u>—</u>	<u>113,365</u>
Noncurrent liabilities:			
Due in more than one year:			
Revenue bonds payable, net of unamortized discounts and premiums	36,633,310	—	2,680,237
Compensated absences	199,527	70,865	4,023
Insurance claims payable	—	—	—
Total noncurrent liabilities	<u>36,832,837</u>	<u>70,865</u>	<u>2,684,260</u>
Total liabilities	<u>42,627,090</u>	<u>268,206</u>	<u>3,227,227</u>
Net Assets			
Invested in capital assets, net of related debt	40,972,375	2,487,494	2,308,027
Restricted for debt service	4,757,912	—	254,051
Restricted for renewal and replacement	936,575	—	—
Unrestricted	11,128,303	2,569,574	748,789
Total net assets	<u>\$ 57,795,165</u>	<u>5,057,068</u>	<u>3,310,867</u>

Adjustment to reflect consolidation of internal service fund activities related to enterprise funds.

Net assets of business-type activities

See accompanying notes to financial statements.

<u>Nonmajor funds</u>	<u>Total</u>	<u>Governmental activities – Internal Service Funds</u>
133,608	1,064,326	93,691
22,221	174,151	41,994
1,000,952	1,000,952	—
—	411,452	—
77,394	602,928	110
21,704	21,704	—
5,275	52,495	11,454
46,216	2,900,082	—
—	—	1,129,001
<u>1,307,370</u>	<u>6,228,090</u>	<u>1,276,250</u>
—	295,945	—
15,405	895,125	—
7,587	445,763	—
<u>22,992</u>	<u>1,636,833</u>	<u>—</u>
626,968	39,940,515	—
23,778	298,193	125,748
—	—	775,999
<u>650,746</u>	<u>40,238,708</u>	<u>901,747</u>
<u>1,981,108</u>	<u>48,103,631</u>	<u>2,177,997</u>
3,809,666	49,577,562	671,331
7,714	5,019,677	—
—	936,575	—
571,306	15,017,972	1,812,936
<u>4,388,686</u>	<u>70,551,786</u>	<u>2,484,267</u>
	<u>225,577</u>	
	<u>\$ 70,777,363</u>	

CITY OF NAPLES, FLORIDA

Proprietary Funds

Statement of Revenues, Expenses and Changes in Fund Net Assets

Year ended September 30, 2003

	<u>Business-type – Activities Enterprise Funds</u>		
	<u>Water and Sewer Fund</u>	<u>Solid Waste Fund</u>	<u>Stormwater Fund</u>
Operating revenues:			
Charges for services:			
Water revenues	\$ 9,513,834	—	—
Sewer revenues	8,722,959	—	—
Other	—	5,484,007	1,375,177
Total operating revenues	<u>18,236,793</u>	<u>5,484,007</u>	<u>1,375,177</u>
Operating expenses:			
Personal services	4,174,351	1,170,868	295,779
Supplies and services	2,528,273	2,609,716	214,147
Materials	1,426,097	—	—
Heat, light, and power	1,718,117	11,522	26,114
Depreciation and amortization	5,392,955	296,492	602,247
General administration	2,130,700	335,500	177,900
Payment in lieu of taxes	1,258,026	302,100	87,000
Other	89,947	124,469	1,513
Total operating expenses	<u>18,718,466</u>	<u>4,850,667</u>	<u>1,404,700</u>
Operating income (loss)	<u>(481,673)</u>	<u>633,340</u>	<u>(29,523)</u>
Nonoperating revenues (expenses):			
Operating grants	—	—	—
Interest income	338,803	35,144	18,221
Interest expense	(1,574,524)	—	(111,353)
Gain on disposal of capital assets	54,770	66,319	—
Total nonoperating revenues (expenses)	<u>(1,180,951)</u>	<u>101,463</u>	<u>(93,132)</u>
Income (loss) before capital contributions	<u>(1,662,624)</u>	<u>734,803</u>	<u>(122,655)</u>
Capital contributions	<u>806,368</u>	<u>—</u>	<u>—</u>
Change in net assets	<u>(856,256)</u>	<u>734,803</u>	<u>(122,655)</u>
Net assets – beginning of year	<u>58,651,421</u>	<u>4,322,265</u>	<u>3,433,522</u>
Net assets – end of year	<u>\$ 57,795,165</u>	<u>5,057,068</u>	<u>3,310,867</u>

Adjustment to reflect consolidation of internal service fund activities related to enterprise funds.

Changes in net assets of business-type activities (page 26)

See accompanying notes to financial statements.

<u>Nonmajor funds</u>	<u>Totals</u>	<u>Governmental activities – Internal Service Funds</u>
—	9,513,834	—
—	8,722,959	—
3,001,277	9,860,461	9,397,738
<u>3,001,277</u>	<u>28,097,254</u>	<u>9,397,738</u>
868,224	6,509,222	1,405,368
1,479,881	6,832,017	5,969,431
3,969	1,430,066	516,479
121,117	1,876,870	22,822
664,619	6,956,313	324,980
432,450	3,076,550	233,800
10,900	1,658,026	—
73,843	289,772	36,271
<u>3,655,003</u>	<u>28,628,836</u>	<u>8,509,151</u>
<u>(653,726)</u>	<u>(531,582)</u>	<u>888,587</u>
390,000	390,000	—
10,557	402,725	52,044
(34,214)	(1,720,091)	—
4,692	125,781	415
<u>371,035</u>	<u>(801,585)</u>	<u>52,459</u>
(282,691)	(1,333,167)	941,046
<u>881,747</u>	<u>1,688,115</u>	<u>—</u>
599,056	354,948	941,046
<u>3,789,630</u>		<u>1,543,221</u>
<u><u>4,388,686</u></u>		<u><u>2,484,267</u></u>
	<u>225,577</u>	
	<u>\$ <u>580,525</u></u>	

CITY OF NAPLES, FLORIDA

Statement of Cash Flows

Proprietary Funds

Year ended September 30, 2003

	<u>Water and Sewer Fund</u>	<u>Solid Waste Fund</u>
Cash flows from operating activities:		
Cash received from customers	\$ 18,927,504	5,434,635
Cash payments to suppliers	(8,982,195)	(3,350,707)
Cash payments to employees	(4,145,099)	(1,165,478)
	<hr/>	<hr/>
Net cash provided by (used in) operating activities	5,800,210	918,450
	<hr/>	<hr/>
Cash flows from noncapital financing activities:		
Advances and repayments to other funds	—	—
Advances and repayments from other funds	407,285	—
	<hr/>	<hr/>
Net cash provided by (used in) noncapital financing activities	407,285	—
	<hr/>	<hr/>
Cash flows from capital and related financing activities:		
Principal paid on long-term debt	(2,943,899)	—
Interest paid on long-term debt	(1,559,983)	—
Capital and operating grants and contributions	806,368	—
Proceeds from transfer/disposal of capital assets	54,770	66,319
Acquisition and construction of capital assets	(1,665,014)	(218,057)
	<hr/>	<hr/>
Net cash provided by (used in) capital and related financing activities	(5,307,758)	(151,738)
	<hr/>	<hr/>
Cash flows from investing activities:		
Net (purchases) proceeds of investment securities	(138,904)	—
Interest and investment earnings	338,803	35,144
	<hr/>	<hr/>
Net cash provided by investing activities	199,899	35,144
	<hr/>	<hr/>
Net increase in cash and cash equivalents	1,099,636	801,856
	<hr/>	<hr/>
Cash and cash equivalents - beginning of year	14,403,622	1,256,740
	<hr/>	<hr/>
Cash and cash equivalents - end of year	\$ 15,503,258	2,058,596
	<hr/> <hr/>	<hr/> <hr/>

Stormwater Fund	Nonmajor funds	Total	Governmental Activities – Internal Service Funds
1,498,626	2,803,687	28,664,452	9,995,380
(577,019)	(2,114,580)	(15,024,501)	(7,679,069)
(293,373)	(863,997)	(6,467,947)	(1,375,835)
<u>628,234</u>	<u>(174,890)</u>	<u>7,172,004</u>	<u>940,476</u>
—	(48,596)	(48,596)	—
30,928	3,210	441,423	—
<u>30,928</u>	<u>(45,386)</u>	<u>392,827</u>	<u>—</u>
(31,806)	(26,440)	(3,002,145)	—
(90,947)	(34,534)	(1,685,464)	—
—	1,271,747	2,078,115	—
—	4,692	125,781	415
(401,184)	(894,558)	(3,178,813)	(137,398)
<u>(523,937)</u>	<u>320,907</u>	<u>(5,662,526)</u>	<u>(136,983)</u>
25,217	675	(113,012)	—
18,221	10,557	402,725	52,044
<u>43,438</u>	<u>11,232</u>	<u>289,713</u>	<u>52,044</u>
178,663	111,863	2,192,018	855,537
785,842	422,425	16,868,629	3,023,678
<u>964,505</u>	<u>534,288</u>	<u>19,060,647</u>	<u>3,879,215</u>

(Continued)

CITY OF NAPLES, FLORIDA

Statement of Cash Flows

Proprietary Funds

Year ended September 30, 2003

	<u>Water and Sewer Fund</u>	<u>Solid Waste Fund</u>
Reconciliation of operating income (loss) to net cash provided by operating activities:		
Operating income (loss)	\$ (481,673)	633,340
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Depreciation and amortization	5,392,955	296,492
Changes in assets and liabilities:		
Increase in accounts receivable, net	(502,308)	(49,372)
Decrease in special assessments receivable	124,800	—
Decrease in miscellaneous receivables	1,755	—
Decrease in due from other funds	119,257	—
(Increase) decrease in due from other governments	612,449	—
(Increase) decrease in inventories	141,574	—
Decrease in prepaid items	—	—
Increase in deferred charges	23,626	—
Increase (decrease) in accounts payable	3,765	32,600
Increase (decrease) in accrued payroll / personal leave	(206,017)	(76,465)
Decrease in compensated absences payable	235,269	81,855
Decrease in claims payable	—	—
Decrease in deferred revenue	(82,556)	—
Increase in due to other governments	411,452	—
Increase in due to other funds	—	—
Increase in customer deposits	5,862	—
Net cash provided by (used in) operating activities	\$ <u>5,800,210</u>	<u>918,450</u>

See accompanying notes to financial statements.

Stormwater Fund	Nonmajor funds	Total	Governmental Activities – Internal Service Funds
(29,523)	(653,726)	(531,582)	888,587
602,247	664,379	6,956,073	324,981
(7,479)	(26,967)	(586,126)	—
—	—	124,800	—
—	—	1,755	28,903
—	—	119,257	—
100,000	(1,055,377)	(342,928)	3,624
—	12,890	154,464	(1,714)
—	(8,750)	(8,750)	—
—	239	23,865	—
(39,417)	(44,111)	(47,163)	(67,937)
2,406	(20,332)	(300,408)	(28,558)
—	24,559	341,683	58,515
—	—	—	(266,035)
—	(11,753)	(94,309)	—
—	32,417	443,869	—
—	902,947	902,947	110
—	8,695	14,557	—
628,234	(174,890)	7,172,004	940,476

CITY OF NAPLES, FLORIDA

Statement of Fiduciary Net Assets

Fiduciary Funds

September 30, 2003

	Pension Trust Funds	Agency Funds
Assets:		
Cash and investments	\$ 2,418,328	55,604
Accounts receivable	306,439	65
Investments, at fair value:		
Corporate bonds	8,430,650	—
U.S. Government securities	9,970,202	—
Common stock	35,767,084	—
Mortgage – backed securities	1,505,888	—
Mutual funds	2,988,445	—
Total investments	<u>58,662,269</u>	<u>—</u>
Total assets	<u>61,387,036</u>	<u>55,669</u>
Liabilities:		
Accounts payable	<u>—</u>	<u>55,669</u>
Total liabilities	<u>—</u>	<u>55,669</u>
Net Assets:		
Held in trust for pension benefits and other purposes	<u>\$ 61,387,036</u>	<u>—</u>

See accompanying notes to financial statements.

CITY OF NAPLES, FLORIDA
Statement of Changes in Fiduciary Net Assets
Fiduciary Funds
Year ended September 30, 2003

	<u>Pension Trust Funds</u>
Additions:	
Contributions:	
Employee contributions	\$ 894,989
Employer contributions	783,771
State contributions	1,586,568
Total contributions	<u>3,265,328</u>
Investment earnings:	
Interest and dividend income	2,125,628
Net appreciation in fair value of investments	3,886,543
Less investment expense	<u>(234,793)</u>
Net investment earnings	<u>5,777,378</u>
Total additions	<u>9,042,706</u>
Deductions:	
Benefits paid	2,435,176
Refunds of contributions	404,470
General administration	<u>94,796</u>
Total deductions	<u>2,934,442</u>
Change in net assets	6,108,264
Net assets – beginning of year	<u>55,278,772</u>
Net assets – end of year	<u><u>\$ 61,387,036</u></u>

See accompanying notes to financial statements.

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THE CITY OF NAPLES, FLORIDA

Notes to Financial Statements

September 30, 2003

(I) Summary of Significant Accounting Policies and Practices

The accounting policies and practices and the presentation of the financial report of the City of Naples, Florida (the City), have been designed to conform to generally accepted accounting principles as applicable to governmental units, in accordance with the Governmental Accounting Standards Board (GASB). The following is a summary of the more significant accounting policies and practices:

(A) Reporting Entity

The City of Naples, Florida is a political subdivision of the State of Florida, located in Collier County along the lower southwest coast of the State. Naples was incorporated in December 1923. The City operates under a City Manager form of government, which is comprised of an elected City Council (six members) and a Mayor. In addition to the public safety, general government, recreation, sanitation, and public works services provided to its residents, the City operates water and sewer enterprises and maintains various agency funds in a fiduciary capacity.

The accompanying financial statements present the government and its blended component units, entities for which the government is considered to be financially accountable. Blended component units, although legally separate entities, are, in substance, part of the government's operations. The City has no discretely presented component units to report.

Blended component units. Moorings Bay and East Naples Bay Special Taxing Districts are blended component units of this reporting entity as both districts are governed by Naples City Council. The Special Taxing Districts were created and established by Ordinance #87-5328 and #87-5330, respectively, for the purpose of providing maintenance dredging in the channels and waterways within the area or boundary of the respective District, and to maintain necessary aids to navigation. Funds for maintenance dredging are provided through an ad valorem tax that is levied only within these specified districts. Separate financial statements for the blended component units are not prepared.

Entities, which benefit residents of the City but are excluded from this report, are the Naples Community Hospital and the Naples Airport Authority, as they do not meet the criteria of component units.

(B) Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which principally 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

THE CITY OF NAPLES, FLORIDA

Notes to Financial Statements

September 30, 2003

capital requirements of a particular function or segment. Taxes and other items not included among program revenues are reported instead as *general revenues*.

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

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

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements 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 government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period, with the exception of grant revenues which are considered available if they are collected within 6 months of the end of the current fiscal year. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when the liability has matured.

The City reports the following major governmental funds:

General Fund – is the general operating fund of the City. All general tax revenue and other receipts that are not required either legally or by generally accepted accounting principles to be accounted for in other funds are accounted for in the General Fund.

Debt Service Fund – is used to account for the accumulation of resources for and the payment of principal, interest and other expenditures on long-term debt, other than notes and bonds payable from the operation of Proprietary Funds.

Capital Projects Fund – is used to account for financial resources segregated for the acquisition or construction of major capital facilities as designated by City Council.

Community Redevelopment Fund – is used to account for the receipt and disbursement of tax increment financing resources received for the redevelopment program and to finance capital improvements in the redevelopment area of the City.

Streets and Traffic Fund – is used to account for the City's share of the local option fuel taxes and road impact fees for the purpose of improving streets and traffic within the City.

THE CITY OF NAPLES, FLORIDA

Notes to Financial Statements

September 30, 2003

The City reports the following major proprietary funds:

Water and Sewer Fund – is used to account for all of the activities of providing customers with potable water and wastewater disposal services.

Solid Waste Fund – is used to account for all of the activities of the collection and disposal of solid waste.

Stormwater Fund – is used to account for funds used in the construction of storm sewers and subsequent operations of the system.

Additionally the City reports the following fund types:

Internal Service Funds – account for data processing, equipment services, health insurance and risk management services provided to other departments or agencies of the City.

Fiduciary Funds – account for the activities of the City's retirement systems, which accumulate resources for pension benefit payments made to qualified general and public safety employees.

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. Governments also have the *option* of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the government's water and sewer functions and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

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

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

THE CITY OF NAPLES, FLORIDA

Notes to Financial Statements

September 30, 2003

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

(D) Assets, Liabilities, and Net Assets

(1) Deposits and investments

(a) Cash and Cash Equivalents

Cash and cash equivalents are defined as highly liquid investments with original maturities of three months or less.

(b) Investments

The City follows the provisions of Statement No. 31 of the Governmental Accounting Standards Board, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, in which all investments are reported at fair value based on quoted market prices.

The City maintains a centralized bank account to maximize investment yields. Investment income resulting from pooling of investments (generally short-term repurchase agreements) is allocated based on average monthly invested balances.

(2) Receivables and Payables

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

(a) Advances to Other Funds

In governmental fund types, noncurrent portions of long-term interfund loan receivables are reported as advances and are offset equally by a fund balance reserve account, which indicates that they do not constitute expendable available financial resources, and therefore, are not available for appropriation.

(b) Short-Term Interfund Receivables/Payables

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered and the cash used/generated in those transactions is recorded in a general cash clearing fund. Each operating fund maintains a positive cash equity position (receivable balance) or a negative cash deficit position (payable balance) in the cash clearing fund. These receivables and payables are classified as "due from other funds" or "due to other funds" on the balance sheet. The net receivable balance is allocated as cash to the individual funds based on their majority

THE CITY OF NAPLES, FLORIDA

Notes to Financial Statements

September 30, 2003

percentage of positive equity to total positive equity. Interfund receivables and payables are liquidated on a monthly basis.

(3) Inventories

Inventories are valued at cost (first-in, first-out method) in the General Fund and consist of expendable supplies held for consumption. Inventories are reported using the "Consumption Method" and are reported as an asset in governmental funds (rather than as an expenditure) until consumed, at which time an expenditure is reported. Reported inventories are equally offset by a fund balance reserve which indicates that they do not constitute "available spendable resources" even though they are a component of net current assets.

Inventories are valued at the lower of cost (first-in, first-out method) or market in the Enterprise and Internal Service Funds. They consist of water meters, supplies, maintenance parts, tires, and fuel held for consumption. Allowances have been recorded for obsolete and surplus items, when appropriate. Inventories of proprietary funds are reported as an expense when consumed.

(4) Restricted Assets

Certain proceeds of Enterprise Fund revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the statement of net assets because their use is limited by applicable bond covenants.

Restricted for debt service includes the sinking fund and revenue bond retirement accounts. The sinking fund is used to segregate resources accumulated for debt service payments over the next twelve months. The revenue bond retirement account is used to report resources set aside to make up potential future deficiencies in the sinking fund. Restricted for renewal and replacement is used to report resources set aside to meet unexpected contingencies or to fund asset renewals and replacements.

(5) Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable City 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 two years. 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 assets constructed.

THE CITY OF NAPLES, FLORIDA

Notes to Financial Statements

September 30, 2003

Capital assets of the primary government, as well as the component units, are depreciated using the straight line method over the following estimated useful lives:

Buildings	10 – 50 years
Utility systems	40 – 50 years
Improvements other than buildings	5 – 20 years
Infrastructure	10 - 20 years
Equipment	3 – 10 years

(6) Compensated Absences

It is the City’s policy to allow employees to accumulate personal leave (sick and vacation) benefits. The liability relating to such unused leave, to the extent of certain vested maximum hours, is recorded in the accompanying statement of net assets. Expenditures for compensated absences in governmental funds are those paid during the current fiscal year and the amount unpaid at the end of the reporting period that has matured. For proprietary funds, the liability relating to vested personal leave is reflected on the accrual basis.

(7) Long-Term Obligations

In the government-wide financial statements, and proprietary fund types in the fund 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. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

(8) Fund Equity

In the fund financial statements, reserves of governmental funds represent portions of fund balances which are not appropriable for expenditure or which have been legally segregated for specific future uses.

Designations of fund balances in governmental funds represent tentative plans for the use of financial resources in a future period. Such plans are subject to change and may never be legally authorized or result in expenditures.

Restricted net assets in the Water and Sewer Fund and the Stormwater Fund are created by restrictions of assets for debt service and renewal and replacement. These net assets increase as

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a result of earnings on restricted assets. Earnings on restricted assets are included in net income of the funds.

(9) Administrative Fees

Certain administrative expenses are incurred by the General Fund on behalf of other funds of the City. The General Fund collects for these services based on a percentage of operating costs and personnel costs. The related reimbursements for these services are recorded as either an operating expense in the proprietary funds or as an expenditure in the governmental funds. Such fees amounted to \$4,459,952 for fiscal year 2003, and included \$353,200 charged to internal service and fiduciary funds and \$331,200 charged to capital projects funds.

