

City of Naples Florida



**Comprehensive Annual Financial Report
For the Year Ended September 30, 2005**

THE CITY OF NAPLES, FLORIDA

Comprehensive Annual Financial Report

September 30, 2005

(With Independent Auditors' Report Thereon)

Prepared By:

FINANCE DEPARTMENT



City of Naples, Florida

Principal Officials

September 30, 2005

Mayor

Bill Barnett

Vice Mayor

Tamela Wiseman

City Council

William R. MacIlvaine

John Nocera

Gary Price

John Sorey III

Penny Taylor

City Attorney

Robert D. Pritt

City Clerk

Tara Norman

City Manager

Dr. Robert E. Lee

Department Directors

Chief of Police & Emergency Services	Steven Moore
Community Development Director	Robin D. Singer
Community Services Director	David M. Lykins
Finance Director	Ann Marie S. Ricardi
Public Works Director	Dan Mercer
Human Resources Director	Denise K. Perez
Construction Management Director	Ronald A. Wallace
Technology Services Director	Stephen A. Weeks

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City of Naples

FINANCE DEPARTMENT

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February 13, 2006

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

The Comprehensive Annual Financial Report (CAFR) of the City of Naples for the fiscal year ended September 30, 2005 is hereby submitted. This Annual Report was prepared by the Finance Department, and is in compliance with Florida Statutes Chapter 166.241 (4), Chapter 10.550 of the Rules of the Auditor General of the State of Florida, and Section 2-326 of the City Code.

Responsibility for both the accuracy of the presented data and the completeness and fairness of the presentation, including all disclosures, rests with the City. We believe the data, as presented, is accurate in all material aspects, that it is presented in a manner designed to fairly set forth the financial position and results of operations of the City as measured by the financial activity of its various funds, and that all disclosures necessary to enable the reader to gain the maximum understanding of the City's financial affairs have been included.

The Governmental Accounting Standards Board (GASB) and Generally Accepted Accounting Principles (GAAP) requires that management provide a narrative introduction, overview and analysis to accompany the financial statements in the form of "Management's Discussion and Analysis" (MD&A). This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The MD&A can be found just preceding the basic financial statements in the CAFR's financial section.

This report, like previous reports, consists of three main sections: Introductory, Financial, and Statistical. The *Introductory Section* includes the City's Letter of Transmittal, an organization chart, and a facsimile of the Certificate of Achievement. Next, the *Financial Section* is composed of the independent auditors' report, the Management's Discussion and Analysis, basic financial statements, informational notes, required supplemental information, and various combining and individual fund statements. Finally, the *Statistical Section* provides selected unaudited financial and demographic information on a multi-year basis.

Profile of the Government

The City of Naples is located in the Southwestern portion of the State of Florida and has a permanent population of approximately 22,500, increasing to 33,000 during the peak winter

moderated by the warm waters of the Gulf of Mexico and hot summer days are relieved by Gulf breezes.

Originally developed as a winter retreat for people with permanent homes in the north, Naples continues to attract a retirement population that is among the most affluent and well educated in the State. These characteristics resulted in the early adoption of sound planning policies and zoning codes. Early community leaders had a stake in the local economy and practiced policies that led to Naples becoming the center of commerce and culture in Collier County. Today, the business community primarily supplies goods and services to the retiree population and the tourist industry.

Naples continues to enjoy the results of proper planning. Parks and open space are abundant and most roadway medians wide and well landscaped. Naples is one of the few Florida communities that offers adequate public access to beaches. Beachfront property is almost exclusively residential zoning; commercial uses are focused along U.S. 41 and in a number of upscale shopping districts within the community.

The City of Naples was incorporated on December 1, 1923. It is approximately 14 square miles in size and has 106.3 miles of streets.

It is managed under a Council-City Manager form of government. The legislative and governing body of the City consists of a mayor and six council members. Each Council Member is elected to a four year staggered term. There is a limit of two consecutive terms that any Council Member may serve. The Mayor is limited to one consecutive term.

The present members of the Council and their terms are as follows:

Member	Term Ends
William Barnett, Mayor	February 2008
Johnny Nocera, Vice Mayor	February 2008
William R. MacIlvaine	February 2008
Gary B. Price II	February 2010
John Sorey III	February 2008
Penny Taylor	February 2010
Bill Willkomm	February 2010

The Council appoints the City Manager, who is the chief administrative officer of the City. As Chief Executive Officer, the City Manager hires all other City employees, except the City Clerk and the Deputy City Clerk, who are appointed by Council. City Manager Robert E. Lee was selected by the City Council to be the City Manager in June 2003. All other departments of the City are under the supervision and control of City Manager Lee.

The Reporting Entity and its Services

The City provides a full range of municipal services authorized by statute and local charter. These include police and emergency services, highways and streets, parks and parkways, recreation, public improvements, planning, water, sewer, solid waste, and general administrative services. Schools are provided by Collier County School District, while ambulance, jail, judicial, library, and human services are provided by Collier County.

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.

The Naples Airport Authority, although governed by board members who are directly appointed by the City Council, is not a part of this report, as it does not meet the criteria of Statement Number 14 of the Governmental Accounting Standards Board. The Collier County school system is an independent special district and not part of the City of Naples. Its financial data is not included in the financial statements in this report. Naples Community Hospital is a private non-profit corporation providing quality medical care to the community. It is not part of the City of Naples municipal government and its financial data is not included in the financial statements in this report.

Accounting System and Budgetary Control

In developing and evaluating the City's accounting system, consideration is given to the adequacy of internal accounting controls. Internal accounting controls are designed to provide reasonable, but not absolute assurance regarding: (1) the safeguarding of assets against loss from unauthorized use or disposition; and (2) the reliability of financial records for preparing financial statements and maintaining accountability for assets. The concept of reasonable assurance recognizes that: a) the cost of a control should not exceed the benefits likely to be derived therefrom; and b) the evaluation of costs and benefits requires estimates and judgments by management.

We believe all internal control evaluations occur within the above framework and that the City's internal accounting controls adequately safeguard assets and provide reasonable assurance of proper recording of financial transactions.

As a recipient of Federal, State and County financial assistance, the government is also responsible for ensuring that an adequate internal control structure is in place to ensure compliance with applicable laws and regulations related to those programs. This internal control structure is subject to periodic evaluation by management.

The City's Fiscal Year begins October 1. By February, staff is already gearing up for the next budget year. The first step in the budget process is the City Council goal-setting

meeting. Staff works with those goals as well as those gathered from the city homeowner associations and city committees to develop a viable budget.

During April, departments will begin preparing their budget requests using line-item budget formats. At the same time, Finance will begin assessing available and potential revenue sources.

The adopted budget may be amended in two ways.

1. The budget ordinance enables City Manager to transfer money within a fund, except that he cannot increase regular staffing levels, or modify the intent of the Capital Improvement Budget.
2. Changes that would increase the total budget of a fund, increase staffing levels, or modify the intent of the Capital Improvement Budget must have council approval by resolution.

The City has established standard procedures for budget amendments to control the integrity of the budget system. Budget amendments are prepared by the Department head, identifying both the object of expenditure requiring the budget amendment and source of funds for the amendment. All budget amendments are reviewed by the Director of Finance and forwarded to the City Manager for approval. If needed, a resolution is prepared for Council approval as well.

The City utilizes the State of Florida's uniform chart of accounts for all account names, numbers, and reporting purposes. During the course of the year, budgetary control was maintained over appropriations by use of monthly revenue and expenditure reports which compare budgeted appropriations with actual expenditures and encumbrances and estimated revenues with actual revenues. Budget control is maintained at the department level in the General Fund and the fund level in all other funds.

Major Fund Presentation

An important element of the governmental financial reporting model is the focus on reporting significant financial activity by fund type with emphasis on major funds in both governmental and proprietary fund financial statements. In following GASB 34, the city is required to separate major funds from non-major funds. Only major funds are shown separately in the financial statements while non-major funds are combined together and shown in a single column. Non-major funds, however, are disclosed separately in the combining and individual fund financial statements and schedules section of this report.

GASB requires that the General Fund always be considered a major fund. The statement also requires other governmental and or enterprise funds to be shown as major funds if they meet the following criteria:

- Total assets, liabilities, revenues, or expenditures/expenses of an individual fund are at least 10% of the total for all funds of that fund type either governmental or enterprise and
- Total assets, liabilities, revenues, or expenditures/expenses of an individual fund are at least 5% of the total for all governmental and enterprise funds.

The statement also allows management the flexibility to report funds that do not meet the above criteria but believe the funds have a significant impact on the city. Management determined that only one additional fund; the Stormwater Fund, was to be included as a major fund, even though it does not meet the above criteria.

Factors Affecting Financial Condition

Local Economy

Although the city's major economic structure is tourism based, the City still enjoys a favorable economic environment. Residential development within the city consists primarily of renovation and reconstruction due to space constraints, but the county is in a booming development stage. County growth continues to affect the city from retail sales and commercial activities, dining and entertainment, traffic and many other facets of living.

Despite the 1992 "Save Our Homes" constitutional amendment that limits the growth in assessed valuation on a specific homestead residential property, Naples' taxable value continues to grow. As of July 2005, the estimated taxable value is over \$13.7 billion, a growth of 13% over the prior year.

The City does not actively seek annexations, however adjacent communities often contact the City Manager to discuss the possibility. When that happens, staff will prepare information packets specific to that community to enable them to make reasonable decisions about the decision to annex. During the year ended September 2005, the City worked on several requests for annexation, including areas known as Pelican Bay and Moorings Park. The latter, consisting of nearly 83 acres, was successfully annexed by Ordinance 05-10850 in June 2005.

The property tax provides the City with a major source of revenue to support operations of the General Fund. The City is limited by the constitution of the State of Florida to an ad valorem tax levy of ten mills on each dollar of assessed valuation for operating expenditures. With an operating ad valorem tax levy for 2004-05 of 1.16 mills, the City of Naples continues to have one of the lowest operating tax levies in Florida.

Naples also has one of the highest per capita incomes in the state. In 2002, the U.S. Department of Commerce estimated Naples' per capita income at \$42,050, compared to the state average of \$29,758 and a United States average of \$30,906. According to the Federal census bureau, the largest business type in the Naples area is Retail, followed by Health Care/Social Services and Accommodations/Food Service.

One of the larger impacts to the local economy continues to be the low unemployment rate. With the area workforce nearly at full employment, filling city jobs or finding ways to provide services for the City is a growing governmental concern and challenge. The low availability of workers, combined with the high property values, means entry level jobs in the government as well as the jobs in private sector are staying vacant for longer periods.

Major Initiatives

The residents and employees of the city of Naples take pride in the beauty of their city. Major initiatives in the City frequently focus on improving the appearance of rights of ways, medians, parks and facilities. The City is no longer in a growth mode, as the City nears build out. As the City evolves, updating City features as well as the replacement and upgrade of infrastructures is more paramount in the capital and construction projects. Projects substantially completed during this fiscal year include:

- Galleon Bridge Replacement
- Fire Station #2 Rehabilitation
- 10th Street Roadway Improvements, including streetscape
- Parking meter improvements
- U.S. 41 Median Improvements (from 7th Avenue North to 10th Street South)
- US 41 Gateway project (streetlight upgrades)

Naples Bay is one of the city's most notable resources. The construction of oyster reefs in 2005 was directly designed to help improve the quality of the water in the bay. The City's beaches, another beautiful resource, has been updated at many beach-ends with new walkways, bike racks, drinking fountains, in addition to the construction of several T-groins, which are beach based structures which help prevent erosion, and reduce sand migration.

Fleishmann Park, one of the largest and most used multi-purpose parks in the City has an \$8 million renovation underway. This multi-year project includes correcting the drainage problems, updating the skate park, adding lights to the ball fields, adding parking spaces and reconfiguring the football fields.

Two major special assessment programs were approved during the year. West Naples Bay, also called Aqualane Shores, has requested and received approval for a one-time dredging project to dredge their six canals. The preliminary dredging design was funded by the City, but the balance of the project's costs will be paid from special assessments on the approximately 400 properties. The second special assessment program is for an extension of reuse lines into a large residential neighborhood. The use of reuse lines is appropriate for this high-use neighborhood, as they will be able to use lower cost reclaimed water for irrigation, in lieu of potable water. The project will exceed \$10 million, and will be originally funded with a bond, to be repaid with special assessments and user fees to the approximately 2,100 customers in that section of the City.

Cash Management

During fiscal year 2004-05, the City earned \$1,598,713 in interest income on an average balance of cash and investments of \$63,507,000. This income resulted in a rate of return of 2.52%, outpacing the portfolio's benchmark of 1.3% for the 1-3 year Merrill Lynch index, but falling slightly below the 2.71% for funds invested with the State Board of Administration. However, returns were significantly higher than the prior year's yield of 1.7%.

Investment activity for the majority of the year was governed by the City's investment policy that was adopted by Council in February 2001. The investment policy was revised and replaced in August 2005. For both policies, the objectives are 1) Safety 2) Liquidity and 3) Yield. Cash temporarily idle during the year was invested through the banking services contract at the federal funds rate less 27 basis points for all monies on deposit in excess of our compensating \$750,000 balance. The City also maintained an account with the Local Government Surplus Funds Trust Fund, administered by the State of Florida Board of Administration, and has a program of active portfolio management, purchasing U.S. Treasury and agency obligations to increase yields while maintaining safety and liquidity. Starting in January 2005, the City began a contract with PFM to act as the investment advisor, and their active management of the portfolio began several months after the contract was approved.

During 2005, the City's long-term bank First National Bank, was acquired by Fifth Third. Fifth Third honored the contract with First National Bank, and the City extended the banking contract for another year.

Pension and Other Post-Employment Benefits

The City has pension plans for the following three groups: Police, Fire and General Government. Annually, the pension funds receive an estimate of the contribution requirement for the upcoming year. The actuary reported that continued unfavorable investment returns caused the pension funds to have increased contribution requirements. Employer contributions continue to be increased for all plans.

Because the actuary uses a four-year average rate of return to determine funding needs, the funding of pension benefits will likely to continue at these higher rates for the next two years, even though the interest rate environment improves. The City does not offer any post-retirement benefits, except to the extent that retirees may purchase health, life and dental insurance for themselves and families at the current full premium rate. At this time, the City is not required to report any liability for this.

Awards and Acknowledgments

Independent Audit

The City Charter requires an annual audit of the books of accounts, financial records, and transactions of all administrative departments of the City by an independent certified public accountant selected by the City Council. We have complied with its requirement, and the independent auditors' report has been included in this report.

Certificate of Achievement

The Government Finance Officers' Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to Naples, Florida, for our Annual Financial Report for the fiscal year ended September 30, 2004.

In order to be awarded a Certificate of Achievement, a governmental unit must publish an easily readable and efficiently organized Comprehensive Annual Financial Report, whose

contents conform to industry standards. Such reports must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe our current report continues to conform to Certificate of Achievement program requirements, and we will submit it to the GFOA to determine its eligibility for another certificate.

Acknowledgements

The preparation of this report on a timely basis could not be accomplished without the efficient and dedicated service of the staff of the Finance Department and we express our appreciation to them. We also thank the Mayor and City Council for their interest and support in planning and conducting the financial operations of the City in a responsible and progressive manner. In addition, we wish to express our appreciation to our audit firm, KPMG LLP, for their examination of our accounts.

Respectfully submitted,



Dr. Robert E. Lee
City Manager



Ann Marie S. Ricardi
Finance Director

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Naples,
Florida

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
September 30, 2004

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



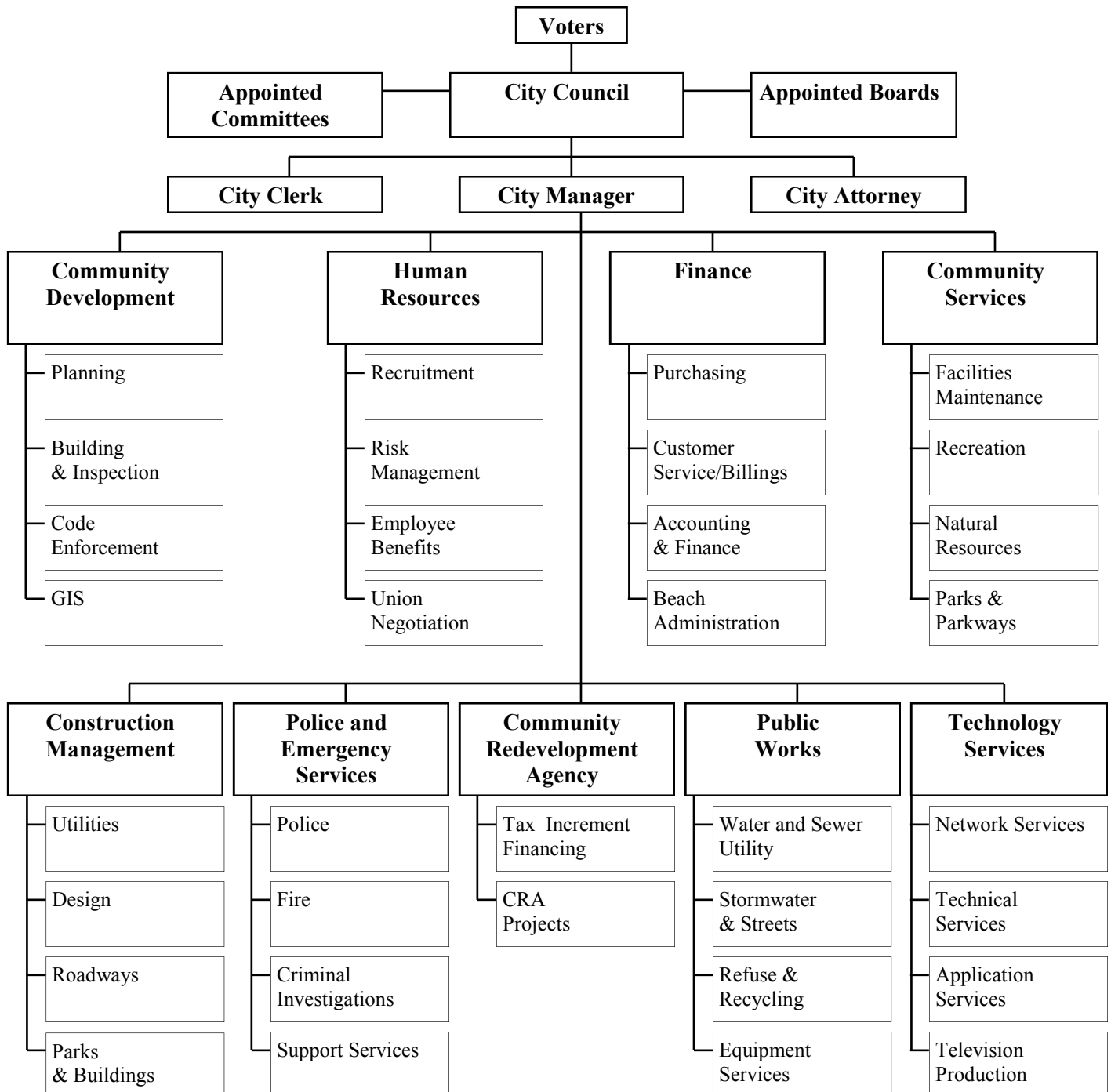
Nancy L. Zielle

President

Jeffrey R. Emer

Executive Director

City of Naples Organizational Chart





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

Independent Auditors' Report on the Financial Statements

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 (City), as of and for the year ended September 30, 2005, 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 consideration of internal over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City of Naples, Florida's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Naples, Florida, as of September 30, 2005, and the respective changes in financial position, and, where applicable, cash flows thereof and the budgetary comparison for the general fund for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 31, 2006 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results.



The management's discussion and analysis and schedules of funding progress and contributions on pages 13 through 23 and 100 through 101, respectively, are not a required part of the basic financial statements but is supplementary information required by U.S. generally accepted accounting principles. 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, Florida'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 accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and is not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements and schedules, and the schedule of expenditures of federal awards, 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 31, 2006
Certified Public Accountants

THE CITY OF NAPLES, FLORIDA

Management's Discussion and Analysis (Unaudited)

September 30, 2005

The City of Naples' (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, 2005.

Financial Highlights

- The assets of the City of Naples exceeded its liabilities at September 30, 2005 by \$148.1 million (net assets). Of this amount, \$54.3 million of unrestricted net assets may be used to meet the City's ongoing obligations to citizens and creditors.
- The City's total net assets increased by \$8.9 million.
- As of September 30, 2005, the City of Naples' governmental activities reported combined ending net assets of \$74.3 million. This is an increase of \$7.4 million from the prior year. Approximately 47% of this total is unrestricted.
- The City of Naples total debt decreased by \$5.0 million during the current fiscal year. This decrease is discussed further in Debt Administration.

Overview of the Financial Statements

The financial statements' focus 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 Government-Wide Financial Statements

Government-wide financial statements are designed to be corporate-like in structure, showing and combining governmental- and business-type activities. 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. For the purpose of these statements, both governmental and business type activities are measured and reported using the economic resource measurement focus and the full accrual basis of accounting.

Statement of Net Assets (page 24) 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 (page 26) 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.

THE CITY OF NAPLES, FLORIDA

Management's Discussion and Analysis (Unaudited)

September 30, 2005

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 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 Naples 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

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.

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 governmental funds 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 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, Construction Management fund, Health Benefits fund and the Technology Services 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

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those funds are not available to support the City's own programs. The accounting method used for fiduciary funds is similar to Proprietary funds.

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 combining 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 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 35 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 Total column on the Proprietary Fund Financial Statements (pages 38 – 47) 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).

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.

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Government-wide Financial Analysis

The City's combined net assets as of September 30, 2005 were \$148.1 million. The City's combined revenues, including contributions, grants, charges for services and taxes were \$73.2 million. Total expenses, citywide were \$64.3 million. Table 1 reflects the summary statement of net assets for the current and prior year.

Table 1

Net Assets

(In thousands)

	Governmental activities		Business-type activities		Total Primary Government	
	2005	2004	2005	2004	2005	2004
Current and other assets	\$ 46,877	42,342	28,920	27,701	75,797	70,043
Capital assets	56,773	53,543	85,505	89,131	142,278	142,674
Total assets	103,650	95,885	114,425	116,832	218,075	212,717
Long term liabilities outstanding	24,157	25,200	36,290	40,331	60,447	65,531
Other liabilities	5,199	3,820	4,306	4,174	9,505	7,994
Total liabilities	29,356	29,020	40,596	44,505	69,952	73,525
Net assets:						
Invested in capital assets, net of debt	36,375	32,179	48,444	48,184	84,819	80,363
Restricted	3,033	2,972	5,956	5,956	8,989	8,928
Unrestricted	34,886	31,714	19,429	18,187	54,315	49,901
Total net assets	\$ 74,294	66,865	73,829	72,327	148,123	139,192

The largest portion of the City's net assets (57%) 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 37% of unrestricted net assets, \$54.3 million may be used to meet the City's ongoing obligations to the citizens and creditors.

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Table 2 reflects the summary statement of activities (in thousands) for the current year compared with the prior year.