(II) Reconciliation of Government-Wide and Fund Financial Statements

(A) Explanation of Certain Differences Between the Governmental Fund Balance Sheet and the Government-Wide Statement of Net Assets

The governmental funds balance sheet includes a reconciliation between *fund balances — total governmental funds and net assets — governmental activities* as reported in the government-wide statement of net assets. One element of that reconciliation explains that “long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.” The details of this (\$25,465,133) difference are as follows:

Bonds payable	\$ (24,306,090)
Less issuance discounts (to be amortized as interest expense)	139,967
Compensated absences	<u>(1,299,010)</u>
Net adjustment to reduce <i>fund balance – total governmental funds to arrive at net assets – governmental activities</i>	<u>\$ (25,465,133)</u>

Another element of that reconciliation explains that “certain long term assets are not available to pay for current period expenditures and, therefore are not recorded in the funds.” The details of this \$1,376,605 difference is as follows:

Net pension assets	\$ 1,200,655
Unamortized bond issuance costs	<u>177,950</u>
Net adjustment to reduce <i>fund balance – total governmental funds to arrive at net assets – governmental activities</i>	<u>\$ 1,378,605</u>

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(B) Explanation of Certain Differences Between the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balances and the Government-Wide Statement of Activities

The governmental fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation between *net changes in fund balances — total governmental funds and changes in net assets of governmental activities* as reported in the government-wide statement of activities. One element of that reconciliation explains that “Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.” The details of this \$3,688,899 difference are as follows:

Capital outlay	\$	6,844,766
Depreciation expense		<u>(3,155,877)</u>
Net adjustment to increase <i>net changes in fund balances — total governmental funds to arrive at changes in net assets of governmental activities</i>	\$	<u><u>3,688,889</u></u>

Another element of that reconciliation states that “The net effect of various miscellaneous transactions involving capital assets (i.e., sales, trade-ins, and donations) is to decrease net assets.” The details of this (\$47,657) difference are as follows:

Donations of capital assets increase net assets in the statement of activities, but do not appear in the governmental funds because they are not financial resources.	\$	47,000
The statement of activities report losses arising from the trade-in or the disposal of existing capital assets to acquire new capital assets. Conversely, governmental funds do not report any gain or loss on a trade-in or disposal of capital assets		<u>(94,657)</u>
Net adjustment to increase <i>net changes in fund balances — total governmental funds to arrive at changes in net assets of governmental activities</i>	\$	<u><u>(47,657)</u></u>

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Another element of that reconciliation states that “the issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities.” The details of this \$71,255 difference are as follows:

Debt issued or incurred:	
Issuance of redevelopment revenue bonds	\$ (5,925,000)
Principal repayments:	
General obligation debt	440,000
Revenue bonds debt	2,581,255
Payment to escrow agent for refunding	<u>2,975,000</u>
Net adjustment to decrease <i>net changes in fund balances – total governmental funds to arrive at changes in net assets of governmental activities</i>	\$ <u><u>71,255</u></u>

Another element of that reconciliation states that “Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.” The details of this (\$62,103) difference are as follows:

Compensated absences	\$ (47,043)
Accrued interest	13,569
Amortization of issuance costs	(16,968)
Amortization of bond discounts	<u>(11,661)</u>
Net adjustment to decrease <i>net changes in fund balances – total governmental funds to arrive at changes in net assets of governmental activities</i>	\$ <u><u>(62,103)</u></u>

(III) Stewardship, Compliance, and Accountability

(A) Budgetary Information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles. Annual appropriated budgets are adopted for the General, Special Revenue, Debt Service, and Capital Project Funds. All annual appropriations lapse at fiscal year end. Project-length financial plans are also adopted for capital expenditures of each fund.

The City follows these procedures in establishing the budgetary data reflected in the financial statements:

1. At City Council workshops in June and July, the City Manager submits to the City Council a proposed operating budget for the fiscal year commencing October 1. The operating budget includes proposed expenditures and the means of financing them.

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2. In September, public hearings are conducted to obtain taxpayer comments.
3. The budget is legally enacted through passage of an ordinance, effective October 1.
4. The appropriated budget is prepared by Fund, function and department, activity, and object. The appropriations ordinance is enacted on an annual basis. The legal level of budgetary control is maintained at the department level in the General Fund and fund level in all other funds per City Ordinance #02-9825. Total expenditures may not legally exceed appropriations for each budgeted fund. A department head may transfer appropriations within the department, with the City Manager's approval. All other changes require City Council approval.
5. Formal budgetary integration is employed as a management control device during the year for the General Fund, Special Revenue Funds, Debt Service Fund and Capital Projects Funds.
6. Unused appropriations lapse at the end of the year.

Budgeted amounts in the accompanying financial statements are as originally adopted, or as amended by the appropriate authority. Individual amendments were not material in relation to the original appropriations.

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is employed as an extension of formal budgetary integration in the General Fund and Capital Projects Funds. Encumbrances outstanding at year end are reported as reservations of fund balances since they do not constitute expenditures or liabilities.

(B) Excess of Expenditures Over Appropriations

For the year ended September 30, 2003, expenditures exceeded appropriations as follows:

General Fund – City Manager	\$	51,646
General Fund – Fire Department		151,564
General Fund – Human Resources		6,533
Nonmajor – Land Contribution Fund – Economic and Physical Development		6,866
Nonmajor – Improvement Fund		107,388

(C) Deficit Fund Balances

The Community Development Block Grant Fund has a deficit fund balance of \$46,608 at September 30, 2003. Such deficit will be recovered through future recoveries from the granting agency.

The risk management internal service fund has deficit net assets of \$40,567 at September 30, 2003. This deficit will be recovered in future years through increased charges to participating funds.

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(IV) Detailed Notes on All Funds

(A) Cash and Investments

Cash and investments at September 30, 2003 are as follows:

	Pooled cash and investments	Nonpooled cash	Nonpooled investments	Total
Unrestricted	\$ 41,582,759	3,703,427	59,163,050	104,449,236
Restricted	—	1,306,873	4,926,968	6,233,841
	\$ 41,582,759	5,010,300	64,090,018	110,683,077

Cash and investments are reported in the basic financial statements at September 30, 2003 as follows:

Cash and investments:	
Governmental activities	\$ 30,486,229
Business - type activities	12,826,806
Pension trust funds	61,080,597
Agency funds	55,604
Restricted cash and investments:	
Business - type activities	6,233,841
	\$ 110,683,077

Pooled cash and investments at September 30, 2003 are as follows:

Cash (interest-bearing checking deposits)	\$ 1,733,633
Cash equivalents:	
Florida State Board of Administration Investment Pool	15,694,585
Investments:	
U.S. Treasury bills and notes	1,042,500
Federal National Mortgage Association (Fannie Mae)	1,503,288
Federal Home Loan Bank	12,344,219
Federal Mortgage Corporation	8,263,234
Student Loan Marketing Association (Sallie Mae)	1,001,300
Total	\$ 41,582,759

Florida Statutes and City Ordinance #01-9099 authorize the City to invest in the Local Government Surplus Funds Trust Fund administered by the State Board of Administration (State Board), under the regulatory oversight of the State of Florida. Permitted investments also include obligations of the U.S. Treasury and U.S. Agencies, and interest-bearing time deposits and savings accounts held in federal or state chartered banks and savings and loan associations doing business in Florida, provided that such deposits are secured by collateral as may be prescribed. Additionally, the statutes allow

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local governments to place public funds with institutions that participate in a collateral pool under the Florida Security for Public Deposits Act. The pool is administered by the State Treasurer who may make additional assessments against other qualified public depositories to ensure that no public funds will be lost. The State Board is an external investment pool that is not registered with the Securities and Exchange Commission (SEC), but does operate in a manner consistent with SEC's Rule 2a7 of the Investment Company Act of 1940. Accordingly, the City's investments in the State Board have been determined based on the pool's share price. The Pension Trust Funds are also authorized to invest in corporate stocks and bonds.

The City invests in nonderivative mortgage-backed products in part to modify exposure to certain risks, to enhance yields on investments, or to affect changes in investment portfolios without significantly affecting liquidity. Within this mortgage-backed securities category are investments in mortgages and principal or interest strips. Diversification of investments as to the investment type and the term to maturity serve to reduce both market risk and interest rate uncertainty. The City has and shall maintain prudent diversification of investments as to both issuer and term; in addition, to the extent possible, the City has and will attempt to match its investments with anticipated cash flow requirements.

The total bank and book balances for cash (excluding cash equivalents of \$124,837) at September 30, 2003, were \$7,199,246 and \$6,619,096, respectively. These balances were fully secured by federal depository insurance or through financial institutions participating in the collateral pool. The City maintains a banking service agreement that provides for the investment of all City funds in a cash clearing account in excess of a minimum compensating balance of \$750,000.

The City's investments are categorized as follows to give an indication of the level of custodial credit risk assumed at the end of the year. Category 1 includes investments that are insured or registered and for which the securities are held by the City or its agent in the City's name. Category 2 includes investments that are uninsured and unregistered with securities held by the counterparty or its trust department or agent, in the City's name. Category 3 includes investments that are uninsured and unregistered with securities held by the counterparty or its trust department or agent, but not in the City's name.

	Category			Carrying/ fair value
	1	2	3	
Corporate bonds	\$ 8,430,650	—	—	8,430,650
U.S. government securities	34,625,524	—	—	34,625,524
Common stock	35,767,084	—	—	35,767,084
Mortgage-backed securities	1,505,888	—	—	1,505,888
Total	\$ 80,329,146	—	—	80,329,146
Investments not subject to categorization:				
401(a) Plan mutual fund				2,988,445
				\$ 83,317,591

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(B) Property Taxes

The City's property tax is levied each November 1, on the assessed value for all property located within the City. Assessed values are established by the Collier County Property Appraiser at fair values. The assessed value of the principal taxing authority's property at January 1, 2002 upon which the 2002-03 levy was based was \$9.95 billion. The millage rate to finance general government services for the fiscal year ended September 30, 2003 was 1.113 (\$1.113 per \$1,000 of assessed value). The voted debt service millage was 0.0867 (\$0.0867 per \$1,000 of assessed value) to pay for the principal and interest on general obligation bonds issued to purchase a tract of land to be used as a national preserve. The assessed values at January 1, 2002 of the dependent special districts, East Naples Bay and Moorings Bay, were \$290 million, and \$982 million, respectively. In addition to the City's 1.113 millage rate, and the voted debt service millage rate of 0.0867, 0.5000 (\$0.50 per \$1,000 of assessed value) is added to the East Naples Bay dependent special district and 0.0250 (\$0.025 per \$1,000 of assessed value) is added to the Moorings Bay dependent special district to finance capital projects for the fiscal year ended September 30, 2003. Total ad valorem taxes collected for the year ended September 30, 2003, aggregated \$11,674,715, gross of cash discounts, of which \$10,346,126 was designated for general government services, \$496,739 for capital projects, and \$831,850 for debt service on the general obligation debt.

Taxes in the City of Naples are levied by the City Council. The millage levies are determined on the basis of estimates of revenue needs and the total taxable valuations within the jurisdiction of the City. No aggregate ad valorem tax millage in excess of 10 mills on the dollar is levied against property of the City as specified in Florida Statute 200.071.

Each year the total taxable valuation is established by the Collier County Property Appraiser for City property, and the list of property assessments is submitted to the State Department of Revenue for approval.

The property tax calendar is as follows:

Assessment date (date of property ownership)	January 1
Levy date	November 1
Due date	March 31
Delinquent date	April 1
Lien date	June 1

For the 2003 tax roll year, the assessment roll was opened for collection on November 1, 2002, and discounts for payment prior to April 1, 2003, were determined as follows:

Discounts allowed

- 4% if paid by November 30
- 3% if paid by December 31
- 2% if paid by January 31
- 1% if paid by February 28

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Taxes become delinquent on April 1 of each year and tax certificates for the full amount of any unpaid taxes must be sold no later than June 1 of the same year. No amount for the property tax levy becoming due in November 2003 is included in the accompanying financial statements since such taxes are levied to finance expenditures of the subsequent period.

(C) Receivables

Receivables at September 30, 2003, for the City's individual major funds and for the total nonmajor funds were as follows:

	<u>Accounts receivable</u>	<u>Special assessments</u>	<u>Utility taxes</u>	<u>Due from other governments</u>	<u>Other</u>	<u>Total</u>
Governmental activities:						
Major funds:						
General	\$ 455,443	—	—	281,243	—	736,686
Debt service	—	—	276,001	—	6,670	282,671
Capital projects	265,399	351,224	—	581,769	—	1,198,392
Streets and traffic	358	—	—	296,658	—	297,016
Nonmajor	37,563	—	—	11,128	—	48,691
Internal service	—	—	—	236	39,826	40,062
	<u>\$ 758,763</u>	<u>351,224</u>	<u>276,001</u>	<u>1,171,034</u>	<u>46,496</u>	<u>2,603,518</u>
Business type activities:						
Major funds:						
Water and sewer	\$ 2,861,239	447,345	—	—	32,720	3,341,304
Solid waste	779,184	—	—	—	—	779,184
Stormwater	199,888	—	—	—	—	199,888
Nonmajor	35,441	—	—	1,266,546	607	1,302,594
	<u>\$ 3,875,752</u>	<u>447,345</u>	<u>—</u>	<u>1,266,546</u>	<u>33,327</u>	<u>5,622,970</u>

The above receivables are net of an allowance for uncollectible accounts which is based on historical trends and/or the age of the receivable. The allowances at September 30, 2003 are as follows:

Water and Sewer Fund	\$ 40,512
Solid Waste Fund	<u>9,000</u>
Total	<u>\$ 49,512</u>

THE CITY OF NAPLES, FLORIDA

Notes to Financial Statements

September 30, 2003

(D) Capital Assets

Governmental Activities:

A summary of changes in the capital assets of governmental activities for the year ended September 30, 2003 is as follows:

	<u>Balance October 1</u>	<u>Additions</u>	<u>Transfers/ retirements</u>	<u>Balance September 30</u>
Capital assets, not being depreciated:				
Land	\$ 11,728,885	51,522	—	11,780,407
Land Improvements	—	176,885	—	176,885
Construction in progress	<u>2,479,998</u>	<u>1,630,559</u>	<u>(2,479,998)</u>	<u>1,630,559</u>
Total capital assets, not being depreciated	<u>14,208,883</u>	<u>1,858,966</u>	<u>(2,479,998)</u>	<u>13,587,851</u>
Capital assets, being depreciated:				
Buildings	24,892,333	2,061,013	(258,820)	26,694,526
Improvements other than buildings	20,052,310	959,105	(63,747)	20,947,668
Infrastructure	17,200,514	3,033,941	—	20,234,455
Equipment	<u>10,286,658</u>	<u>1,596,147</u>	<u>(585,821)</u>	<u>11,296,984</u>
Total capital assets being depreciated	<u>72,431,815</u>	<u>7,650,206</u>	<u>(908,388)</u>	<u>79,173,633</u>
Less accumulated depreciation	<u>(33,963,725)</u>	<u>(3,477,750)</u>	<u>807,994</u>	<u>(36,633,481)</u>
Total capital assets, being depreciated, net	<u>38,468,090</u>	<u>4,172,456</u>	<u>(100,394)</u>	<u>42,540,152</u>
Governmental activities capital assets, net	<u>\$ 52,676,973</u>	<u>6,031,422</u>	<u>(2,580,392)</u>	<u>56,128,003</u>

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Notes to Financial Statements

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Business-Type Activities:

A summary of changes in capital assets of business-type activities for the year ended September 30, 2003 is as follows:

<u>Water and Sewer Fund</u>	<u>Balance October 1</u>	<u>Additions</u>	<u>Transfers/ retirements</u>	<u>Balance September 30</u>
Capital assets not being depreciated:				
Land	\$ 1,701,283	—	—	1,701,283
Construction in progress	—	9,751	—	9,751
Total capital assets not being depreciated	<u>1,701,283</u>	<u>9,751</u>	<u>—</u>	<u>1,711,034</u>
Capital assets being depreciated:				
Buildings	56,972,663	35,396	—	57,008,059
Improvements other than buildings	17,632,645	1,157,859	—	18,790,504
Infrastructure	50,247,584	—	—	50,247,584
Machinery and equipment	11,440,302	586,457	(108,424)	11,918,335
Total capital assets being depreciated	<u>136,293,194</u>	<u>1,779,712</u>	<u>(108,424)</u>	<u>137,964,482</u>
Less accumulated depreciation	<u>(53,302,536)</u>	<u>(5,362,532)</u>	<u>92,456</u>	<u>(58,572,612)</u>
Total capital assets being depreciated, net	<u>82,990,658</u>	<u>(3,582,820)</u>	<u>(15,968)</u>	<u>79,391,870</u>
Water and sewer fund capital assets, net	<u>\$ 84,691,941</u>	<u>(3,573,069)</u>	<u>(15,968)</u>	<u>81,102,904</u>

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Solid Waste Fund	Balance October 1	Additions	Transfers/ retirements	Balance September 30
Capital assets not being depreciated:				
Land	\$ 1,145,053	—	—	1,145,053
Capital assets being depreciated:				
Buildings	576,015	—	—	576,015
Improvements other than buildings	892,919	57,887	—	950,806
Machinery and equipment	2,185,881	162,381	(217,590)	2,130,672
Total capital assets being depreciated	3,654,815	220,268	(217,590)	3,657,493
Less accumulated depreciation	(2,233,940)	(294,006)	212,894	(2,315,052)
Total capital assets being depreciated, net	1,420,875	(73,738)	(4,696)	1,342,441
Solid waste fund capital assets, net	\$ 2,565,928	(73,738)	(4,696)	2,487,494
Stormwater Fund	Balance October 1	Additions	Transfers/ retirements	Balance September 30
Capital assets not being depreciated:				
Land	\$ 19,814	—	—	19,814
Construction in progress	28,293	48,883	—	77,176
Total capital assets not being depreciated	48,107	48,883	—	96,990
Capital assets being depreciated:				
Improvements other than buildings	6,495,710	324,782	—	6,820,492
Machinery and equipment	310,387	2,302	—	312,689
Total capital assets being depreciated	6,806,097	327,084	—	7,133,181
Less accumulated depreciation	(1,403,295)	(602,247)	—	(2,005,542)
Total capital assets being depreciated, net	5,402,802	(275,163)	—	5,127,639
Stormwater fund capital assets, net	\$ 5,450,909	(226,280)	—	5,224,629

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<u>Non-major funds</u>	<u>Balance October 1</u>	<u>Additions</u>	<u>Transfers/ retirements</u>	<u>Balance September 30</u>
Capital assets not being depreciated:				
Construction in progress	\$ 68,897	390,363	—	459,260
Capital assets being depreciated:				
Buildings and utility plants	1,441,637	51,832	—	1,493,469
Improvements other than buildings	5,456,989	414,148	—	5,871,137
Machinery and equipment	861,525	37,539	(24,417)	874,647
Total capital assets being depreciated	<u>7,760,151</u>	<u>503,519</u>	<u>(24,417)</u>	<u>8,239,253</u>
Less accumulated depreciation	<u>(3,561,351)</u>	<u>(663,324)</u>	24,417	<u>(4,200,258)</u>
Total capital assets being depreciated, net	<u>4,198,800</u>	<u>(159,805)</u>	—	<u>4,038,995</u>
Nonmajor fund business-type activities capital assets, net	\$ <u>4,267,697</u>	<u>230,558</u>	—	<u>4,498,255</u>
Total business - type capital assets, net	\$ <u>96,976,475</u>	<u>(3,642,529)</u>	<u>(20,664)</u>	<u>93,313,282</u>

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

Governmental activities:	
General government	\$ 445,443
Public safety	903,401
Physical and economic environment	386,691
Transportation	921,026
Cultural and recreation	821,189
Total depreciation expense – governmental activities	\$ <u>3,477,750</u>
Business-type activities:	
Water and sewer	\$ 5,362,532
Solid waste	294,006
Stormwater	602,247
Other nonmajor enterprise funds	663,324
Total depreciation expense – business-type activities	\$ <u>6,922,109</u>

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(E) Interfund Transactions

Individual fund interfund receivable and payable balances at September 30, 2003 are as follows:

	<u>Interfund receivable</u>	<u>Interfund payable</u>
Governmental activities:		
General Fund	\$ 200,191	—
Debt Service Fund	—	457,137
Capital Projects Fund	657,328	—
Community Redevelopment Streets and Traffic Fund	200,190	—
200,190	200,190	—
Nonmajor funds:		
Building and Zoning Fund	200,190	—
Business-type activities:		
Nonmajor funds:		
Naples Beach Fund	—	1,000,952
	<u>\$ 1,458,089</u>	<u>1,458,089</u>

Interfund receivables and payables generally represent recurring activities between funds as well as temporary deficit cash balances. The interfund payable of the non-major business-type activities represents project costs to be funded by grant dollars.

Advances from/to other funds are as follows:

	<u>Advance receivable</u>	<u>Advance payable</u>
Governmental activities:		
General Fund	\$ 916,498	—
Capital Projects Fund	992,331	—
Streets and Traffic Fund	528,072	—
Community Redevelopment Fund	—	2,585,973
Nonmajor Funds:		
Community Development Block Grant Fund	—	52,611
Business-type activities:		
Water and Sewer Fund	52,611	—
Stormwater Fund	149,072	—
	<u>\$ 2,638,584</u>	<u>2,638,584</u>

Advances to other funds represent funds of the community redevelopment fund used to construct a facility which will be reimbursed from grant proceeds when received. Advances not expected to be repaid within one year are \$2,388,584.

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Interfund Transfers:

Transfers during the year ended September 30, 2003 consisted of the following:

	<u>Transfers in</u>	<u>Transfers out</u>
Governmental activities:		
Debt Service Fund	\$ 244,582	5,028,832
Capital Projects Fund	2,047,478	—
Community Redevelopment	2,981,354	180,340
Nonmajor Funds:		
East Naples Bay District	—	64,242
	<u>\$ 5,273,414</u>	<u>5,273,414</u>

Transfers to other funds represent utility taxes collected in the debt service fund which are transferred to capital projects funds where expenditures are incurred.

(F) Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses at September 30, 2003, for the City's individual major funds and for the total nonmajor funds were as follows:

	<u>Accounts payable</u>	<u>Accrued payroll</u>	<u>Accrued interest</u>	<u>Total</u>
Governmental activities:				
Major funds:				
General	\$ 350,036	467,492	231,848	1,049,376
Debt service	15,278	—	—	15,278
Capital projects	563,511	—	—	563,511
Community redevelopment	4,801	2,474	—	7,275
Streets and traffic	1,257,179	7,466	—	1,264,645
Nonmajor	1,002,121	30,001	—	1,032,122
Internal service	93,691	41,994	—	135,685
	<u>\$ 3,286,617</u>	<u>549,427</u>	<u>231,848</u>	<u>4,067,892</u>
Business type activities:				
Major funds:				
Water and sewer	\$ 523,661	115,271	—	638,932
Solid waste	157,357	28,994	—	186,351
Stormwater	249,700	7,665	—	257,365
Nonmajor	133,608	22,221	—	155,829
	<u>\$ 1,064,326</u>	<u>174,151</u>	<u>—</u>	<u>1,238,477</u>

THE CITY OF NAPLES, FLORIDA

Notes to Financial Statements

September 30, 2003

(G) Long-Term Obligations

Governmental activities long-term obligations at September 30, 2003 are comprised of the following:

1993 Public Service Tax Refunding Revenue Bonds – \$5,263,189 – due in annual installments of \$135,000 to \$723,328 through July 1, 2009. Public service taxes are pledged to secure this issue. Interest ranges from 4.2% to 5.125%	\$ 1,126,090
2000 General Obligation Bonds – \$8,460,000 – due in annual installments of \$190,000 to \$815,000 through March 1, 2015. Ad valorem taxes are pledged to secure this issue. Interest ranges from 5.00% to 5.20%	7,410,000
2001 Public Service Tax Revenue Bonds – \$9,845,000 – due in annual installments beginning July 1, 2004 of \$183,300 to \$878,900 through July 1, 2021. Public service taxes are pledged to secure this issue. Interest rates range from 4.10% to 5.00%	9,845,000
2003 Redevelopment Revenue and Refunding Bonds – \$5,925,000 – due in annual installments beginning December 1, 2003 of \$250,000 to \$415,000 through December 1, 2021. Non-Ad Valorem taxes are pledged to secure this issue. Interest rate is 3.58%	5,925,000
Unamortized issuance discounts	(139,967)
Compensated absences payable	1,436,212
	<u>\$ 25,602,335</u>

Changes in long-term obligations for the year ended September 30, 2003 are as follows:

	<u>Balance October 1</u>	<u>Issued</u>	<u>Retired</u>	<u>Balance September 30</u>	<u>Due in one year</u>
1993 Public Service Tax Refunding Bonds	\$ 1,849,418	—	723,328	1,126,090	213,379
1998 Public Service Tax Bonds	1,857,927	—	1,857,927	—	—
1998 Tax Increment Revenue Bonds	2,975,000	—	2,975,000	—	—
2000 General Obligation Bonds	7,850,000	—	440,000	7,410,000	460,000
2001 Public Service Tax Revenue Bonds	9,845,000	—	—	9,845,000	160,000
2003 Redevelopment Revenue and Refunding Bonds	—	5,925,000	—	5,925,000	250,000
Unamortized issuance discounts	—	(151,628)	(11,661)	(139,967)	—
Compensated absences payable	1,389,168	311,640	264,596	1,436,212	216,325
Total	\$ <u>25,766,513</u>	<u>6,085,012</u>	<u>6,249,190</u>	<u>25,602,335</u>	<u>1,299,704</u>

THE CITY OF NAPLES, FLORIDA

Notes to Financial Statements

September 30, 2003

Annual debt service requirements to maturity for governmental activities are as follows:

	<u>Principal</u>	<u>Interest</u>
Year ended September 30:		
2004	\$ 1,083,379	1,089,033
2005	1,068,603	1,039,658
2006	1,114,108	989,355
2007	1,200,000	936,759
2008	1,260,000	881,989
2009-2013	7,395,000	3,473,420
2014-2018	6,910,000	1,749,958
2019-2023	4,275,000	389,877
	<u>\$ 24,306,090</u>	<u>10,550,049</u>

THE CITY OF NAPLES, FLORIDA

Notes to Financial Statements

September 30, 2003

Long-term liabilities of the business-type activities at September 30, 2003 are comprised of the following issues:

Water and Sewer Fund:

\$12,980,000 Water and Sewer Revenue Refunding Bonds, Series 2002, due in annual installments of \$775,000 to \$1,290,000 through September 1, 2015, interest ranges from 3.50% to 5.00%, less unamortized original issue discount of \$44,265. The principal and interest on the 2002 issue is payable from and secured by the net revenue of the water and sewer system and from all principal and interest received from investment of monies in various funds established by ordinance	\$ 12,160,735
\$7,275,000 Water and Sewer Revenue Refunding Bonds, Series 2001, due in annual installments of \$1,370,000 to \$1,545,000 through September 1, 2006, interest rate of 4.0%, less unamortized discount of \$19,438. The principal and interest on the 2001 issue is payable from and secured by the net revenue of the water and sewer system and from all principal and interest received from investment of monies in various funds established by ordinance	4,435,562
State of Florida Revolving Loan Fund payable in equal semi-annual installments of principal and interest for a period of twenty (20) years beginning in April 1998. Construction completed April 2000. Planning, engineering, and administration allowances in the amount of \$962,696 were approved in March 1995 and carry an interest rate of 3.79%. Phase I construction was approved in the amount of \$25,930,000 in June 1996 at an interest rate of 2.56%	23,711,243
Unamortized original issue premium	188,697
Unamortized deferred loss on refunding	<u>(365,706)</u>
Total water and sewer fund	<u>\$ 40,130,531</u>

THE CITY OF NAPLES, FLORIDA

Notes to Financial Statements

September 30, 2003

Stormwater Fund:

State of Florida Revolving Loan Fund payable in equal semi-annual installments of principal and interest for a period of twenty (20) years beginning with the completion of construction scheduled for Fall 2003. Construction was approved in the amount of \$4,830,210 in June 1999 at an interest rate of 3.03%

\$ 2,916,602

Nonmajor funds:

City Dock Fund:

\$601,811 Public Service Tax Refunding Revenue Bonds, Series 1993, due in annual installments of \$21,916 to \$30,893 through July 1, 2006, interest ranges from 2.60% to 5.125%, less unamortized original issue discount of \$322. The principal and interest on the 1993 issue is payable from and secured by non-ad valorem taxes and from all principal and interest received from investment of monies in various funds established by ordinance

\$ 83,590

City Tennis Fund:

\$605,000 Public Service Tax Refunding Revenue Bonds, Series 2001, due in annual installments beginning July 1, 2004 of \$11,100 to \$56,100 through July 1, 2021, interest ranges from 4.1% to 5.0%. The principal and interest on the 2001 issue is payable from and secured by non-ad valorem taxes and from all principal and interest received from investment of monies in various funds established by ordinance

605,000

Total nonmajor funds \$ 688,590

Changes in proprietary fund debt for the year ended September 30, 2003 are as follows:

	<u>Water and sewer</u>	<u>Solid waste</u>	<u>Stormwater</u>	<u>Non-major</u>
Long term obligations – October 1, 2002	\$ 43,320,551	80,738	2,952,875	746,433
Notes payable drawn down	421,582	—	220,772	—
Revenue bonds retired	(3,414,781)	—	(252,578)	(26,671)
Net change in:				
Compensated absences payable	(10,856)	1,117	46	(2,352)
Original issue discount	10,273	—	—	232
Original issue premium	(37,573)	—	—	—
Deferred loss on refunding	<u>76,602</u>	<u>—</u>	<u>—</u>	<u>—</u>
Long term obligations – September 30, 2003	\$ <u><u>40,365,798</u></u>	<u><u>81,855</u></u>	<u><u>2,921,115</u></u>	<u><u>717,642</u></u>
Due in one year:				
Revenue bonds	\$ <u><u>3,497,221</u></u>	<u><u>—</u></u>	<u><u>236,365</u></u>	<u><u>61,621</u></u>
Compensated absences payable	\$ <u><u>35,740</u></u>	<u><u>10,990</u></u>	<u><u>490</u></u>	<u><u>5,275</u></u>

THE CITY OF NAPLES, FLORIDA

Notes to Financial Statements

September 30, 2003

The authorizing resolutions per the various revenue bonds of the City require deposits to restricted accounts throughout the fiscal year and the maintenance of minimum balances on deposit in such accounts.

Annual debt service requirements to maturity for water and sewer fund business-type activities are as follows:

Water and Sewer Fund:

	<u>Principal</u>	<u>Interest</u>
Year ended September 30:		
2004	\$ 3,497,221	1,378,642
2005	3,617,440	1,258,247
2006	3,748,646	1,129,442
2007	2,275,867	995,821
2008	2,354,130	919,307
2009-2013	13,033,246	3,315,681
2014-2018	11,329,376	954,390
2019-2023	515,317	32,228
	<u>\$ 40,371,243</u>	<u>9,983,758</u>

Annual debt service requirements to maturity for stormwater fund business-type activities are as follows:

Stormwater Fund:

	<u>Principal</u>	<u>Interest</u>
Year ended September 30:		
2004	\$ 236,365	103,729
2005	272,796	153,764
2006	262,594	163,966
2007	250,690	175,870
2008	239,637	186,923
2009-2013	865,630	914,944
2014-2018	569,657	1,130,813
2019-2023	219,233	801,049
	<u>\$ 2,916,602</u>	<u>3,631,058</u>

THE CITY OF NAPLES, FLORIDA

Notes to Financial Statements

September 30, 2003

Annual debt service requirements to maturity for nonmajor enterprise funds are as follows:

Nonmajor Enterprise Funds:

	<u>Principal</u>	<u>Interest</u>
Year ended September 30:		
2004	\$ 61,621	30,347
2005	66,397	27,607
2006	70,894	24,621
2007	45,000	21,398
2008	45,000	19,553
2009-2013	270,000	66,944
2014-2018	<u>130,000</u>	<u>9,425</u>
	\$ <u>688,912</u>	<u>199,895</u>

Legal Debt Margin – Neither the Charter nor the Code of the City of Naples or Florida State Statutes limits the amount of debt the City can issue.

Net interest cost (interest cost less the interest earned on the investment of unexpended debt proceeds) is capitalized in the proprietary funds on construction projects financed with long-term debt. Interest cost is not capitalized on projects financed by government grants or third-party donations. Interest cost is not capitalized on assets in the governmental activities. No interest was capitalized during the year ended September 30, 2003.

As of September 30, 2003, the following issues have been defeased by refunding issues and remain outstanding:

	<u>Defeased bonds outstanding</u>
1977 Water and Sewer Refunding Bonds	\$ <u>14,455,000</u>

THE CITY OF NAPLES, FLORIDA

Notes to Financial Statements

September 30, 2003

(H) Additional Information

The City has one non major enterprise fund which has revenue bonds outstanding at September 30, 2003. The Tennis fund's revenues are pledged in support of those outstanding bonds. Relevant additional information for the Tennis fund as of and for the year ended September 30, 2003 follows:

Cash and investments	\$ 68,714
Inventories	5,136
Total current assets	<u>73,850</u>
Restricted assets	15,278
Other assets	3,108
Capital assets, net	565,881
	<u>658,117</u>
Current liabilities	53,517
Current liabilities (payable from restricted assets)	15,278
Noncurrent liabilities	572,828
	<u>641,623</u>
Net assets:	
Invested in capital assets, net of related debt	(39,119)
Unrestricted	55,613
Total net assets	<u>\$ 16,494</u>
Operating revenues:	
Charges for services	\$ 467,090
Total operating revenues	<u>467,090</u>
Operating expenses	412,745
Depreciation and amortization	42,857
Total operating expenses	<u>455,602</u>
Operating income	11,488
Nonoperating revenues (expenses):	
Interest income	2,113
Interest expense	(26,113)
Change in net assets	<u>(12,512)</u>
Net assets – beginning of year	<u>29,006</u>
Net assets – end of year	<u>\$ 16,494</u>

THE CITY OF NAPLES, FLORIDA

Notes to Financial Statements

September 30, 2003

(I) Fund Equity

The following is a summary of fund balances that were reserved for other purposes as of September 30, 2003:

<u>Reserved for</u>	<u>General</u>	<u>Capital projects</u>	<u>Other non-major governmental funds</u>
Handicap improvements	\$ 10,860	—	—
Sable Bay obligations	27,929	—	—
Low income housing	—	182,843	—
Other	9,066	—	208,218
	<u>\$ 47,855</u>	<u>182,843</u>	<u>208,218</u>

(J) Employee Pension Plans

The City maintains three single-employer, defined benefit pension plans that cover its general, police, and fire employees, which represent substantially all of the City's employees. The City also has two defined contribution 401(a) plans that cover management and serve as a supplement to all full time city employees except persons covered by the International Association of Firefighters (IAFF) or the Fraternal Order of Police (FOP).

i. General Pension Plan

The General Retirement Plan provides benefits for all full-time American Federation of State and Municipal Employees (AFSME) union and nonbargaining employees of the City. All Retirement Plan provisions, including benefits, eligibility, vesting, etc., are established by City Ordinance, the most recent of which is Ordinance 00-8777. The Plan Ordinance may be amended by City Council after public notice has been made, two public readings are conducted, and one public hearing is held. The Plan does not issue a stand-alone financial report and is not included in any other retirement system or entity's financial report.

THE CITY OF NAPLES, FLORIDA

Notes to Financial Statements

September 30, 2003

The payroll for employees covered by the plan and the government's total payroll for the year ended September 30, 2003, and current membership, as of October 1, 2003 the date of the most recent actuarial valuation, is as follows:

General pension plan:	
Covered payroll for the year ended September 30, 2003	\$ 11,296,820
Covered payroll as a percentage of the City's total payroll of \$17,790,435	63.50%
Retirees and beneficiaries currently receiving benefits (disabled)	165
Vested terminated employees	15
Active employees:	
Fully vested	188
Nonvested	133

Benefits are determined by category and length of service as follows:

	<u>Benefits</u>	<u>Vesting</u>
General employees	Normal retirement at age 60; early retirement at age 55 or the rule of 85 regardless of service; benefits at 2.50% of average final compensation times years of service. Early retirement benefit reduced by 0.25% for each month prior to normal retirement age	100% after five years of creditable service; 0% prior to that. General pension employees hired after March 31, 1995 have an effective start date six months after employment date

The system also provides disability and survivors' benefits.

The General Pension Plan is accounted for as a pension trust fund; therefore it is accounted for in substantially the same manner as a proprietary fund with a "capital maintenance" measurement focus and the accrual basis of accounting. Plan Member contributions and employer contributions are recognized in the period in which contributions are due. Benefits and refunds are recognized when due and payable in accordance with terms of the Plan. Plan assets are valued at fair value for financial statement purposes.

As of September 30, 2003 there were no investments (other than U.S. Government or U.S. Government guaranteed obligations) in any one organization comprising 5% or more of the net assets available for benefits. As of September 30, 2003, there were no investment type or similar relationships with any related party, including officers and employees of the Pension Plan, the sponsoring City of Naples, and organizations included in the reporting entity.

The City Council has established contribution requirements for the City and participating employees. These requirements may be amended by the City Council at any time by ordinance.

THE CITY OF NAPLES, FLORIDA

Notes to Financial Statements

September 30, 2003

The Plan's funding policy requires employees to contribute not less than 2% of compensation to the Plan on a pre-tax basis. This amount is fixed unless changed by ordinance. As of January 1, 2004 this will increase to 4.5%. The City is required to make annual contributions that fluctuate according to the most recent actuarial valuation report, dated October 1, 2003 after deducting estimated contributions by members, investment earnings and all Plan expenditures. Significant actuarial assumptions used to compute actuarially determined contribution requirements are the same as those used to compute the net pension obligation. The Plan prepares a valuation report annually, and the City's contribution is adjusted accordingly. All costs of administering the Plan are paid from Plan assets.

The Plan is valued under the aggregate actuarial cost method, which does not identify or separately amortize unfunded actuarial liabilities. Investment earnings are assumed at 8.50% per year, compounded annually, net of investment-related expenses. Salary increases are assumed at 6.0% each year, up to retirement age (normal retirement date) including merit or seniority increases. The actuarial value of assets is developed using a four year smoothing market value return on the valuation date. The Plan does not provide for a postretirement benefit increase; therefore, no actuarial inflation assumptions are required.

General – Three Year Trend Information

	Annual pension cost (APC)	% of APC contributed	Net pension obligation
Year ending:			
09/30/03	\$ 185,352	200%	(540,469)
09/30/02	296,641	99%	(357,331)
09/30/01	238,733	103%	(359,480)

The components of the annual pension cost for the year ended September 30, 2003 are as follows:

Actuarially determined contribution	\$ 185,352
Interest on net pension obligation	(30,373)
Adjustment to annual required contribution	32,510
	<u>\$ 187,489</u>

ii. Police Officers' Pension Plan

The Police Officers Retirement Plan provides benefits for all full-time sworn Police personnel of the City. All Retirement Plan provisions, including benefits, eligibility, vesting, etc., are established by City Ordinance, the most recent of which is Ordinance 03-10084. The Plan Ordinance may be amended by City Council after public notice has been made, two public readings are conducted, and one public hearing is held. The Plan does not issue a stand-alone financial report and is not included in any other retirement system or entity's financial report.

THE CITY OF NAPLES, FLORIDA

Notes to Financial Statements

September 30, 2003

The payroll for employees covered by the Plan and the government's total payroll for the year ended September 30, 2003, and current membership, as of October 1, 2003 the date of the most recent actuarial valuation is as follows:

Police pension plan:	
Covered payroll for the year ended September 30, 2003	\$ 3,876,041
Covered payroll as a percentage of the City's total payroll of \$17,790,435	21.8%
Retirees and beneficiaries currently receiving benefits	25
Vested terminated employees	13
Active employees:	
Fully vested	52
Nonvested	21

Benefits are determined by category and length of service as follows:

	<u>Benefits</u>	<u>Vesting</u>
Police officers	Normal retirement at age 50 with five years of credited service; 25 years of credited service regardless of age; benefits 3.6% of average final compensation times years of service. Early retirement at age 45 or completion of 20 years of credited service. Early retirement benefit reduced 3% for each year prior to normal retirement.	100% after five years of creditable service; 0% prior to that.

The system also provides disability and survivors' benefits.

The Police Officers' Pension Plan is accounted for as a pension trust fund; therefore it is accounted for in substantially the same manner as a proprietary fund with a "capital maintenance" measurement focus and the accrual basis of accounting. Plan Member contributions, employer contributions, and contributions from other entities are recognized in the period in which contributions are due. Benefits and refunds are recognized when due and payable in accordance with terms of the Plan. Plan assets are valued at fair value for financial statement purposes.

As of September 30, 2003, there were no investments (other than U.S. Government or U.S. Government guaranteed obligations) in any one organization comprising 5% or more of the net assets available for benefits. As of September 30, 2003, there were no investment type or similar relationships with any related party, including officers and employees of the Pension Plan, the sponsoring City of Naples, and organizations included in the reporting entity.

THE CITY OF NAPLES, FLORIDA

Notes to Financial Statements

September 30, 2003

The City Council has established contribution requirements for the City and participating employees. These requirements may be amended by the City Council at any time by ordinance.

The Plan's funding policy requires employees to contribute 3% of annual salary to the Plan on a pre-tax basis. This amount is fixed unless changed by ordinance. The City is required to make annual contributions that fluctuate according to the most recent actuarial valuation report, after deducting estimated contributions by members, investment earnings and all Plan expenditures. Significant actuarial assumptions used to compute actuarially determined contribution requirements are the same as those used to compute the net pension obligation. The Plan prepares a valuation report annually, and the City's contribution is adjusted accordingly. All costs of administering the Plan are paid from the Plan assets. The Plan is valued under the frozen entry age method. The amortization method is the level percentage of pay, closed and the remaining amortization period is 29 years. Investment earnings are assumed at 8.5% per year, compounded annually, net of investment-related expenses. Salary increases are assumed at 6% each year, up to retirement age (normal retirement date) including merit or seniority increases. The actuarial value of assets is developed using a four year smoothing market value return on the valuation date. The plan provides for post retirement benefit increases of 3% per year at ages 55 to 62.