Table 2

Changes in Net Assets

(In thousands)

	Governmental activities		Business-type activities		Total Primary Government	
	2005	2004	2005	2004	2005	2004
Revenues:						
Program revenues:						
Charges for services	\$ 6,767	5,950	31,640	30,785	38,407	36,735
Operating grants and contributions	4,294	3,658	430	486	4,724	4,144
Capital grants and contributions	794	486	659	907	1,453	1,393
General revenues:						
Property taxes	14,405	13,029	—	—	14,405	13,029
Other taxes	8,901	8,613	—	—	8,901	8,613
Intergovernmental revenues	3,628	3,432	—	—	3,628	3,432
Unrestricted investment earnings	1,088	684	511	312	1,599	996
Other	105	2,035	1	85	106	2,120
Total revenues	<u>39,982</u>	<u>37,887</u>	<u>33,241</u>	<u>32,575</u>	<u>73,223</u>	<u>70,462</u>
Expenses:						
General government	4,629	3,808	—	—	4,629	3,808
Public safety	18,423	17,170	—	—	18,423	17,170
Physical and economic environment	1,727	1,295	—	—	1,727	1,295
Transportation	2,348	2,800	—	—	2,348	2,800
Cultural and recreation	6,104	5,645	—	—	6,104	5,645
Interest and fiscal charges	998	1,446	—	—	998	1,446
Water and wastewater	—	—	20,052	19,525	20,052	19,525
Solid waste	—	—	4,858	4,752	4,858	4,752
Stormwater	—	—	1,302	1,294	1,302	1,294
Other enterprises	—	—	3,851	3,536	3,851	3,536
Total expenses	<u>34,229</u>	<u>32,164</u>	<u>30,063</u>	<u>29,107</u>	<u>64,292</u>	<u>61,271</u>
Increase in net assets before transfers	5,753	5,723	3,178	3,468	8,931	9,191
Transfers	1,676	1,918	(1,676)	(1,918)	—	—
Increase in net assets	7,429	7,641	1,502	1,550	8,931	9,191
Net assets – beginning	<u>66,865</u>	<u>59,224</u>	<u>72,327</u>	<u>70,777</u>	<u>139,192</u>	<u>130,001</u>
Net assets – ending	<u>\$ 74,294</u>	<u>66,865</u>	<u>73,829</u>	<u>72,327</u>	<u>148,123</u>	<u>139,192</u>

Governmental activities increased the City of Naples net assets by \$7.429 million, thereby accounting for 83% of the total growth in net assets of the City of Naples. The comparisons of the total primary government activities show a \$2.761 million increase or 3.9% over last years total revenues. The major contributing factors were as follows: Property taxes increased \$1.376 million or 10.6% due to an 8.52% increase in property values and an increase in the millage rate from 1.11 in FY 2004 to 1.16 in FY 2005; charges for services increased \$1.672 million or 4.6%; recreational fees in both the governmental activities and business-types increased \$333 thousand or 14.1%.

Business-type activities increased the City of Naples's net assets by \$1.502 million accounting for 17% of the total growth of the City's net assets. Key elements of this increase are as follows; Water and Sewer rates are

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adjusted annually by the Florida Public Service Commission Deflator Index. The index for FY 2005 was 1.60% which generated a \$596 thousand increase over FY 2004.

Increases in expenses closely paralleled inflation and growth in the demand for services. The City's public safety function increased \$1.253 million primarily due to an increase in labor contracts and demand for outside special duty police protection. The total primary government expenses increased \$3.0 million.

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 \$34.2 million. As shown in the statement of activities on page 26, the net cost that was ultimately paid through taxes was \$22.4 million. The \$10.2 million of the cost of governmental activities not covered by taxes was provided by:

- \$6.8 million in charges for services - \$2.7 million for building fees, \$1.1 million for police and fire services, \$0.9 million for recreation fees and \$2.1 million from various fees for transportation and general government services.
- \$4.3 million in operating grants and contributions – \$1.5 million from Collier County's share of Community Redevelopment; \$0.42 million from FEMA; \$1.629 million from the State of Florida for their share of contributions to the Police Officers' and Firefighters' pension plans; and \$0.74 million from various operating grants and contributions of which \$0.34 million was for public safety equipment grants, and community recreation programs.
- \$0.8 million in capital grants and contributions – \$0.31 from impact fees and special assessments; \$0.36 million in contributions for street improvements; and \$0.13 million parks and recreation grants.

Table 3

Governmental Activities

(In thousands)

	Total cost of service		Net cost of service	
	2005	2004	2005	2004
Public safety	\$ 18,423	17,170	12,226	11,410
Physical and economic environment	1,727	1,295	(267)	(156)
Transportation	2,348	2,800	1,730	2,363
Cultural and recreation	6,104	5,645	5,023	4,762
All others	5,626	5,254	3,661	3,691
Totals	\$ 34,228	32,164	22,373	22,070

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Business-type activities

Revenues of the City's business-type activities (see Table 2) totaled \$33.2 million.

The Water and Sewer fund represents 81% of the business-type activities net assets. Total Water and Sewer operating revenues and operating expenses were up \$596,616 and \$671,986, respectively, from last year. Interest expense on debt was down \$145,211 due primarily to the refunding of bond issues during the previous years and a smoothing out of principal and interest payments.

City Code allows for Solid Waste fees to be adjusted automatically annually in an amount equal to change in the Consumers Price Index. This fiscal year the index was waived with no increase.

Financial Analysis of the City's Funds

The City of Naples uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the City of Naples's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City of Naples financing requirements. In particular, unreserved fund balance may serve as a useful measurement of a government's net resources for spending at the end of the fiscal year. As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$34.592 million, an increase of \$2.586 million in comparison with the prior year. Approximately 27% of this total \$9.251 million constitutes unreserved, undesignated fund balance, which is available for spending at the City's discretion. The remainder of fund balance is reserved or designated to indicate that it is not available for new spending because it has been already committed to; 1) liquidate encumbrances of the prior period (\$8.664 million), 2) pay for debt service (\$1.420 million), 3) pay for future construction projects (\$6.695 million), 4) pay for a City-wide emergency (\$2.933 million), 5) generate income for the City's parks (\$3.342 million), and 6) a variety of other restricted purposes (\$2.288 million).

The general fund is the chief operating fund of the City of Naples. At the end of the current fiscal year, unreserved, undesignated fund balance of the general fund was \$5.561 million, while the total fund balance was \$9.413 million. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 21% of the total fiscal year 2005 general fund expenditures, while total general fund balance represents 36% of that same amount.

General government expenditures were \$505,506 under budget (6.6%). Employment vacancies in Planning and Finance amounted to \$191,170, while the City Attorney was \$107,481 under budget primarily due to expenditures for outside legal services not needed and City codified project. Cultural and recreation expenditures were \$539,920 under budget (9.5%) primarily due to expenditures not needed for Red Tide cleanup (\$46,612), and \$344,526 in landscape projects (Pulling property, 10th Street S. and U.S.41) budgeted in fiscal year 2005 but delayed due to not receiving ownership.

The fund balance of the City's general fund increased by \$2.298 million during the current fiscal year. The key factors in this growth was primarily due to an increase in ad valorem taxes \$1.543 million and franchise taxes \$188 thousand.

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Proprietary funds. The City of Naples proprietary funds provide the same type of information in the government-wide financial statements, but in more detail. Unrestricted net assets of the proprietary funds at the end of the fiscal year amounted to \$13.074 million in the Water and Sewer fund, \$3.523 million in the Solid Waste fund, \$1.943 million in the Stormwater fund, \$318 thousand in the Naples Beach fund, \$530 thousand in the City Dock fund and \$42 thousand in the Tennis fund. Other factors concerning these finances have already been addressed in the discussion of the City’s of Naples business-type activities.

General Fund Budgetary Highlights

Differences between the General Fund’s appropriations in the original and final amended budget was approximately \$197,000, of which \$120,000 was budgeted expenditures from fiscal year 2003/2004 carried over to fiscal year 2004/2005 related to an interlocal agreement with Collier County for a restudy of the FEMA flood plan maps of Collier County.

In addition \$40,000 for the Naples Bay historical habitat distribution, to provide a historical perspective to the Naples Bay environment and \$27,266 FEMA fire wellness program for health related services for the City’s Firefighters were budgeted yet not expended in fiscal 2005.

Capital Assets and Debt Administration

Capital Assets

The City as of year-end had \$142.3 million invested in a variety of capital assets, as reflected in the following table. The asset category infrastructure is separately reported. 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:	
Fire Apparatus Replacement	\$ 268,222
Fire Station #2 Rehabilitation	1,081,783
CC-Naples Phase II Signal System	1,115,472
Redevelopment District Lighting and Landscape	1,895,010
Business-type activities:	
I-75 Raw Water Line Relocate	\$ 323,557
Sewer Inspection Vehicle	162,442
Parkshore/Harbour Drive Bridge Utilities	366,000

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Table 4

Capital Assets at Year End

(In thousands)

	Governmental activities		Business-type activities		Total	
	2005	2004	2005	2004	2005	2004
Land	\$ 11,957	11,957	2,897	2,866	14,854	14,823
Buildings	26,697	26,791	59,523	59,578	86,220	86,369
Improvements other than buildings	22,826	21,552	26,025	25,985	48,851	47,537
Infrastructure	23,608	20,888	58,734	57,783	82,342	78,671
Machinery and equipment	13,468	12,334	14,358	16,007	27,826	28,341
Construction in progress	1,458	250	402	122	1,860	372
Less accumulated depreciation	(43,241)	(40,229)	(76,434)	(73,210)	(119,675)	(113,439)
Total net capital assets	\$ 56,773	53,543	85,505	89,131	142,278	142,674

Additional information regarding the City's capital assets is included in the notes to the financial statements, note (D) page 68.

Debt Outstanding

As of year-end, the City had \$57,575,709 in debt (bonds, notes, etc.) outstanding compared to \$62,439,777 in 2004, a 7.8% decrease.

Table 5

Outstanding Debt, at Year-end

	2005	2004
Governmental:		
General obligation	\$ 4,825,000	5,220,000
Public service tax revenue	10,214,107	10,597,710
Redevelopment	5,475,000	5,675,000
Sub-total	20,514,107	21,492,710
Business-type:		
Water/Wastewater Revenue	12,115,000	14,430,000
State Revolving Loan – Wastewater	21,141,581	22,444,022
State Revolving Loan – Stormwater	3,386,237	3,637,256
City Dock Public Service Tax	30,893	57,291
City Tennis Public Service Tax	530,000	570,000
Unamortized issuance discount	(43,156)	(53,520)
Unamortized original issue premium	113,550	151,123
Unamortized deferred loss on refunding	(212,503)	(289,105)
Sub-total	37,061,602	40,947,067
Totals	\$ 57,575,709	62,439,777

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Additional information regarding the City's outstanding debt is included in the notes to financial statements, note (G) page 76.

Economic Factors and Next Year Budget and Rates

In September 2005, the City Council approved a \$122.5 million budget for fiscal year 2005-06, which is approximately a 5% increase from the prior year's budget. The budget for next fiscal year was developed with an emphasis on:

- Maintenance of existing infrastructure
- Public safety and City aesthetics
- Responsiveness to community needs
- Employee quality and working conditions
- Fiscal conservatism

The City of Naples' 2005-06 budget was able to show a reduced tax rate due to the continued growth in property values in the City, which has averaged 15% per year over the past five years. Property taxes are the largest source of revenue to the General Fund, providing 49% of the revenue to that fund.

The following economic factors were considered in developing the budget for fiscal year 2005-06:

- Taxable values of \$13,746,295,489, increased 12.97% over the prior year, allowed for a millage reduction from 1.1600 to 1.1400.
- Taxable value of commercial and residential properties increased \$1.58 billion from the 2004-05 fiscal year; of this increase 13.5% was related to new construction and 86.5% was related to market appreciation.
- The budget includes a Water and Sewer Utility rate increase of 2.71%, consistent with the city's policy of increasing rates annually by the amount of Florida Public Services Commission's Deflator Index.
- Personnel costs make up a significant portion of City operating costs. For 2005-06, wage increases identified in contractual bargaining agreements range from 5% to 6%, which are in addition to step increases for eligible police and fire positions.
- Following the national trend, the City's healthcare (insurance) expense is projected to increase 5%, which is less than in prior years.
- Pension expenses, also following the national trend of increases, are projected to increase approximately 10%, due to the continued lack of performance of the capital market.
- Two positions were added in the 2005-06 budget: a Permit Technician in the Building Permits Fund and an Accounting Technician in the General Fund.

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- The trend in the unemployment rate in Naples is down from 2004, with a September 2005 rate of 3.8% compared to a September 2004 rate of 4.7%. This is consistent with unemployment data for the State of Florida.
- The City issued 1,241 building permits in 2005 compared to 1,221 issued in fiscal year 2004.
- The change in the Consumer Price Index from the previous fiscal year was 6.3%.

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, or telephone (239) 213-1820.

CITY OF NAPLES, FLORIDA

Statement of Net Assets

September 30, 2005

Assets	Primary Government		
	Governmental activities	Business-type activities	Total
Cash and investments	\$ 42,582,227	16,195,188	58,777,415
Receivables (net, where applicable, of allowance for uncollectible)	2,406,379	5,501,152	7,907,531
Internal balances	(127,963)	127,963	—
Inventories	148,698	409,625	558,323
Prepaid items	79,742	—	79,742
Restricted assets:			
Cash and investments	—	6,587,564	6,587,564
Prepaid items	—	15,759	15,759
Net pension assets	1,613,098	—	1,613,098
Deferred charges	175,387	82,573	257,960
Capital assets:			
Land and land improvements	11,957,292	2,896,850	14,854,142
Buildings and utility plants	26,697,412	59,523,428	86,220,840
Improvements other than buildings	22,825,786	26,025,128	48,850,914
Infrastructure	23,607,720	58,734,214	82,341,934
Equipment	13,467,923	14,358,420	27,826,343
Accumulated depreciation	(43,241,274)	(76,434,426)	(119,675,700)
Construction in progress	1,458,046	401,803	1,859,849
Net capital assets	56,772,905	85,505,417	142,278,322
Total assets	\$ 103,650,473	114,425,241	218,075,714

See accompanying notes to financial statements.

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Statement of Net Assets

September 30, 2005

Liabilities	Primary Government		
	Governmental activities	Business-type activities	Total
Accounts payable and other current liabilities	\$ 4,541,641	1,357,949	5,899,590
Due to other governments	—	734,446	734,446
Unearned revenue	454,146	457,044	911,190
Customer deposits	503	25,746	26,249
Liabilities payable from restricted assets:			
Customer deposits	—	284,653	284,653
Current maturities of long-term debt	—	1,090,698	1,090,698
Accrued interest payable	202,647	355,913	558,560
Noncurrent liabilities:			
Revenue bonds payable, net of unamortized discounts and premiums:			
Due within one year	994,107	2,917,964	3,912,071
Due in more than one year	19,403,354	33,052,940	52,456,294
Compensated absences:			
Due within one year	216,467	50,015	266,482
Due in more than one year	1,052,312	268,881	1,321,193
Claims payable:			
Due within one year	1,234,853	—	1,234,853
Due in more than one year	1,256,147	—	1,256,147
Total noncurrent liabilities	24,157,240	36,289,800	60,447,040
Total liabilities	29,356,177	40,596,249	69,952,426
Net Assets			
Invested in capital assets, net of related debt	36,375,444	48,443,815	84,819,259
Restricted for:			
Debt service	1,420,125	5,019,677	6,439,802
Renewal and replacement	—	936,575	936,575
Other purposes	1,613,098	—	1,613,098
Unrestricted	34,885,629	19,428,925	54,314,554
Total net assets	\$ 74,294,296	73,828,992	148,123,288

CITY OF NAPLES, FLORIDA

Statement of Activities

Year ended September 30, 2005

	<u>Expenses</u>	<u>Indirect expenses allocation</u>	<u>Charges for services</u>
Functions/programs:			
Governmental activities:			
General government	\$ 7,734,759	(3,105,860)	1,441,587
Public safety	18,144,335	279,140	4,162,944
Physical and economic environment	1,606,724	120,000	81,385
Transportation	2,227,916	120,000	258,621
Culture and recreation	6,103,599	—	822,085
Interest	997,829	—	—
Total governmental activities	<u>36,815,162</u>	<u>(2,586,720)</u>	<u>6,766,622</u>
Business-type activities:			
Water and sewer	18,234,004	1,818,720	21,437,118
Solid waste	4,569,461	289,000	5,560,064
Stormwater	1,176,876	125,000	1,419,256
Beach	1,400,328	201,000	896,446
Dock	1,672,405	125,000	1,872,307
Tennis	424,042	28,000	455,108
Total business-type activities	<u>27,477,116</u>	<u>2,586,720</u>	<u>31,640,299</u>
Total primary government	<u>\$ 64,292,278</u>	<u>—</u>	<u>38,406,921</u>
General revenues:			
Property taxes			
Franchise and utility taxes			
Motor fuel taxes			
Intergovernmental revenues – unrestricted			
Unrestricted investment earnings			
Miscellaneous revenues			
Gain on sale of capital assets			
Transfers			
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
510,314	13,228	(2,663,770)	—	(2,663,770)
1,752,358	282,272	(12,225,901)	—	(12,225,901)
1,912,383	—	267,044	—	267,044
—	359,692	(1,729,603)	—	(1,729,603)
119,624	138,588	(5,023,302)	—	(5,023,302)
—	—	(997,829)	—	(997,829)
<u>4,294,679</u>	<u>793,780</u>	<u>(22,373,361)</u>	<u>—</u>	<u>(22,373,361)</u>
75,441	531,908	—	1,991,743	1,991,743
—	—	—	701,603	701,603
—	—	—	117,380	117,380
354,906	127,574	—	(222,402)	(222,402)
—	—	—	74,902	74,902
—	—	—	3,066	3,066
<u>430,347</u>	<u>659,482</u>	<u>—</u>	<u>2,666,292</u>	<u>2,666,292</u>
<u>4,725,026</u>	<u>1,453,262</u>	<u>(22,373,361)</u>	<u>2,666,292</u>	<u>(19,707,069)</u>
		14,404,764	—	14,404,764
		7,315,044	—	7,315,044
		1,585,816	—	1,585,816
		3,628,176	—	3,628,176
		1,087,659	511,054	1,598,713
		105,030	—	105,030
		—	530	530
		<u>1,676,358</u>	<u>(1,676,358)</u>	<u>—</u>
		<u>29,802,847</u>	<u>(1,164,774)</u>	<u>28,638,073</u>
Change in net assets		7,429,486	1,501,518	8,931,004
Net assets – beginning		<u>66,864,810</u>	<u>72,327,474</u>	<u>139,192,284</u>
Net assets – ending		<u>\$ 74,294,296</u>	<u>73,828,992</u>	<u>148,123,288</u>

CITY OF NAPLES, FLORIDA

Balance Sheet

Governmental Funds

September 30, 2005

	<u>General</u>	<u>Debt service</u>	<u>Capital projects</u>
Assets:			
Cash and investments	\$ 8,616,029	1,576,760	13,051,978
Receivables (net, where applicable, of allowance for uncollectible):			
Accounts	495,323	—	—
Special assessments	—	—	245,954
Utility taxes	—	221,877	—
Accrued interest receivables	28,279	10,031	43,055
Due from other funds	66,255	—	34,442
Advances due from other funds	725,868	—	733,329
Due from other governments	750,859	84,806	133,055
Inventories	9,177	—	—
Prepaid items	27,000	—	—
	<u>10,718,790</u>	<u>1,893,474</u>	<u>14,241,813</u>
Total assets	\$		
Liabilities:			
Accounts payable	\$ 429,727	15,831	780,266
Accrued payroll	689,452	—	—
Due to other funds	—	—	—
Advances payable to other funds	—	—	—
Deferred revenue	186,260	—	245,954
Customer deposits	503	—	—
	<u>1,305,942</u>	<u>15,831</u>	<u>1,026,220</u>
Total liabilities			
Fund balances:			
Reserved:			
Encumbrances	156,792	—	3,656,550
Advances	725,868	—	733,329
Inventories	9,177	—	—
Prepaid items	27,000	—	—
Debt service	—	1,420,125	—
Construction	—	—	3,644,026
Emergency	2,932,551	—	—
Other purposes	—	—	3,525,070
Unreserved	5,561,460	—	—
Unreserved:			
Reported in debt service funds	—	457,518	—
Reported in special revenue funds	—	—	—
Reported in capital projects funds	—	—	1,656,618
	<u>9,412,848</u>	<u>1,877,643</u>	<u>13,215,593</u>
Total fund balances			
Total liabilities and fund balances	\$ <u>10,718,790</u>	<u>1,893,474</u>	<u>14,241,813</u>

See accompanying notes to financial statements.

Community redevelopment	Streets and traffic	Other nonmajor governmental	Total
3,699,015	4,534,222	5,355,224	36,833,228
—	—	11,399	506,722
—	—	—	245,954
—	—	—	221,877
12,077	14,921	15,844	124,207
—	34,442	—	135,139
—	414,760	—	1,873,957
—	112,236	188,776	1,269,732
—	25,341	—	34,518
—	—	—	27,000
3,711,092	5,135,922	5,571,243	41,272,334
129,931	1,714,344	288,322	3,358,421
10,630	13,316	59,531	772,929
—	—	103,325	103,325
1,960,245	—	41,675	2,001,920
—	—	10,700	442,914
—	—	—	503
2,100,806	1,727,660	503,553	6,680,012
472,007	3,783,021	595,183	8,663,553
—	414,760	—	1,873,957
—	25,341	—	34,518
—	—	—	27,000
—	—	—	1,420,125
1,338,596	1,712,621	—	6,695,243
—	—	—	2,932,551
—	—	169,597	3,694,667
—	—	—	5,561,460
—	—	—	457,518
—	—	708,479	708,479
(200,317)	(2,527,481)	3,594,431	2,523,251
1,610,286	3,408,262	5,067,690	34,592,322
3,711,092	5,135,922	5,571,243	41,272,334

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CITY OF NAPLES, FLORIDA

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

September 30, 2005

Total fund balances governmental funds (page 28)	\$ 34,592,322
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 (\$56,772,905) less amounts included in the internal service funds (\$644,808)	56,128,097
Accrued long term debt interest expense is not a financial use and, therefore, is not reported in the funds	(202,647)
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 (\$24,157,240) less amounts reported in the internal service funds (\$2,673,870)	(21,483,370)
Certain long term assets are not available to pay for current period expenditures and, therefore are not recorded in the funds	1,788,485
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>3,471,409</u>
Net assets of governmental activities (page 24)	<u>\$ 74,294,296</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, 2005

	<u>General</u>	<u>Debt service</u>	<u>Capital projects</u>
Revenues:			
Taxes	\$ 16,953,007	4,127,759	—
Licenses and permits	332,262	—	—
Intergovernmental	5,559,713	—	334,420
Charges for services	1,695,373	—	—
Charges to other funds	3,748,880	—	—
Fines and forfeitures	370,115	—	—
Impact fees	—	—	168,576
Interest	281,973	29,404	350,468
Donations	—	—	—
Miscellaneous	50,779	—	110,409
Total revenues	<u>28,992,102</u>	<u>4,157,163</u>	<u>963,873</u>
Expenditures:			
Current:			
General government	7,166,673	66,349	251,000
Public safety	15,265,915	—	—
Physical and economic environment	516,553	—	—
Transportation	—	—	—
Culture and recreation	5,141,574	—	—
Capital projects	—	—	3,235,665
Debt service:			
Principal	—	978,603	—
Interest and fiscal charges	—	917,991	—
Total expenditures	<u>28,090,715</u>	<u>1,962,943</u>	<u>3,486,665</u>
Excess (deficiency) of revenues over expenditures	<u>901,387</u>	<u>2,194,220</u>	<u>(2,522,792)</u>
Other financing sources (uses):			
Transfers in	1,676,358	476,468	2,473,430
Transfers out	(280,000)	(2,473,430)	—
Proceeds from sale of capital assets	—	—	25
Total other financing sources (uses)	<u>1,396,358</u>	<u>(1,996,962)</u>	<u>2,473,455</u>
Change in fund balances	2,297,745	197,258	(49,337)
Fund balances – beginning of year	<u>7,115,103</u>	<u>1,680,385</u>	<u>13,264,930</u>
Fund balances – end of year	<u>\$ 9,412,848</u>	<u>1,877,643</u>	<u>13,215,593</u>

See accompanying notes to financial statements.

Community redevelopment	Streets and traffic	Other nonmajor governmental	Total
455,139	1,585,816	183,904	23,305,625
—	9,746	2,589,544	2,931,552
1,521,264	414,464	186,119	8,015,980
66,918	—	247,580	2,009,871
—	—	—	3,748,880
—	—	183,773	553,888
—	200,000	—	368,576
109,335	96,871	103,136	971,187
—	—	263,988	263,988
280	216,713	53,841	432,022
<u>2,152,936</u>	<u>2,523,610</u>	<u>3,811,885</u>	<u>42,601,569</u>
—	—	32,225	7,516,247
—	—	2,340,692	17,606,607
741,829	—	75,056	1,333,438
—	1,351,547	—	1,351,547
—	—	147,557	5,289,131
1,917,298	1,237,729	230,533	6,621,225
—	—	—	978,603
77,579	—	—	995,570
<u>2,736,706</u>	<u>2,589,276</u>	<u>2,826,063</u>	<u>41,692,368</u>
<u>(583,770)</u>	<u>(65,666)</u>	<u>985,822</u>	<u>909,201</u>
—	280,000	—	4,906,256
(402,367)	—	(74,101)	(3,229,898)
—	—	—	25
<u>(402,367)</u>	<u>280,000</u>	<u>(74,101)</u>	<u>1,676,383</u>
(986,137)	214,334	911,721	2,585,584
<u>2,596,423</u>	<u>3,193,928</u>	<u>4,155,969</u>	<u>32,006,738</u>
<u><u>1,610,286</u></u>	<u><u>3,408,262</u></u>	<u><u>5,067,690</u></u>	<u><u>34,592,322</u></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, 2005

Net Changes in Fund Balances – total governmental funds (page 32)	\$ 2,585,584
Amounts reported for governmental activities in the statement of activities 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 (\$6,590,340) exceeded depreciation (\$3,447,977) in the current period	3,142,363
The net effect of various miscellaneous transactions involving capital assets (i.e., sales, trade-ins, and donations) is to decrease net assets	(10,426)
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	978,603
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	70,444
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	61,032
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>601,886</u>
Change in net assets of governmental activities (page 26)	<u>\$ 7,429,486</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, 2005

	<u>Original budget</u>	<u>Final budget</u>	<u>Actual</u>	Variance with final budget positive (negative)
Revenues:				
Taxes:				
Ad valorem	\$ 13,141,950	13,141,950	13,180,408	38,458
Franchise	3,534,500	3,534,500	3,772,599	238,099
Licenses and permits	268,800	268,800	332,262	63,462
Intergovernmental	3,068,500	3,225,239	5,559,713	2,334,474
Charges for services	1,375,250	1,375,250	1,695,373	320,123
Charges to other funds	3,748,880	3,748,880	3,748,880	—
Fines and forfeitures	329,700	329,700	370,115	40,415
Interest	200,000	200,000	281,973	81,973
Miscellaneous	34,500	75,208	50,779	(24,429)
Total revenues	<u>25,702,080</u>	<u>25,899,527</u>	<u>28,992,102</u>	<u>3,092,575</u>
Expenditures:				
Current:				
General government:				
Mayor and City Council	223,560	223,560	220,248	3,312
City Attorney	592,122	592,122	484,641	107,481
City Clerk	494,273	494,273	453,137	41,136
City Manager	501,319	501,319	468,212	33,107
Planning	576,097	576,097	465,330	110,767
Finance	1,458,659	1,458,659	1,378,256	80,403
Nondepartmental	3,731,149	3,826,149	3,696,849	129,300
Total general government	<u>7,577,179</u>	<u>7,672,179</u>	<u>7,166,673</u>	<u>505,506</u>
Public safety:				
Fire	4,912,233	4,939,499	5,907,170	(967,671)
Police	8,401,151	8,401,859	9,212,389	(810,530)
Code inspections	151,940	151,940	146,356	5,584
Total public safety	<u>13,465,324</u>	<u>13,493,298</u>	<u>15,265,915</u>	<u>(1,772,617)</u>
Physical and economic environment:				
Human resources	573,132	573,132	516,553	56,579
Total physical and economic environment	<u>573,132</u>	<u>573,132</u>	<u>516,553</u>	<u>56,579</u>
Culture and recreation:				
Community services	5,607,021	5,681,494	5,141,574	539,920
Total culture and recreation	<u>5,607,021</u>	<u>5,681,494</u>	<u>5,141,574</u>	<u>539,920</u>
Total expenditures	<u>27,222,656</u>	<u>27,420,103</u>	<u>28,090,715</u>	<u>(670,612)</u>

CITY OF NAPLES, FLORIDA

General Fund

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

Year ended September 30, 2005

	<u>Original budget</u>	<u>Final budget</u>	<u>Actual</u>	Variance with final budget positive (negative)
Excess (deficiency) of revenues over expenditures	\$ (1,520,576)	(1,520,576)	901,387	2,421,963
Other financing sources (uses):				
Transfers in	1,800,576	1,800,576	1,676,358	(124,218)
Transfers out	(280,000)	(280,000)	(280,000)	—
Proceeds from sale of capital assets	4,500	4,500	—	(4,500)
Total other financing sources (uses)	<u>1,525,076</u>	<u>1,525,076</u>	<u>1,396,358</u>	<u>(128,718)</u>
Change in fund balances	4,500	4,500	2,297,745	2,293,245
Fund balances – beginning of year	<u>7,115,103</u>	<u>7,115,103</u>	<u>7,115,103</u>	—
Fund balances – end of year	\$ <u><u>7,119,603</u></u>	<u><u>7,119,603</u></u>	<u><u>9,412,848</u></u>	<u><u>2,293,245</u></u>

See accompanying notes to financial statements.

CITY OF NAPLES, FLORIDA

Statement of Net Assets

Proprietary Funds

September 30, 2005

Assets	Business-type activities – Enterprise Funds		
	Water and Sewer Fund	Solid Waste Fund	Stormwater Fund
Current assets:			
Cash and investments	\$ 10,468,915	3,018,073	1,811,980
Restricted cash and investments	6,343,171	—	207,606
Restricted prepaid items	—	—	—
Receivables (net, where applicable, of allowance for uncollectibles):			
Accounts	3,827,281	813,604	229,347
Special assessments	273,550	—	—
Miscellaneous	—	—	—
Accrued interest	55,616	9,856	5,918
Advances due from other funds	41,675	—	86,288
Due from other governments	—	—	—
Inventories	389,129	—	—
Prepays	—	—	—
Total current assets	<u>21,399,337</u>	<u>3,841,533</u>	<u>2,341,139</u>
Capital assets:			
Land	1,731,983	1,145,053	19,814
Buildings and utility plants	57,080,093	522,015	—
Improvements other than buildings	18,808,455	955,592	—
Infrastructure	51,650,654	—	7,083,560
Equipment	10,710,398	2,361,973	301,889
Accumulated depreciation	(65,947,990)	(2,393,986)	(2,717,835)
Construction in progress	339,959	—	43,469
Net capital assets	<u>74,373,552</u>	<u>2,590,647</u>	<u>4,730,897</u>
Unamortized issuance cost	79,160	—	—
Total noncurrent assets	<u>74,452,712</u>	<u>2,590,647</u>	<u>4,730,897</u>
Total assets	<u>95,852,049</u>	<u>6,432,180</u>	<u>7,072,036</u>

See accompanying notes to financial statements.

Nonmajor funds	Total	Governmental activities – Internal Service Funds
896,220	16,195,188	5,748,999
36,787	6,587,564	—
15,759	15,759	—
37,590	4,907,822	—
—	273,550	—
3,322	3,322	8,205
2,217	73,607	18,368
—	127,963	—
242,851	242,851	11,314
20,496	409,625	114,180
—	—	52,742
1,255,242	28,837,251	5,953,808
—	2,896,850	—
1,921,320	59,523,428	309,499
6,261,081	26,025,128	—
—	58,734,214	—
984,160	14,358,420	1,652,112
(5,374,615)	(76,434,426)	(1,316,803)
18,375	401,803	—
3,810,321	85,505,417	644,808
3,413	82,573	—
3,813,734	85,587,990	644,808
5,068,976	114,425,241	6,598,616

CITY OF NAPLES, FLORIDA

Statement of Net Assets

Proprietary Funds

September 30, 2005

	Business-type activities – Enterprise Funds		
Liabilities	Water and Sewer Fund	Solid Waste Fund	Stormwater Fund
Current liabilities:			
Accounts payable	\$ 602,017	203,608	94,810
Accrued payroll and personal leave	181,066	43,787	9,336
Due to other funds	—	—	—
Intergovernmental payable	734,446	—	—
Deferred revenue	366,483	—	—
Customer deposits	—	—	—
Current portion of compensated absences	28,476	15,179	1,943
Current maturities of long-term debt	2,817,860	—	70,104
Insurance claims payable	—	—	—
Total payable from current assets	<u>4,730,348</u>	<u>262,574</u>	<u>176,193</u>
Current liabilities (payable from restricted assets):			
Customer deposits	284,653	—	—
Current maturities of long-term debt	877,235	—	172,570
Accrued interest payable	314,722	—	35,036
Total payable from restricted assets	<u>1,476,610</u>	<u>—</u>	<u>207,606</u>
Total current liabilities	<u>6,206,958</u>	<u>262,574</u>	<u>383,799</u>
Noncurrent liabilities:			
Due in more than one year:			
Revenue bonds payable, net of unamortized discounts and premiums	29,419,377	—	3,143,563
Compensated absences	198,000	56,221	2,800
Insurance claims payable	—	—	—
Total noncurrent liabilities	<u>29,617,377</u>	<u>56,221</u>	<u>3,146,363</u>
Total liabilities	<u>35,824,335</u>	<u>318,795</u>	<u>3,530,162</u>
Net Assets			
Invested in capital assets, net of related debt	41,259,080	2,590,647	1,344,660
Restricted for debt service	4,757,912	—	254,051
Restricted for renewal and replacement	936,575	—	—
Unrestricted	13,074,147	3,522,738	1,943,163
Net assets of business-type activities	<u>\$ 60,027,714</u>	<u>6,113,385</u>	<u>3,541,874</u>

See accompanying notes to financial statements.

Nonmajor funds	Total	Governmental activities – Internal Service Funds
185,166	1,085,601	326,678
38,159	272,348	83,613
—	—	31,814
—	734,446	—
90,561	457,044	11,232
25,746	25,746	—
4,417	50,015	23,175
30,000	2,917,964	—
—	—	1,234,853
<u>374,049</u>	<u>5,543,164</u>	<u>1,711,365</u>
—	284,653	—
40,893	1,090,698	—
6,155	355,913	—
<u>47,048</u>	<u>1,731,264</u>	<u>—</u>
<u>421,097</u>	<u>7,274,428</u>	<u>1,711,365</u>
490,000	33,052,940	—
11,860	268,881	159,695
—	—	1,256,147
<u>501,860</u>	<u>33,321,821</u>	<u>1,415,842</u>
<u>922,957</u>	<u>40,596,249</u>	<u>3,127,207</u>
3,249,428	48,443,815	644,808
7,714	5,019,677	—
—	936,575	—
888,877	19,428,925	2,826,601
<u>4,146,019</u>	<u>73,828,992</u>	<u>3,471,409</u>

CITY OF NAPLES, FLORIDA

Proprietary Funds

Statement of Revenues, Expenses and Changes in Fund Net Assets

Year ended September 30, 2005

	<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	\$ 12,318,178	—	—
Sewer revenues	9,118,940	—	—
Other	—	5,560,064	1,419,256
Total operating revenues	<u>21,437,118</u>	<u>5,560,064</u>	<u>1,419,256</u>
Operating expenses:			
Personal services	4,726,111	1,214,262	207,167
Supplies and services	3,185,243	2,964,409	212,986
Materials	1,582,936	—	—
Heat, light, and power	2,056,601	13,683	21,475
Depreciation and amortization	5,226,181	262,674	612,720
General administration	1,818,720	289,000	125,000
Other	160,454	114,433	12,670
Total operating expenses	<u>18,756,246</u>	<u>4,858,461</u>	<u>1,192,018</u>
Operating income (loss)	<u>2,680,872</u>	<u>701,603</u>	<u>227,238</u>
Nonoperating revenues (expenses):			
Operating grants	75,441	—	—
Interest income	380,136	64,667	45,827
Interest expense	(1,295,361)	—	(109,858)
Gain (loss) on sale of capital assets	(1,117)	530	—
Total nonoperating revenues (expenses)	<u>(840,901)</u>	<u>65,197</u>	<u>(64,031)</u>
Income (loss) before contributions and transfers	1,839,971	766,800	163,207
Capital contributions	531,908	—	—
Transfers out (payment in lieu of taxes)	(1,254,409)	(333,949)	—
Change in net assets	1,117,470	432,851	163,207
Net assets – beginning of year	<u>58,910,244</u>	<u>5,680,534</u>	<u>3,378,667</u>
Net assets – end of year	<u>\$ 60,027,714</u>	<u>6,113,385</u>	<u>3,541,874</u>

See accompanying notes to financial statements.

<u>Nonmajor funds</u>	<u>Totals</u>	<u>Governmental activities – Internal Service Funds</u>
—	12,318,178	—
—	9,118,940	—
3,230,861	10,210,181	11,587,387
<u>3,230,861</u>	<u>31,647,299</u>	<u>11,587,387</u>
1,004,252	7,151,792	2,248,987
1,600,401	7,963,039	7,467,876
—	1,582,936	676,303
130,480	2,222,239	24,450
639,098	6,740,673	241,588
354,000	2,586,720	420,000
101,950	389,507	16,790
<u>3,830,181</u>	<u>28,636,906</u>	<u>11,095,994</u>
<u>(599,320)</u>	<u>3,010,393</u>	<u>491,393</u>
347,906	423,347	—
20,424	511,054	116,472
(20,422)	(1,425,641)	—
(172)	(759)	(5,979)
<u>347,736</u>	<u>(491,999)</u>	<u>110,493</u>
(251,584)	2,518,394	601,886
127,574	659,482	—
(88,000)	(1,676,358)	—
(212,010)	1,501,518	601,886
<u>4,358,029</u>	<u>72,327,474</u>	<u>2,869,523</u>
<u>4,146,019</u>	<u>73,828,992</u>	<u>3,471,409</u>

CITY OF NAPLES, FLORIDA

Statement of Cash Flows

Proprietary Funds

Year ended September 30, 2005

	<u>Water and Sewer Fund</u>	<u>Solid Waste Fund</u>
Cash flows from operating activities:		
Cash received from customers	\$ 21,104,856	5,556,320
Cash payments to suppliers	(10,011,598)	(3,806,185)
Cash payments to employees	(4,713,095)	(1,227,565)
	<hr/>	<hr/>
Net cash provided by operating activities	6,380,163	522,570
	<hr/>	<hr/>
Cash flows from noncapital financing activities:		
Advances and repayments from other funds	—	—
Due to other funds	—	—
Operating grants	75,441	—
	<hr/>	<hr/>
Net cash provided by (used in) noncapital financing activities	75,441	—
	<hr/>	<hr/>
Cash flows from capital and related financing activities:		
Principal paid on long-term debt	(3,617,441)	—
Interest paid on long-term debt	(1,295,820)	—
Capital contributions	531,908	—
Proceeds from sale of capital assets	16,215	5,784
Acquisition and construction of capital assets	(2,056,677)	(435,091)
	<hr/>	<hr/>
Net cash used in capital and related financing activities	(6,421,815)	(429,307)
	<hr/>	<hr/>
Cash flows from investing activities:		
Purchases of investment securities	(174,348)	(9,856)
Interest and investment earnings	380,136	64,667
	<hr/>	<hr/>
Net cash provided by investing activities	205,788	54,811
	<hr/>	<hr/>
Net increase in cash and cash equivalents	239,577	148,074
	<hr/>	<hr/>
Cash and cash equivalents – beginning of year	16,572,509	2,869,999
	<hr/>	<hr/>
Cash and cash equivalents – end of year	\$ <u>16,812,086</u>	<u>3,018,073</u>

Stormwater Fund	Nonmajor funds	Total	Governmental Activities – Internal Service Funds
1,443,852	3,313,172	31,418,200	11,598,504
(326,788)	(2,156,467)	(16,301,038)	(8,506,240)
(202,696)	(1,007,208)	(7,150,564)	(2,224,003)
<u>914,368</u>	<u>149,497</u>	<u>7,966,598</u>	<u>868,261</u>
31,856	—	31,856	—
—	—	—	(22,158)
—	347,906	423,347	—
<u>31,856</u>	<u>347,906</u>	<u>455,203</u>	<u>(22,158)</u>
(251,019)	(66,397)	(3,934,857)	—
(107,575)	(27,697)	(1,431,092)	—
—	127,574	659,482	—
—	10,094	32,093	—
(239,605)	(296,879)	(3,028,252)	(345,406)
<u>(598,199)</u>	<u>(253,305)</u>	<u>(7,702,626)</u>	<u>(345,406)</u>
(5,918)	(2,821)	(192,943)	(18,368)
45,827	20,424	511,054	116,472
<u>39,909</u>	<u>17,603</u>	<u>318,111</u>	<u>98,104</u>
387,934	261,701	1,037,286	598,801
1,631,652	671,306	21,745,466	5,150,198
<u>2,019,586</u>	<u>933,007</u>	<u>22,782,752</u>	<u>5,748,999</u>

CITY OF NAPLES, FLORIDA

Statement of Cash Flows

Proprietary Funds

Year ended September 30, 2005

	<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)	\$ 2,680,872	701,603
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Depreciation and amortization	5,226,181	262,674
Transfers to other funds	(1,254,409)	(333,949)
Changes in assets and liabilities:		
(Increase) decrease in accounts receivable, net	(474,493)	(3,744)
Decrease in special assessments receivable	99,041	—
Decrease in miscellaneous receivables	22,638	—
Decrease in due from other governments	98,429	—
(Increase) decrease in inventories	(7,836)	—
Decrease in prepaid items	—	—
Decrease in deferred charges	23,626	—
Increase (decrease) in accounts payable	(152,638)	(90,711)
Increase in accrued payroll / personal leave	27,160	5,177
Increase in due to other funds	—	—
Increase in due to other governments	194,549	—
Increase in deferred revenue	(75,248)	—
(Increase) decrease in customer deposits	(13,565)	—
(Increase) decrease in compensated absences payable	(14,144)	(18,480)
Net cash provided by operating activities	\$ <u>6,380,163</u>	<u>522,570</u>

See accompanying notes to financial statements.

Stormwater Fund	Nonmajor funds	Total	Governmental Activities – Internal Service Funds
227,238	(599,320)	3,010,393	491,393
612,720	638,098	6,739,673	241,588
—	(88,000)	(1,676,358)	—
(7,260)	18,846	(466,651)	—
—	—	99,041	—
—	—	22,638	5,290
—	265,737	364,166	(2,484)
—	4,224	(3,612)	(10,976)
—	411	411	(52,742)
—	1,293	24,919	—
77,199	112,845	(53,305)	162,899
3,090	4,407	39,834	7,307
—	(179,582)	(179,582)	—
—	—	194,549	—
—	(24,777)	(100,025)	8,311
—	2,678	(10,887)	—
1,381	(7,363)	(38,606)	17,675
914,368	149,497	7,966,598	868,261

CITY OF NAPLES, FLORIDA

Statement of Fiduciary Net Assets

Fiduciary Funds

September 30, 2005

	Pension Trust Funds	Agency Funds
Assets:		
Cash and investments	\$ 3,175,937	79,606
Accounts receivable	326,786	—
Investments, at fair value:		
Corporate bonds	9,621,314	—
U.S. Government securities	8,910,713	—
Common stock	43,269,562	—
Mortgage – backed securities	4,710,981	—
Mutual funds	3,850,325	—
Total investments	<u>70,362,895</u>	<u>—</u>
Total assets	<u>73,865,618</u>	<u>79,606</u>
Liabilities:		
Accounts payable	<u>5,885</u>	<u>79,606</u>
Total liabilities	<u>5,885</u>	<u>79,606</u>
Net assets:		
Held in trust for pension benefits and other purposes	<u>\$ 73,859,733</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, 2005

	<u>Pension Trust Funds</u>
Additions:	
Contributions:	
Employee contributions	\$ 1,301,909
Employer contributions	1,622,581
Direct state contributions	1,628,783
Total contributions	<u>4,553,273</u>
Investment earnings:	
Interest and dividend income	2,300,231
Net appreciation in fair value of investments	3,471,893
Less investment expense	(387,018)
Net investment earnings	<u>5,385,106</u>
Total additions	<u>9,938,379</u>
Deductions:	
Benefits paid	2,857,302
Refunds of contributions	838,308
General administration	141,062
Total deductions	<u>3,836,672</u>
Change in net assets	6,101,707
Net assets – beginning of year	<u>67,758,026</u>
Net assets – end of year	<u><u>\$ 73,859,733</u></u>

See accompanying notes to financial statements.

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THE CITY OF NAPLES, FLORIDA

Notes to Financial Statements

September 30, 2005

(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 Council Manager form of government. The governing body of the City is comprised of an elected City Council (six members) and an elected 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 that benefit residents of the City but are excluded from this report are the Naples Community Hospital and the Naples Airport Authority. They are excluded because 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

THE CITY OF NAPLES, FLORIDA

Notes to Financial Statements

September 30, 2005

function or segment, and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not 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. Agency funds do not have a measurement focus and only report assets and liabilities. 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. Property taxes, gas tax, franchise and utility taxes, licenses, intergovernmental revenues and interest associated with the current fiscal period are all considered to be susceptible to accrual and therefore have been recognized as revenues of the current period. All other revenue items are considered to be measurable and available only when cash is received by the City. 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.

THE CITY OF NAPLES, FLORIDA

Notes to Financial Statements

September 30, 2005

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 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 technology management, construction management, 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.

Agency Funds – account for the activities of the City's internal payroll clearing account.

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.

THE CITY OF NAPLES, FLORIDA

Notes to Financial Statements

September 30, 2005

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 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 to participating funds 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.

THE CITY OF NAPLES, FLORIDA

Notes to Financial Statements

September 30, 2005

(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 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 one year. Such assets are recorded at historical cost or estimated historical cost

THE CITY OF NAPLES, FLORIDA

Notes to Financial Statements

September 30, 2005

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.

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 plants	40 – 50 years
Improvements other than buildings	5 – 20 years
Infrastructure	10 – 20 years
Machinery and 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.