Police – Three Year Trend Information

	<u>Annual pension cost (APC)</u>	<u>% of APC contributed</u>	<u>Net pension obligation</u>
Year ending:			
09/30/03	\$ —	100%	(366,370)
09/30/02	110,488	101%	(220,512)
09/30/01	61,537	116%	(213,749)

iii. Firefighters' Pension Plan

The Firefighters' Retirement Plan provides benefits for all full-time sworn fire personnel of the City. All Retirement Plan provisions, including benefits, eligibility, vesting, etc., are established by City Ordinance, the most recent of which is Ordinance 02-9816. The Plan Ordinance may be amended by City Council after public notice has been made, two public readings are conducted, and one public hearing is held. The Plan does not issue a stand-alone financial report and is not included in any other retirement system or entity's financial report.

THE CITY OF NAPLES, FLORIDA

Notes to Financial Statements

September 30, 2003

The payroll for employees covered by the Plan and the government's total payroll for the year ended September 30, 2003, and current membership, as of October 1, 2003 the date of the most recent actuarial valuation is as follows:

Firefighters' pension plan:		
Covered payroll for the year ended September 30, 2003	\$	2,617,574
Covered payroll as a percentage of the City's total payroll of \$17,790,435		14.71%
Retirees and beneficiaries currently receiving benefit (includes 1 disability)		12
Vested terminated employees		6
Active employees:		
Fully vested		37
Nonvested		18

Benefits are determined by category and length of service as follows:

	<u>Benefits</u>	<u>Vesting</u>
Firefighters	Normal retirement at age 55 with five years of credited service, age 50 with twenty years of credited service, or completion of 25 years of credited service regardless of age. Benefits at 4% of average final compensation times years of service. Early retirement at age 50; benefits reduced by 3% per year prior to normal retirement.	100% after five years of credited service; 0% prior to that.

The system also provides disability and survivors' benefits.

The Firefighters' Pension Plan is accounted for as a pension trust fund; therefore it is accounted for in substantially the same manner as a proprietary fund with a "capital maintenance" measurement focus and the accrual basis of accounting. Plan Member contributions, employer contributions, and contributions from other entities are recognized in the period in which contributions are due. Benefits and refunds are recognized when due and payable in accordance with terms of the Plan. Plan assets are valued at fair value for financial statement purposes.

As of September 30, 2003, there were no investments (other than U.S. Government or U.S. Government guaranteed obligations) in any one organization comprising 5% or more of the net assets available for benefits. As of September 30, 2003, there were no investment type or

THE CITY OF NAPLES, FLORIDA

Notes to Financial Statements

September 30, 2003

similar relationships with any related party, including officers and employees of the Pension Plan, the sponsoring City of Naples, and organizations included in the reporting entity.

The City Council has established contribution requirements for the City and participating employees. These requirements may be amended by the City Council at any time by ordinance.

The Plan's funding policy requires employees to contribute 3% of annual salary to the Plan on a pre-tax basis. This amount is fixed unless changed by ordinance. The City is required to make annual contributions that fluctuate according to the most recent actuarial valuation report, after deducting estimated contributions by members, investment earnings and all plan expenditures. Significant actuarial assumptions used to compute actuarially determined contribution requirements are the same as those used to compute the net pension obligation. The Plan prepares a valuation report annually, and the City's contribution is adjusted accordingly. All costs of administering the Plan are paid from Plan assets.

The Plan is valued under the frozen entry age method. The amortization method is the level percentage of pay, closed and the remaining amortization period is 30 years. Investment earnings are assumed at 8.5% per year, compounded annually, net of investment-related expenses. Salary increases are assumed at 6% each year, up to retirement age (normal retirement date) including merit or seniority increases. The actuarial value of assets is developed using a four year smoothing market value return on the valuation date. The plan does not provide for post-retirement benefit increase; therefore, no actuarial inflation assumptions are required.

Fire – Three-Year Trend Information

	Annual pension cost (APC)	% of APC contributed	Net pension obligation
Year ending:			
09/30/03	\$ —	100%	(293,816)
09/30/02	—	100%	(238,105)
09/30/01	—	100%	(182,059)

(K) Employee Retirement Savings Plans

i. Supplemental Retirement Savings Plan

All Retirement Plan provisions, including benefits, eligibility, vesting, etc., are established by City Ordinance, the most recent of which is Ordinance 99-8642. The Plan Ordinance may be amended by the City Council after public notice has been made, two public readings are conducted and one public hearing held. The Plan does not issue a stand-alone financial report and is not included in any other retirement system's or entity's financial report. Membership is voluntary and includes all full time employees who have completed 6 months employment with the City. Persons rendering services on a contractual basis are excluded from

THE CITY OF NAPLES, FLORIDA

Notes to Financial Statements

September 30, 2003

participation in this plan, as well as temporary and seasonal employees and persons covered by the International Association of Firefighters (IAFF) or the Fraternal Order of Police (FOP).

The plan, which started on April 1, 1995, has a plan year date of April 1. Vesting is:

Employee contributions:
100% – Immediately
Employer contributions:
25% – Year 1
50% – Year 2
100% – Year 3

The Plan is a defined contribution plan. Plan members are required to contribute 3% of annual base pay to the Plan and the City is required to contribute 2% of the employee's annual base pay. Plan provision and contribution requirements are established and may be amended by the City Council. The plan falls under IRC Code Section 401(a)(17) and IRC 414(s) rules.

As of September 30, 2003 there were 216 active Plan members. The City's contribution for the year was \$182,148. Covered payroll for the year ended September 30, 2003 was \$9,107,430. Contributions and earnings are returned to participants upon retirement or termination. Employee contributions were \$280,432 for the year ended September 30, 2003.

The City's Supplemental Retirement Savings Plan accounts for its financial activities using the accrual basis of accounting. Employer and all member contributions are recognized in the period that contributions are due.

All investments are reported at their fair value. All investments are directed by Plan participants, including the nonvested portion of the City's contributions, if any. Plan participants may elect to allocate investments among different mutual funds and fixed return funds. No individual stocks, bonds or other investments are held within the Plan. Plan administrators are Nationwide and VALIC Insurance, and ICMA.

ii. Managers' Retirement Savings Plan

All Retirement Plan provisions, including benefits, eligibility, vesting, etc., are established by City Resolution, the most recent of which is Resolution #96-7751. The Plan Resolution authorizes participation in the Plan by exempting managers from participating in the General Pension Retirement Plan. The Plan does not issue a stand-alone financial report and is not included in any other retirement system's or entity's financial report. Membership is voluntary and includes all full time employees whose service to the city is rendered on a contractual or fee basis except the city attorney.

Vesting in Employee and Employer contributions 100% – Immediately

The Plan is a defined contribution plan. Plan members are required to contribute 3% of annual base pay to the Plan and the City is required to contribute 7% of the employee's annual base

THE CITY OF NAPLES, FLORIDA

Notes to Financial Statements

September 30, 2003

pay. Plan provision and contribution requirements are established and may be amended by the City Council. The plan falls under IRC Code Section 401(a)(17) and IRC 414(s) rules.

As of September 30, 2003, there were four active Plan members and eight retired and terminated members who have maintained account balances. The City's contribution for the year was \$26,685. Covered payroll for the year ended September 30, 2003 was \$373,102. Employee contributions were \$11,436 for the year ended September 30, 2003.

The City's Managers' Retirement Savings Plan accounts for its financial activities using the accrual basis of accounting. Employer and all member contributions are recognized in the period that the contributions are due.

All investments are reported at their fair value. All investments are directed by Plan participants, including the City's contributions. Plan participants may elect to allocate investments among a variety of mutual funds holding U.S. Government and Agency securities, corporate and asset-backed bonds, common stocks and a variety of money market-type instruments. No individual stocks, bonds or other investments are held within the Plan. Plan administrators are ICMA Retirement Corporation and VALIC Insurance.

(L) Contingencies

i. Litigation

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

ii. Federal and State Assistance Programs

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

iii. Self-Insurance Funds

Since 1981, the City has been self-insured for workers' compensation, general liability, automotive liability, and the deductible portion of all insured risks. The insurance program established by the City has not changed from fiscal year 2002 with the exception of a minor increase in premiums.

THE CITY OF NAPLES, FLORIDA

Notes to Financial Statements

September 30, 2003

The City is responsible for the first \$100,000 – \$150,000 per occurrence and purchases excess insurance against catastrophic losses. Policies are maintained to provide coverage for all individual claims in excess of the amounts shown:

Property damage	\$	150,000
Third party liability		100,000
Workers' compensation		150,000
Blanket bond and money and securities		25,000
Employee medical		75,000
Aggregate losses		900,000

The liability for unpaid claims is estimated based upon historical actual results adjusted for current economic trends. The estimated claims liability for all self-insured risks are reported as claims payable in the Risk Management and Health Benefits Internal Service funds which include an estimate for incurred but not reported claims. In addition, reimbursements from excess loss reinsurers are netted against claims expenses, as applicable, in the Risk Management and Health Benefits Internal Service funds. During the current year, \$426,568 and \$175,589 of excess loss reimbursements were recorded in the Risk Management Fund and Health Benefits Fund respectively.

Estimated liabilities for unpaid claims are based on estimates of pending claims and claims incurred but not reported at September 30, 2003. Estimates were based on an evaluation of claims pending and past experience. At September 30, 2003, \$1,905,000 was accrued for estimated self-insurance claims. For the past three fiscal years the City of Naples insurance settlements have not exceeded the insurance coverage and there were no significant reductions in insurance coverage from the previous year.

A reconciliation of estimated claims liabilities is as follows:

	<u>Risk management</u>	<u>Health benefits</u>	<u>Total</u>
Balance September 30, 2001	\$ 615,345	432,000	1,047,345
Current year claims incurred and change in estimates	2,594,830	3,388,176	5,983,006
Claim payments	<u>(1,803,175)</u>	<u>(3,056,141)</u>	<u>(4,859,316)</u>
Balance September 30, 2002	1,407,000	764,035	2,171,035
Current year claims incurred and change in estimates	1,860,896	2,107,160	3,968,056
Claim payments	<u>(1,792,896)</u>	<u>(2,441,195)</u>	<u>(4,234,091)</u>
Balance September 30, 2003	<u>\$ 1,475,000</u>	<u>430,000</u>	<u>1,905,000</u>

THE CITY OF NAPLES, FLORIDA

Notes to Financial Statements

September 30, 2003

iv. Construction Projects

At September 30, 2003, the City had commitments for the completion of various construction projects totaling by fund:

Capital Projects Fund	\$	1,501,620
Community Redevelopment Fund		36,261
Streets Fund		352,801
Water and Sewer Fund		156,210
Naples Beach Fund		131,708
Stormwater Fund		355,785
	\$	<u>2,534,385</u>

(M) Implementation of New Governmental Accounting Standards

Effective October 1, 2002, the City implemented the provisions of Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*; as supplemented by GASB Statement No. 37, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments: Omnibus*; GASB Statement No. 38, *Certain Financial Statement Note Disclosures*; and Interpretation No. 6, *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*. The adoption of these standards and interpretation required the inclusion of a management’s discussion and analysis, presentation of full accrual government-wide financial statements, which include the City’s capital assets (including infrastructure) and outstanding debt, and depreciation expense. The City was also required to utilize the direct method in presenting cash flow information.

(N) Subsequent Events

On November 24, 2003, the City sold the Wilkinson Historical House property located on 40 – 9th Avenue South for \$4,000,000 cash. Concurrent with the sale, the buyer had to obtain a release or satisfaction from Mr. Kevin A. Denti as trustee for the Collier County Historical Society as stated and entered on Case No. 00-4591-CA-HDH wherein the City of Naples was required to reimburse the Collier County Historical Society certain funds related to the property.

REQUIRED SUPPLEMENTAL INFORMATION
(Unaudited)

THE CITY OF NAPLES, FLORIDA

Required Supplemental Information

September 30, 2003

(Unaudited)

General Pension Plan

Schedule of Funding Progress

(In thousands)

<u>Actuarial valuation date</u>	<u>Actuarial value of assets</u>	<u>Actuarial Accrued Liability (AAL) (note 1)</u>	<u>Unfunded Actuarial Accrued Liability (UAAL)</u>	<u>Funded ratio</u>	<u>Covered payroll</u>	<u>UAAL as a percentage of covered payroll</u>
10/01/03	\$ 33,113	33,113	—	100%	11,296	0%
10/01/02	34,466	34,466	—	100%	10,426	0%
10/01/01	35,556	35,556	—	100%	9,591	0%
10/01/00	34,951	34,951	—	100%	9,194	0%
10/01/99	31,732	31,732	—	100%	8,157	0%
10/01/98	28,360	28,360	—	100%	7,884	0%

Note 1: The Pension Plan utilizes the Aggregate Cost Method for funding purposes (effective October 1, 1997). This method does not identify or separately amortize unfunded actuarial liabilities.

General Pension Plan

Schedule of Employer Contributions From Employer and Other Entities

(In thousands)

<u>Fiscal year ended:</u>	<u>Required annual contribution</u>	<u>Employer actual contribution</u>	<u>Percentage contributed</u>
09/30/03	\$ 185	371	201%
09/30/02	294	294	100%
09/30/01	234	246	105%
09/30/00	38	230	605%
09/30/99	143	208	145%
09/30/98	58	156	269%

See accompanying independent auditors' report.

THE CITY OF NAPLES, FLORIDA

Required Supplemental Information

September 30, 2003

(Unaudited)

Police Officers' Pension Plan

Schedule of Funding Progress

(In thousands)

<u>Actuarial valuation date</u>	<u>Actuarial value of assets</u>	<u>Actuarial Accrued Liability (AAL) (note 1)</u>	<u>Unfunded Actuarial Accrued Liability (UAAL)</u>	<u>Funded ratio</u>	<u>Covered payroll</u>	<u>UAAL as a percentage of covered payroll</u>
10/01/03	\$ 18,765	21,923	3,157	86%	3,876	81%
10/01/02	18,425	20,462	2,037	90%	3,178	64%
10/01/01	17,984	20,181	2,197	89%	3,086	71%
10/01/00	17,074	19,407	2,333	88%	3,093	75%
10/01/99	14,965	16,593	1,628	90%	2,761	59%
10/01/98	12,885	14,636	1,751	88%	2,732	64%

Note 1: The Pension Plan utilized the Aggregate Cost Method for funding purposes (effective October 1, 1995). This method does not identify or separately amortize unfunded actuarial liabilities. Effective October 1, 1998, the Plan utilizes the Frozen Entry Age Actuarial Cost Method.

Police Officers' Pension Plan

Schedule of Contributions From Employer and Other Entities

(In thousands)

	<u>Required annual contribution</u>	<u>Employer actual contribution</u>	<u>State actual contribution</u>	<u>Percentage contributed</u>
Fiscal year ended:				
09/30/03	\$ 648	147	663	125%
09/30/02	611	118	680	131%
09/30/01	563	150	579	129%
09/30/00	385	78	501	150%
09/30/99	449	78	501	129%
09/30/98	412	78	501	141%

See accompanying independent auditors' report.

THE CITY OF NAPLES, FLORIDA

Required Supplemental Information

September 30, 2003

(Unaudited)

**Firefighters' Pension Plan
Schedule of Funding Progress**

(In thousands)

<u>Actuarial valuation date</u>	<u>Actuarial value of assets</u>	<u>Actuarial Accrued Liability (AAL) (note 1)</u>	<u>Unfunded Actuarial Accrued Liability (UAAL)</u>	<u>Funded ratio</u>	<u>Covered payroll</u>	<u>UAAL as a percentage of covered payroll</u>
10/01/03	\$ 14,328	15,415	1,087	93%	2,617	42%
10/01/02	13,674	14,786	1,112	92%	2,367	47%
10/01/01	13,079	14,207	1,128	92%	2,176	52%
10/01/00	12,098	13,298	1,200	91%	2,115	57%
10/01/99	10,374	10,705	331	97%	1,721	19%
10/01/98	8,812	9,377	565	94%	1,633	35%

Note 1: The Pension Plan utilizes the Aggregate Cost Method for funding purposes (effective October 1, 1995). This method does not identify or separately amortize unfunded actuarial liabilities. Effective October 1, 1998, the Plan uses the Frozen Entry Age Method.

**Firefighters' Pension Plan
Schedule of Contributions From Employer and Other Entities**

(In thousands)

	<u>Required annual contribution</u>	<u>Employer actual contribution</u>	<u>State actual contribution</u>	<u>Percentage contributed</u>
Fiscal year ended:				
09/30/03	\$ 604	57	806	143%
09/30/02	468	57	655	152%
09/30/01	548	57	576	116%
09/30/00	277	57	555	221%
09/30/99	279	57	436	177%
09/30/98	263	57	572	239%

See accompanying independent auditors' report.

Nonmajor Governmental Funds

Special Revenue Funds

Special revenue funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditure for specified purposes.

Building and Zoning Fund

To account for the activities related to the construction industry in the City.

Community Development Block Grant

To account for Federal Grants received from the U.S. Department of Housing and Urban Development for home improvement grants for qualified recipients, and other community improvement projects in qualifying areas of the City.

Improvement Fund

To account for donations from private individuals for a specific City project.

Confiscated Properties Fund

To account for monies received pursuant to sales of confiscated properties.

Capital Projects Funds

Capital projects funds are used to account for the acquisition and construction of major capital facilities other than those financed by proprietary funds and trust funds.

Land Conservation Trust

To account for the receipt and disbursement of monies used for the acquisition of park land.

East Naples Bay District

To account for the receipt and disbursement of monies used for the purpose of maintenance dredging in the canals and waterways within the area or boundary of the Districts of East Naples Bay.

Moorings Bay District

To account for the receipt and disbursement of monies used for the purpose of maintenance dredging in the canals and waterways within the area or boundary of the District of Moorings Bay and Park Shore Units 2 and 5.

CITY OF NAPLES, FLORIDA

Combining Balance Sheet

Nonmajor Governmental Funds

September 30, 2003

	Special revenue		
	Building and Zoning Fund	Community Development Block Grant	Improvement Fund
Assets:			
Cash and investments	\$ 1,825,200	—	172,033
Accounts receivable	975	—	36,588
Due from other funds	200,190	—	—
Due from other governments	—	6,128	—
Total assets	\$ 2,026,365	6,128	208,621
Liabilities:			
Accounts payable	\$ 37,464	125	403
Accrued payroll	30,001	—	—
Advances payable to other funds	—	52,611	—
Deferred revenue	975	—	—
Total liabilities	68,440	52,736	403
Fund balances:			
Reserved for other purposes	—	—	208,218
Unreserved:			
Undesignated (deficit)	1,957,925	(46,608)	—
Total fund balances (deficit)	1,957,925	(46,608)	208,218
Total liabilities and fund balances	\$ 2,026,365	6,128	208,621

See accompanying independent auditors' report.

Capital projects

Confiscated Properties Funds	Land Conservation Trust Fund	East Naples Bay District	Moorings Bay District	Total Non-Major Governmental
35,826	1,387,672	213,034	750,860	4,384,625
—	—	—	—	37,563
—	—	—	—	200,190
—	5,000	—	—	11,128
<u>35,826</u>	<u>1,392,672</u>	<u>213,034</u>	<u>750,860</u>	<u>4,633,506</u>
14,129	950,000	—	—	1,002,121
—	—	—	—	30,001
—	—	—	—	52,611
—	—	—	—	975
<u>14,129</u>	<u>950,000</u>	<u>—</u>	<u>—</u>	<u>1,085,708</u>
—	—	—	—	208,218
<u>21,697</u>	<u>442,672</u>	<u>213,034</u>	<u>750,860</u>	<u>3,339,580</u>
<u>21,697</u>	<u>442,672</u>	<u>213,034</u>	<u>750,860</u>	<u>3,547,798</u>
<u>35,826</u>	<u>1,392,672</u>	<u>213,034</u>	<u>750,860</u>	<u>4,633,506</u>

CITY OF NAPLES, FLORIDA

Combining Statement of Revenues, Expenditures and Changes in Fund Balances

Nonmajor Governmental Funds

Year ended September 30, 2003

	<u>Special revenue</u>			
	<u>Building and Zoning Fund</u>	<u>Community Development Block Grant</u>	<u>Improvement Fund</u>	<u>Confiscated Properties Fund</u>
Revenues:				
Taxes – property	\$ —	—	—	—
Licenses and permits	2,422,157	—	—	—
Intergovernmental	—	250,000	—	112,346
Charges for services	185,565	13,200	—	—
Fines and forfeitures	450	—	—	9,015
Interest	36,374	—	—	1,099
Donations	—	—	141,580	—
Miscellaneous	802	—	—	—
Total revenues	<u>2,645,348</u>	<u>263,200</u>	<u>141,580</u>	<u>122,460</u>
Expenditures:				
Current:				
General government	—	—	25,270	—
Public safety	1,964,885	—	19,054	21,885
Economic and physical development	—	12,084	—	—
Culture and recreation	—	—	63,014	—
Capital outlay:				
Public safety	4,266	—	—	143,846
Economic and physical development	—	13,801	—	—
Debt service:				
Principal	—	—	—	—
Interest and fiscal charges	—	—	—	—
Total expenditures	<u>1,969,151</u>	<u>25,885</u>	<u>107,338</u>	<u>165,731</u>
Excess (deficiency) of revenues over expenditures	676,197	237,315	34,242	(43,271)
Other financing sources (uses):				
Transfers out:				
Debt service fund	—	—	—	—
Proceeds from sale of capital assets	—	—	—	3,220
Total other financing sources (uses)	<u>—</u>	<u>—</u>	<u>—</u>	<u>3,220</u>
Change in fund balances	676,197	237,315	34,242	(40,051)
Fund balances (deficit) – beginning of year	<u>1,281,728</u>	<u>(283,923)</u>	<u>173,976</u>	<u>61,748</u>
Fund balances (deficit)– end of year	\$ <u>1,957,925</u>	<u>(46,608)</u>	<u>208,218</u>	<u>21,697</u>

See accompanying independent auditors' report.

Capital projects

Land Conservation Trust	East Naples Bay District	Moorings Bay District	Total Non-major Governmental
—	139,073	23,580	162,653
—	—	—	2,422,157
5,000	—	—	367,346
—	—	—	198,765
—	—	—	9,465
(1,199)	4,411	11,685	52,370
—	—	—	141,580
625	—	—	1,427
<u>4,426</u>	<u>143,484</u>	<u>35,265</u>	<u>3,355,763</u>
—	—	—	25,270
—	—	—	2,005,824
—	898	579	13,561
—	—	—	63,014
—	—	—	148,112
6,866	—	4,000	24,667
1,857,928	—	—	1,857,928
42,815	—	—	42,815
<u>1,907,609</u>	<u>898</u>	<u>4,579</u>	<u>4,181,191</u>
(1,903,183)	142,586	30,686	(825,428)
—	(64,242)	—	(64,242)
—	—	—	3,220
<u>—</u>	<u>(64,242)</u>	<u>—</u>	<u>(61,022)</u>
(1,903,183)	78,344	30,686	(886,450)
2,345,855	134,690	720,174	4,434,248
<u>442,672</u>	<u>213,034</u>	<u>750,860</u>	<u>3,547,798</u>

CITY OF NAPLES, FLORIDA
 Nonmajor Special Revenue Funds
 Schedule of Revenues, Expenditures and Changes in Fund Balances
 Budget and Actual
 Year ended September 30, 2003

	Building and Zoning Fund			Variance with final budget positive (negative)
	Original budget	Final budget	Actual	
Revenues:				
Licenses and permits	\$ 2,059,000	2,059,000	2,422,157	363,157
Intergovernmental	—	—	—	—
Charges for services	184,600	184,600	185,565	965
Fines and forfeitures	4,000	4,000	450	(3,550)
Interest	15,000	15,000	36,374	21,374
Miscellaneous	105,000	113,729	802	—
Total revenues	<u>2,367,600</u>	<u>2,376,329</u>	<u>2,645,348</u>	<u>381,946</u>
Expenditures:				
General government	—	—	—	—
Public safety	2,046,682	2,055,411	1,969,151	86,260
Economic and physical development	—	—	—	—
Culture and recreation	—	—	—	—
Total expenditures	<u>2,046,682</u>	<u>2,055,411</u>	<u>1,969,151</u>	<u>86,260</u>
Excess (deficiency) of revenues over expenditures	<u>320,918</u>	<u>320,918</u>	<u>676,197</u>	<u>295,686</u>
Other financing sources (uses):				
Proceeds from sale of capital assets	—	—	—	—
Change in fund balances	320,918	320,918	676,197	355,279
Fund balances – beginning of year	<u>1,281,728</u>	<u>1,281,728</u>	<u>1,281,728</u>	<u>—</u>
Fund balances – end of year	<u>\$ 1,602,646</u>	<u>1,602,646</u>	<u>1,957,925</u>	<u>355,279</u>

See accompanying independent auditors' report.

Community Development Block Grant				Improvement Fund		
Original budget	Final budget	Actual	Variance with final budget positive (negative)	Original and final budget	Actual	Variance with final budget positive (negative)
—	—	—	—	—	—	—
—	—	250,000	—	—	—	—
16,806	16,806	13,200	(3,606)	—	—	—
—	—	—	—	—	—	—
—	—	—	—	—	—	—
—	16,076	—	(16,076)	—	141,580	141,580
16,806	32,882	263,200	(19,682)	—	141,580	141,580
—	—	—	—	—	25,270	(25,270)
—	—	—	—	—	19,054	(19,054)
32,882	32,882	25,885	6,997	—	—	—
—	—	—	—	—	63,014	(63,014)
32,882	32,882	25,885	6,997	—	107,338	(107,338)
(16,076)	—	237,315	(12,685)	—	34,242	34,242
—	—	—	—	—	—	—
(16,076)	—	237,315	237,315	—	34,242	34,242
(283,923)	(283,923)	(283,923)	—	173,976	173,976	—
(299,999)	(283,923)	(46,608)	237,315	173,976	208,218	34,242

(Continued)

CITY OF NAPLES, FLORIDA
 Nonmajor Special Revenue Funds
 Schedule of Revenues, Expenditures and Changes in Fund Balances
 Budget and Actual
 Year ended September 30, 2003

	Confiscated Properties Fund			Variance with final budget positive (negative)
	Original budget	Final budget	Actual	
Revenues:				
Licenses and permits	—	—	—	—
Intergovernmental	—	116,626	112,346	—
Charges for services	—	—	—	—
Fines and forfeitures	—	—	9,015	9,015
Interest	—	—	1,099	1,099
Miscellaneous	—	103,817	—	(103,817)
Total revenues	—	220,443	122,460	(93,703)
Expenditures:				
General government	—	—	—	—
Public safety	—	220,443	165,731	54,712
Economic and physical development	—	—	—	—
Culture and recreation	—	—	—	—
Total expenditures	—	220,443	165,731	54,712
Excess (deficiency) of revenues over expenditures	—	—	(43,271)	(38,991)
Other financing sources (uses):				
Proceeds from sale of capital assets	—	—	3,220	(3,220)
Change in fund balances	—	—	(40,051)	(40,051)
Fund balances – beginning of year	61,748	61,748	61,748	—
Fund balances – end of year	61,748	61,748	21,697	(40,051)

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CITY OF NAPLES, FLORIDA
 Nonmajor Capital Projects Funds
 Schedule of Revenues, Expenditures and Changes in Fund Balance
 Budget and Actual
 Year ended September 30, 2003

	Land Conservation Trust Fund			Variance with final budget positive (negative)
	Original budget	Final budget	Actual	
Revenues:				
Taxes:				
Property	\$ —	—	—	—
Licenses and permits	—	—	5,000	5,000
Intergovernmental	—	—	(1,199)	(1,199)
Interest	—	1,900,743	625	(1,900,118)
Miscellaneous	—	—	—	—
Total revenues	<u>—</u>	<u>1,900,743</u>	<u>4,426</u>	<u>(1,896,317)</u>
Expenditures:				
Economic and physical development	—	—	—	—
Capital outlay:				
Economic and physical development	—	—	6,866	(6,866)
Total capital projects	<u>—</u>	<u>—</u>	<u>6,866</u>	<u>(6,866)</u>
Debt service:				
Principal	—	1,857,928	1,857,928	—
Interest and fiscal charges	—	42,815	42,815	—
Total debt service	<u>—</u>	<u>1,900,743</u>	<u>1,900,743</u>	<u>—</u>
Total expenditures	<u>—</u>	<u>1,900,743</u>	<u>1,907,609</u>	<u>(6,866)</u>
Excess (deficiency) of revenues over expenditures	<u>—</u>	<u>—</u>	<u>(1,903,183)</u>	<u>(1,903,183)</u>
Other financing sources (uses):				
Transfers out	—	—	—	—
Total other financing sources (uses)	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Net changes in fund balances	<u>—</u>	<u>—</u>	<u>(1,903,183)</u>	<u>(1,903,183)</u>
Fund balances – beginning of year	2,345,855	2,345,855	2,345,855	—
Fund balances – end of year	<u>\$ 2,345,855</u>	<u>2,345,855</u>	<u>442,672</u>	<u>(1,903,183)</u>

See accompanying independent auditors' report.

East Naples Bay District				Moorings Bay District			
Original budget	Final budget	Actual	Variance with final budget positive (negative)	Original budget	Final budget	Actual	Variance with final budget positive (negative)
137,565	137,565	139,073	1,508	23,315	23,315	23,580	265
—	—	—	—	—	—	—	—
4,000	4,000	4,411	411	40,000	40,000	11,685	(28,315)
—	—	—	—	—	23,188	—	(23,188)
141,565	141,565	143,484	1,919	63,315	86,503	35,265	(51,238)
4,750	4,750	898	3,852	21,250	21,250	579	20,671
—	—	—	—	42,065	65,253	4,000	61,253
—	—	—	—	42,065	65,253	4,000	61,253
—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—
4,750	4,750	898	3,852	63,315	86,503	4,579	81,924
136,815	136,815	142,586	(5,771)	—	—	30,686	30,686
(64,242)	(64,242)	(64,242)	—	—	—	—	—
(64,242)	(64,242)	(64,242)	—	—	—	—	—
72,573	72,573	78,344	(5,771)	—	—	30,686	30,686
134,690	134,690	134,690	—	720,174	720,174	720,174	—
207,263	207,263	213,034	(5,771)	720,174	720,174	750,860	30,686

CITY OF NAPLES, FLORIDA

Debt Service Fund

Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual

Year ended September 30, 2003

	<u>Original budget</u>	<u>Final budget</u>	<u>Actual</u>	<u>Variance with final budget positive (negative)</u>
Revenues:				
Taxes:				
Ad valorem	\$ 825,360	825,360	831,850	6,490
Utility	3,568,000	3,568,000	3,589,108	21,108
Interest	38,400	38,400	34,694	(3,706)
Total revenues	<u>4,431,760</u>	<u>4,431,760</u>	<u>4,455,652</u>	<u>23,892</u>
Expenditures:				
Current:				
General government	91,900	91,900	91,900	—
Total general government	<u>91,900</u>	<u>91,900</u>	<u>91,900</u>	<u>—</u>
Debt service:				
Principal	1,343,328	1,302,799	1,213,329	89,470
Interest and fiscal charges	1,193,636	1,179,882	1,086,058	93,824
Total debt service	<u>2,536,964</u>	<u>2,482,681</u>	<u>2,299,387</u>	<u>183,294</u>
Total expenditures	<u>2,628,864</u>	<u>2,574,581</u>	<u>2,391,287</u>	<u>183,294</u>
Excess of revenues over expenditures	<u>1,802,896</u>	<u>1,857,179</u>	<u>2,064,365</u>	<u>207,186</u>
Other financing sources (uses):				
Transfers in	244,582	244,582	244,582	—
Transfers out	(2,047,478)	(5,028,832)	(5,028,832)	—
Proceeds from issuance of debt	—	5,925,000	5,925,000	—
Payments to refunded bond escrow agent	—	(2,965,529)	(2,965,529)	—
Total other financing sources (uses)	<u>(1,802,896)</u>	<u>(1,824,779)</u>	<u>(1,824,779)</u>	<u>—</u>
Change in fund balance	—	32,400	239,586	207,186
Fund balance – beginning of year	<u>1,320,027</u>	<u>1,320,027</u>	<u>1,320,027</u>	<u>—</u>
Fund balance – end of year	<u>\$ 1,320,027</u>	<u>1,352,427</u>	<u>1,559,613</u>	<u>207,186</u>

See accompanying independent auditors' report.

CITY OF NAPLES, FLORIDA

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

Year ended September 30, 2003

	<u>Original budget</u>	<u>Final budget</u>	<u>Actual</u>	Variance with final budget positive (negative)
Revenues:				
Intergovernmental	—	795,710	145,710	(650,000)
Special assessments	35,000	35,000	38,715	3,715
Impact fees	164,600	164,600	172,045	7,445
Interest	175,000	175,000	236,040	61,040
Miscellaneous	15,000	165,000	451,000	286,000
Total revenues	<u>389,600</u>	<u>1,335,310</u>	<u>1,043,510</u>	<u>(291,800)</u>
Expenditures:				
Current:				
General government	<u>237,500</u>	<u>237,500</u>	<u>237,500</u>	<u>—</u>
Total general government	<u>237,500</u>	<u>237,500</u>	<u>237,500</u>	<u>—</u>
Capital outlay:				
City Clerk	—	21,364	16,771	4,593
Planning	—	14,900	—	14,900
Finance	30,400	34,112	1,090	33,022
Fire	375,700	731,269	510,074	221,195
Police	381,121	517,222	374,713	142,509
Natural resources	—	20,000	—	20,000
Development services	515,000	939,045	100,428	838,617
Community services	664,375	1,167,421	637,838	529,583
Nondepartmental	155,000	7,723,903	2,611,632	5,112,271
Total capital projects	<u>2,121,596</u>	<u>11,169,236</u>	<u>4,252,546</u>	<u>6,916,690</u>
Total expenditures	<u>2,359,096</u>	<u>11,406,736</u>	<u>4,490,046</u>	<u>6,916,690</u>
Excess of expenditures over revenues	<u>(1,969,496)</u>	<u>(10,071,426)</u>	<u>(3,446,536)</u>	<u>(7,208,490)</u>
Other financing sources (uses):				
Transfers in	2,047,478	2,047,478	2,047,478	—
Transfers out	(35,833)	(35,833)	—	35,833
Proceeds from sale of capital assets	—	—	65,458	65,458
Total other financing sources	<u>2,011,645</u>	<u>2,011,645</u>	<u>2,112,936</u>	<u>101,291</u>
Net changes in fund balances	42,149	(8,059,781)	(1,333,600)	6,726,181
Fund balances – beginning of year	<u>11,369,711</u>	<u>11,369,711</u>	<u>11,369,711</u>	<u>—</u>
Fund balances – end of year	<u>\$ 11,411,860</u>	<u>3,309,930</u>	<u>10,036,111</u>	<u>6,726,181</u>

See accompanying independent auditors' report.

CITY OF NAPLES, FLORIDA
Community Redevelopment Fund
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
Year ended September 30, 2003

	<u>Original budget</u>	<u>Final budget</u>	<u>Actual</u>	<u>Variance with final budget positive (negative)</u>
Revenues:				
Taxes:				
Ad valorem	\$ 341,068	341,068	334,086	(6,982)
Intergovernmental	1,188,130	1,188,130	1,163,809	(24,321)
Interest	45,000	45,000	85,466	40,466
Total revenues	<u>1,574,198</u>	<u>1,574,198</u>	<u>1,583,361</u>	<u>9,163</u>
Expenditures:				
Physical and economic environment:				
Economic development	505,327	4,128,791	685,171	(3,443,620)
Interest and advances to other funds	775,065	775,065	86,824	(688,241)
Total physical and economic environment	<u>1,280,392</u>	<u>4,903,856</u>	<u>771,995</u>	<u>(4,131,861)</u>
Total expenditures	<u>1,280,392</u>	<u>4,903,856</u>	<u>771,995</u>	<u>(4,131,861)</u>
Excess (deficiency) of revenues over expenditures	<u>293,806</u>	<u>(3,329,658)</u>	<u>811,366</u>	<u>4,141,024</u>
Other financing sources (uses):				
Transfers in	—	2,981,354	2,981,354	—
Transfers out	(180,390)	(180,390)	(180,340)	50
Total other financing sources (uses)	<u>(180,390)</u>	<u>2,800,964</u>	<u>2,801,014</u>	<u>50</u>
Net changes in fund balances	113,416	(528,694)	3,612,380	4,141,074
Fund balances – beginning of year	(1,751,795)	(1,751,795)	(1,751,795)	—
Fund balances – end of year	<u>\$ (1,638,379)</u>	<u>(2,280,489)</u>	<u>1,860,585</u>	<u>4,141,074</u>

See accompanying independent auditors' report.

CITY OF NAPLES, FLORIDA

Streets and Traffic Fund
 Schedule of Revenues, Expenditures and Changes in Fund Balance
 Budget and Actual

Year ended September 30, 2003

	<u>Original budget</u>	<u>Final budget</u>	<u>Actual</u>	<u>Variance with final budget positive (negative)</u>
Revenues:				
Taxes:				
Motor fuel taxes	\$ 1,980,000	1,980,000	2,044,949	64,949
Licenses and permits	—	—	1,200	1,200
Intergovernmental	204,000	368,000	381,097	13,097
Impact fees	200,000	200,000	200,000	—
Interest	20,000	20,000	71,179	51,179
Miscellaneous	5,000	5,000	89,806	84,806
Total revenues	<u>2,409,000</u>	<u>2,573,000</u>	<u>2,788,231</u>	<u>215,231</u>
Expenditures:				
Current:				
Transportation:				
Developmental services	3,936,697	6,019,638	4,100,572	1,919,066
Total transportation	<u>3,936,697</u>	<u>6,019,638</u>	<u>4,100,572</u>	<u>1,919,066</u>
Total expenditures	<u>3,936,697</u>	<u>6,019,638</u>	<u>4,100,572</u>	<u>1,919,066</u>
Excess (deficiency) of revenues over expenditures	<u>(1,527,697)</u>	<u>(3,446,638)</u>	<u>(1,312,341)</u>	<u>2,134,297</u>
Other financing sources (uses):				
Proceeds from sale of capital assets	—	—	101	101
Total other financing sources (uses)	<u>—</u>	<u>—</u>	<u>101</u>	<u>101</u>
Net changes in fund balances	<u>(1,527,697)</u>	<u>(3,446,638)</u>	<u>(1,312,240)</u>	<u>2,134,398</u>
Fund balances – beginning of year	4,294,915	4,294,915	4,294,915	—
Fund balances – end of year	\$ <u><u>2,767,218</u></u>	<u><u>848,277</u></u>	<u><u>2,982,675</u></u>	<u><u>2,134,398</u></u>

See accompanying independent auditors' report.

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Nonmajor Enterprise Funds

Enterprise Funds are used to account for operations that are financed and operated in a manner similar to private business enterprise, where the intent of the City Council is that the costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges, or where the City Council has decided that periodic determination of net income is appropriate for accountability purposes.

Naples Beach Fund

To account for funds used in the construction of City beach improvements and beach maintenance. Financed mostly through parking meter revenue at the City's beach and related fines.

City Dock Fund

To account for funds used in the construction of the City's dock and the subsequent operations of the dock. Repayment of any funding will be provided through user charges.

Tennis Fund

To account for funds used in the construction of the City's Tennis Courts and subsequent operations of the tennis facility. All activities necessary to provide such services are accounted for in this fund, including but not limited to, administration, operations, maintenance, billings and collections.

CITY OF NAPLES, FLORIDA
Combining Statement of Net Assets
Nonmajor Enterprise Funds
September 30, 2003

Assets	<u>Naples Beach Fund</u>	<u>City Dock Fund</u>	<u>Tennis Fund</u>	<u>Total</u>
Current assets:				
Cash and investments	\$ —	457,854	68,714	526,568
Receivables (net, where applicable, of allowance for uncollectible):				
Accounts	31,066	4,375	—	35,441
Miscellaneous	—	607	—	607
Due from other governments	1,264,727	1,819	—	1,266,546
Inventories	—	8,244	5,136	13,380
Total current assets	<u>1,295,793</u>	<u>472,899</u>	<u>73,850</u>	<u>1,842,542</u>
Restricted assets:				
Cash and investments	—	7,720	—	7,720
Prepaid items	—	—	15,278	15,278
Total restricted assets	<u>—</u>	<u>7,720</u>	<u>15,278</u>	<u>22,998</u>
Deferred charges	<u>—</u>	<u>2,891</u>	<u>3,108</u>	<u>5,999</u>
Capital assets:				
Buildings and utility plants	700,713	89,487	703,269	1,493,469
Improvements other than buildings	3,698,010	2,168,932	4,195	5,871,137
Equipment	691,667	150,305	32,675	874,647
Accumulated depreciation	(2,201,805)	(1,824,195)	(174,258)	(4,200,258)
Construction in progress	360,340	98,920	—	459,260
Net capital assets	<u>3,248,925</u>	<u>683,449</u>	<u>565,881</u>	<u>4,498,255</u>
Total assets	<u>\$ 4,544,718</u>	<u>1,166,959</u>	<u>658,117</u>	<u>6,369,794</u>

See accompanying independent auditors' report.