THE CITY OF NAPLES, FLORIDA

Notes to Financial Statements

September 30, 2005

(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 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 \$3,748,880 for fiscal year 2005, and included \$454,020 charged to internal service and fiduciary funds and \$708,140 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 and compensated absences, are not due and payable in the current period and therefore are not reported in the funds.” The details of this (\$21,483,370) difference are as follows:

Bonds payable	\$ (20,514,107)
Less issuance discounts (to be amortized as interest expense)	116,646
Compensated absences	<u>(1,085,909)</u>
Net adjustment to reduce fund balance – total governmental funds to arrive at net assets – governmental activities	<u><u>\$ (21,483,370)</u></u>

THE CITY OF NAPLES, FLORIDA

Notes to Financial Statements

September 30, 2005

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 \$1,788,485 difference are as follows:

Net pension assets	\$ 1,613,098
Unamortized bond issuance costs	<u>175,387</u>
Net adjustment to increase fund balance – total governmental funds to arrive at net assets – governmental activities	<u>\$ 1,788,485</u>

(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 change 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 \$3,142,363 difference are as follows:

Capital outlay	\$ 6,590,340
Depreciation expense, less internal service fund depreciation	<u>(3,447,977)</u>
Net adjustment to decrease net changes in fund balances – total governmental funds to arrive at changes in net assets of governmental activities	<u>\$ 3,142,363</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 (\$10,426) difference are as follows:

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>(10,426)</u>
Net adjustment to decrease net changes in fund balances – total governmental funds to arrive at changes in net assets of governmental activities	<u>\$ (10,426)</u>

Another element of that reconciliation states that “bond proceeds provide 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

THE CITY OF NAPLES, FLORIDA

Notes to Financial Statements

September 30, 2005

when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities.” The details of this \$978,603. difference are as follows:

Debt issued or incurred:

Principal repayments:

General obligation debt	\$	395,000
Revenue bonds debt		<u>583,603</u>

Net adjustment to increase net changes in fund balances – total governmental funds to arrive at change in net assets of governmental activities	\$	<u><u>978,603</u></u>
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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 \$70,444 difference are as follows:

Compensated absences	\$	93,157
Accrued interest		9,402
Amortization of issuance costs		(20,454)
Amortization of bond discounts		<u>(11,661)</u>

Net adjustment to decrease net change in fund balances – total governmental funds to arrive at change in net assets of governmental activities	\$	<u><u>70,444</u></u>
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(III) Stewardship, Compliance, and Accountability

(A) Budgetary Information

Annual budgets are adopted for the General, Special Revenue, Debt Service, and Capital Project Funds on a basis consistent with generally accepted accounting principles. The Improvement Fund and the Land Conservation Trust Fund are the only governmental funds excluded from the appropriation process.

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

1. After discussing the upcoming budget at a City Council workshop in June, 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.
2. Workshops on the proposed budget are conducted during August.
3. In September, two public hearings are conducted to obtain taxpayer comments.
4. The budget is legally enacted through passage of an ordinance, effective October 1.

THE CITY OF NAPLES, FLORIDA

Notes to Financial Statements

September 30, 2005

- 5 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 #04-10603. Total expenditures may not legally exceed appropriations for each budgeted fund.
6. Within a single fund or department, budget amendments may be made by the department head with the City Manager's approval. All other changes, including increasing the budget, transfers, capital amendments and addition of employees require City Council approval via resolution.
7. 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 throughout the fiscal year as an operating tool for budgeted 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, 2005, expenditures exceeded appropriations as follows:

General Fund – Fire Department	\$ 967,671
General Fund – Police Department	810,530
Capital Projects Fund – City Manager	256
Capital Projects Fund – Finance	17,142

In the General fund, the overages were funded by sufficient unused appropriations within the fund as well as contributions from the State of Florida for their share of contributions to the Police Officers' and Firefighters' pension plans. Within the Capital Projects fund, the overages were funded by savings from several projects which cost less than budgeted.

(C) Deficit Fund Balances

The Community Development Block Grant Fund has a deficit fund balance of \$27,070 at September 30, 2005. Such deficit will be recovered through future recoveries from the granting agency.

The Construction Management internal service fund has deficit net assets of \$124,840 at September 30, 2005. This deficit will be recovered in future years through increased charges to participating funds.

THE CITY OF NAPLES, FLORIDA

Notes to Financial Statements

September 30, 2005

Detailed Notes on All Funds

(A) *Cash and Investments*

On September 7, 2005, the City Council formally adopted a comprehensive investment policy pursuant to Section 218.415, Florida Statutes that established permitted investments, asset allocation limits and issuer limits, credit ratings requirements and maturity limits to protect the City's cash and investment assets. The City maintains a common cash and investment pool for the use of all funds. In addition, cash and investments are separately held by the City's special revenue, debt service, capital projects, enterprise and trust funds.

Cash and Cash Equivalents

At September 30, 2005, the carrying amount of the City's bank deposit account was \$6,714,000. The City's cash deposits are held by a bank that qualifies as a public depository under the Florida Security for Public Deposits Act as required by Chapter 280, Florida Statutes.

Cash Equivalents consist of amounts placed with the State Board of Administration for participation in the Local Government Surplus Funds Trust Fund investment pool created by Section 218.405, Florida Statutes. This investment pool operates under investment guidelines established by Section 215.47, Florida Statutes. The City's investment in the Local Government Surplus Funds Trust Fund, a Securities and Exchange Commission Rule 2a7-like external investment pool, in the amount of \$28,821,841 is reported at amortized cost. The investment pool had an average of 49 days to maturity as of September 30, 2005.

Investment Portfolios

Investment holdings consist of a \$33,084,681 Investment Portfolio and a \$70,362,895 Pension Portfolio. Both portfolios are reported at fair value in accordance with GASB Statement No. 31, "Accounting and Financial Reporting for Certain Investments and for External Investment Pools".

Section 218.415, Florida Statutes, limits the types of investments that the City can invest in unless specifically authorized in the City's investment policy.

The City has a formal investment policy for excess funds that allows for the following investments: Local Government Surplus Funds Trust Fund ("SBA"), United States Government Securities, United States Government Agencies, Federal Instrumentalities, Collateralized Mortgage Obligations, Interest Bearing Time Deposit or Saving Accounts, Repurchase Agreements, Commercial Paper, Bankers' Acceptances, State and/or Local Government Taxable and/or Tax-Exempt Debt, Registered and Investment Companies (Mutual Funds).

The City has a formal investment policy for the pension funds that allows for the following investments: Federal Instrumentalities, Collateralized Mortgage Obligations, Interest Bearing Time Deposit or Saving Accounts, Commercial Paper, Bankers' Acceptances, asset-backed securities (ABS), Real Estate Investment Trusts (REITs), Collateralized Mortgage Obligations (CMOs), and equity securities (including convertible bonds).

THE CITY OF NAPLES, FLORIDA

Notes to Financial Statements

September 30, 2005

As of September 30, 2005, the City had the following investments and effective duration presented in terms of years:

Investment Portfolio

<u>Investment</u>	<u>Fair value</u>	<u>Effective duration</u>
United States Treasury – Notes	\$ 2,471,327	1.399
Federal Agency – Notes	25,191,831	0.977
Federal Agency Mortg Backed	30,524	0.208
Federal Agency – Note	970,853	0.611
Federal Agency – Note	3,470,127	0.885
Federal Agency – Note	950,019	1.331
Total	\$ 33,084,681	0.998

Interest receivable on the City’s investment portfolio amounted to \$216,182 as of September 30, 2005.

Pension Portfolio

<u>Investment</u>	<u>Fair value</u>	<u>Effective duration</u>
Corporate Bonds	9,621,314	
U.S. Government Securities	8,910,713	
Corporate Stocks	43,269,562	
Asset Backed Securities	4,710,981	
Mutual Funds	3,850,325	
Total	70,362,895	3.446

Interest receivable on the City’s pension portfolio amounted to \$320,901 as of September 30, 2005.

Interest Rate Risk

The City’s investment policy limits interest rate risk by attempting to match investment maturities with known cash needs and anticipated cash flow requirements. Unless matched to a specific cash flow requirement, the City will not directly invest in securities maturing more than three years from the date of purchase.

The City utilizes “effective duration” as a measurement of interest rate risk and as of September 30, 2005, the investment portfolio had an effective duration of 2.009 years. The chart below shows the City’s investments by investment portfolio and their respective duration.

THE CITY OF NAPLES, FLORIDA

Notes to Financial Statements

September 30, 2005

<u>Investment Account/Portfolio</u>	<u>Fair value</u>	<u>Average effective duration</u>
Cash	\$ 6,714,000	0.000
Local Government Surplus Funds Trust Fund ("SBA")	28,821,841	0.130
Investment Portfolio	33,084,681	0.998
Pension Portfolio	70,362,895	3.446
Total	\$ <u>138,983,417</u>	2.009

Credit Risk

The City's investment policy permits investments which are limited to credit quality ratings from nationally recognized rating agencies as follows:

State and/or local government taxable and/or tax-exempt debt, general obligation and/or revenue bonds, rated at least "A" by Moody's and "A" by Standard & Poor's for long-term debt.

Bankers' acceptances issued by a domestic bank or a federally chartered domestic office of a foreign bank, which are eligible for purchase by the Federal Reserve System, at the time or purchase, the short-term paper is rated, at a minimum, "P-1" by Moody's Investors Services and "A-1" by Standard & Poor's. Additionally, the bank shall not be listed with any recognized credit watch information service.

Commercial paper of any United States company that is rated, at the time or purchase, "Prime-1" by Moody's and "A-1" by Standard & Poor's (prime commercial paper). Additionally, the company shall not be listed with any recognized credit watch information service.

As of September 30, 2005, the City's investment securities of \$41,995,392 were all individually rated AAA by Standard & Poor's and Aaa by Moody's Investor Services.

The City's investment of \$14,332,295 in High Quality Bonds as of September 30, 2005 was rated at least "A" by Moody's and Standard & Poor's.

The City's \$28,821,841 investment deposit in the Local Government Surplus Funds Trust fund investment pool was unrated as of September 30, 2005.

The City's cash balance of \$6,714,000 was deposited in a qualified public depository, as required by Chapter 280, Florida Statutes.

The Pension portfolio also contains \$43,269,562 in Equity Securities and \$3,850,325 in Mutual Funds.

Custodial Credit Risk

The City's investment policy pursuant to Section 218.415(18), Florida Statutes requires securities, with the exception of certificates of deposits, to be held with a third party custodian; and all

THE CITY OF NAPLES, FLORIDA

Notes to Financial Statements

September 30, 2005

securities purchase by, and all collateral obtained by the City should be properly designated as an asset of the City. The securities must be held in an account separate and apart from the assets of the financial institution. A third party custodian is defined as any bank depository chartered by the Federal Government, the State of Florida, or any other state or territory of the United States which has a branch or principal place of business in the State of Florida, or by a national association organized and existing under the laws of the United States which is authorized to accept and execute trusts and which is doing business in the State of Florida. Certificates of deposits will be placed in the provider's safekeeping department for the term of the deposit.

As of September 30, 2005, the City's investment portfolio was held with a third-party custodian as required by the City's investment policy.

Concentration of Credit Risk

The City's investment policy has established asset allocation limits on the following investments which are designed to reduce concentration of credit risk of the City's investment portfolio.

A maximum of 100% of available funds may be invested in the SBA or United States Government Securities. Only 50% of available funds may be invested in Federal Instrumentalities, 10% of available funds may be invested in non-negotiable interest bearing time certificates of deposit, 20% of available funds may be invested in repurchase agreements, 25% of available funds may be directly invested in prime commercial paper, 25% of available funds may be directly invested in Bankers' Acceptances, 25% of available funds may be invested in State and/or Local Government debts, 15% of available funds may be invested in corporate notes.

As of September 30, 2005, the City's Investment Portfolio had the following issuer concentration based on fair value:

<u>Issuer</u>	<u>Fair value</u>	<u>Percentage of portfolio</u>
Cash	\$ 3,538,062	5.41%
Local Government Surplus Funds Trust Fund ("SBA")	28,821,841	44.04%
United States Treasury	2,471,327	3.78%
Federal National Mortgage Association	8,858,445	13.53%
Federal Home Loan Bank	15,781,564	24.11%
Federal Home Loan Mortgage Corporation	5,923,476	9.05%
Money Market Mutual Funds	49,870	0.08%
	<u>\$ 65,444,585</u>	

The City's Pension Investment Policy has established asset allocation limits on the following investments which are designed to reduce concentration of credit risk of the City's pension investment portfolio.

THE CITY OF NAPLES, FLORIDA

Notes to Financial Statements

September 30, 2005

A maximum of 42.5% of available funds may be invested in Fixed Income Securities, 65% in domestic equity securities and 10% in international equity securities. The equity position in any one company shall not exceed 5% of the total portfolio at market value.

As of September 30, 2005, the City's Pension Portfolio had the following issuer concentration based on fair value:

<u>Issuer</u>	<u>Fair value</u>	<u>Percentage of portfolio</u>
Cash	\$ 3,175,937	4.32%
United States Government Securities	8,910,713	12.12%
Corporate Bonds	9,621,314	13.08%
Corporate Stocks	43,269,562	58.84%
Asset Backed Securities	4,710,981	6.40%
Mutual Funds	3,850,325	5.24%
	<u>\$ 73,538,832</u>	

Foreign Currency Risk

The City's investment policy does not allow for investments in foreign currency therefore the City has no exposure foreign currency risk.

(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. At January 1, 2004, the assessed value of the principal taxing authority's property upon which the 2004-05 levy was based was \$12.2 billion. The millage rate to finance general government services for the fiscal year ended September 30, 2005 was 1.160 (\$1.160 per \$1,000 of assessed value). The voted debt service millage was 0.0498 (\$0.0498 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 nature preserve. The assessed values at January 1, 2004 of the dependent special districts, East Naples Bay and Moorings Bay, were \$322 million, and \$1,197 million, respectively. In addition to the City's 1.16 millage rate and the voted debt service millage rate of 0.0498, 0.5000 (\$0.50 per \$1,000 of assessed value) is added to the East Naples Bay dependent special district and 0.025 (\$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, 2005. Total ad valorem taxes collected for the year ended September 30, 2005, aggregated \$14,404,764, net of cash discounts, of which \$13,180,408 was designated for general government services, \$639,042 for capital projects, and \$585,314 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 200.081.

THE CITY OF NAPLES, FLORIDA

Notes to Financial Statements

September 30, 2005

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 2005 tax roll year, the assessment roll was opened for collection on November 1, 2004, and discounts for payment prior to April 1, 2005, 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

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 2005 is included in the accompanying financial statements since such taxes are levied to finance expenditures of the subsequent period.

THE CITY OF NAPLES, FLORIDA

Notes to Financial Statements

September 30, 2005

(C) Receivables

Receivables at September 30, 2005, 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>Interest and other</u>	<u>Total</u>
Governmental activities:						
Major funds:						
General	\$ 495,323	—	—	750,859	28,279	1,274,461
Debt service	—	—	221,877	84,806	10,031	316,714
Capital projects	—	245,954	—	133,055	43,055	422,064
Community						
Redevelopment	—	—	—	—	12,077	12,077
Streets and traffic	—	—	—	112,236	14,921	127,157
Nonmajor	11,399	—	—	188,776	15,844	216,019
Internal service	<u>8,205</u>	<u>—</u>	<u>—</u>	<u>11,314</u>	<u>18,368</u>	<u>37,887</u>
	<u>\$ 514,927</u>	<u>245,954</u>	<u>221,877</u>	<u>1,281,046</u>	<u>142,575</u>	<u>2,406,379</u>
Business type activities:						
Major funds:						
Water and sewer	\$ 3,827,281	273,550	—	—	55,616	4,156,447
Solid waste	813,604	—	—	—	9,856	823,460
Stormwater	229,347	—	—	—	5,918	235,265
Nonmajor	<u>37,590</u>	<u>—</u>	<u>—</u>	<u>242,851</u>	<u>5,539</u>	<u>285,980</u>
	<u>\$ 4,907,822</u>	<u>273,550</u>	<u>—</u>	<u>242,851</u>	<u>76,929</u>	<u>5,501,152</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, 2005 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, 2005

(D) Capital Assets

Governmental Activities:

A summary of changes in the capital assets of governmental activities for the year ended September 30, 2005 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	\$ 11,780,407	—	—	11,780,407
Land improvements	176,885	—	—	176,885
Construction in progress	250,420	1,292,535	(84,909)	1,458,046
Total capital assets, not being depreciated	<u>12,207,712</u>	<u>1,292,535</u>	<u>(84,909)</u>	<u>13,415,338</u>
Capital assets, being depreciated:				
Buildings	26,791,061	100,044	(193,693)	26,697,412
Improvements other than buildings	21,551,469	1,277,355	(3,038)	22,825,786
Infrastructure	20,887,799	2,719,921	—	23,607,720
Equipment	12,334,113	1,646,092	(512,282)	13,467,923
Total capital assets being depreciated	<u>81,564,442</u>	<u>5,743,412</u>	<u>(709,013)</u>	<u>86,598,841</u>
Less accumulated depreciation for:				
Buildings	(6,718,206)	(828,466)	192,081	(7,354,591)
Improvements other than buildings	(10,687,691)	(1,038,140)	2,671	(11,723,160)
Infrastructure	(14,321,934)	(529,810)	—	(14,851,744)
Equipment	(8,501,194)	(1,293,149)	482,564	(9,311,779)
Total accumulated depreciation	<u>(40,229,025)</u>	<u>(3,689,565)</u>	<u>677,316</u>	<u>(43,241,274)</u>
Total capital assets, being depreciated, net	<u>41,335,417</u>	<u>2,053,847</u>	<u>(31,697)</u>	<u>43,357,567</u>
Governmental activities capital assets, net	<u>\$ 53,543,129</u>	<u>3,346,382</u>	<u>(116,606)</u>	<u>56,772,905</u>

THE CITY OF NAPLES, FLORIDA

Notes to Financial Statements

September 30, 2005

Business-Type Activities:

A summary of changes in capital assets of business-type activities for the year ended September 30, 2005 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	30,700	—	1,731,983
Construction in progress	9,000	339,959	(9,000)	339,959
Total capital assets not being depreciated	<u>1,710,283</u>	<u>370,659</u>	<u>(9,000)</u>	<u>2,071,942</u>
Capital assets being depreciated:				
Buildings and utility plants	57,080,093	—	—	57,080,093
Improvements other than buildings	18,968,595	197,648	(357,788)	18,808,455
Infrastructure	50,891,990	841,900	(83,236)	51,650,654
Equipment	12,536,206	742,711	(2,568,519)	10,710,398
Total capital assets being depreciated	<u>139,476,884</u>	<u>1,782,259</u>	<u>(3,009,543)</u>	<u>138,249,600</u>
Less accumulated depreciation for:				
Buildings and utility plants	(16,618,965)	(1,286,400)	—	(17,905,365)
Improvements other than buildings	(7,873,608)	(1,095,893)	357,788	(8,611,713)
Infrastructure	(28,887,785)	(1,687,799)	83,236	(30,492,348)
Equipment	(10,365,154)	(1,124,597)	2,551,187	(8,938,564)
Total accumulated depreciation	<u>(63,745,512)</u>	<u>(5,194,689)</u>	<u>2,992,211</u>	<u>(65,947,990)</u>
Total capital assets being depreciated, net	<u>75,731,372</u>	<u>(3,412,430)</u>	<u>(17,332)</u>	<u>72,301,610</u>
Water and sewer fund capital assets, net	<u>\$ 77,441,655</u>	<u>(3,041,771)</u>	<u>(26,332)</u>	<u>74,373,552</u>

THE CITY OF NAPLES, FLORIDA

Notes to Financial Statements

September 30, 2005

<u>Solid Waste 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	\$ 1,145,053	—	—	1,145,053
Capital assets being depreciated:				
Buildings and utility plants	576,015	—	(54,000)	522,015
Improvements other than buildings	950,806	159,725	(154,939)	955,592
Equipment	2,345,044	271,289	(254,360)	2,361,973
Total capital assets being depreciated	3,871,865	431,014	(463,299)	3,839,580
Less accumulated depreciation for:				
Buildings and utility plants	(150,653)	(26,108)	54,000	(122,761)
Improvements other than buildings	(482,192)	(84,703)	149,685	(417,210)
Equipment	(1,960,589)	(147,786)	254,360	(1,854,015)
Total accumulated depreciation	(2,593,434)	(258,597)	458,045	(2,393,986)
Total capital assets being depreciated, net	1,278,431	172,417	(5,254)	1,445,594
Solid waste fund capital assets, net	\$ 2,423,484	172,417	(5,254)	2,590,647

THE CITY OF NAPLES, FLORIDA

Notes to Financial Statements

September 30, 2005

<u>Stormwater 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	\$ 19,814	—	—	19,814
Construction in progress	—	43,469	—	43,469
Total capital assets not being depreciated	<u>19,814</u>	<u>43,469</u>	<u>—</u>	<u>63,283</u>
Capital assets being depreciated:				
Improvements other than buildings	6,890,717	192,843	—	7,083,560
Equipment	303,599	3,293	(5,003)	301,889
Total capital assets being depreciated	<u>7,194,316</u>	<u>196,136</u>	<u>(5,003)</u>	<u>7,385,449</u>
Less accumulated depreciation for:				
Improvements other than buildings	(1,840,707)	(590,408)	—	(2,431,115)
Equipment	(269,411)	(22,312)	5,003	(286,720)
Total accumulated depreciation	<u>(2,110,118)</u>	<u>(612,720)</u>	<u>5,003</u>	<u>(2,717,835)</u>
Total capital assets being depreciated, net	<u>5,084,198</u>	<u>(416,584)</u>	<u>—</u>	<u>4,667,614</u>
Stormwater fund capital assets, net	\$ <u><u>5,104,012</u></u>	<u><u>(373,115)</u></u>	<u><u>—</u></u>	<u><u>4,730,897</u></u>

THE CITY OF NAPLES, FLORIDA

Notes to Financial Statements

September 30, 2005

<u>Nonmajor 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	\$ 113,333	9,913	(104,871)	18,375
Capital assets being depreciated:				
Buildings and utility plants	1,921,320	—	—	1,921,320
Improvements other than buildings	6,065,766	196,552	(1,237)	6,261,081
Equipment	822,393	194,663	(32,896)	984,160
Total capital assets being depreciated	8,809,479	391,215	(34,133)	9,166,561
Less accumulated depreciation for:				
Buildings and utility plants	(484,766)	(128,593)	—	(613,359)
Improvements other than buildings	(3,637,535)	(423,102)	1,236	(4,059,401)
Equipment	(638,399)	(85,949)	22,493	(701,855)
Total accumulated depreciation	(4,760,700)	(637,644)	23,729	(5,374,615)
Total capital assets being depreciated, net	4,048,779	(246,429)	(10,404)	3,791,946
Nonmajor fund business-type activities capital assets, net	\$ 4,162,112	(236,516)	(115,275)	3,810,321
Total business – type capital assets, net	\$ 89,131,263	(3,478,985)	(146,861)	85,505,417

THE CITY OF NAPLES, FLORIDA

Notes to Financial Statements

September 30, 2005

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

Governmental activities:	
General government	\$ 404,941
Public safety	884,673
Physical and economic environment	408,682
Transportation	852,084
Cultural and recreation	897,597
Internal service	241,588
	<hr/>
Total depreciation expense – governmental activities	\$ 3,689,565
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Business-type activities:	
Water and sewer	\$ 5,194,689
Solid waste	258,597
Stormwater	612,720
Other nonmajor enterprise funds	637,644
	<hr/>
Total depreciation expense – business-type activities	\$ 6,703,650
	<hr/> <hr/>

(E) Interfund Transactions

Individual fund interfund receivable and payable balances at September 30, 2005 are as follows:

	<u>Interfund receivable</u>	<u>Interfund payable</u>
Governmental activities:		
General Fund	\$ 66,255	—
Capital Projects	34,442	—
Streets and Traffic	34,442	—
Nonmajor funds:		
Community Development Block Grant	—	103,325
Internal Service: Construction Management Fund	—	31,814
	<hr/>	<hr/>
	\$ 135,139	135,139
	<hr/> <hr/>	<hr/> <hr/>

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

THE CITY OF NAPLES, FLORIDA

Notes to Financial Statements

September 30, 2005

Advances from/to other funds are as follows:

	<u>Advances receivable</u>	<u>Advances payable</u>
Governmental activities:		
General Fund	\$ 725,868	—
Capital Projects Fund	733,329	—
Streets and Traffic Fund	414,760	—
Community Redevelopment Fund	—	1,960,245
Nonmajor Funds:		
Community Development Block Grant Fund	—	41,675
Business-type activities:		
Water and Sewer Fund	41,675	—
Stormwater Fund	86,288	—
	<u>\$ 2,001,920</u>	<u>2,001,920</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 expected to be repaid within one year are \$395,067.