CITY OF NAPLES, FLORIDA

Combining Statement of Net Assets

Nonmajor Enterprise Funds

September 30, 2003

Liabilities	Naples Beach Fund	City Dock Fund	Tennis Fund	Total
Current liabilities:				
Accounts payable	\$ 60,292	66,318	6,998	133,608
Accrued payroll and personnel leave	12,591	5,524	4,106	22,221
Due to other funds	1,000,952	—	—	1,000,952
Deferred revenue	32,566	30,248	14,580	77,394
Customer deposits	277	21,427	—	21,704
Current portion of compensated absences	780	2,912	1,583	5,275
Current maturities of long-term debt	—	19,966	26,250	46,216
Total current liabilities	<u>1,107,458</u>	<u>146,395</u>	<u>53,517</u>	<u>1,307,370</u>
Current liabilities (payable from restricted assets):				
Current maturities of long-term debt	—	6,655	8,750	15,405
Accrued interest payable	—	1,059	6,528	7,587
Total current liabilities (payable from restricted assets)	<u>—</u>	<u>7,714</u>	<u>15,278</u>	<u>22,992</u>
Noncurrent liabilities:				
Revenue bonds payable, less current maturities net of unamortized discounts and premiums	—	56,968	570,000	626,968
Compensated absences	19,368	1,582	2,828	23,778
Total noncurrent liabilities	<u>19,368</u>	<u>58,550</u>	<u>572,828</u>	<u>650,746</u>
Total liabilities	<u>1,126,826</u>	<u>212,659</u>	<u>641,623</u>	<u>1,981,108</u>
Net Assets				
Invested in capital assets, net of related debt	3,248,925	599,860	(39,119)	3,809,666
Restricted for debt service	—	7,714	—	7,714
Unrestricted	168,967	346,726	55,613	571,306
Total net assets	<u>\$ 3,417,892</u>	<u>954,300</u>	<u>16,494</u>	<u>4,388,686</u>

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CITY OF NAPLES, FLORIDA

Combining Statement of Revenues, Expenses and Changes in Fund Balances

Nonmajor Enterprise Funds

Year ended September 30, 2003

	Naples Beach Fund	City Dock Fund	Tennis Fund	Total
Operating revenues:				
Charges for services	\$ 753,252	1,780,935	467,090	3,001,277
Total operating revenues	<u>753,252</u>	<u>1,780,935</u>	<u>467,090</u>	<u>3,001,277</u>
Operating expenses:				
Personal services	493,653	195,925	178,646	868,224
Supplies and services	167,237	1,109,400	203,244	1,479,881
Materials	—	—	3,969	3,969
Heat, light, and power	61,987	55,506	3,624	121,117
Depreciation and amortization	453,156	168,606	42,857	664,619
General administration	277,700	132,700	22,050	432,450
Payment in lieu of taxes	—	10,900	—	10,900
Other	72,528	103	1,212	73,843
Total operating expenses	<u>1,526,261</u>	<u>1,673,140</u>	<u>455,602</u>	<u>3,655,003</u>
Operating income (loss)	<u>(773,009)</u>	<u>107,795</u>	<u>11,488</u>	<u>(653,726)</u>
Nonoperating revenues (expenses):				
Gain on disposal of capital assets	4,692	—	—	4,692
Operating grants	390,000	—	—	390,000
Interest income	—	8,444	2,113	10,557
Interest expense	—	(8,101)	(26,113)	(34,214)
Total nonoperating revenues (expenses)	<u>394,692</u>	<u>343</u>	<u>(24,000)</u>	<u>371,035</u>
Income (loss) before capital contributions	<u>(378,317)</u>	<u>108,138</u>	<u>(12,512)</u>	<u>(282,691)</u>
Capital contributions	<u>881,747</u>	<u>—</u>	<u>—</u>	<u>881,747</u>
Change in net assets	<u>503,430</u>	<u>108,138</u>	<u>(12,512)</u>	<u>599,056</u>
Net assets – beginning of year	<u>2,914,462</u>	<u>846,162</u>	<u>29,006</u>	<u>3,789,630</u>
Net assets – end of year	\$ <u><u>3,417,892</u></u>	<u><u>954,300</u></u>	<u><u>16,494</u></u>	<u><u>4,388,686</u></u>

See accompanying independent auditors' report.

CITY OF NAPLES, FLORIDA
Combining Statement of Cash Flows
Nonmajor Enterprise Funds
Year ended September 30, 2003

	Naples Beach Fund	City Dock Fund
Cash flows from operating activities:		
Cash received from customers	\$ 602,972	1,751,642
Cash payments to suppliers	(585,139)	(1,292,466)
Cash payments to employees	(486,165)	(200,178)
Net cash provided by (used in) operating activities	(468,332)	258,998
Cash flows from noncapital financing activities:		
Advances and repayments to other funds	—	(48,596)
Advances and repayments from other funds	—	3,210
Net cash used in noncapital financing activities	—	(45,386)
Cash flows from capital and related financing activities:		
Principal paid on long-term debt	—	(26,440)
Interest paid on long-term debt	—	(8,421)
Capital and operating grants and contributions	1,271,747	—
Proceeds from transfer/disposal of fixed assets	4,692	—
Acquisition and construction of capital assets	(808,107)	(86,451)
Net cash provided by (used in) capital and related financing activities	468,332	(121,312)
Cash flows from investing activities:		
Proceeds of investment securities	—	675
Interest and investment earnings	—	8,444
Net cash provided by investing activities	—	9,119
Net increase in cash and cash equivalents	—	101,419
Cash and cash equivalents – beginning of year	—	364,155
Cash and cash equivalents – end of year	\$ —	465,574

Tennis Fund	Total
449,073	2,803,687
(236,975)	(2,114,580)
(177,654)	(863,997)
<hr/> 34,444	<hr/> (174,890)
—	(48,596)
—	3,210
<hr/> —	<hr/> (45,386)
—	(26,440)
(26,113)	(34,534)
—	1,271,747
—	4,692
<hr/> —	<hr/> (894,558)
<hr/> (26,113)	<hr/> 320,907
—	675
2,113	10,557
<hr/> 2,113	<hr/> 11,232
10,444	111,863
58,270	422,425
<hr/> 68,714	<hr/> 534,288

(Continued)

CITY OF NAPLES, FLORIDA
Combining Statement of Cash Flows
Nonmajor Enterprise Funds
Year ended September 30, 2003

	<u>Naples Beach Fund</u>	<u>City Dock Fund</u>
Reconciliation of operating income (loss) to net cash provided by operating activities:		
Operating income (loss)	\$ (773,009)	107,795
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Depreciation and amortization	453,156	168,606
Changes in assets and liabilities:		
(Increase) decrease in accounts receivable, net	(31,066)	4,099
Increase in due from other governments	(1,054,855)	(522)
Decrease in inventories	—	6,241
Increase in prepaid items	—	—
Increase in deferred charges	—	—
Increase (decrease) in accounts payable	(5,687)	(37,650)
Decrease in accrued payroll / personal leave	(12,660)	(4,253)
Increase in compensated absences	20,148	—
Increase (decrease) in deferred revenue	—	6,264
Increase in due to other governments	32,417	—
Increase in due to other funds	902,947	—
Increase in customer deposits	277	8,418
Net cash provided by operating activities	<u>\$ (468,332)</u>	<u>258,998</u>

See accompanying independent auditors' report.

Tennis Fund	Total
11,488	(653,726)
42,857	664,619
—	(26,967)
—	(1,055,377)
6,649	12,890
(8,750)	(8,750)
(1)	(1)
(774)	(44,111)
(3,419)	(20,332)
4,411	24,559
(18,017)	(11,753)
—	32,417
—	902,947
—	8,695
<u>34,444</u>	<u>(174,890)</u>

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Internal Service Funds

Internal Service Funds are used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the City on a cost reimbursement basis.

Equipment Services Fund

To account for the costs of operating a maintenance facility for automotive equipment used by other City departments. Such costs are billed to the other departments at actual cost. Actual costs include depreciation of the garage building, improvements, and machinery and equipment used to provide the service.

Risk Management Fund

To account for the costs of operating a risk management self-insurance fund. The City has elected to self-insure up to the following amounts:

Property damage	\$	150,000
Third-party liability		100,000
Workers' compensation		150,000
Blanket bond and money and securities		25,000
Aggregate losses		900,000

Health Benefits Fund

To account for the costs of operating a health benefits self-insurance fund. The City has elected to self-insure for amounts up to \$75,000 per claim and amounts up to \$3,754,370 for aggregate losses.

Information Systems Fund

To account for the costs of operating a computer facility used by other City departments. All activities necessary to provide such services are accounted for in this fund.

CITY OF NAPLES, FLORIDA
Internal Service Funds
Combining Statement of Net Assets
September 30, 2003

Assets	Equipment services	Risk management	Health benefits
	<u> </u>	<u> </u>	<u> </u>
Current assets:			
Cash and investments	\$ 283,063	1,413,004	1,457,528
Receivables – miscellaneous	1,413	35,715	2,698
Due from other governments	236	—	—
Inventories	71,656	—	—
Total current assets	<u>356,368</u>	<u>1,448,719</u>	<u>1,460,226</u>
Capital assets:			
Buildings and utility plants	251,241	—	—
Equipment	160,710	38,520	—
Accumulated depreciation	(145,622)	(28,293)	—
Net capital assets	<u>266,329</u>	<u>10,227</u>	<u>—</u>
Total assets	<u>\$ 622,697</u>	<u>1,458,946</u>	<u>1,460,226</u>
Liabilities			
Current liabilities:			
Accounts payable	\$ 69,467	16,666	197
Accrued payroll and personal leave	18,712	3,957	—
Deferred revenue	—	110	—
Total current liabilities	<u>88,179</u>	<u>20,733</u>	<u>197</u>
Noncurrent liabilities:			
Due within one year:			
Compensated absences	4,845	2,000	—
Insurance claims payable	—	699,001	430,000
Due in more than one year:			
Compensated absences	42,785	1,780	—
Insurance claims payable	—	775,999	—
Total noncurrent liabilities	<u>47,630</u>	<u>1,478,780</u>	<u>430,000</u>
Total liabilities	<u>135,809</u>	<u>1,499,513</u>	<u>430,197</u>
Net Assets			
Invested in capital assets, net of related debt	266,329	10,227	—
Unrestricted (deficit)	220,559	(50,794)	1,030,029
Total net assets (deficit)	<u>\$ 486,888</u>	<u>(40,567)</u>	<u>1,030,029</u>

See accompanying independent auditors' report.

Information systems	Total
725,620	3,879,215
—	39,826
—	236
—	71,656
<u>725,620</u>	<u>3,990,933</u>
52,691	303,932
1,158,933	1,358,163
(816,849)	(990,764)
<u>394,775</u>	<u>671,331</u>
<u>1,120,395</u>	<u>4,662,264</u>
7,361	93,691
19,325	41,994
—	110
<u>26,686</u>	<u>135,795</u>
4,609	11,454
—	1,129,001
81,183	125,748
—	775,999
<u>85,792</u>	<u>2,042,202</u>
<u>112,478</u>	<u>2,177,997</u>
394,775	671,331
613,142	1,812,936
<u>1,007,917</u>	<u>2,484,267</u>

CITY OF NAPLES, FLORIDA

Internal Service Funds

Combining Statement of Revenues, Expenses, and Changes in Fund Net Assets

Year ended September 30, 2003

	<u>Equipment services</u>	<u>Risk management</u>	<u>Health benefits</u>
Operating revenues:			
Charges for services	\$ 1,701,486	2,292,279	3,854,744
Operating expenses:			
Personal services	547,958	144,045	—
Supplies, services, and claims	409,014	2,177,624	2,844,369
Materials	516,479	—	—
Heat, light, and power	22,822	—	—
Depreciation and amortization	34,042	6,607	—
General administration	131,100	83,100	19,600
Other	7,419	12,999	—
Total operating expenses	<u>1,668,834</u>	<u>2,424,375</u>	<u>2,863,969</u>
Operating income (loss)	32,652	(132,096)	990,775
Nonoperating revenues:			
Interest income	6,637	10,632	24,001
Gain on sale of capital assets	55	—	—
Net income (loss)	39,344	(121,464)	1,014,776
Net assets – beginning of year	<u>447,544</u>	<u>80,897</u>	<u>15,253</u>
Net assets – end of year	\$ <u><u>486,888</u></u>	<u><u>(40,567)</u></u>	<u><u>1,030,029</u></u>

See accompanying independent auditors' report.

Information systems	Total
<u>1,549,229</u>	<u>9,397,738</u>
713,365	1,405,368
538,424	5,969,431
—	516,479
—	22,822
284,331	324,980
—	233,800
15,853	36,271
<u>1,551,973</u>	<u>8,509,151</u>
(2,744)	888,587
10,774	52,044
<u>360</u>	<u>415</u>
8,390	941,046
<u>999,527</u>	<u>1,543,221</u>
<u><u>1,007,917</u></u>	<u><u>2,484,267</u></u>

CITY OF NAPLES, FLORIDA
Combining Statement of Cash Flows
Internal Service Funds
Year ended September 30, 2003

	Equipment services	Risk management
Cash flows from operating activities:		
Cash received from customers	\$ 1,690,247	2,840,127
Cash payments to suppliers	(1,077,699)	(2,735,884)
Cash payments to employees	(538,890)	(139,420)
Net cash provided by (used in) operating activities	73,658	(35,177)
Cash flows from capital and related financing activities:		
Proceeds from transfer/disposal of fixed assets	55	—
Acquisition and construction of capital assets	(15,243)	(9,296)
Net cash used in capital and related financing activities	(15,188)	(9,296)
Cash flows from investing activities:		
Interest income	6,637	10,632
Net cash provided by investing activities	6,637	10,632
Net increase (decrease) in cash and cash equivalents	65,107	(33,841)
Cash and cash equivalents - beginning of year	217,956	1,446,845
Cash and cash equivalents - end of year	\$ 283,063	1,413,004
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:		
Operating income (loss)	\$ 32,652	(132,096)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization	34,042	6,607
Changes in assets and liabilities:		
(Increase) decrease in miscellaneous receivables	(823)	31,740
Decrease in due from other governments	3,624	—
Increase in inventories	(1,714)	—
Decrease in accounts payable	(4,655)	(13,947)
Increase (decrease) in accrued payroll	(37,098)	629
Increase in compensated absences	47,630	3,780
Increase in due to other funds	—	110
Increase (decrease) in insurance claims payable	—	68,000
Net cash provided by (used in) operating activities	\$ 73,658	(35,177)

See accompanying independent auditors' report.

Health benefits	Information systems	Total
4,080,321	1,384,685	9,995,380
(3,425,818)	(439,668)	(7,679,069)
—	(697,525)	(1,375,835)
<u>654,503</u>	<u>247,492</u>	<u>940,476</u>
—	360	415
—	(112,859)	(137,398)
—	(112,499)	(136,983)
<u>24,001</u>	<u>10,774</u>	<u>52,044</u>
<u>24,001</u>	<u>10,774</u>	<u>52,044</u>
678,504	145,767	855,537
779,024	579,853	3,023,678
<u>1,457,528</u>	<u>725,620</u>	<u>3,879,215</u>
990,775	(2,744)	888,587
—	284,331	324,980
(2,014)	—	28,903
—	—	3,624
—	—	(1,714)
(223)	(49,112)	(67,937)
—	7,912	(28,557)
—	7,105	58,515
—	—	110
(334,035)	—	(266,035)
<u>654,503</u>	<u>247,492</u>	<u>940,476</u>

CITY OF NAPLES, FLORIDA
Combining Statement of Fiduciary Net Assets
Fiduciary Funds
September 30, 2003

	Pension Trust		
	General Pension Fund	Supplemental General Pension	Managers' 401 Pension
Assets:			
Cash and investments	\$ 1,011,665		
Receivables:			
Accounts	141,047	—	—
Investments, at fair value:			
Corporate bonds	4,013,808	—	—
U.S. Government securities	4,673,409	—	—
Common stock	17,117,483	—	—
Mortgage – backed securities	636,873	—	—
Mutual funds	—	2,259,175	729,270
Total investments	<u>26,441,573</u>	<u>2,259,175</u>	<u>729,270</u>
Total assets	<u>27,594,285</u>	<u>2,259,175</u>	<u>729,270</u>
Liabilities:			
Accounts payable	—	—	—
Total liabilities	<u>—</u>	<u>—</u>	<u>—</u>
Net assets:			
Held in trust for pension benefits	<u>\$ 27,594,285</u>	<u>2,259,175</u>	<u>729,270</u>

See accompanying independent auditors' report.

Police Officers' Pension Fund	Firefighters' Pension Fund	Agency Funds	Total
751,196	655,467	55,604	2,473,932
95,002	70,390	65	306,504
2,609,179	1,807,663	—	8,430,650
3,001,427	2,295,366	—	9,970,202
10,781,508	7,868,093	—	35,767,084
531,494	337,521	—	1,505,888
—	—	—	2,988,445
<u>16,923,608</u>	<u>12,308,643</u>	<u>—</u>	<u>58,662,269</u>
<u>17,769,806</u>	<u>13,034,500</u>	<u>55,669</u>	<u>61,442,705</u>
<u>—</u>	<u>—</u>	<u>55,669</u>	<u>55,669</u>
<u>—</u>	<u>—</u>	<u>55,669</u>	<u>55,669</u>
<u><u>17,769,806</u></u>	<u><u>13,034,500</u></u>	<u><u>—</u></u>	<u><u>61,387,036</u></u>

CITY OF NAPLES, FLORIDA

Combining Statement of Changes in Fiduciary Net Assets

Fiduciary Funds

Year ended September 30, 2003

	General Pension Fund	Supplemental General Pension	Managers' 401 Pension
	<u> </u>	<u> </u>	<u> </u>
Additions:			
Contributions:			
Employee contributions	\$ 226,160	280,432	11,436
Employer contributions	370,627	182,148	26,685
State contributions	—	—	—
Total contributions	<u>596,787</u>	<u>462,580</u>	<u>38,121</u>
Investment earnings:			
Interest and dividend income	833,239	286,986	143,685
Net appreciation (depreciation) in fair value of investments	1,929,954	(30,847)	(21,906)
Less investment expense	<u>(116,954)</u>	<u>—</u>	<u>—</u>
Net investment earnings	<u>2,646,239</u>	<u>256,139</u>	<u>121,779</u>
Total additions	<u>3,243,026</u>	<u>718,719</u>	<u>159,900</u>
Deductions:			
Benefits paid	1,437,286	2,545	78,246
Refunds of contributions	163,354	159,392	76,004
General administration	<u>44,838</u>	<u>—</u>	<u>—</u>
Total deductions	<u>1,645,478</u>	<u>161,937</u>	<u>154,250</u>
Changes in net assets	1,597,548	556,782	5,650
Net assets – beginning of year	<u>25,996,737</u>	<u>1,702,393</u>	<u>723,620</u>
Net assets – end of year	<u><u>\$ 27,594,285</u></u>	<u><u>2,259,175</u></u>	<u><u>729,270</u></u>

See accompanying independent auditors' report.

Police Officers' Pension Fund	Firefighters' Pension Fund	Total
146,787	230,174	894,989
147,176	57,135	783,771
780,142	806,426	1,586,568
<u>1,074,105</u>	<u>1,093,735</u>	<u>3,265,328</u>
499,794	361,924	2,125,628
1,170,189	839,153	3,886,543
(66,507)	(51,332)	(234,793)
<u>1,603,476</u>	<u>1,149,745</u>	<u>5,777,378</u>
<u>2,677,581</u>	<u>2,243,480</u>	<u>9,042,706</u>
600,102	316,997	2,435,176
3,451	2,269	404,470
27,190	22,768	94,796
<u>630,743</u>	<u>342,034</u>	<u>2,934,442</u>
2,046,838	1,901,446	6,108,264
15,722,968	11,133,054	55,278,772
<u>17,769,806</u>	<u>13,034,500</u>	<u>61,387,036</u>

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OTHER SUPPLEMENTAL INFORMATION

CITY OF NAPLES, FLORIDA

Schedule of Actual Revenue, Expenses and Debt Service
Requirements as Required and Defined by the Water and Sewer Revenue
Refunding Bonds, Series 2001 and 2002

Water and Sewer – Enterprise Fund

Year ended September 30, 2003

Operating revenue:	
Water	\$ 9,513,834
Sewer	8,722,959
	<u>18,236,793</u>
Operating expenses:	
Personal services	4,174,351
Supplies and services	2,528,273
Materials	1,426,097
Heat, light, and power	1,718,117
Other	89,947
	<u>9,936,785</u>
Total operating expenses	9,936,785
Operating income	8,300,008
Other income:	
Interest	<u>338,803</u>
Net revenue available for debt service, renewal and replacement, transfers and capital improvements	\$ <u>8,638,811</u>
Debt service requirements	\$ <u>2,957,085</u>
Debt service coverage	2.92
Debt service coverage requirement	1.35
Renewal and replacement requirements	\$ <u>936,575</u>

See accompanying independent auditors' report.

**CAPITAL ASSETS
USED IN THE OPERATION
OF GOVERNMENTAL FUNDS**

CITY OF NAPLES, FLORIDA
 Capital Assets Used in the Operation of Governmental Funds
 Schedule by Function and Activity
 September 30, 2003

Function and activity	Total	Land	Buildings	Improvements other than buildings & infrastructure	Machinery and equipment
General government					
Control:					
Executive	\$ 17,464	—	—	5,154	12,310
Total control	<u>17,464</u>	<u>—</u>	<u>—</u>	<u>5,154</u>	<u>12,310</u>
Staff agencies:					
Finance	232,595	—	131,595	1,359	99,641
Law	19,522	—	—	—	19,522
Recording and reporting	97,695	—	—	—	97,695
Human resources	9,755	—	—	—	9,755
Community development	2,732,002	548,627	44,029	1,693,360	445,986
Community redevelopment	7,342,721	51,522	4,937,328	2,343,369	10,502
Other general government	19,131,792	8,690,144	6,409,213	3,159,759	872,676
Total staff agencies	<u>29,566,082</u>	<u>9,290,293</u>	<u>11,522,165</u>	<u>7,197,847</u>	<u>1,555,777</u>
Total general government	<u>29,583,546</u>	<u>9,290,293</u>	<u>11,522,165</u>	<u>7,203,001</u>	<u>1,568,087</u>
Public safety:					
Police protection	6,855,950	—	4,178,884	52,710	2,624,356
Fire protection	5,203,659	350,978	1,837,483	156,723	2,858,475
Protective inspection	3,913,780	—	3,540,401	—	373,379
Engineering – traffic	3,793,626	—	—	3,426,662	366,964
Total public safety	<u>19,767,015</u>	<u>350,978</u>	<u>9,556,768</u>	<u>3,636,095</u>	<u>6,223,174</u>
Physical environment:					
Public works	354,987	37,099	102,683	7,457	207,748
Natural resources	625,601	—	—	604,813	20,788
Total physical environment	<u>980,588</u>	<u>37,099</u>	<u>102,683</u>	<u>612,270</u>	<u>228,536</u>
Transportation	<u>23,605,867</u>	<u>556,938</u>	<u>196,314</u>	<u>22,852,615</u>	<u>—</u>
Recreation	<u>15,531,814</u>	<u>1,545,099</u>	<u>5,012,664</u>	<u>7,055,028</u>	<u>1,919,023</u>
Total governmental funds capital assets allocated to functions	<u>89,468,830</u>	<u>11,780,407</u>	<u>26,390,594</u>	<u>41,359,009</u>	<u>9,938,820</u>
Construction in progress	<u>1,630,559</u>				
Total governmental funds capital assets	<u>\$ 91,099,389</u>				

This schedule presents only the capital asset balances related to governmental funds. Accordingly, the capital assets reported in internal service funds are excluded from the above amounts. Generally, the capital assets of internal service funds are included as governmental activities in the statement of net assets.