Interfund Transfers:

Transfers during the year ended September 30, 2005 consisted of the following:

	<u>Transfers in</u>	<u>Transfers out</u>
Governmental activities:		
General Fund	\$ 1,676,358	280,000
Debt Service Fund	476,468	2,473,430
Capital Projects Fund	2,473,430	—
Streets and Traffic Fund	280,000	—
Community Redevelopment Fund	—	402,367
Nonmajor Funds:		
East Naples Bay District Fund	—	74,101
Business-type activities:		
Payments in lieu of taxes:		
Water and sewer Fund	—	1,254,409
Solid waste Fund	—	333,949
Nonmajor Fund – City dock Fund	—	88,000
	<u>\$ 4,906,256</u>	<u>4,906,256</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.

THE CITY OF NAPLES, FLORIDA

Notes to Financial Statements

September 30, 2005

(F) Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses at September 30, 2005, 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>Total</u>
Governmental activities:			
Major funds:			
General	\$ 429,727	689,452	1,119,179
Debt service	15,831	—	15,831
Capital projects	780,266	—	780,266
Community redevelopment	129,931	10,630	140,561
Streets and traffic	1,714,344	13,316	1,727,660
Nonmajor	288,322	59,531	347,853
Internal service	<u>326,678</u>	<u>83,613</u>	<u>410,291</u>
	<u>\$ 3,685,099</u>	<u>856,542</u>	<u>4,541,641</u>
Business type activities:			
Major funds:			
Water and sewer	\$ 602,017	181,066	783,083
Solid waste	203,608	43,787	247,395
Stormwater	94,810	9,336	104,146
Nonmajor	<u>185,166</u>	<u>38,159</u>	<u>223,325</u>
	<u>\$ 1,085,601</u>	<u>272,348</u>	<u>1,357,949</u>

THE CITY OF NAPLES, FLORIDA

Notes to Financial Statements

September 30, 2005

(G) Long-Term Obligations

Governmental activities long-term obligations at September 30, 2005 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%	\$	674,107
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%		1,655,000
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%		9,540,000
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%		5,475,000
2004 General Obligation Bonds – \$3,170,000 – due in annual installments beginning March 1, 2010 of \$470,000 to \$590,000 through March 1, 2015. Ad Valorem taxes are pledged to secure this issue. Interest rate is 3.84%		3,170,000
Unamortized issuance discounts		(116,646)
Compensated absences payable		1,268,779
	\$	<u>21,666,240</u>

Changes in long-term obligations for the year ended September 30, 2005 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	\$ 912,710	—	238,603	674,107	249,107
2000 General Obligation Bonds	2,050,000	—	395,000	1,655,000	385,000
2001 Public Service Tax Revenue Bonds	9,685,000	—	145,000	9,540,000	150,000
2003 Redevelopment Revenue and Refunding Bonds	5,675,000	—	200,000	5,475,000	210,000
2004 General Obligation Bonds	3,170,000	—	—	3,170,000	—
Unamortized issuance discounts	(128,307)	—	(11,661)	(116,646)	—
Compensated absences payable	1,344,261	61,435	136,917	1,268,779	216,467
Total	\$ <u>22,708,664</u>	<u>61,435</u>	<u>1,103,859</u>	<u>21,666,240</u>	<u>1,210,574</u>

THE CITY OF NAPLES, FLORIDA

Notes to Financial Statements

September 30, 2005

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

	<u>Principal</u>	<u>Interest</u>
Year ended September 30:		
2006	\$ 994,107	869,723
2007	1,070,000	823,377
2008	1,125,000	775,232
2009	1,195,000	723,405
2010	1,255,000	671,921
2011-2015	7,190,000	2,549,748
2016-2020	5,930,000	1,178,675
2021-2022	1,755,000	76,736
	<u>\$ 20,514,107</u>	<u>7,668,817</u>

THE CITY OF NAPLES, FLORIDA

Notes to Financial Statements

September 30, 2005

Long-term liabilities of the business-type activities at September 30, 2005 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%.

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

\$ 10,570,000

\$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%. 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

1,545,000

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%.

21,141,581

Unamortized issuance discounts

(43,156)

Unamortized original issue premium

113,550

Unamortized deferred loss on refunding

(212,503)

Compensated absences payable

226,476

Total water and sewer fund

\$ 33,340,948

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%.

\$ 3,386,237

Compensated absences payable

4,743

Total Stormwater fund

\$ 3,390,980

THE CITY OF NAPLES, FLORIDA

Notes to Financial Statements

September 30, 2005

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%. 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. \$ 30,893

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, 2015, interest ranges from 4.1% to 4.75%. 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. 530,000

Compensated absences payable 16,277

Total nonmajor funds \$ 577,170

Changes in proprietary fund debt for the year ended September 30, 2005 are as follows:

	<u>Water and Sewer</u>	<u>Solid Waste</u>	<u>Stormwater</u>	<u>Nonmajor</u>
Long term obligations – October 1, 2004	\$ 36,923,230	89,880	3,640,618	650,840
Debt retired	(3,617,441)	—	(251,019)	(66,397)
Original issue discount	10,274	—	—	90
Original issue premium	(37,573)	—	—	—
Deferred loss on refunding	76,602	—	—	—
Compensated absences additions	26,895	6,347	3,127	6,947
Compensated absences deductions	<u>(41,039)</u>	<u>(24,827)</u>	<u>(1,746)</u>	<u>(14,310)</u>
Long term obligations – September, 2005	\$ <u>33,340,948</u>	<u>71,400</u>	<u>3,390,980</u>	<u>577,170</u>
Due in one year				
Revenue bonds	\$ 3,695,095	—	242,674	70,893
Compensated absences payable	28,476	15,179	1,943	4,417

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.

THE CITY OF NAPLES, FLORIDA

Notes to Financial Statements

September 30, 2005

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:		
2006	\$ 3,695,095	1,129,442
2007	2,275,867	995,821
2008	2,354,130	919,307
2009	2,433,467	837,670
2010	2,513,907	754,599
2011-2015	14,035,548	2,363,943
2016-2020	5,720,951	339,041
2021-2023	227,616	7,046
	<u>\$ 33,256,581</u>	<u>7,346,869</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:		
2006	\$ 242,674	100,817
2007	242,940	93,429
2008	169,155	86,617
2009	174,319	81,453
2010	179,641	76,131
2011-2015	983,895	294,964
2016-2020	1,143,538	135,320
2021-2023	250,075	5,697
	<u>\$ 3,386,237</u>	<u>874,428</u>

THE CITY OF NAPLES, FLORIDA

Notes to Financial Statements

September 30, 2005

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:		
2006	\$ 70,893	24,621
2007	45,000	21,398
2008	45,000	19,553
2009	50,000	17,708
2010	50,000	15,658
2011-2015	300,000	43,003
	<u>\$ 560,893</u>	<u>141,941</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, 2005.

As of September 30, 2005, the following issues have been defeased by refunding issues and remain outstanding:

	<u>Defeased bonds outstanding</u>
1977 Water and Sewer Refunding Bonds	\$ <u>12,715,000</u>

THE CITY OF NAPLES, FLORIDA

Notes to Financial Statements

September 30, 2005

(H) Additional Information

The City has one nonmajor enterprise fund which has revenue bonds outstanding at September 30, 2005. 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, 2005 follows:

Statement of Net Assets

Cash and investments	\$ 68,632
Inventories	2,959
Restricted assets	<u>15,759</u>
Total current assets	87,350
Other assets	2,630
Capital assets, net	<u>492,877</u>
Total assets	<u>582,857</u>
Current liabilities	67,688
Current liabilities (payable from restricted assets)	15,759
Noncurrent liabilities	<u>494,925</u>
Total liabilities	<u>578,372</u>
Net assets:	
Invested in capital assets, net of related debt	(37,123)
Unrestricted	<u>41,608</u>
Total net assets	<u>\$ 4,485</u>

Statement of Changes in Net Assets

Operating revenues:	
Charges for services	\$ <u>455,108</u>
Total operating revenues	<u>455,108</u>
Operating expenses	397,903
Depreciation and amortization	<u>36,400</u>
Total operating expenses	<u>434,303</u>
Operating income	20,805
Nonoperating revenues (expenses):	
Interest income	2,080
Interest expense	<u>(17,739)</u>
Change in net assets	5,146
Net assets (deficit) – beginning of year	<u>(661)</u>
Net assets – end of year	<u>\$ 4,485</u>

THE CITY OF NAPLES, FLORIDA

Notes to Financial Statements

September 30, 2005

Statement of Cash Flows

Cash flows from operating activities:	
Cash received from customers	\$ 447,689
Cash payments to suppliers	(242,734)
Cash payments to employees	(153,854)
	<hr/>
Net cash provided by operating activities	51,101
	<hr/>
Cash flows from capital and related financing activities:	
Principal paid on long term debt	(40,000)
Interest paid on long term debt	(24,678)
	<hr/>
Net cash used in capital and related financing activities	(64,678)
	<hr/>
Cash flows from investing activities:	
Purchase of investments	(240)
Interest and investment earnings	2,080
	<hr/>
Net cash provided by investing activities	1,840
	<hr/>
Net decrease in cash and cash equivalents	(11,737)
	<hr/>
Cash and cash equivalents, beginning of year	80,369
	<hr/>
Cash and cash equivalents, end of year	\$ <u>68,632</u>

(I) Fund Equity

The following is a summary of fund balances that were reserved for other purposes as of September 30, 2005:

<u>Reserved for</u>	<u>Capital projects</u>	<u>Other nonmajor governmental funds</u>
Parks and recreation	\$ 3,342,227	—
Low income housing	182,843	—
Donation requests	—	169,597
	<hr/>	<hr/>
	\$ <u>3,525,070</u>	<u>169,597</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).

THE CITY OF NAPLES, FLORIDA

Notes to Financial Statements

September 30, 2005

i. General Pension Plan

The General Retirement Plan provides benefits for all full-time American Federation of State and Municipal Employees (AFSME) union, Government Supervisor Association of Florida Office and Professional Employees International Union (OPEIU) 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 05-10758. 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 payroll for employees covered by the plan and the government's total payroll for the year ended September 30, 2005, and current membership, as of October 1, 2005 the date of the most recent actuarial valuation, is as follows:

General pension plan:

Covered payroll for the year ended September 30, 2005	\$ 11,268,057
Covered payroll as a percentage of the City's total payroll of \$ 18,301,763	61.6%
Retirees and beneficiaries currently receiving benefits (disabled)	179
Vested terminated employees	13
Active employees:	
Fully vested	179
Nonvested	107

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 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

THE CITY OF NAPLES, FLORIDA

Notes to Financial Statements

September 30, 2005

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, 2005 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, 2005, 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 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 February 1, 2005 this increased to 5%. The City is required to make annual contributions that fluctuate according to the most recent actuarial valuation report, dated October 1, 2005, 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 entry age normal cost method. The amortization method is the level percentage of pay, closed and the remaining amortization period is 30 years. Investment earnings are assumed at 8.50% 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

General – Three Year Trend Information

	<u>Annual pension cost (APC)</u>	<u>% of APC contributed</u>	<u>Net pension obligation</u>
Year ending:			
09/30/05	\$ 882,965	109%	(618,959)
09/30/04	839,114	100%	(537,237)
09/30/03	185,352	200%	(540,469)

THE CITY OF NAPLES, FLORIDA

Notes to Financial Statements

September 30, 2005

The components of the annual pension cost for the year ended September 30, 2005 are as follows:

Actuarially determined contribution	\$	882,965
Interest on net pension obligation		(45,665)
Adjustment to annual required contribution		83,393
	\$	<u>920,693</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 05-10772. 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 payroll for employees covered by the Plan and the government's total payroll for the year ended September 30, 2005, and current membership, as of October 1, 2005, the date of the most recent actuarial valuation is as follows:

Police pension plan:

Covered payroll for the year ended September 30, 2005	\$	4,051,684
Covered payroll as a percentage of the City's total payroll of \$ 18,301,763		22.1%
Retirees and beneficiaries currently receiving benefits		30
Vested terminated employees		15

Active employees:

Fully vested		50
Nonvested		19

THE CITY OF NAPLES, FLORIDA

Notes to Financial Statements

September 30, 2005

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, 2005, 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, 2005, 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 Plan's funding policy requires employees to contribute 5% 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 State of Florida makes contributions from taxes on casualty insurance premiums. The State of Florida's

THE CITY OF NAPLES, FLORIDA

Notes to Financial Statements

September 30, 2005

contribution to the Police Officers' Pension Plan for the year ended September 30, 2005 was \$726,370. The City recognized these on-behalf payments from the State as revenues and expenditures in the governmental fund financial statements.

The Plan is valued under the entry age normal cost 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 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:			
09/30/05	\$ 902,963	100%	(612,520)
09/30/04	118,210	100%	(611,869)
09/30/03	—	100%	(366,370)

The components of the annual pension cost for the year ended September 30, 2005 are as follows:

Actuarially determined contribution	\$ 902,963
Interest on net pension obligation	(52,009)
Adjustment to annual required contribution	<u>96,627</u>
	<u>\$ 947,581</u>

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 05-10771. 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, 2005

The payroll for employees covered by the Plan and the government's total payroll for the year ended September 30, 2005, and current membership, as of October 1, 2005, the date of the most recent actuarial valuation, is as follows:

Firefighters' pension plan:	
Covered payroll for the year ended September 30, 2005	\$ 2,982,022
Covered payroll as a percentage of the City's total payroll of \$ 18,301,763	16.3%
Retirees and beneficiaries currently receiving benefit (includes 1 disability)	16
Vested terminated employees	4
Active employees:	
Fully vested	45
Nonvested	9

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

	Benefits	Vesting
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, 2005, 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, 2005, there were no investment type

THE CITY OF NAPLES, FLORIDA

Notes to Financial Statements

September 30, 2005

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 Plan's funding policy requires employees to contribute 5% 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 State of Florida makes contributions from taxes on casualty insurance premiums. The State of Florida's contribution to the Firefighters' Pension Plan for the year ended September 30, 2005 was \$902,413. The City recognized these on-behalf payments from the State as revenues and expenditures in the governmental fund financial statements.

The Plan is valued under the entry age normal cost 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

	<u>Annual pension cost (APC)</u>	<u>% of APC contributed</u>	<u>Net pension obligation</u>
Year ending:			
09/30/05	\$ 831,293	98%	(381,619)
09/30/04	—	100%	(402,960)
09/30/03	—	100%	(293,816)

THE CITY OF NAPLES, FLORIDA

Notes to Financial Statements

September 30, 2005

The components of the annual pension cost for the year ended September 30, 2005 are as follows:

Actuarially determined contribution	\$	831,293
Interest on net pension obligation		(34,252)
Adjustment to annual required contribution		59,198
		<u>59,198</u>
	\$	<u><u>856,239</u></u>

Statements of fiduciary net assets and statements of changes in fiduciary net assets for the City's defined benefit pension plans are as follows, as of and for the year ended September 30, 2005:

Statements of Fiduciary Net Assets

	<u>General Pension Fund</u>	<u>Police Officers' Pension Fund</u>	<u>Firefighters' Pension Fund</u>
Assets:			
Cash and investments	\$ 1,417,312	995,846	762,779
Receivables:			
Accounts	145,775	99,520	81,491
Investments, at fair value:			
Corporate bonds	4,146,921	3,176,558	2,297,835
U.S. Government securities	3,565,641	2,899,389	2,445,683
Common stock	20,043,356	13,202,844	10,023,362
Mortgage – backed securities	1,919,086	1,643,638	1,148,257
Total investments	<u>29,675,004</u>	<u>20,922,429</u>	<u>15,915,137</u>
Total assets	<u>31,238,091</u>	<u>22,017,795</u>	<u>16,759,407</u>
Liabilities:			
Accounts payable	<u>—</u>	5,885	<u>—</u>
Net assets:			
Held in trust for pension benefits	\$ <u><u>31,238,091</u></u>	<u><u>22,011,910</u></u>	<u><u>16,759,407</u></u>

THE CITY OF NAPLES, FLORIDA

Notes to Financial Statements

September 30, 2005

Statements of Changes in Fiduciary Net Assets

	<u>General Pension Fund</u>	<u>Police Officers' Pension Fund</u>	<u>Firefighters' Pension Fund</u>
Additions:			
Contributions:			
Employee contributions	\$ 541,939	238,132	235,171
Employer contributions	1,002,415	285,787	126,254
Direct state contributions	—	726,370	902,413
Total contributions	<u>1,544,354</u>	<u>1,250,289</u>	<u>1,263,838</u>
Investment earnings:			
Interest and dividend income	871,207	612,485	444,617
Net appreciation in fair value of investments	1,558,237	1,079,726	842,621
Less investment expense	<u>(183,948)</u>	<u>(112,243)</u>	<u>(90,827)</u>
Net investment earnings	<u>2,245,496</u>	<u>1,579,968</u>	<u>1,196,411</u>
Total additions	<u>3,789,850</u>	<u>2,830,257</u>	<u>2,460,249</u>
Deductions:			
Benefits paid	1,664,012	778,714	414,576
Refunds of contributions	192,484	18,722	—
General administration	<u>56,581</u>	<u>33,272</u>	<u>51,209</u>
Total deductions	<u>1,913,077</u>	<u>830,708</u>	<u>465,785</u>
Changes in net assets	1,876,773	1,999,549	1,994,464
Net assets – beginning of year	<u>29,361,318</u>	<u>20,012,361</u>	<u>14,764,943</u>
Net assets – end of year	<u>\$ 31,238,091</u>	<u>22,011,910</u>	<u>16,759,407</u>

(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, 2005

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, 2005 there were 206 active Plan members. The City's contribution for the year was \$174,674. Covered payroll for the year ended September 30, 2005 was \$9,215,045. Contributions and earnings are returned to participants upon retirement or termination. Employee contributions were \$272,331 for the year ended September 30, 2005.

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, 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 CITY OF NAPLES, FLORIDA

Notes to Financial Statements

September 30, 2005

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 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, 2005, there were six active Plan members and nine retired and terminated members who have maintained account balances. The City's contribution for the year was \$33,451. Covered payroll for the year ended September 30, 2005 was \$474,455. Employee contributions were \$14,336 for the year ended September 30, 2005.

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.

Statements of fiduciary net assets and statements of changes in fiduciary net assets for the City's defined contribution pension plans are as follows, as of and for the year ended September 30, 2005:

Statements of Fiduciary Net Assets

	Supplemental General Pension	Managers' 401 Pension
	<u> </u>	<u> </u>
Assets:		
Investments, at fair value:		
Mutual funds	\$ 3,206,918	643,407
Total investments	<u>3,206,918</u>	<u>643,407</u>
Total assets	<u>3,206,918</u>	<u>643,407</u>
Liabilities:		
Accounts payable	<u>—</u>	<u>—</u>
Total liabilities	<u>—</u>	<u>—</u>
Net assets:		
Held in trust for pension benefits	<u>\$ 3,206,918</u>	<u>643,407</u>

THE CITY OF NAPLES, FLORIDA

Notes to Financial Statements

September 30, 2005

Statements of Changes in Fiduciary Net Assets

	<u>Supplemental General Pension</u>	<u>Managers' 401 Pension</u>
Additions:		
Contributions:		
Employee contributions	\$ 272,331	14,336
Employer contributions	174,674	33,451
Direct state contributions	—	—
Total contributions	<u>447,005</u>	<u>47,787</u>
Investment earnings:		
Interest and dividend income	279,421	92,501
Net depreciation in fair value of investments	(8,198)	(493)
Net investment earnings	<u>271,223</u>	<u>92,008</u>
Total additions	<u>718,228</u>	<u>139,795</u>
Deductions:		
Refunds of contributions	<u>297,583</u>	<u>329,519</u>
Total deductions	<u>297,583</u>	<u>329,519</u>
Changes in net assets	420,645	(189,724)
Net assets – beginning of year	<u>2,786,273</u>	<u>833,131</u>
Net assets – end of year	<u>\$ 3,206,918</u>	<u>643,407</u>

(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.

THE CITY OF NAPLES, FLORIDA

Notes to Financial Statements

September 30, 2005

iii. Self-Insurance Funds

Since 1981, the City has been self-insured for workers' compensation, general liability, automobile liability, and the deductible portion of all insured risks. The insurance program established by the City has not changed from fiscal year 2004 with the exception of a minor increase in premiums.

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	\$	25,000
Third party liability		100,000
Workers' compensation		150,000
Police and Fire employees		200,000
Blanket bond and money and securities		25,000
Employee medical		100,000
Aggregate losses		1,015,000

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, \$95,516 and \$735,322 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, 2005. Estimates were based on an evaluation of claims pending and past experience. At September 30, 2005, \$2,491,000 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.

THE CITY OF NAPLES, FLORIDA

Notes to Financial Statements

September 30, 2005

A reconciliation of estimated claims liabilities is as follows:

	<u>Risk management</u>	<u>Health benefits</u>	<u>Total</u>
Balance September 30, 2003	\$ 1,475,000	430,000	1,905,000
Current year claims incurred and change in estimates	1,927,311	3,559,612	5,486,923
Claim payments	<u>(1,696,311)</u>	<u>(3,204,612)</u>	<u>(4,900,923)</u>
Balance September 30, 2004	1,706,000	785,000	2,491,000
Current year claims incurred and change in estimates	1,647,018	3,549,621	5,196,639
Claim payments	<u>(1,647,018)</u>	<u>(3,549,621)</u>	<u>(5,196,639)</u>
Balance September 30, 2005	\$ <u>1,706,000</u>	<u>785,000</u>	<u>2,491,000</u>

iv. Construction Projects

At September 30, 2005, the City had commitments for the completion of various construction projects totaling by fund:

Capital Projects Fund	\$ 3,656,550
Community Redevelopment Fund	472,007
Streets Fund	3,783,021
Water and Sewer Fund	2,386,037
Naples Beach Fund	382,500
Stormwater Fund	<u>193,794</u>
	\$ <u>10,873,909</u>

(M) Subsequent Events

On October 24, 2005, the City of Naples sustained a direct hit by Hurricane Wilma. Wind speed was approximately 105 MPH at landfall. The City was spared major damage in part because the prediction of Wilma's landfall was extremely accurate and early, allowing significant pre-storm preparation, and in part because Hurricane Wilma contained less moisture than most storms her size.

Despite preparations, clean-up and debris-removal costs incurred by the City as a result of the hurricane will exceed \$8 million. The value of the loss of the tree canopy has been estimated at more than \$7 million, which is in addition to the other costs. The City expects that hurricane costs incurred will be substantially reimbursed by federal and state agencies, and expects to utilize the emergency reserve for the City's share.