See accompanying independent auditors' report.

CITY OF NAPLES, FLORIDA

Capital Assets Used in the Operation of Governmental Funds

Comparative Schedule By Source

Year ended September 30, 2003

	Balance October 1, 2002	Additions	Transfers/ retirements	Balance September 30, 2003
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Governmental funds capital assets:				
Land	\$ 10,877,626	902,781	—	11,780,407
Buildings	22,226,267	7,975,855	(3,811,528)	26,390,594
Improvements other than buildings	38,270,503	8,761,815	(25,907,765)	21,124,553
Infrastructure	—	20,234,456	—	20,234,456
Machinery and equipment	8,469,204	2,781,922	(1,312,306)	9,938,820
Construction in progress	2,479,998	1,630,559	(2,479,998)	1,630,559
	<u>\$ 82,323,598</u>	<u>42,287,388</u>	<u>(33,511,597)</u>	<u>91,099,389</u>
Investments in governmental funds capital assets by source:				
Bond proceeds	24,456,557	2,582,097	(801,521)	26,237,133
Federal grants	3,983,348	941,571	—	4,924,919
Note proceeds	1,915,105	—	—	1,915,105
State grants	324,217	—	—	324,217
General and streets funds	15,477,234	3,320,837	(34,571)	18,763,500
Capital projects fund	34,355,600	4,677,544	(1,907,415)	37,125,729
Risk management fund	17,830	—	—	17,830
Contributions	1,793,707	—	(2,751)	1,790,956
	<u>\$ 82,323,598</u>	<u>11,522,049</u>	<u>(2,746,258)</u>	<u>91,099,389</u>

This schedule presents only the capital asset balances related to governmental funds. Accordingly, the capital assets reported in internal service funds are excluded from the above amounts. Generally, the capital assets of internal service funds are included as governmental activities in the statement of net assets.

See accompanying independent auditors' report.

CITY OF NAPLES, FLORIDA

Capital Assets Used in the Operation of Governmental Funds

Schedule of Changes by Function and Activity

Year ended September 30, 2003

Function and activity	Balance October 1, 2002	Additions	Transfers/ retirements	Balance September 30, 2003
General government:				
Control:				
Executive	\$ 12,413	5,051		17,464
Administrative	24,081	—	(24,081)	—
Total control	<u>36,494</u>	<u>5,051</u>	<u>(24,081)</u>	<u>17,464</u>
Staff agencies:				
Finance	230,896	9,388	(7,689)	232,595
Law	19,522	348	(348)	19,522
Recording and reporting	84,075	17,168	(3,548)	97,695
Human resources	9,604	151	—	9,755
Community development	5,941,468	346,974	(3,556,440)	2,732,002
Community redevelopment	6,896,748	822,988	(377,015)	7,342,721
Other general government	20,668,993	1,287,216	(2,824,417)	19,131,792
Total staff agencies	<u>33,851,306</u>	<u>2,484,233</u>	<u>(6,769,457)</u>	<u>29,566,082</u>
Total general government	<u>33,887,800</u>	<u>2,489,284</u>	<u>(6,793,538)</u>	<u>29,583,546</u>
Public safety:				
Police protection	6,126,479	1,104,926	(375,455)	6,855,950
Fire protection	3,970,398	1,395,793	(162,532)	5,203,659
Protective inspection	532,075	3,487,573	(105,868)	3,913,780
Engineering – traffic	3,364,653	451,992	(23,019)	3,793,626
Total public safety	<u>13,993,605</u>	<u>6,440,284</u>	<u>(666,874)</u>	<u>19,767,015</u>
Physical environment:				
Public works	859,866	—	(504,879)	354,987
Natural resources	724,935	4,000	(103,334)	625,601
Total physical environment	<u>1,584,801</u>	<u>4,000</u>	<u>(608,213)</u>	<u>980,588</u>
Transportation	<u>16,420,884</u>	<u>26,400,020</u>	<u>(19,215,037)</u>	<u>23,605,867</u>
Recreation	<u>13,956,510</u>	<u>5,323,241</u>	<u>(3,747,937)</u>	<u>15,531,814</u>
Total governmental funds capital assets allocated to functions	79,843,600	40,656,829	(31,031,599)	89,468,830
Construction in progress	<u>2,479,998</u>	<u>1,630,559</u>	<u>(2,479,998)</u>	<u>1,630,559</u>
Total governmental funds capital assets	\$ <u>82,323,598</u>	<u>42,287,388</u>	<u>(33,511,597)</u>	<u>91,099,389</u>

This schedule presents only the capital asset balances related to governmental funds. According, the capital assets reported in internal service funds are excluded from the above amounts. Generally, the capital assets of internal service funds are included as governmental activities in the statement of net assets.

See accompanying independent auditors' report.

STATISTICAL SECTION
(Unaudited)

CITY OF NAPLES, FLORIDA

General Governmental Expenditures by Function

Last 10 fiscal years (1)

	<u>2003</u>	<u>2002</u>	<u>2001</u>	<u>2000</u>
General Government	\$ 2,337,893	2,117,880	2,061,697	2,031,032
Planning (2)	489,502	399,650	414,270	405,584
Community Development (3)	—	—	—	—
Development Services (4)	—	—	—	—
Finance	1,328,046	1,016,148	914,197	845,648
Engineering (5)	638,880	677,552	619,669	528,263
Police	7,578,942	6,837,048	6,517,316	6,003,505
Fire	4,359,533	3,968,822	3,555,429	3,515,139
Parks and Recreation	4,652,042	4,676,969	4,199,158	3,929,822
Other	2,860,577	2,760,242	2,574,110	2,034,168
	<u>24,245,415</u>	<u>22,454,311</u>	<u>20,855,846</u>	<u>19,293,161</u>
Debt Service (6)	<u>5,264,916</u>	<u>2,567,899</u>	<u>4,459,138</u>	<u>1,631,176</u>
Total	<u>\$ 29,510,331</u>	<u>25,022,210</u>	<u>25,314,984</u>	<u>20,924,337</u>

- (1) This schedule includes expenditures of the General Fund and Debt Service Fund.
- (2) Prior to 1996 Planning was in the Community Development Department. In 1996 Planning became a separate department.
- (3) Building & Zoning was included in Community Development prior to 1995. In FY 1995 Planning and Natural Resources were included in Community Development and Building & Zoning was moved to the City Manager's Department. Natural Resources is currently within the City Manager's Department.
- (4) Includes Engineering, Building & Zoning, and Natural Resources, through 1998.
- (5) 1991 Engineering and Streets expenditures are included in the General Fund; 1992 through 1995 Engineering expenditures are reported as Water and Sewer Fund expenditures, and Street expenditures are reported as Capital Projects Fund expenditures. 1996 through 1998 Engineering expenditures are included in the General Fund within Development Services. In 1999 Building & Zoning established as a separate fund.
- (6) In 1997, these expenditures included the purchase of one-third of the Pulling property and facilities maintenance division was transferred from Community Services Department to the Non-departmental Department. In 1998, these expenditures included the financing by the General Fund for the 5th Avenue Plaza.
- (7) During 1998 the City of Naples issued a bond to help the Historical Society pay for a historical house. The debt service reflects the prepayment of this debt by the Historical Society. The revenue source is in the miscellaneous category on the next schedule.

1999	1998	1997	1996	1995	1994
1,852,288	1,514,549	1,589,254	1,211,027	1,737,855	1,895,755
431,220	387,024	394,073	381,042	—	—
—	—	—	—	446,919	875,704
—	1,441,301	1,520,550	1,220,817	—	—
823,689	808,666	784,898	741,501	780,493	798,350
518,806	—	—	—	—	—
5,560,633	5,400,375	5,248,808	4,809,459	4,683,255	4,684,648
3,051,888	2,829,565	2,627,033	2,482,284	2,374,562	2,478,333
3,751,828	3,314,207	3,065,816	2,977,846	2,951,416	3,067,820
1,637,918	1,896,068	1,863,226	1,040,831	801,655	305,335
<u>17,628,270</u>	<u>17,591,755</u>	<u>17,093,658</u>	<u>14,864,807</u>	<u>13,776,155</u>	<u>14,105,945</u>
<u>1,364,814</u>	<u>872,129</u>	<u>838,366</u>	<u>832,753</u>	<u>847,438</u>	<u>1,093,436</u>
<u><u>18,993,084</u></u>	<u><u>18,463,884</u></u>	<u><u>17,932,024</u></u>	<u><u>15,697,560</u></u>	<u><u>14,623,593</u></u>	<u><u>15,199,381</u></u>

CITY OF NAPLES, FLORIDA
 General Governmental Revenues by Source
 Last 10 fiscal years (1)

	<u>2003</u>	<u>2002</u>	<u>2001</u>	<u>2000</u>
Ad Valorem Tax	\$ 11,177,976	10,017,877	8,455,971	6,713,341
Franchise & Utilities Tax	8,592,173	8,210,553	7,309,636	6,748,789
Licenses & Permits (2)	263,867	238,808	279,263	265,682
Services	5,093,149	4,704,024	4,437,890	4,269,480
Fines & Forfeitures	369,694	251,142	378,336	395,528
Recreation (3)	674,188	566,798	415,486	298,328
State & Federal Shared Revenue	3,196,706	2,872,856	3,373,137	3,187,330
Earnings on Investments	232,986	225,498	532,735	372,619
Miscellaneous	22,695	208,610	26,842	429,190
Total	<u>\$ 29,623,434</u>	<u>27,296,166</u>	<u>25,209,296</u>	<u>22,680,287</u>

- (1) This schedule includes revenue of the General Fund and Debt Service Funds.
 (2) Building & Zoning established as a separate fund in 1999.
 (3) The Tennis Fund was established as an enterprise fund in 1996.

1999	1998	1997	1996	1995	1994
5,811,829	5,490,397	5,107,777	4,778,204	4,640,280	4,590,079
6,548,706	6,398,626	6,225,965	6,069,908	5,526,802	5,466,630
259,441	1,849,787	1,305,287	1,565,131	1,159,750	977,278
4,110,041	3,945,554	3,352,946	3,156,224	2,557,634	2,319,248
412,284	342,296	368,023	325,591	394,262	474,787
261,752	247,911	198,866	171,587	327,568	604,152
2,981,243	2,853,281	2,773,745	2,571,127	2,529,015	2,377,125
287,252	457,472	369,658	443,332	438,011	193,139
169,516	15,299	11,584	28,162	25,513	43,605
20,842,064	21,600,623	19,713,851	19,109,266	17,598,835	17,046,043

CITY OF NAPLES, FLORIDA
Property Tax Levies and Collections
Last 10 fiscal years

Fiscal year ended	Total levy	Distribution			Collections			
		Operating	Debt service	Capital projects	Operating	%	Debt service	Capital projects
1994	5,052,712	4,742,548	—	310,164	4,590,079	96.79%	—	299,637
1995	5,105,430	4,794,229	—	311,201	4,641,548	96.82%	—	300,611
1996	5,162,568	4,950,264	—	212,304	4,782,271	93.61%	—	205,432
1997	5,405,630	5,277,055	—	128,575	5,120,304	97.03%	—	112,141
1998	5,816,252	5,679,517	—	136,735	5,510,953	97.03%	—	114,244
1999	6,194,416	6,014,609	—	179,807	5,868,179	97.57%	—	119,450
2000	7,180,330	7,038,154	—	142,176	6,817,457	96.86%	—	130,133
2001	9,014,005	8,028,890	858,020	127,095	7,771,452	96.79%	829,534	116,757
2002	10,767,250	9,766,697	868,813	131,740	9,434,431	96.60%	839,255	127,412
2003	12,113,826	11,081,943	863,258	168,625	10,680,212	96.37%	831,850	162,653

Source: Collier County Tax Collector
Collier County Tax Appraiser

CITY OF NAPLES, FLORIDA

Assessed and Estimated Actual Value of Taxable Property

Last 10 fiscal years

Assessed January 1	Fiscal year ended	Assessed value	Estimated actual value	Ratio of assessed value to estimated actual value
1992	1993	3,889,296,881	4,448,425,038	87.43%
1993	1994	3,931,608,107	4,484,704,299	87.67%
1994	1995	4,060,510,331	4,646,924,433	87.38%
1995	1996	4,192,041,398	4,814,534,769	87.07%
1996	1997	4,480,631,775	5,121,865,459	87.48%
1997	1998	4,826,553,552	5,527,505,886	87.32%
1998	1999	5,140,991,963	5,945,296,662	86.47%
1999	2000	5,966,815,878	7,132,841,028	83.65%
2000	2001	6,806,066,692	8,289,950,418	82.10%
2001	2002	8,488,615,092	10,721,508,162	79.17%
2002	2003	9,950,900,301	12,966,197,227	76.74%

Source: Collier County Tax Appraiser

* Just value as defined in F.S. 193.011

CITY OF NAPLES, FLORIDA

Property Tax Rates – Direct and Overlapping Governments

Last 10 fiscal years

(Per \$1,000 of assessed value)

Fiscal year ended	City operating	City debt service	City total	Mosquito control	Collier County
1994	1.2056	—	1.2056	0.2197	3.6729
1995	1.1800	—	1.1800	0.2150	3.5999
1996	1.1800	—	1.1800	0.2101	3.4889
1997	1.1800	—	1.1800	0.1883	3.7241
1998	1.1800	—	1.1800	0.1821	3.6813
1999	1.1800	—	1.1800	0.1953	3.5510
2000	1.1800	—	1.1800	0.1923	3.5058
2001	1.1800	0.1260	1.3060	0.1748	3.5028
2002	1.1500	0.1023	1.2523	0.1465	3.8772
2003	1.1130	0.0867	1.1997	0.1167	3.8772

School board	South Florida water management	Water pollution control	Big Cypress Basin	Combined total
8.0860	0.2330	0.0417	0.3030	13.7619
8.3160	0.2390	0.0553	0.1820	13.7872
8.5930	0.2590	0.0506	0.1980	13.9796
8.6860	0.2840	0.0489	0.1980	14.3093
8.4240	0.2840	0.0452	0.2780	14.0746
8.5100	0.2840	0.0413	0.2780	14.0396
7.7600	0.2840	0.0355	0.2780	13.2356
7.7220	0.2840	0.0445	0.2780	13.3121
7.1370	0.2840	0.0420	0.2425	12.9815
6.9110	0.2840	0.0347	0.2425	12.6658

CITY OF NAPLES, FLORIDA
Special Assessment Billings and Collections
Last 10 fiscal years

Year	Liens assessed		Collections	Unpaid balance
1994	—		145,209	123,777
1995	934,512	(1)	78,103	980,186
1996	—		292,217	687,969
1997	37,670		136,814	588,825
1998	1,370,010	(2)	721,674	1,237,161
1999	138,497		229,518	1,146,140
2000	216,160	(3)	182,804	1,179,496
2001	—		121,567	1,057,929
2002	—		95,885	962,044
2003	—		163,476	798,568

- (1) Special Assessment Districts were established for the following: 5th Avenue Redevelopment, Avion Sewer and Canal Maintenance, and Seagate Sewer.
- (2) Special Assessment Districts were established for the following: Twin Lakes Sewer, Big Cypress Sewer, and West Boulevard Water & Sewer.
- (3) Special Assessment District was established for the 3rd Street Lighting and assessed \$478,513. City Council abolished Special Assessment Districts for the following: 5th Ave. S., 4th Ave. N., 2nd Ave. N. and Goodlette Road Street improvements. The City refunded all principal payment made since inception and rescinded the balance \$262,353.

CITY OF NAPLES, FLORIDA

Ratio of Net General Obligation Bonded Debt
to Assessed Value and Net Bonded Debt Per Capita

Last 10 fiscal years

Fiscal year ended	Population	Taxable assessed value	Gross bonded debt	Less debt service funds	Net bonded debt	% Net debt assessed value	Net debt per capita
1994	20,425	3,931,608,107	—	—	—	0.00%	—
1995	20,605	4,060,510,331	—	—	—	0.00%	—
1996	21,157	4,192,041,398	—	—	—	0.00%	—
1997	21,202	4,480,631,775	—	—	—	0.00%	—
1998	21,233	4,826,553,552	—	—	—	0.00%	—
1999	21,087	5,140,991,963	—	—	—	0.00%	—
2000	20,976	5,966,815,878	8,460,000	—	8,460,000	0.14%	403.32
2001	21,687	6,806,066,692	8,270,000	—	8,270,000	0.12%	381.33
2002	22,057	8,488,615,092	7,850,000	—	7,850,000	0.09%	355.90
2003	22,343	9,950,900,301	7,410,000	—	7,410,000	0.07%	331.65

CITY OF NAPLES, FLORIDA

Summary of Direct and Overlapping Debt

September 30, 2003 (a)

Direct debt:			
General obligation indebtedness	\$	7,410,000	
Less reserve fund		<u>—</u>	<u>7,410,000</u>
Non Self-supporting indebtedness			
Improvement revenue bonds			
(all series)		10,786,089	
Less reserve fund		<u>(983,750)</u>	<u>9,802,339</u>
Self-supporting indebtedness:			
Water and sewer revenue bonds (a)		16,660,000	
Less reserve fund		<u>(2,962,385)</u>	<u>13,697,615</u>
Bay/Dock/Tennis/Redevelopment Funds (b)		6,798,911	
Less reserve fund		<u>—</u>	<u>6,798,911</u>
Total direct debt			\$ 37,708,865
Overlapping debt (c):			
Collier County (d)		<u>—</u>	
		<u>25%</u>	<u>—</u>
Total overlapping debt			<u>—</u>
Total direct and overlapping debt			\$ <u><u>37,708,865</u></u>

- (a) Bonds only.
- (b) Payable with Special District Ad Valorem/Enterprise Fund.
- (c) The City of Naples is not responsible for the overlapping debt.
- (d) Payable from County-wide General Property Taxes.

CITY OF NAPLES, FLORIDA
Ratio of Annual Debt Service for General Bonded
Debt to Total General Expenditures
Last 10 fiscal years

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Total general expenditures</u>	<u>Debt service as a percent of total general expenditures</u>
1994	—	—	—	15,199,381	0.00%
1995	—	—	—	14,623,593	0.00%
1996	—	—	—	15,697,560	0.00%
1997	—	—	—	17,932,024	0.00%
1998	—	—	—	18,463,884	0.00%
1999	—	—	—	18,993,084	0.00%
2000	—	—	—	20,924,337	0.00%
2001	190,000	618,940	808,940	25,314,984	3.20%
2002	420,000	406,860	826,860	25,022,210	3.30%
2003	440,000	385,360	825,360	29,510,331	2.80%

CITY OF NAPLES, FLORIDA

Schedule of Governmental Funds Revenue Bond Coverage –
Series 1993, 2001 and 2003

Fiscal year	Principal	Interest	Total	Revenue available for debt service	Coverage
1994	507,266	384,218	891,484	2,544,549	2.85
1995	515,609	331,829	847,438	2,570,764	3.03
1996	532,507	300,246	832,753	2,721,889	3.27
1997	563,554	274,812	838,366	2,703,976	3.23
1998	585,063	287,066	872,129	2,774,968	3.18
1999	739,689	625,125	1,364,814	2,910,443	2.13
2000	994,015	637,161	1,631,176	3,077,741	1.89
2001	1,217,059	1,251,868	2,468,927	3,833,779	1.55
2002	1,268,084	1,299,815	2,567,899	4,322,705	1.68
2003	4,138,329	1,126,587	5,264,916	4,455,652	0.85

In FY 2001 the City of Naples refunded bond series 1997. The payoff amounts of principal and interest associated with the refunding are reflected in this calculation.