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REQUIRED SUPPLEMENTAL INFORMATION
(Unaudited)

THE CITY OF NAPLES, FLORIDA

Required Supplemental Information

September 30, 2005

(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>
10/01/05	\$ 33,998	37,339	3,341	91%	11,268	30%
10/01/04	32,966	38,022	5,055	87	10,946	46
10/01/03	33,113	35,356	2,243	94	11,297	20
10/01/02	34,466	35,661	1,194	97	10,426	11
10/01/01	35,556	35,556	—	100	9,591	—
10/01/00	34,951	34,951	—	100	9,194	—

Note 1: The Pension Plan utilized the Aggregate Cost Method for funding purposes (effective October 1, 1997). This method does not identify or separately amortize unfunded actuarial liabilities. Effective October 1, 2002, the Plan utilizes the Entry Age Normal Cost Method.

General Pension Plan

Schedule of Employer Contributions

(In thousands)

<u>Fiscal year ended:</u>	<u>Required annual contribution</u>	<u>Employer actual contribution</u>	<u>Percentage contributed</u>
09/30/05	\$ 883	1,002	113%
09/30/04	839	839	100
09/30/03	185	371	201
09/30/02	294	294	100
09/30/01	234	246	105
09/30/00	38	230	605

See accompanying independent auditors' report.

THE CITY OF NAPLES, FLORIDA

Required Supplemental Information

September 30, 2005

(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>
10/01/05	\$ 20,543	28,604	8,061	72%	4,052	199%
10/01/04	19,586	27,603	8,017	71	3,919	205
10/01/03	18,766	25,203	6,437	74	3,876	166
10/01/02	18,414	23,344	4,930	79	3,178	155
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

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, 2002, the Plan utilizes the Entry Age Normal Cost Method.

Police Officers' Pension Plan

Schedule of Contributions From Employer and Other Entities

(In thousands)

<u>Fiscal year ended:</u>	<u>Required annual contribution</u>	<u>Employer actual contribution</u>	<u>State actual contribution</u>	<u>Percentage contributed</u>
09/30/05	\$ 903	286	663	105%
09/30/04	781	366	663	132
09/30/03	648	147	663	125
09/30/02	611	118	501	101
09/30/01	563	150	501	116
09/30/00	385	78	501	150

See accompanying independent auditors' report.

THE CITY OF NAPLES, FLORIDA

Required Supplemental Information

September 30, 2005

(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>
10/01/05	\$ 16,019	22,615	6,595	71%	2,982	221%
10/01/04	15,025	21,605	6,580	70	2,761	238
10/01/03	14,328	19,057	4,729	75	2,618	181
10/01/02	13,360	16,253	2,893	82	2,367	122
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

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, 2002, the Plan uses the Entry Age Normal Cost 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:				
09/30/05	\$ 831	126	709	100%
09/30/04	682	111	709	120
09/30/03	604	57	709	127
09/30/02	468	57	655	152
09/30/01	548	57	576	116
09/30/00	277	57	555	221

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 Fund

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, 2005

	Special revenue		
	Building and Zoning Fund	Community Development Block Grant	Improvement Fund
Assets:			
Cash and investments	\$ 3,765,107	—	169,112
Accounts receivable	8,481	—	2,918
Accrued interest	12,305	—	—
Due from other governments	386	117,930	—
Total assets	<u>\$ 3,786,279</u>	<u>117,930</u>	<u>172,030</u>
Liabilities:			
Accounts payable	\$ 286,372	—	215
Accrued payroll	59,531	—	—
Due to other funds	—	103,325	—
Advances payable to other funds	—	41,675	—
Deferred revenue	8,482	—	2,218
Total liabilities	<u>354,385</u>	<u>145,000</u>	<u>2,433</u>
Fund balances:			
Reserved for encumbrances	3,390	6,200	—
Reserved for other purposes	—	—	169,597
Unreserved:			
Undesignated (deficit)	3,428,504	(33,270)	—
Total fund balances (deficit)	<u>3,431,894</u>	<u>(27,070)</u>	<u>169,597</u>
Total liabilities and fund balances	<u>\$ 3,786,279</u>	<u>117,930</u>	<u>172,030</u>

See accompanying independent auditors' report.

Capital projects

Confiscated Properties Fund	Land Conservation Trust Fund	East Naples Bay District	Moorings Bay District	Total Nonmajor Governmental
199,197	137,686	372,288	711,834	5,355,224
—	—	—	—	11,399
—	—	1,215	2,324	15,844
—	—	—	70,460	188,776
<u>199,197</u>	<u>137,686</u>	<u>373,503</u>	<u>784,618</u>	<u>5,571,243</u>
—	—	—	1,735	288,322
—	—	—	—	59,531
—	—	—	—	103,325
—	—	—	—	41,675
—	—	—	—	10,700
<u>—</u>	<u>—</u>	<u>—</u>	<u>1,735</u>	<u>503,553</u>
—	—	—	585,593	595,183
—	—	—	—	169,597
<u>199,197</u>	<u>137,686</u>	<u>373,503</u>	<u>197,290</u>	<u>4,302,910</u>
<u>199,197</u>	<u>137,686</u>	<u>373,503</u>	<u>782,883</u>	<u>5,067,690</u>
<u>199,197</u>	<u>137,686</u>	<u>373,503</u>	<u>784,618</u>	<u>5,571,243</u>

CITY OF NAPLES, FLORIDA

Combining Statement of Revenues, Expenditures and Changes in Fund Balances

Nonmajor Governmental Funds

Year ended September 30, 2005

		Special revenue		
		Building and Zoning Fund	Community Development Block Grant	Improvement Fund
Revenues:				
Taxes – property	\$	—	—	—
Licenses and permits		2,589,544	—	—
Intergovernmental		—	115,660	—
Charges for services		234,080	13,500	—
Fines and forfeitures		350	—	—
Interest		74,075	—	—
Donations		—	—	263,988
Miscellaneous		6,264	—	—
Total revenues		<u>2,904,313</u>	<u>129,160</u>	<u>263,988</u>
Expenditures:				
Current:				
General government		—	—	32,225
Public safety		2,210,489	—	125,893
Economic and physical development		—	1,074	—
Culture and recreation		—	—	147,557
Capital outlay:				
Public safety		76,374	115,660	—
Total expenditures		<u>2,286,863</u>	<u>116,734</u>	<u>305,675</u>
Excess (deficiency) of revenues over expenditures		617,450	12,426	(41,687)
Other financing uses:				
Transfers out:				
Debt service fund		—	—	—
Total other financing uses		<u>—</u>	<u>—</u>	<u>—</u>
Change in fund balances		617,450	12,426	(41,687)
Fund balances (deficit) – beginning of year		<u>2,814,444</u>	<u>(39,496)</u>	<u>211,284</u>
Fund balances (deficit)– end of year	\$	<u><u>3,431,894</u></u>	<u><u>(27,070)</u></u>	<u><u>169,597</u></u>

See accompanying independent auditors' report.

Capital projects				
Confiscated Properties Fund	Land Conservation Trust	East Naples Bay District	Moorings Bay District	Total Nonmajor Governmental
—	—	155,001	28,903	183,904
—	—	—	—	2,589,544
—	—	—	70,459	186,119
—	—	—	—	247,580
183,423	—	—	—	183,773
858	2,503	8,863	16,837	103,136
—	—	—	—	263,988
—	47,577	—	—	53,841
<u>184,281</u>	<u>50,080</u>	<u>163,864</u>	<u>116,199</u>	<u>3,811,885</u>
—	—	—	—	32,225
4,310	—	—	—	2,340,692
—	—	22,861	51,121	75,056
—	—	—	—	147,557
—	—	—	38,499	230,533
<u>4,310</u>	<u>—</u>	<u>22,861</u>	<u>89,620</u>	<u>2,826,063</u>
179,971	50,080	141,003	26,579	985,822
<u>—</u>	<u>—</u>	<u>(74,101)</u>	<u>—</u>	<u>(74,101)</u>
<u>—</u>	<u>—</u>	<u>(74,101)</u>	<u>—</u>	<u>(74,101)</u>
179,971	50,080	66,902	26,579	911,721
19,226	87,606	306,601	756,304	4,155,969
<u>199,197</u>	<u>137,686</u>	<u>373,503</u>	<u>782,883</u>	<u>5,067,690</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, 2005

	Building and Zoning Fund			Variance with final budget positive (negative)
	Original budget	Final budget	Actual	
Revenues:				
Licenses and permits	\$ 2,419,300	2,419,300	2,589,544	170,244
Intergovernmental	—	—	—	—
Charges for services	241,005	241,005	234,080	(6,925)
Fines and forfeitures	—	—	350	350
Interest	20,000	20,000	74,075	54,075
Miscellaneous	1,000	1,000	6,264	5,264
Total revenues	<u>2,681,305</u>	<u>2,681,305</u>	<u>2,904,313</u>	<u>223,008</u>
Expenditures:				
General government	—	—	—	—
Public safety	2,684,305	2,684,305	2,286,863	397,442
Economic and physical development	—	—	—	—
Culture and recreation	—	—	—	—
Total expenditures	<u>2,684,305</u>	<u>2,684,305</u>	<u>2,286,863</u>	<u>397,442</u>
Excess (deficiency) of revenues over expenditures	<u>(3,000)</u>	<u>(3,000)</u>	<u>617,450</u>	<u>620,450</u>
Other financing uses:				
Transfers out	—	—	—	—
Change in fund balances	<u>(3,000)</u>	<u>(3,000)</u>	<u>617,450</u>	<u>620,450</u>
Fund balances – beginning of year	<u>1,602,646</u>	<u>1,602,646</u>	<u>2,814,444</u>	<u>1,211,798</u>
Fund balances – end of year	<u>\$ 1,599,646</u>	<u>1,599,646</u>	<u>3,431,894</u>	<u>1,832,248</u>

See accompanying independent auditors' report.

Community Development Block Grant

Original budget	Final budget	Actual	Variance with final budget positive (negative)
—	—	—	—
137,000	137,000	115,660	(21,340)
—	—	13,500	13,500
—	—	—	—
—	—	—	—
—	—	—	—
<u>137,000</u>	<u>137,000</u>	<u>129,160</u>	<u>(7,840)</u>
—	—	—	—
—	—	—	—
137,000	137,000	116,734	20,266
—	—	—	—
<u>137,000</u>	<u>137,000</u>	<u>116,734</u>	<u>20,266</u>
—	—	12,426	12,426
—	—	—	—
—	—	12,426	12,426
<u>(46,608)</u>	<u>(46,608)</u>	<u>(39,496)</u>	<u>7,112</u>
<u><u>(46,608)</u></u>	<u><u>(46,608)</u></u>	<u><u>(27,070)</u></u>	<u><u>19,538</u></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, 2005

	Confiscated Properties Fund			Variance with final budget positive (negative)
	Original budget	Final budget	Actual	
Revenues:				
Licenses and permits	—	—	—	—
Intergovernmental	—	—	—	—
Charges for services	—	—	—	—
Fines and forfeitures	—	16,000	183,423	167,423
Interest	—	—	858	858
Miscellaneous	—	—	—	—
Total revenues	<u>—</u>	<u>16,000</u>	<u>184,281</u>	<u>168,281</u>
Expenditures:				
General government	—	—	—	—
Public safety	—	16,000	4,310	11,690
Economic and physical development	—	—	—	—
Culture and recreation	—	—	—	—
Total expenditures	<u>—</u>	<u>16,000</u>	<u>4,310</u>	<u>11,690</u>
Excess of revenues over expenditures	<u>—</u>	<u>—</u>	<u>179,971</u>	<u>179,971</u>
Other financing uses:				
Transfers out	—	—	—	—
Change in fund balances	<u>—</u>	<u>—</u>	<u>179,971</u>	<u>179,971</u>
Fund balances – beginning of year	<u>21,697</u>	<u>21,697</u>	<u>19,226</u>	<u>(2,471)</u>
Fund balances – end of year	<u><u>21,697</u></u>	<u><u>21,697</u></u>	<u><u>199,197</u></u>	<u><u>177,500</u></u>

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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, 2005

	East Naples Bay District			Variance with final budget positive (negative)
	Original budget	Final budget	Actual	
Revenues:				
Taxes:				
Property	\$ 154,688	154,688	155,001	313
Intergovernmental	—	—	—	—
Interest	11,093	11,093	8,863	(2,230)
Miscellaneous	—	—	—	—
Total revenues	<u>165,781</u>	<u>165,781</u>	<u>163,864</u>	<u>(1,917)</u>
Expenditures:				
Economic and physical development	243,500	243,500	22,861	220,639
Capital outlay:				
Economic and physical development	150,000	150,000	—	150,000
Total capital projects	<u>150,000</u>	<u>150,000</u>	<u>—</u>	<u>150,000</u>
Total expenditures	<u>393,500</u>	<u>393,500</u>	<u>22,861</u>	<u>370,639</u>
Excess (deficiency) of revenues over expenditures	<u>(227,719)</u>	<u>(227,719)</u>	<u>141,003</u>	<u>368,722</u>
Other financing uses:				
Transfers out	(74,101)	(74,101)	(74,101)	—
Total other financing uses	<u>(74,101)</u>	<u>(74,101)</u>	<u>(74,101)</u>	<u>—</u>
Net changes in fund balances	<u>(301,820)</u>	<u>(301,820)</u>	<u>66,902</u>	<u>368,722</u>
Fund balances – beginning of year	207,263	204,263	306,601	102,338
Fund balances – end of year	<u>\$ (94,557)</u>	<u>(97,557)</u>	<u>373,503</u>	<u>471,060</u>

See accompanying independent auditors' report.

Moorings Bay District

Original budget	Final budget	Actual	Variance with final budget positive (negative)
28,794	28,794	28,903	109
10,580	609,080	70,459	(538,621)
10,000	10,000	16,837	6,837
—	—	—	—
49,374	647,874	116,199	(531,675)
52,000	53,790	51,121	2,669
510,580	609,080	38,499	570,581
510,580	609,080	38,499	570,581
562,580	662,870	89,620	573,250
(513,206)	(14,996)	26,579	41,575
—	—	—	—
—	—	—	—
(513,206)	(14,996)	26,579	41,575
720,174	720,174	756,304	36,130
206,968	705,178	782,883	77,705

CITY OF NAPLES, FLORIDA

Debt Service Fund

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

Year ended September 30, 2005

	<u>Original budget</u>	<u>Final budget</u>	<u>Actual</u>	<u>Variance with final budget positive (negative)</u>
Revenues:				
Taxes:				
Ad valorem	\$ 583,805	583,805	585,314	1,509
Utility	3,178,500	3,178,500	3,542,445	363,945
Interest	<u>26,195</u>	<u>26,195</u>	<u>29,404</u>	<u>3,209</u>
Total revenues	<u>3,788,500</u>	<u>3,788,500</u>	<u>4,157,163</u>	<u>368,663</u>
Expenditures:				
Current:				
General government	<u>64,000</u>	<u>64,000</u>	<u>66,349</u>	<u>(2,349)</u>
Total general government	<u>64,000</u>	<u>64,000</u>	<u>66,349</u>	<u>(2,349)</u>
Debt service:				
Principal	978,603	978,603	978,603	—
Interest and fiscal charges	<u>888,423</u>	<u>888,423</u>	<u>917,991</u>	<u>(29,568)</u>
Total debt service	<u>1,867,026</u>	<u>1,867,026</u>	<u>1,896,594</u>	<u>(29,568)</u>
Total expenditures	<u>1,931,026</u>	<u>1,931,026</u>	<u>1,962,943</u>	<u>(31,917)</u>
Excess of revenues over expenditures	<u>1,857,474</u>	<u>1,857,474</u>	<u>2,194,220</u>	<u>336,746</u>
Other financing sources (uses):				
Transfers in	476,468	476,468	476,468	—
Transfers out	<u>(2,473,430)</u>	<u>(2,473,430)</u>	<u>(2,473,430)</u>	<u>—</u>
Total other financing sources (uses)	<u>(1,996,962)</u>	<u>(1,996,962)</u>	<u>(1,996,962)</u>	<u>—</u>
Change in fund balances	(139,488)	(139,488)	197,258	336,746
Fund balances – beginning of year	<u>1,680,385</u>	<u>1,680,385</u>	<u>1,680,385</u>	<u>—</u>
Fund balances – end of year	<u>\$ 1,540,897</u>	<u>1,540,897</u>	<u>1,877,643</u>	<u>336,746</u>

See accompanying independent auditors' report.

CITY OF NAPLES, FLORIDA

Capital Projects Fund

Schedule of Revenues, Expenditures and Changes in Fund Balance

Budget and Actual

Year ended September 30, 2005

	<u>Original budget</u>	<u>Final budget</u>	<u>Actual</u>	Variance with final budget positive (negative)
Revenues:				
Intergovernmental	\$ 185,625	685,222	334,420	(350,802)
Special assessments	70,000	70,000	41,908	(28,092)
Impact fees	164,300	164,300	126,668	(37,632)
Interest	215,000	215,000	350,468	135,468
Miscellaneous	<u>137,620</u>	<u>247,620</u>	<u>110,409</u>	<u>(137,211)</u>
Total revenues	<u>772,545</u>	<u>1,382,142</u>	<u>963,873</u>	<u>(418,269)</u>
Expenditures:				
Current:				
General government	<u>251,000</u>	<u>251,000</u>	<u>251,000</u>	<u>—</u>
Total general government	<u>251,000</u>	<u>251,000</u>	<u>251,000</u>	<u>—</u>
Capital projects:				
City Manager	—	19,512	19,768	(256)
Finance	36,300	36,300	53,442	(17,142)
Fire	1,594,823	1,958,863	1,473,650	485,213
Police	364,680	403,525	283,839	119,686
Transportation	1,725,000	1,725,000	567,624	1,157,376
Community services	812,700	1,110,820	333,619	777,201
Nondepartmental	<u>5,565,300</u>	<u>5,775,418</u>	<u>503,723</u>	<u>5,271,695</u>
Total capital projects	<u>10,098,803</u>	<u>11,029,438</u>	<u>3,235,665</u>	<u>7,793,773</u>
Total expenditures	<u>10,349,803</u>	<u>11,280,438</u>	<u>3,486,665</u>	<u>7,793,773</u>
Excess of expenditures over revenues	<u>(9,577,258)</u>	<u>(9,898,296)</u>	<u>(2,522,792)</u>	<u>7,375,504</u>
Other financing sources:				
Transfers in	2,634,616	2,634,616	2,473,430	(161,186)
Proceeds from sale of capital assets	<u>—</u>	<u>—</u>	<u>25</u>	<u>25</u>
Total other financing sources	<u>2,634,616</u>	<u>2,634,616</u>	<u>2,473,455</u>	<u>(161,161)</u>
Net changes in fund balances	<u>(6,942,642)</u>	<u>(7,263,680)</u>	<u>(49,337)</u>	<u>7,214,343</u>
Fund balances – beginning of year	<u>13,264,930</u>	<u>13,264,930</u>	<u>13,264,930</u>	<u>—</u>
Fund balances – end of year	\$ <u><u>6,322,288</u></u>	<u><u>6,001,250</u></u>	<u><u>13,215,593</u></u>	<u><u>7,214,343</u></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, 2005

	<u>Original budget</u>	<u>Final budget</u>	<u>Actual</u>	Variance with final budget positive (negative)
Revenues:				
Taxes:				
Ad valorem	\$ 456,730	456,730	455,139	(1,591)
Intergovernmental	1,552,000	1,552,000	1,521,264	(30,736)
Miscellaneous	—	—	67,198	67,198
Interest	42,000	42,000	109,335	67,335
Total revenues	<u>2,050,730</u>	<u>2,050,730</u>	<u>2,152,936</u>	<u>102,206</u>
Expenditures:				
Physical and economic environment:				
Economic development	3,210,582	4,471,610	2,659,127	1,812,483
Interest and advances to other funds	395,067	395,067	77,579	317,488
Total physical and economic environment	<u>3,605,649</u>	<u>4,866,677</u>	<u>2,736,706</u>	<u>2,129,971</u>
Total expenditures	<u>3,605,649</u>	<u>4,866,677</u>	<u>2,736,706</u>	<u>2,129,971</u>
Excess of expenditures over revenues	<u>(1,554,919)</u>	<u>(2,815,947)</u>	<u>(583,770)</u>	<u>2,232,177</u>
Other financing sources (uses):				
Transfers out	(402,367)	(402,367)	(402,367)	—
Total other financing sources (uses)	<u>(402,367)</u>	<u>(402,367)</u>	<u>(402,367)</u>	<u>—</u>
Net changes in fund balances	(1,957,286)	(3,218,314)	(986,137)	2,232,177
Fund balances – beginning of year	2,596,423	2,596,423	2,596,423	—
Fund balances – end of year	<u>\$ 639,137</u>	<u>(621,891)</u>	<u>1,610,286</u>	<u>2,232,177</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, 2005

	<u>Original budget</u>	<u>Final budget</u>	<u>Actual</u>	Variance with final budget positive (negative)
Revenues:				
Taxes:				
Motor fuel taxes	\$ 1,527,000	1,527,000	1,585,816	58,816
Licenses and permits	2,000	2,000	9,746	7,746
Intergovernmental	5,188,540	5,401,535	414,464	(4,987,071)
Impact fees	200,000	200,000	200,000	—
Interest	35,000	35,000	96,871	61,871
Miscellaneous	5,000	5,000	216,713	211,713
Total revenues	<u>6,957,540</u>	<u>7,170,535</u>	<u>2,523,610</u>	<u>(4,646,925)</u>
Expenditures:				
Current:				
Transportation:				
Developmental services	7,310,875	8,215,524	2,589,276	5,626,248
Total transportation	<u>7,310,875</u>	<u>8,215,524</u>	<u>2,589,276</u>	<u>5,626,248</u>
Total expenditures	<u>7,310,875</u>	<u>8,215,524</u>	<u>2,589,276</u>	<u>5,626,248</u>
Excess of expenditures over revenues	<u>(353,335)</u>	<u>(1,044,989)</u>	<u>(65,666)</u>	<u>979,323</u>
Other financing sources:				
Transfers in	353,335	353,335	280,000	73,335
Total other financing sources	<u>353,335</u>	<u>353,335</u>	<u>280,000</u>	<u>73,335</u>
Net changes in fund balances	—	(691,654)	214,334	905,988
Fund balances – beginning of year	3,193,928	3,193,928	3,193,928	—
Fund balances – end of year	<u>\$ 3,193,928</u>	<u>2,502,274</u>	<u>3,408,262</u>	<u>905,988</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, 2005

Assets	<u>Naples Beach Fund</u>	<u>City Dock Fund</u>	<u>Tennis Fund</u>	<u>Total</u>
Current assets:				
Cash and investments	\$ 149,108	678,480	68,632	896,220
Restricted cash and investments	—	36,787	—	36,787
Restricted prepaid items	—	—	15,759	15,759
Receivables (net, where applicable, of allowance for uncollectible):				
Accounts	33,322	4,268	—	37,590
Miscellaneous	—	3,322	—	3,322
Accrued interest	—	2,217	—	2,217
Due from other governments	238,831	4,020	—	242,851
Inventories	—	17,537	2,959	20,496
Total current assets	<u>421,261</u>	<u>746,631</u>	<u>87,350</u>	<u>1,255,242</u>
Capital assets:				
Buildings and utility plants	1,128,564	89,487	703,269	1,921,320
Improvements other than buildings	3,927,934	2,328,952	4,195	6,261,081
Equipment	678,780	285,709	19,671	984,160
Accumulated depreciation	(3,033,246)	(2,107,111)	(234,258)	(5,374,615)
Construction in progress	18,375	—	—	18,375
Net capital assets	<u>2,720,407</u>	<u>597,037</u>	<u>492,877</u>	<u>3,810,321</u>
Unamortized issuance cost	—	783	2,630	3,413
Total assets	<u>\$ 3,141,668</u>	<u>1,344,451</u>	<u>582,857</u>	<u>5,068,976</u>

See accompanying independent auditors' report.

CITY OF NAPLES, FLORIDA

Combining Statement of Net Assets

Nonmajor Enterprise Funds

September 30, 2005

Liabilities	Naples Beach Fund	City Dock Fund	Tennis Fund	Total
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Current liabilities:				
Accounts payable	\$ 40,877	137,930	6,359	185,166
Accrued payroll and personnel leave	23,007	9,166	5,986	38,159
Deferred revenue	33,505	32,913	24,143	90,561
Customer deposits	1,481	24,265	—	25,746
Current portion of compensated absences	2,417	800	1,200	4,417
Current maturities of long-term debt	—	—	30,000	30,000
Total current liabilities	<u>101,287</u>	<u>205,074</u>	<u>67,688</u>	<u>374,049</u>
Current liabilities (payable from restricted assets):				
Current maturities of long-term debt	—	30,893	10,000	40,893
Accrued interest payable	—	396	5,759	6,155
Total current liabilities (payable from restricted assets)	<u>—</u>	<u>31,289</u>	<u>15,759</u>	<u>47,048</u>
Noncurrent liabilities:				
Revenue bonds payable, less current maturities net of unamortized discounts and premiums	—	—	490,000	490,000
Compensated absences	2,408	4,527	4,925	11,860
Total noncurrent liabilities	<u>2,408</u>	<u>4,527</u>	<u>494,925</u>	<u>501,860</u>
Total liabilities	<u>103,695</u>	<u>240,890</u>	<u>578,372</u>	<u>922,957</u>
Net Assets				
Invested in capital assets, net of related debt	2,720,407	566,144	(37,123)	3,249,428
Restricted for debt service	—	7,714	—	7,714
Unrestricted	317,566	529,703	41,608	888,877
Total net assets	<u>\$ 3,037,973</u>	<u>1,103,561</u>	<u>4,485</u>	<u>4,146,019</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, 2005

	Naples Beach Fund	City Dock Fund	Tennis Fund	Total
Operating revenues:				
Charges for services	\$ 903,446	1,872,307	455,108	3,230,861
Total operating revenues	<u>903,446</u>	<u>1,872,307</u>	<u>455,108</u>	<u>3,230,861</u>
Operating expenses:				
Personal services	612,059	235,564	156,629	1,004,252
Supplies and services	181,293	1,238,087	181,021	1,600,401
Heat, light, and power	58,912	66,316	5,252	130,480
Depreciation and amortization	472,943	129,755	36,400	639,098
General administration	201,000	125,000	28,000	354,000
Other	74,949	—	27,001	101,950
Total operating expenses	<u>1,601,156</u>	<u>1,794,722</u>	<u>434,303</u>	<u>3,830,181</u>
Operating income (loss)	<u>(697,710)</u>	<u>77,585</u>	<u>20,805</u>	<u>(599,320)</u>
Nonoperating revenues (expenses):				
Operating grants	347,906	—	—	347,906
Interest income	865	17,479	2,080	20,424
Interest expense	—	(2,683)	(17,739)	(20,422)
Loss on sale of capital assets	(172)	—	—	(172)
Total nonoperating revenues (expenses)	<u>348,599</u>	<u>14,796</u>	<u>(15,659)</u>	<u>347,736</u>
Income (loss) before contributions and transfers	<u>(349,111)</u>	<u>92,381</u>	<u>5,146</u>	<u>(251,584)</u>
Capital contributions	127,574	—	—	127,574
Transfers out (payment in lieu of taxes)	—	(88,000)	—	(88,000)
Change in net assets	<u>(221,537)</u>	<u>4,381</u>	<u>5,146</u>	<u>(212,010)</u>
Net assets (deficit) – beginning of year	<u>3,259,510</u>	<u>1,099,180</u>	<u>(661)</u>	<u>4,358,029</u>
Net assets – end of year	<u>\$ 3,037,973</u>	<u>1,103,561</u>	<u>4,485</u>	<u>4,146,019</u>

See accompanying independent auditors' report.

CITY OF NAPLES, FLORIDA
Combining Statement of Cash Flows
Nonmajor Enterprise Funds
Year ended September 30, 2005

	Naples Beach Fund	City Dock Fund
Cash flows from operating activities:		
Cash received from customers	\$ 993,710	1,871,773
Cash payments to suppliers	(503,600)	(1,410,133)
Cash payments to employees	(620,550)	(232,804)
Net cash provided by (used in) operating activities	(130,440)	228,836
Cash flows from noncapital financing activities:		
Operating grants	347,906	—
Net cash provided by noncapital financing activities	347,906	—
Cash flows from capital and related financing activities:		
Principal paid on long-term debt	—	(26,397)
Interest paid on long-term debt	—	(3,019)
Capital contributions	127,574	—
Proceeds from sale of capital assets	10,094	—
Acquisition and construction of capital assets	(206,891)	(89,988)
Net cash used in capital and related financing activities	(69,223)	(119,404)
Cash flows from investing activities:		
Net purchases of investment securities	—	(2,581)
Interest and investment earnings	865	17,479
Net cash provided by investing activities	865	14,898
Net increase (decrease) in cash and cash equivalents	149,108	124,330
Cash and cash equivalents – beginning of year	—	590,937
Cash and cash equivalents – end of year	\$ 149,108	715,267

Tennis Fund	Total
447,689	3,313,172
(242,734)	(2,156,467)
(153,854)	(1,007,208)
<hr/> 51,101	<hr/> 149,497
<hr/> —	<hr/> 347,906
<hr/> —	<hr/> 347,906
(40,000)	(66,397)
(24,678)	(27,697)
—	127,574
—	10,094
—	(296,879)
<hr/> (64,678)	<hr/> (253,305)
(240)	(2,821)
2,080	20,424
<hr/> 1,840	<hr/> 17,603
(11,737)	261,701
80,369	671,306
<hr/> 68,632	<hr/> 933,007
<hr/> <hr/> 68,632	<hr/> <hr/> 933,007

CITY OF NAPLES, FLORIDA
Combining Statement of Cash Flows
Nonmajor Enterprise Funds
Year ended September 30, 2005

	Naples Beach Fund	City Dock Fund
Reconciliation of operating income (loss) to net cash provided by operating activities:		
Operating income (loss)	\$ (697,710)	77,585
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Depreciation and amortization	472,943	129,755
Transfers to other funds	—	(88,000)
Changes in assets and liabilities:		
Decrease in accounts receivable, net	13,535	4,311
Decrease (increase) in due from other governments	268,860	(3,123)
Decrease in inventories	—	373
Decrease in prepaid items	—	—
Increase in deferred charges	—	1,054
Increase (decrease) in accounts payable	12,553	105,842
Increase in accrued payroll / personal leave	3,035	1,200
Decrease in due to other funds	(179,582)	—
Decrease in deferred revenue	(13,352)	(3,595)
Increase in customer deposits	804	1,874
Increase (decrease) in compensated absences	(11,526)	1,560
Net cash provided by (used in) operating activities	\$ (130,440)	228,836

See accompanying independent auditors' report.

Tennis Fund	Total
20,805	(599,320)
36,400	639,098
—	(88,000)
—	17,846
—	265,737
3,851	4,224
411	411
239	1,293
(5,550)	112,845
172	4,407
—	(179,582)
(7,830)	(24,777)
—	2,678
2,603	(7,363)
<u>51,101</u>	<u>149,497</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	\$	25,000
Third-party liability		100,000
Workers' compensation		150,000
Police & Fire personnel		200,000
Blanket bond and money and securities		25,000
Aggregate losses		1,015,000

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 \$100,000 per claim and amounts up to \$3,916,525 for aggregate losses.

Construction Management Fund

To account for the costs of the City's construction management, planning and engineering services.

Technology Services

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, 2005

Assets	Equipment services	Risk management
Current assets:		
Cash and investments	\$ 641,490	2,362,474
Receivables – miscellaneous	—	4,464
Accrued interest	2,096	7,918
Due from other governments	11,314	—
Inventories	114,180	—
Prepays	—	—
Total current assets	769,080	2,374,856
Capital assets:		
Buildings	257,542	—
Equipment	162,654	38,349
Accumulated depreciation	(177,082)	(32,540)
Net capital assets	243,114	5,809
Total assets	1,012,194	2,380,665
Liabilities		
Current liabilities:		
Accounts payable	46,837	4,783
Accrued payroll and personal leave	27,717	6,407
Due to other funds	—	—
Deferred revenue	—	—
Total current liabilities	74,554	11,190
Noncurrent liabilities:		
Due within one year:		
Compensated absences	9,300	875
Insurance claims payable	—	449,853
Due in more than one year:		
Compensated absences	27,745	3,410
Insurance claims payable	—	1,256,147
Total noncurrent liabilities	37,045	1,710,285
Total liabilities	111,599	1,721,475
Net Assets		
Invested in capital assets, net of related debt	243,114	5,809
Unrestricted (deficit)	657,481	653,381
Total net assets (deficit)	\$ 900,595	659,190

See accompanying independent auditors' report.

Health benefits	Construction management	Technology services	Total
2,016,447	—	728,588	5,748,999
3,741	—	—	8,205
6,100	—	2,254	18,368
—	—	—	11,314
—	—	—	114,180
52,742	—	—	52,742
2,079,030	—	730,842	5,953,808
—	—	51,957	309,499
—	—	1,451,109	1,652,112
—	—	(1,107,181)	(1,316,803)
—	—	395,885	644,808
2,079,030	—	1,126,727	6,598,616
214,953	640	59,465	326,678
—	23,133	26,356	83,613
—	31,814	—	31,814
11,232	—	—	11,232
226,185	55,587	85,821	453,337
—	8,000	5,000	23,175
785,000	—	—	1,234,853
—	61,253	67,287	159,695
—	—	—	1,256,147
785,000	69,253	72,287	2,673,870
1,011,185	124,840	158,108	3,127,207
—	—	395,885	644,808
1,067,845	(124,840)	572,734	2,826,601
1,067,845	(124,840)	968,619	3,471,409

CITY OF NAPLES, FLORIDA

Internal Service Funds

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

Year ended September 30, 2005

	<u>Equipment services</u>	<u>Risk management</u>	<u>Health benefits</u>
Operating revenues:			
Charges for services	\$ 2,199,789	2,341,733	4,566,510
Operating expenses:			
Personal services	633,855	159,817	—
Supplies, services, and claims	414,028	1,737,881	4,760,387
Materials	675,577	—	—
Heat, light, and power	24,450	—	—
Depreciation and amortization	36,106	1,679	—
General administration	139,000	65,500	32,500
Other	3,566	13,077	—
Total operating expenses	<u>1,926,582</u>	<u>1,977,954</u>	<u>4,792,887</u>
Operating income (loss)	273,207	363,779	(226,377)
Nonoperating revenues:			
Interest income	11,962	44,034	43,433
Loss on sale of capital assets	—	(5,648)	—
Net income (loss)	<u>285,169</u>	<u>402,165</u>	<u>(182,944)</u>
Net assets (deficit) – beginning of year	<u>615,426</u>	<u>257,025</u>	<u>1,250,789</u>
Net assets (deficit) – end of year	\$ <u><u>900,595</u></u>	<u><u>659,190</u></u>	<u><u>1,067,845</u></u>

See accompanying independent auditors' report.

Construction management	Technology services	Total
837,000	1,642,355	11,587,387
692,620	762,695	2,248,987
74,735	480,845	7,467,876
726	—	676,303
—	—	24,450
—	203,803	241,588
98,000	85,000	420,000
147	—	16,790
866,228	1,532,343	11,095,994
(29,228)	110,012	491,393
—	17,043	116,472
—	(331)	(5,979)
(29,228)	126,724	601,886
(95,612)	841,895	2,869,523
(124,840)	968,619	3,471,409

CITY OF NAPLES, FLORIDA
Combining Statement of Cash Flows
Internal Service Funds
Year ended September 30, 2005

	Equipment services	Risk management
Cash flows from operating activities:		
Cash received from customers	\$ 2,197,305	2,344,432
Cash payments to suppliers	(1,263,967)	(1,896,844)
Cash payments to employees	(644,704)	(159,222)
Net cash provided by (used in) operating activities	288,634	288,366
Cash flows from noncapital and related financing activities:		
Due from other funds	—	—
Net cash used in capital and related financing activities	—	—
Cash flows from capital and related financing activities:		
Acquisition and construction of capital assets	(31,761)	—
Net cash used in capital and related financing activities	(31,761)	—
Cash flows from investing activities:		
Net purchases of investment securities	(2,096)	(7,918)
Interest and investment earnings	11,962	44,034
Net cash provided by investing activities	9,866	36,116
Net increase (decrease) in cash and cash equivalents	266,739	324,482
Cash and cash equivalents – beginning of year	374,751	2,037,992
Cash and cash equivalents – end of year	\$ 641,490	2,362,474
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:		
Operating income (loss)	\$ 273,207	363,779
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization	36,106	1,679
Changes in assets and liabilities:		
Decrease in miscellaneous receivables	—	3,242
Increase in due from other governments	(2,484)	—
Increase in inventories	(10,976)	—
Increase in prepaids	—	—
Increase (decrease) in accounts payable	3,630	(80,385)
Increase (decrease) in accrued payroll and personal leave	3,568	1,174
Increase (decrease) in deferred revenue	—	(543)
Increase (decrease) in compensated absences	(14,417)	(580)
Net cash provided by (used in) operating activities	\$ 288,634	288,366

See accompanying independent auditors' report.

Health benefits	Construction management	Technology services	Total
4,577,412	837,000	1,642,355	11,598,504
(4,631,044)	(182,210)	(532,175)	(8,506,240)
—	(632,632)	(787,445)	(2,224,003)
(53,632)	22,158	322,735	868,261
—	(22,158)	—	(22,158)
—	(22,158)	—	(22,158)
—	—	(313,645)	(345,406)
—	—	(313,645)	(345,406)
(6,100)	—	(2,254)	(18,368)
43,433	—	17,043	116,472
37,333	—	14,789	98,104
(16,299)	—	23,879	598,801
2,032,746	—	704,709	5,150,198
2,016,447	—	728,588	5,748,999
(226,377)	(29,228)	110,012	491,393
—	—	203,803	241,588
2,048	—	—	5,290
—	—	—	(2,484)
—	—	—	(10,976)
(52,742)	—	—	(52,742)
214,585	(8,601)	33,670	162,899
—	3,225	(660)	7,307
8,854	—	—	8,311
—	56,762	(24,090)	17,675
(53,632)	22,158	322,735	868,261

CITY OF NAPLES, FLORIDA

Combining Statement of Fiduciary Net Assets

Fiduciary Funds

September 30, 2005

	Pension Trust		
	General Pension Fund	Supplemental General Pension	Managers' 401 Pension
Assets:			
Cash and investments	\$ 1,417,312	—	—
Receivables:			
Accounts	145,775	—	—
Investments, at fair value:			
Corporate bonds	4,146,921	—	—
U.S. Government securities	3,565,641	—	—
Common stock	20,043,356	—	—
Mortgage – backed securities	1,919,086	—	—
Mutual funds	—	3,206,918	643,407
Total investments	<u>29,675,004</u>	<u>3,206,918</u>	<u>643,407</u>
Total assets	<u>31,238,091</u>	<u>3,206,918</u>	<u>643,407</u>
Liabilities:			
Accounts payable	—	—	—
Total liabilities	<u>—</u>	<u>—</u>	<u>—</u>
Net assets:			
Held in trust for pension benefits	<u>\$ 31,238,091</u>	<u>3,206,918</u>	<u>643,407</u>

See accompanying independent auditors' report.

Police Officers' Pension Fund	Firefighters' Pension Fund	Total
995,846	762,779	3,175,937
99,520	81,491	326,786
3,176,558	2,297,835	9,621,314
2,899,389	2,445,683	8,910,713
13,202,844	10,023,362	43,269,562
1,643,638	1,148,257	4,710,981
—	—	3,850,325
<u>20,922,429</u>	<u>15,915,137</u>	<u>70,362,895</u>
<u>22,017,795</u>	<u>16,759,407</u>	<u>73,865,618</u>
<u>5,885</u>	<u>—</u>	<u>5,885</u>
<u>5,885</u>	<u>—</u>	<u>5,885</u>
<u><u>22,011,910</u></u>	<u><u>16,759,407</u></u>	<u><u>73,859,733</u></u>

CITY OF NAPLES, FLORIDA

Combining Statement of Changes in Fiduciary Net Assets

Fiduciary Funds

Year ended September 30, 2005

	General Pension Fund	Supplemental General Pension	Managers' 401 Pension
	<u> </u>	<u> </u>	<u> </u>
Additions:			
Contributions:			
Employee contributions	\$ 541,939	272,331	14,336
Employer contributions	1,002,415	174,674	33,451
Direct state contributions	—	—	—
Total contributions	<u>1,544,354</u>	<u>447,005</u>	<u>47,787</u>
Investment earnings:			
Interest and dividend income	871,207	279,421	92,501
Net appreciation (depreciation) in fair value of investments	1,558,237	(8,198)	(493)
Less investment expense	<u>(183,948)</u>	<u>—</u>	<u>—</u>
Net investment earnings	<u>2,245,496</u>	<u>271,223</u>	<u>92,008</u>
Total additions	<u>3,789,850</u>	<u>718,228</u>	<u>139,795</u>
Deductions:			
Benefits paid	1,664,012	—	—
Refunds of contributions	192,484	297,583	329,519
General administration	<u>56,581</u>	<u>—</u>	<u>—</u>
Total deductions	<u>1,913,077</u>	<u>297,583</u>	<u>329,519</u>
Changes in net assets	1,876,773	420,645	(189,724)
Net assets – beginning of year	<u>29,361,318</u>	<u>2,786,273</u>	<u>833,131</u>
Net assets – end of year	<u><u>\$ 31,238,091</u></u>	<u><u>3,206,918</u></u>	<u><u>643,407</u></u>

See accompanying independent auditors' report.

Police Officers' Pension Fund	Firefighters' Pension Fund	Total
238,132	235,171	1,301,909
285,787	126,254	1,622,581
726,370	902,413	1,628,783
<u>1,250,289</u>	<u>1,263,838</u>	<u>4,553,273</u>
612,485	444,617	2,300,231
1,079,726	842,621	3,471,893
(112,243)	(90,827)	(387,018)
<u>1,579,968</u>	<u>1,196,411</u>	<u>5,385,106</u>
<u>2,830,257</u>	<u>2,460,249</u>	<u>9,938,379</u>
778,714	414,576	2,857,302
18,722	—	838,308
33,272	51,209	141,062
<u>830,708</u>	<u>465,785</u>	<u>3,836,672</u>
1,999,549	1,994,464	6,101,707
20,012,361	14,764,943	67,758,026
<u>22,011,910</u>	<u>16,759,407</u>	<u>73,859,733</u>

CITY OF NAPLES, FLORIDA

Statement of Changes in Assets and Liabilities – Agency Funds

Year ended September 30, 2005

	Balance October 1, 2004	Additions	Deductions	Balance October 1, 2005
Assets				
Cash and investments	\$ 57,611	14,777,387	14,755,392	79,606
Total assets	<u>\$ 57,611</u>	<u>14,777,387</u>	<u>14,755,392</u>	<u>79,606</u>
Liabilities				
Accounts payable	\$ 57,611	14,777,387	14,755,392	79,606
Total liabilities	<u>\$ 57,611</u>	<u>14,777,387</u>	<u>14,755,392</u>	<u>79,606</u>

See accompanying notes to financial statements.