CITY OF NAPLES, FLORIDA

Schedule of Enterprise Funds Revenue Bond Coverage –
Water and Sewer Fund

Last 10 fiscal years

Fiscal year	Gross revenue (1)	Expenses (2)	System development charges available	Net revenue available for debt service	Debt service requirement	Bond coverage (3)
1994	14,099,308	6,965,926	N/A (4)	7,133,382	3,184,322	2.24
1995	15,154,316	7,331,463	N/A (4)	7,822,853	3,522,646	2.22
1996	15,681,855	7,079,087	N/A (4)	8,602,768	3,896,133	2.21
1997	16,481,342	7,073,985	N/A (4)	9,407,357	3,985,904	2.36
1998	18,932,603	7,437,659	N/A (4)	11,494,944	3,251,928	3.53
1999	17,450,115	7,868,245	N/A (4)	9,581,870	3,382,963	2.83
2000	18,962,427	8,549,149	N/A (4)	10,413,278	3,256,350	3.20
2001	18,638,160	8,872,732	N/A (4)	9,765,428	3,249,941	3.00
2002	19,151,096	9,916,239	N/A (4)	9,234,857	2,860,347	3.23
2003	18,646,334	9,935,755	N/A (4)	8,710,579	2,957,085	2.95

(1) Operating revenue plus other income.

(2) Total expenses excluding depreciation, bond interest, amortization, payment in lieu of taxes, and General Fund overhead charge.

(3) Net revenue divided by total debt service requirements

(4) Effective in fiscal year 1992, system development charges are excluded from the bond coverage calculation

CITY OF NAPLES, FLORIDA

Demographic Statistics

<u>Year</u>	<u>City of Naples</u>	<u>Collier County</u>	<u>State of Florida</u>
1950	1,463	6,488	2,771,305
1960	4,655	15,753	4,951,560
1970	12,042	38,040	6,791,400
1980	17,598	85,971	9,746,400
1990	19,505	152,099	12,937,926
Last 10 Fiscal Years			
1993	20,067	174,664	13,608,627
1994	20,425	180,540	13,878,905
1995	20,605	186,504	14,149,317
1996	21,157	193,036	14,411,563
1997	21,202	200,024	14,712,922
1998	21,233	210,095	15,000,475
1999	21,087	219,685	15,322,040
2000	20,976	251,377	15,982,378
2001	21,687	270,667	16,331,739
2002	22,057	276,691	16,713,149
<u>Population Projections</u>			
2003	22,343 (1)	292,138 (2)	17,019,068
2005	23,200 (1)	321,500 (2)	17,376,898

Sources: University of Florida Bureau of Economic and Business Research.
 (1) City of Naples Planning Department 2002
 (2) Collier County Department of Community Development 2002

<u>Population by Age Group – 2000 Census</u>		
<u>Age</u>	<u>City</u>	<u>County</u>
0-14	1,866	41,562
15-24	895	25,090
25-44	3,052	61,720
45-64	6,299	61,492
65+	8,864	61,513

Source: University of Florida Bureau of Economic and Business Research, 2001.

CITY OF NAPLES, FLORIDA
 Ten Largest Taxpayers – City of Naples
 September 2003

Taxpayer	Type of business	Assessed values	% of total City of Naples assessed values
Coastland Center Joint Venture	Retail Mall	\$ 79,842,282	0.80%
Florida Power & Light Company	Electric Utility	27,231,203	0.27%
Sprint-Florida Incorporated	Utility/Communication	25,588,224	0.26%
Panthers RPN Limited	Hotel	20,926,184	0.21%
Westbury Property	Single Family Home	20,284,474	0.20%
Heritage Realty Mgt. Inc.	Retail Center	18,680,737	0.19%
Naples Hospitality LTD Partnership	Hotel	17,367,888	0.17%
Estuary at Grey Oaks Ltd.	Residential Development	16,645,458	0.17%
Alan & Sandra Gerry	Vacant Lots	16,440,000	0.17%
Miles Collier	Single Family Home	15,269,119	0.15%

Source: Property Appraiser – Collier County, Florida Computation as of September 30, 2003

CITY OF NAPLES, FLORIDA

Schedule of Insurance Coverage

September 30, 2003

<u>Policy</u>		<u>Coverage</u>	<u>Effective date</u>
Property:			
Building and contents	\$ 131,940,830	per occurrence excess of \$150,000 SIR	10/01/03
Boiler and machinery	\$ 20,000,000	per occurrence	10/01/03
Crime/Fidelity (Employee Dishonesty & Faithful Performance)	\$ 525,000	per occurrence excess of \$25,000 SIR	10/01/03
Public officials E & O liability	\$ 1,900,000 \$ 2,900,000	Claims made; excess of \$100,000 SIR aggregate	10/01/03
Comprehensive general liability	\$ 1,900,000	per occurrence excess of \$100,000 SIR	10/01/03
Automobile liability	\$ 1,900,000	per occurrence excess of \$100,000 SIR	10/01/03
Flood insurance (Flood zones B & C)	\$ 850,000	aggregate; excess of \$150,000 SIR	10/01/03
NFIP (Federal Flood Insurance)	\$ 500,000	per building	Various
(Flood zones A & V)	Various	Contents per building	
Workers' compensation:			
Excess specific	Statutory	excess of \$150,000 SIR/\$200,000 Fire & Police	10/01/03
Employer's liability	\$ 1,000,000	excess of \$150,000 SIR/\$200,000 Fire & Police	10/01/03
Accidental death and dismemberment	\$ 75,000	per employee unlawful & intentional death	10/01/03
(Police and firefighters)	25,000 25,000	In line of duty/fresh pursuit Heart and circulatory	
Fiduciary liability	\$ 1,000,000		10/01/03
Skateboard park accident medical	\$ 25,000	per person	11/26/03
Petroleum liability	\$ 1,000,000 \$ 2,000,000	per incident aggregate	05/09/03
Community service workers	\$ 10,000 \$ 5,000	AD&D Medical	12/14/03
Group health	\$ Standard benefits		01/01/03
Group life	\$ Two times annual salary rounded to nearest 1,000		01/01/03

CITY OF NAPLES, FLORIDA

Miscellaneous Statistical Data

Date of incorporation	December 1, 1923	
Date of adoption of City Charter	June 3, 1949	
Form of government	Council – Manager	
Area	14.26 square miles	
Streets	106.3 miles of paved streets	
Fire protection:		
Number of stations	3	
Number of employees	59	
Police protection:		
Number of employees	122	
Demand for services	38,095	
Recreation:		
Swimming pools	1	
Community centers	3	
Pier	1	
Dock	1	
Water and sewer:		
	<u>Water</u>	<u>Sewer</u>
Active accounts	17,311	8,602
Plants	1	1
Capacity per day (millions gal.)	30	10.0
Employees as of September 30, 2003	498	
Election:		
Number of registered voters	14,075	
Number of votes cast last election	7,694	
Number of street lights	2,370	

CITY OF NAPLES, FLORIDA

City Property Value, Construction and County Bank Deposits

Last 10 fiscal years

Fiscal year	Commercial construction (1)		Residential construction (1)		Bank deposits (2) (in thousands)	Number of bank offices
	Number of permits	Value	Number of permits	Value		
1994	265	20,170,103	770	127,256,123	2,707,107	72
1995	308	57,241,611	655	80,591,612	2,999,868	81
1996	436	58,643,284	481	93,384,078	3,112,346	81
1997	454	35,734,423	516	71,060,825	3,463,731	92
1998	241	45,800,602	604	148,403,640	3,805,538	90
1999	236	75,936,780	649	176,746,176	4,030,258	87
2000	267	92,870,297	816	335,210,850	4,273,081	95
2001	302	94,593,804	989	371,453,205	5,153,782	114
2002	308	85,651,650	782	301,567,452	5,844,144	115
2003	239	45,065,877	831	264,257,781	6,021,333	109

(1) City of Naples Building & Zoning

(2) Branch Deposit Report by Florida Bankers Association, as of June 30, 2002

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

Honorable Mayor and Members of the City Council
City of Naples, Florida:

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Naples, Florida as of and for the year ended September 30, 2003, which collectively comprise the City of Naples, Florida's basic financial statements and have issued our report thereon dated January 16, 2004, which referred to the City of Naples, Florida's adoption of a new accounting and reporting standards. 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.

Compliance

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

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Naples, Florida's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting, which we have reported to management of the City of Naples, Florida in a separate letter dated January 16, 2004.

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

KPMG LLP

January 16, 2004

**Report on Compliance With Requirements Applicable to
Each Major Program and on Internal Control Over Compliance
in Accordance With OMB Circular A-133**

Honorable Mayor and Members of the City Council
City of Naples, Florida:

Compliance

We have audited the compliance of the City of Naples, Florida with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended September 30, 2003. The City of Naples, Florida's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the City of Naples, Florida management. Our responsibility is to express an opinion on the City of Naples, Florida's compliance based on our audit.

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

In our opinion, the City of Naples, Florida complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended September 30, 2003.

Internal Control Over Compliance

The management of the City of Naples, Florida is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City of Naples, Florida's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with the applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

Schedule of Expenditures of Federal Awards and State Financial Assistance

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Naples, Florida as of and for the year ended September 30, 2003, and have issued our report thereon dated January 16, 2004, which referred to the City of Naples, Florida's adoption of new accounting and reporting standards. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the City of Naples, Florida's basic financial statements. The accompanying schedule of expenditures of federal awards and state financial assistance is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

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

KPMG LLP

March 12, 2004

CITY OF NAPLES, FLORIDA

Schedule of Expenditures of Federal Awards and State Financial Assistance

Year ended September 30, 2003

<u>Federal or state grantor/pass-through grantor/program title</u>	<u>CFDA# / CSFA#</u>	<u>Pass-through entity identifying grant/ loan number</u>	<u>Expenditures</u>
U.S. Department of Housing and Urban Development: Passed through Collier County, Florida: Community Development Block Grant	14.218	B02-UC-12-0016	\$ 250,000
Total U.S. Department of Housing and Urban Development			<u>250,000</u>
U.S. Department of Justice: Byrne Formula Grant	16.579	MIA9A1900001	<u>8,277</u>
Equitable Sharing of Federally Forfeited Property	16.000	None	<u>41,081</u>
COPS More	16.710	2000-CM-WX-0010	<u>89,582</u>
Local Law Enforcement Block Grant: Bulletproof Vest Partnership Program	16.607	2001-LB-BX-0234	1,688
In car cameras/video systems	16.607	2002-LB-BX-2234	<u>22,764</u>
Total program			<u>24,452</u>
Total U.S. Department of Justice			<u>163,392</u>
U.S. Department of Environmental Protection: Passed through State of Florida State Revolving Loan - Port Royal Tanksite - Drinking Water	66.468	DW1102-010	<u>17,239</u>
Total U.S. Environmental Protection Agency			<u>17,239</u>
Federal Emergency Management Agency: Assistance to Firefighters Program	83.554	EMW-2002-FG-07736	<u>145,710</u>
Total Federal Emergency Management Agency			<u>145,710</u>
Total expenditures of federal awards			\$ <u>576,341</u>
Florida Department of Environmental Protection: Direct Program: Beach and Erosion Control	37.003	01C02	\$ <u>220,588</u>
Total Florida Department of Environmental Protection			<u>220,588</u>
Total expenditures of state financial assistance			\$ <u>220,588</u>

See accompanying notes to schedule of expenditures of federal awards and state financial assistance.

THE CITY OF NAPLES, FLORIDA

Notes to Schedule of Expenditures of Federal
Awards and State Financial Assistance

Year ended September 30, 2003

(1) General

The accompanying Schedule of Expenditures of Federal Awards and State Financial Assistance presents the activity of all federal awards and state financial assistance programs of the City of Naples, Florida (the City). Federal awards and state financial assistance received directly from grant agencies, and financial assistance passed through other government agencies are included on the schedule.

(2) Basis of Accounting

The accompanying Schedule of Expenditures of Federal Awards and State Financial Assistance is presented using the modified accrual or accrual basis of accounting, which is described in note 1 to the City's basic financial statements.

(3) Relationship to Basic Financial Statements

Federal and state financial assistance revenues are included in the City's basic financial statements as intergovernmental revenues.

(4) Loans Outstanding

The City had the following loan balances outstanding at September 30, 2003:

State Revolving Loan – Stormwater	\$	2,916,602
State Revolving Loan – Drinking Water	\$	23,711,243

THE CITY OF NAPLES, FLORIDA
 Schedule of Findings and Questioned Costs
 Year ended September 30, 2003

(1) Summary of Auditor's Results

- (a) An unqualified opinion was issued on the basic financial statements.
- (b) There were no reportable conditions or material weaknesses in internal control disclosed by the audit of the basic financial statements.
- (c) There was no noncompliance which is material to the basic financial statements.
- (d) There were no reportable conditions or material weaknesses in internal control over major federal programs.
- (e) An unqualified opinion was issued on compliance for major federal programs.
- (f) There were no audit findings which are required to be reported under Section 510(a) of OMB Circular A-133.
- (g) Major programs:

	CFDA #
Federal:	
U.S. Department of Housing and Urban Development:	
Community Development Block Grant	14.218
Federal Emergency Management Agency:	
Assistance to firefighters	83.554

- (h) A \$300,000 dollar threshold was used to distinguish between Type A and Type B programs for major federal programs.
- (i) The auditee did qualify as a low-risk auditee under Section 530 of OMB Circular A-133.

(2) Findings Relating to the Financial Statements Reported in Accordance with *Government Auditing Standards*

None.

(3) Findings and Questioned Costs Relating to Federal Awards

None.

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Management Letter

Honorable Mayor and Members of the City Council
City of Naples, Florida:

We have audited the basic financial statements of the City of Naples, Florida (the City) as of and for the year ended September 30, 2003, and have issued our report thereon dated January 16, 2004, which referred to the City of Naples, Florida's adoption of new accounting and reporting standards.

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 also issued our auditors' report on compliance and internal control over financial reporting and our auditors' report on compliance applicable to each major federal awards program and the related schedule of findings and questioned costs. Disclosures in those reports and schedule, which are dated January 16, 2004 and March 12, 2004, should be considered in conjunction with this management letter.

Additionally, our audit was conducted in accordance with the provisions of Chapter 10.550, *Rules of the Auditor General*, which govern the conduct of governmental audits performed in the State of Florida and require that certain items be addressed in this letter. The *Rules of the Auditor General* Section 10.554(1)(g)(1) require that, unless otherwise required to be reported in the auditors' report on compliance and internal controls or in the schedule of findings and questioned costs, a management letter shall include (a) a statement as to whether or not inaccuracies, shortages, defalcations, fraud and violations of laws, rules, regulations, and contractual provisions reported in the preceding annual financial audit report have been corrected, and (b) a statement as to whether or not recommendations made in the preceding annual financial audit report have been followed. There were no inaccuracies, shortages, defalcations, fraud or violations of laws, rules, regulations, or contractual provisions reported in the preceding annual financial audit. The status of our recommendations made in the preceding annual financial audit is discussed under "Prior Year (2002) Recommendations" in Appendix A.

The *Rules of the Auditor General*, Section 10.554(1)(g)(2) require that we determine whether or not the City complied with Section 218.415, *Florida Statutes*, regarding the investment of public funds. The City was in compliance with Section 218.415, *Florida Statutes* as it relates to the investment of public funds.

The *Rules of the Auditor General*, Section 10.554(1)(g)(3) require that we report any recommendations to improve the City's financial management, accounting procedures, and internal controls. Recommendations to improve the City's financial management, accounting procedures, and internal controls are as follows:

Payments to Employees

Based on discussions with management, it was noted that the City had not properly made payments to employees through the payroll system, rather payments for items such as bonuses, non-deductible business expenses (i.e. uniforms), etc. were made through the accounts payable system. As such, payments to employees may not have been properly reported as taxable income to the employees in accordance with Internal Revenue Service guidelines. We recommend the City revise its procedures to ensure that the accounts payable review process include a specific review of payments to City employees to determine whether they should be processed through accounts payable or through payroll.

The *Rules of the Auditor General*, Section 10.554(1)(g)(4) state that, unless otherwise required to be reported in the auditors' report on compliance and internal controls or in the schedule of findings and questioned costs, the management letter shall include:

- (a) Violations of laws, rules, regulations, and contractual provisions that have occurred, or are likely to have occurred, and were discovered within the scope of the audit.
- (b) Improper or illegal expenditures discovered within the scope of the audit that may or may not materially affect the financial statements.
- (c) Other matters requiring correction that may or may not materially affect the financial statements reported on, including, but not limited to:
 - (1) Improper or inadequate accounting procedures (i.e. the omission of required disclosures from the annual financial statements).
 - (2) Failure to properly record financial transactions.
 - (3) Other inaccuracies, shortages, defalcations, and instances of fraud discovered by, or that come to the attention of the auditor.

The results of our audit disclosed no violations of laws, rules, regulations or contractual provisions, no improper or illegal expenditures, or other matters requiring correction.

The *Rules of the Auditor General* Section 10.554(1)(g)(5) also require that we report on the City's name or official title and legal authority. In that regard, the legal authority to establish a municipality is Chapter 59-1598, Laws of the State of Florida, Acts of 1959. Article 1, Section 1.1 of the Charter of the City of Naples established the municipality in accordance with the aforementioned Laws of the State of Florida.

The *Rules of the Auditor General* Section 10.554(1)(g)(6)(a) state that a management letter shall include a statement as to whether or not the local governmental entity is in a state of financial emergency as a consequence of conditions described in Section 218.503(1), *Florida Statutes*. Section 218.503(1) states that a local governmental entity is in a state of financial emergency when any of the following conditions occur:

- (a) Failure, within the same fiscal year in which due, to pay short-term loans from banks or failure to make bond debt service payments when due;
- (b) Failure to transfer at the appropriate time, due to lack of funds: (1) taxes withheld on the income of employees; or (2) employer and employee contributions for (a) federal social security, or (b) any pension, retirement or benefit plan of an employee;

- (c) Failure for any one pay period to pay, due to lack of funds: (1) wages and salaries owed to employees; or (2) retirement benefits owed to former employees;
- (d) An unreserved or total fund balance or retained earnings deficit for which sufficient resources of the local government entity are not available to cover the deficit for two successive years; and
- (e) Noncompliance of the local government retirement system with actuarial conditions provided by law.

Management of the City has determined that the City is not in a state of financial emergency as defined in Section 218.503(1). In connection with our audit of the financial statements of the City, the results of our tests did not indicate that the City is in a state of financial emergency as a consequence of the conditions in Section 218.503(1).

Section 11.45, *Florida Statutes*, states that an auditor shall notify each member of the governing body of a local government entity for which deteriorating financial conditions exist which may cause a condition described in Section 218.503(1) to occur if actions are not taken to address such conditions. Management of the City has determined that deteriorating financial conditions do not exist which could cause a condition described in Section 218.503(1) to occur if actions are not taken to address such conditions.

As required by the *Rules of the Auditor General*, Section 10.554(1)(g)(6)(b) we determined that the financial report filed by the City, with the Florida Department of Banking and Finance pursuant to Section 218.32(1)(a), *Florida Statutes*, is in agreement with the annual financial audit report for the current audit period.

The *Rules of the Auditor General* Section 10.554(1)(g)(6)(c) also indicate that the management letter should include the following information regarding our application of financial condition assessment procedures pursuant to Rule 10.556(8):

- (a) We applied financial condition assessment procedures pursuant to Rule 10.556(8); and
- (b) We noted no deteriorating financial conditions which are required to be reported in accordance with Rule 10.557(6).

* * * * *

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

KPMG LLP

January 16, 2004

Prior Year (2002) Recommendations

Procurement

We noted that the purchasing department is not always involved in the bidding process and therefore was not always able to provide documentation for contracts awarded (i.e. bid tabulations, etc.). While we found no instances of noncompliance with the City's purchasing policies, the purchasing department should be involved in all aspects of the bidding process and relevant documents should be retained by the purchasing department in accordance with City policy and Florida Statutes.

Status

The Purchasing Division is now in charge of all contracts in excess of \$11,600. The City's buyer now prepares all contracts, except negotiated contracts, that go to the City Attorney before they are prepared for City Council approval.

Arbitrage

While the City identified an individual who was assigned responsibility for performing arbitrage calculations annually, this person was not able to do so prior to the end of the fiscal year. We recommend the City reevaluate whether this task can be performed internally or if it should be performed by a third party.

Status

The City is negotiating with outside firms to perform the arbitrage calculation.

Monitoring Debt Covenants

The City's debt instruments have various restrictive covenants which are monitored monthly to ensure compliance. In reviewing the various covenants, we noted that the necessary journal entry to record the required reserve account for the Stormwater State Revolving Loan had not been made prior to year end. An adjusting entry was subsequently made during the audit process to record the reserve. However, we recommend as part of the City's monthly process to monitor compliance, that necessary journal entries be prepared, approved, and posted appropriately to the general ledger.

Status

The Budget and Investment Manager has developed excel spreadsheets that are updated monthly to help ensure compliance is monitored.

Review of General Ledger

We proposed approximately 15 adjusting and reclassification entries to the City's financial statements for the year ended September 30, 2002. Some of these were identified by accounting personnel as a result of preparing for the audit. However, several of the entries were identified through the audit process. We recommend the City review its procedures for monthly and year end closing to determine what improvements can be made to ensure a smoother closing process. A standardized checklist of recurring and year end closing entries may be a useful tool to ensure that routine entries are prepared and recorded in the general ledger prior to the audit.

Status

The Comptroller has set up a standardized checklist of recurring and year end closing entries. A minimal number of reclassification entries to the City's financial statements were required in 2003.