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, 2005

Operating revenue:	
Water	\$ 12,318,178
Sewer	9,118,940
	<u>21,437,118</u>
Operating expenses:	
Personal services	4,726,111
Supplies and services	3,185,243
Materials	1,582,936
Heat, light, and power	2,056,601
Other	160,454
	<u>11,711,345</u>
Total operating expenses	11,711,345
Operating income	9,725,773
Other income:	
Interest	<u>380,136</u>
Net revenue available for debt service, renewal and replacement, transfers and capital improvements	<u>\$ 10,105,909</u>
Debt service requirements	<u>\$ 2,962,385</u>
Debt service coverage	<u>3.41</u>
Debt service coverage requirement	<u>1.35</u>
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, 2005

Function and activity	Total	Land	Buildings	Improvements other than buildings and infrastructure	Equipment
General government:					
Control:					
Executive	\$ 42,199	—	—	5,154	37,045
Total control	42,199	—	—	5,154	37,045
Staff agencies:					
Finance	240,142	—	131,595	1,359	107,188
Law	17,024	—	—	—	17,024
Recording and reporting	80,342	—	—	—	80,342
Human resources	6,452	—	—	—	6,452
Community development	2,868,181	548,627	44,029	1,707,754	567,771
Community redevelopment	9,347,341	51,522	4,937,328	4,314,769	43,722
Other general government	16,972,834	8,690,144	4,158,887	3,187,740	936,063
Total staff agencies	29,532,316	9,290,293	9,271,839	9,211,622	1,758,562
Total general government	29,574,515	9,290,293	9,271,839	9,216,776	1,795,607
Public safety:					
Police protection	7,397,537	—	4,176,997	139,858	3,080,682
Fire protection	5,551,152	350,978	1,839,037	156,723	3,204,414
Protective inspection	4,008,650	—	3,540,401	—	468,249
Engineering – traffic	3,880,560	—	—	3,440,212	440,348
Total public safety	20,837,899	350,978	9,556,435	3,736,793	7,193,693
Physical environment:					
Public works	354,986	37,099	102,682	7,457	207,748
Natural resources	664,100	—	—	643,312	20,788
Total physical environment	1,019,086	37,099	102,682	650,769	228,536
Transportation	25,680,398	556,938	196,314	24,927,146	—
Recreation	19,482,624	1,545,099	7,260,643	8,078,907	2,597,975
Total governmental funds capital assets allocated to functions	96,594,522	11,780,407	26,387,913	46,610,391	11,815,811
Construction in progress	1,458,046				
Total governmental funds capital assets	\$ 98,052,568				

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, 2005

	<u>Balance October 1, 2004</u>	<u>Additions</u>	<u>Transfers/ retirements</u>	<u>Balance September 30, 2005</u>
Governmental funds capital assets:				
Land	\$ 11,780,407	—	—	11,780,407
Buildings	26,481,959	98,914	(192,960)	26,387,913
Improvements other than buildings	21,728,354	1,277,354	(3,038)	23,002,670
Infrastructure	20,887,799	2,719,922	—	23,607,721
Equipment	10,870,741	1,312,292	(367,222)	11,815,811
Construction in progress	250,420	1,292,535	(84,909)	1,458,046
	<u>\$ 91,999,680</u>	<u>6,701,017</u>	<u>(648,129)</u>	<u>98,052,568</u>
Investments in governmental funds capital assets by source:				
Bond proceeds	\$ 26,444,802	1,183,655	—	27,628,457
Federal grants	4,939,027	150,647	—	5,089,674
Note proceeds	1,915,105	—	—	1,915,105
State grants	324,217	258,614	—	582,831
General and streets funds	18,978,156	2,228,723	(23,644)	21,183,235
Capital projects fund	37,569,452	2,879,378	(624,485)	39,824,345
Risk management fund	17,830	—	—	17,830
Contributions	1,811,091	—	—	1,811,091
	<u>\$ 91,999,680</u>	<u>6,701,017</u>	<u>(648,129)</u>	<u>98,052,568</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, 2005

Function and activity	Balance October 1, 2004	Additions	Transfers/ retirements	Balance September 30, 2005
General government:				
Control:				
Executive	\$ 22,431	19,768	—	42,199
Total control	<u>22,431</u>	<u>19,768</u>	<u>—</u>	<u>42,199</u>
Staff agencies:				
Finance	214,681	25,461	—	240,142
Law	17,024	—	—	17,024
Recording and reporting	80,342	—	—	80,342
Human resources	6,452	—	—	6,452
Community development	2,754,289	115,660	(1,768)	2,868,181
Community redevelopment	7,418,446	1,928,895	—	9,347,341
Other general government	16,895,291	106,877	(29,334)	16,972,834
Total staff agencies	<u>27,386,525</u>	<u>2,176,893</u>	<u>(31,102)</u>	<u>29,532,316</u>
Total general government	<u>27,408,956</u>	<u>2,196,661</u>	<u>(31,102)</u>	<u>29,574,515</u>
Public safety:				
Police protection	7,220,204	348,409	(171,076)	7,397,537
Fire protection	5,308,817	423,291	(180,956)	5,551,152
Protective inspection	3,939,733	76,033	(7,116)	4,008,650
Engineering – traffic	3,828,298	75,906	(23,644)	3,880,560
Total public safety	<u>20,297,052</u>	<u>923,639</u>	<u>(382,792)</u>	<u>20,837,899</u>
Physical environment:				
Public works	354,987	(1)	—	354,986
Natural resources	625,601	38,499	—	664,100
Total physical environment	<u>980,588</u>	<u>38,498</u>	<u>—</u>	<u>1,019,086</u>
Transportation	24,207,985	1,472,413	—	25,680,398
Recreation	18,854,679	777,271	(149,326)	19,482,624
Total governmental funds capital assets allocated to functions	91,749,260	5,408,482	(563,220)	96,594,522
Construction in progress	250,420	1,292,535	(84,909)	1,458,046
Total governmental funds capital assets	\$ <u>91,999,680</u>	<u>6,701,017</u>	<u>(648,129)</u>	<u>98,052,568</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>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>
General Government	\$ 2,209,140	2,090,829	2,337,893	2,117,880
Planning	465,330	466,859	489,502	399,650
Code Enforcement (2)	146,356	—	—	—
Development Services (3)	—	—	—	—
Finance	1,378,256	1,431,863	1,328,046	1,016,148
Engineering (4)	—	—	638,880	677,552
Police (6)	9,212,389	8,046,101	7,578,942	6,837,048
Fire (6)	5,907,170	4,741,026	4,359,533	3,968,822
Parks and Recreation	5,141,574	4,914,842	4,652,042	4,676,969
Other	3,696,849	3,795,955	2,860,577	2,760,242
	<u>28,157,064</u>	<u>25,487,475</u>	<u>24,245,415</u>	<u>22,454,311</u>
Debt Service (5)(7)	<u>1,896,594</u>	<u>7,136,596</u>	<u>5,264,916</u>	<u>2,567,899</u>
Total	\$ <u>30,053,658</u>	<u>32,624,071</u>	<u>29,510,331</u>	<u>25,022,210</u>

- (1) This schedule includes expenditures of the General Fund and Debt Service Fund.
- (2) Code Enforcement was included in Building & Zoning prior to 2005.
- (3) Includes Engineering, Building & Zoning, and Natural Resources, through 1998.
- (4) 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.
- (5) 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.
- (6) Beginning in 2005, includes contributions made to the Police Officers' and Firefighters' pension plans directly by the State of Florida.
- (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.

See accompanying independent auditors' report.

2001	2000	1999	1998	1997	1996
2,061,697	2,031,032	1,852,288	1,514,549	1,589,254	1,211,027
414,270	405,584	431,220	387,024	394,073	381,042
—	—	—	—	—	—
—	—	—	1,441,301	1,520,550	1,220,817
914,197	845,648	823,689	808,666	784,898	741,501
619,669	528,263	518,806	—	—	—
6,517,316	6,003,505	5,560,633	5,400,375	5,248,808	4,809,459
3,555,429	3,515,139	3,051,888	2,829,565	2,627,033	2,482,284
4,199,158	3,929,822	3,751,828	3,314,207	3,065,816	2,977,846
2,574,110	2,034,168	1,637,918	1,896,068	1,863,226	1,040,831
20,855,846	19,293,161	17,628,270	17,591,755	17,093,658	14,864,807
4,459,138	1,631,176	1,364,814	872,129	838,366	832,753
25,314,984	20,924,337	18,993,084	18,463,884	17,932,024	15,697,560

CITY OF NAPLES, FLORIDA

General Governmental Revenues by Source

Last 10 fiscal years (1)

	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>
Ad Valorem Tax	\$ 13,765,722	12,471,032	11,177,976	10,017,877
Franchise & Utilities Tax	7,315,044	6,881,521	8,592,173	8,210,553
Licenses & Permits (2)	332,262	279,256	263,867	238,808
Services	4,622,168	4,470,942	5,093,149	4,704,024
Fines & Forfeitures	370,115	329,123	369,694	251,142
Recreation	822,085	738,793	674,188	566,798
State & Federal Shared Revenue (3)	5,559,713	3,758,480	3,196,706	2,872,856
Earnings on Investments	311,377	216,404	232,986	225,498
Miscellaneous	50,779	45,277	22,695	208,610
Total	\$ <u>33,149,265</u>	<u>29,190,828</u>	<u>29,623,434</u>	<u>27,296,166</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) Beginning in 2005, includes contributions made to the Police Officers' and Firefighters' pension plans directly by the State of Florida.

See accompanying independent auditors' report.

2001	2000	1999	1998	1997	1996
8,455,971	6,713,341	5,811,829	5,490,397	5,107,777	4,778,204
7,309,636	6,748,789	6,548,706	6,398,626	6,225,965	6,069,908
279,263	265,682	259,441	1,849,787	1,305,287	1,565,131
4,437,890	4,269,480	4,110,041	3,945,554	3,352,946	3,156,224
378,336	395,528	412,284	342,296	368,023	325,591
415,486	298,328	261,752	247,911	198,866	171,587
3,373,137	3,187,330	2,981,243	2,853,281	2,773,745	2,571,127
532,735	372,619	287,252	457,472	369,658	443,332
26,842	429,190	169,516	15,299	11,584	28,162
25,209,296	22,680,287	20,842,064	21,600,623	19,713,851	19,109,266

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
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
2004	14,365,967	12,446,313	863,393	182,981	12,018,507	88.38	833,675	177,074
2005	14,911,539	14,115,135	605,977	190,427	13,180,408	93.38	585,313	183,903

Source: Collier County Tax Collector
Collier County Tax Appraiser

See accompanying independent auditors' report.

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
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
2003	2004	11,212,894,783	14,426,299,363	77.73
2004	2005	12,168,219,538	15,427,299,073	78.87

Source: Collier County Tax Appraiser

* Just value as defined in F.S. 193.011

See accompanying independent auditors' report.

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
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
2004	1.1100	0.0770	1.1870	0.1051	3.8772
2005	1.1600	0.0498	1.2098	0.0962	3.8772

See accompanying independent auditors' report.

Conservation Collier	School board	South Florida water management	Water pollution control	Big Cypress Basin	Combined total
—	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
—	6.5240	0.2840	0.0347	0.2425	12.2545
0.2500	6.2200	0.2840	0.0347	0.2425	12.2144

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

Year	Liens assessed		Collections	Unpaid balance
1996	—		\$ 292,217	687,969
1997	37,670		136,814	588,825
1998	1,370,010	(1)	721,674	1,237,161
1999	138,497		229,518	1,146,140
2000	216,160	(2)	182,804	1,179,496
2001	—		121,567	1,057,929
2002	—		95,885	962,044
2003	—		163,476	798,568
2004	—		138,146	660,422
2005	—		140,918	519,504

- (1) Special Assessment Districts were established for the following: Twin Lakes Sewer, Big Cypress Sewer, and West Boulevard Water & Sewer.
- (2) 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.

See accompanying independent auditors' report.

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
1996	21,157	\$ 4,192,041,398	—	—	—	—%	—
1997	21,202	4,480,631,775	—	—	—	—	—
1998	21,233	4,826,553,552	—	—	—	—	—
1999	21,087	5,140,991,963	—	—	—	—	—
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
2004	22,443	11,212,894,783	5,220,000	—	5,220,000	0.05	232.59
2005	22,750	12,168,219,538	4,825,000	—	4,825,000	0.04	212.09

See accompanying independent auditors' report.

CITY OF NAPLES, FLORIDA

Summary of Direct and Overlapping Debt

September 30, 2005 (a)

Direct debt:			
General obligation indebtedness	\$	4,825,000	
Less reserve fund		<u>—</u>	<u>4,825,000</u>
Non self-supporting indebtedness:			
Improvement revenue bonds			
(all series)		10,214,107	
Less reserve fund		<u>(983,750)</u>	<u>9,230,357</u>
Self-supporting indebtedness:			
Water and sewer revenue bonds (a)		12,115,000	
Less reserve fund		<u>(2,962,385)</u>	<u>9,152,615</u>
Bay/Dock/Tennis/Redevelopment Funds (b)		6,035,893	
Less reserve fund		<u>—</u>	<u>6,035,893</u>
Total direct debt			\$ 29,243,865
Overlapping debt (c):			
Collier County (d)		32,815,000	
		22%	<u>7,340,716</u>
Total overlapping debt			<u>7,340,716</u>
Total direct and overlapping debt			\$ <u><u>36,584,581</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.

See accompanying independent auditors' report.

CITY OF NAPLES, FLORIDA

Ratio of Annual Debt Service for General Bonded
Debt to Total General Expenditures

Last 10 fiscal years

Year	Principal	Interest	Total	Total general expenditures	Debt service as a percent of total general expenditures
1996	\$ —	—	—	15,697,560	—%
1997	—	—	—	17,932,024	—
1998	—	—	—	18,463,884	—
1999	—	—	—	18,993,084	—
2000	—	—	—	20,924,337	—
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
2004	460,000	362,860	822,860	32,624,071	2.52
2005	395,000	214,353	609,353	30,053,658 (1)	2.03

(1) Beginning in 2005, includes contributions made to the Police Officers' and Firefighters' pension plans directly by the State of Florida.

CITY OF NAPLES, FLORIDA

Schedule of Governmental Funds Revenue Bond Coverage –
Series 1993, 2000, 2001 and 2003

<u>Fiscal year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Revenue available for debt service</u>	<u>Coverage</u>
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	612,058	1,477,080	2,089,138	3,833,779	1.84
2002	1,268,084	1,299,815	2,567,899	4,322,705	1.68
2003	1,213,329	1,086,058	2,299,387	4,455,652	1.94
2004	1,083,379	1,031,533	2,114,912	4,184,880	1.98
2005	978,603	917,991	1,896,594	4,157,163	2.19

See accompanying independent auditors' report.

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)	Net revenue available for debt service	Debt service requirement	Bond coverage (3)
1996	\$	15,681,855	7,079,087	8,602,768	3,896,133	2.21
1997		16,481,342	7,073,985	9,407,357	3,985,904	2.36
1998		18,932,603	7,437,659	11,494,944	3,251,928	3.53
1999		17,450,115	7,868,245	9,581,870	3,382,963	2.83
2000		18,962,427	8,549,149	10,413,278	3,256,350	3.20
2001		18,638,160	8,872,732	9,765,428	3,249,941	3.00
2002		19,151,096	9,916,239	9,234,857	2,860,347	3.23
2003		18,646,334	9,936,785	8,709,549	2,957,085	2.95
2004		21,110,339	10,761,818	10,348,521	2,962,385	3.49
2005		21,892,695	11,711,345	10,181,350	2,962,385	3.44

- (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.

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			
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
2003	22,343	292,466	17,071,508
2004	22,443	306,186	17,516,732
Population Projections			
2005	22,750 (1)	319,905 (2)	17,872,296
2006	23,068 (1)	334,238 (2)	18,232,652

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.

See accompanying independent auditors' report.

CITY OF NAPLES, FLORIDA

Ten Largest Taxpayers – City of Naples

September 2005

Taxpayer	Type of business	Assessed values	% of total City of Naples assessed values
Coastland Center LP	Shopping Center	\$ 80,648,999	0.66%
Sandra Gerry	Residential	58,002,493	0.48
Lutgert Trust, Raymond L	Shopping Center	46,504,460	0.38
Comax Partners LP	Residential	41,319,580	0.34
Estuary at Grey Oaks Ltd.	Residential	37,771,605	0.31
Westbury Properties Inc.	Residential	37,047,118	0.30
Panthers RPN Limited	Hotel	27,496,824	0.23
Larned, Gardner B. & Jane V.	Residential	27,389,663	0.23
Bergman Trust, Bruce J.	Residential	24,376,112	0.20
Tobin Trust, Joan Fleischmann	Various Commercial	23,074,992	0.19

Source: Property Appraiser – Collier County, Florida Computation as of September 30, 2005

See accompanying independent auditors' report.

CITY OF NAPLES, FLORIDA

Schedule of Insurance Coverage

September 2005

Policy	Coverage	Effective date
Property:		
Building and Contents	\$ 88,509,080 per occurrence excess of \$25,000 deductible	10/1/2004
Boiler and Machinery	\$ 50,000,000 per occurrence excess of \$25,000 deductible	10/1/2004
Crime/Fidelity		
(Employee Dishonesty & Faithful Performance)	\$ 525,000 per occurrence excess of \$1,000 deductible	10/1/2004
Public Officials E & O Liability	\$ 1,000,000 per claim excess of \$100,000 deductible	10/1/2004
	\$ 1,000,000 aggregate	
Comprehensive General Liability	\$ 1,900,000 per occurrence excess of \$100,000 deductible	10/1/2004
	6,000,000 general aggregate	
Automobile liability	\$ 1,900,000 per occurrence excess of \$100,000 deductible	10/1/2004
Physical Damage	Actual Cash Value \$1,000 comprehensive & collision deductible	
Flood insurance (Flood zones B & C)	\$ 2,500,000 \$25,000 deductible	10/1/2004
National Flood Insurance Program	\$ 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 for Police & Fire	10/1/2004
Employer's liability	\$ 1,000,000 excess of \$150,000 SIR	10/1/2004
Accidental Death and Dismemberment	\$ Statutory per employee unlawful & intentional death	10/1/2004
(Police and Firefighters)	Statutory in line of duty/fresh pursuit	
Fiduciary Liability	\$ 1,000,000 per fund/claim/aggregate \$10,000 deductible	Cancelled 3/01/05
Skateboard Park Accident Medical	\$ 25,000 per person	Cancelled 10/26/04
Petroleum Liability	\$ 1,000,000 each incident excess of \$10,000 deductible	5/9/2005
	\$ 2,000,000 aggregate	
City Dock Tanks	1,000,000 each incident excess of \$25,000 deductible	
Community Service Workers	\$ 10,000 AD&D	12/14/2005
	\$ 5,000 Medical	
Group Medical & Dental Insurance	\$ Standard Benefits	1/1/2005
Group Life	\$ Two Times Annual Salary Rounded to Nearest 1,000	1/1/2005

See accompanying independent auditors' report.

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	121	
Demand for services	56,393	
Recreation:		
Swimming pools	1	
Community centers	3	
Pier	1	
Dock	1	
Water and sewer:		
	<u>Water</u>	<u>Sewer</u>
Active accounts	17,697	8,638
Plants	1	1
Capacity per day (millions gal.)	30	10
Employees as of September 30, 2005	502	
Election:		
Number of registered voters	15,998	
Number of votes cast last general election	7,694	
Number of street lights	2,370	

See accompanying independent auditors' report.

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		
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
2004	247	63,697,410	974	400,849,888	8,360,793	119
2005	221	131,121,188	1,050	383,219,692	9,196,168	120

(1) City of Naples Building & Zoning

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

See accompanying independent auditors' report.



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

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

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, 2005, which collectively comprise the City of Naples, Florida's basic financial statements and have issued our report thereon dated January 31, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Naples, Florida's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion 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 reportable 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 caused by error or fraud 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.

Compliance and Other Matters

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 grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the City of Naples, Florida in a separate letter dated January 31, 2006.



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 31, 2006
Certified Public Accountants



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

**Independent Auditors' 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, 2005. The City of Naples, Florida's major federal program is 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's 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 its major federal program for the year ended September 30, 2005.

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 reportable 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 applicable requirements of laws, regulations, contracts, and grants caused by error or fraud 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.

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

KPMG LLP

January 31, 2006
Certified Public Accountants

CITY OF NAPLES, FLORIDA
Schedule of Expenditures of Federal Awards
Year ended September 30, 2005

Federal or state grantor/pass-through grantor/program title	CFDA# / CSFA#	Pass-through entity identifying grant/ loan number	Expenditures
U.S. Department of Justice:			
Byrne Formula Grant	16.579	MIA9A1900001	\$ 14,666
Equitable Sharing of Federally Forfeited Property	16.000	None	178,497
Local Law Enforcement Block Grant:			
Bulletproof Vest Partnership Program	16.607	2001-LB-BX-0234	3,938
Tactical Training Equipment	16.607	2005-LEBG-COLL-1-L4-018	9,931
Total program			<u>13,869</u>
Total U.S. Department of Justice			<u>207,032</u>
U.S. Department of Agriculture:			
Passed through State of Florida			
Tree Inventory Software	10.664	9435	9,290
Total U.S. Department of Agriculture			<u>9,290</u>
U.S. Department of Housing and Urban Development:			
Passed through Collier County			
Community Development Block Grant	14.218		115,660
Total U.S. Department of Housing & Urban Development			<u>115,660</u>
U.S. Department of Transportation:			
Passed through State of Florida			
Sidewalks 3rd Ave. S./3rd St.	20.205		161,951
Bike Path	20.205	ANL98	18,733
Total U.S. Department of Transportation			<u>180,684</u>
U.S. Department of Homeland Security:			
Passed through State of Florida			
Disaster Relief Funding-Hurricane Charley	97.036	05-PA-C5-09-21-02-720	420,025
Direct Program:			
Firefighters Wellness Program	83.554	EMW-2003-FG-08405	51,825
Hazard Mitigation Program - Fire Station 2	97.039	1393-0022	133,055
Total U.S. Department of Homeland Security			<u>604,905</u>
Total expenditures of federal awards			<u>\$ 1,117,571</u>

See accompanying notes to schedule of expenditures of federal awards.

THE CITY OF NAPLES, FLORIDA

Notes to Schedule of Expenditures of
Federal Awards

Year ended September 30, 2005

(1) General

The accompanying Schedule of Expenditures of Federal Awards (Schedule) presents the activity of all federal awards programs of the City of Naples, Florida (the City). Federal awards received directly from grant agencies, and financial assistance passed through other government agencies are included on the schedule. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

(2) Basis of Accounting

The accompanying Schedule of Expenditures of Federal Awards 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 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, 2005:

State Revolving Loan – Stormwater	\$	3,386,237
State Revolving Loan – Drinking Water	\$	2,011,842
State Revolving Loan – Sewer Treatment Plan	\$	19,129,739

THE CITY OF NAPLES, FLORIDA
 Schedule of Findings and Questioned Costs
 Year ended September 30, 2005

(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 were no instances of noncompliance which are material to the basic financial statements.
- (d) There were no reportable conditions or material weaknesses in internal control over major federal programs disclosed by the OMB Circular A-133 audit.
- (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:	
Disaster Relief Funding Agreement	97.036

- (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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KPMG LLP
Suite 1700
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Tampa, FL 33602

Management Letter

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 (the City) as of and for the year ended September 30, 2005, which collectively comprise the City's basic financial statements, and have issued our report thereon dated January 31, 2006.

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 report dated January 31, 2006, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters, and our independent auditors' report on compliance applicable to each major federal program and the related schedule of findings and questioned costs. Disclosures in those reports and schedule, which are dated January 31, 2006, 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)(h)(1) require that, unless otherwise required to be reported in the auditors' report on internal control over financial reporting and compliance and other matters, a management letter shall include a statement as to whether or not corrective actions have been taken to address significant findings and recommendations made in the preceding annual financial audit report. There were no recommendations made in the preceding annual financial audit report requiring corrective actions.

The *Rules of the Auditor General* Section 10.554(1)(h)(2) require that we determine whether or not the City complied with Section 218.415, *Florida Statutes*, regarding the investment of public funds. At September 30, 2005, 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)(h)(3) require that we report any recommendations to improve the City's financial management, accounting procedures, and internal controls. Current year recommendations to improve the City of Naples, Florida's financial management, accounting procedures, and internal controls are included in Appendix A.



The *Rules of the Auditor General*, Section 10.554(1)(h)(4) state that, if not already reported in the auditors' report on internal control over financial reporting and compliance and other matters, the management letter shall include, unless clearly inconsequential, the following:

- (a) Violations of laws, rules, regulations, and contractual provisions or abuse that have occurred, or were 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 not materially affect the financial statements.
- (c) Deficiencies in internal control that are not reportable conditions, including, but not limited to:
 - (1) Improper or inadequate accounting procedures (i.e., the omission of required disclosures from the annual financial statements).
 - (2) Failures 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 or abuse, no improper or illegal expenditures, or other deficiencies in internal control.

The *Rules of the Auditor General* Section 10.554(1)(h)(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.

As required by the *Rules of Auditor General* Section 10.554(1)(h)(6)(a), the scope of our audit included a review of the provisions of Section 218.503(1), *Florida Statutes*, regarding financial emergencies. In connection with our audit, we determined that the City is not in a state of financial emergency as a consequence of the conditions described in Section 218.503(1), *Florida Statutes*.

As required by the *Rules of the Auditor General* Section 10.554(1)(h)(6)(b), we determined that the annual financial report for the City for the fiscal year ended September 30, 2005, to be filed with the Florida Department of Financial Services pursuant to Section 218.32, *Florida Statutes*, is in agreement with the annual financial audit report for the fiscal year ended September 30, 2005.

As required by the *Rules of the Auditor General* Sections 10.554(h)(6)(c) and 10.556 (7), we applied financial condition assessment procedures. It is management's responsibility to monitor the City's financial condition, and our financial condition assessment was based in part on representations made by management and the review of financial information provided by same.

* * * * *



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

KPMG LLP

January 31, 2006

Current Year Recommendations

Cash Cut-off and Bank Reconciliations

The City accounted for certain cash transactions at year-end prior to their actual deposit or payment. As a result, the City's cash account and related accounts in the general ledger were misstated at year-end. The City should record cash only upon its receipt or payment.

We recommend reconciling items on the bank reconciliations be fully supported and explained to allow a reviewer to understand the differing nature of the reconciling items. The Comptroller should review the bank reconciliations in a timely manner and verify the proper accounting of all reconciling items.

Journal Entry Preparation, Review, and Approval

The City does not have appropriate segregation of duties between individuals who can post and create a journal entry. Several individuals have access to create and post a journal entry. KPMG recommends the City segregate responsibilities between individuals who can create and can post a journal entry. Segregating the responsibilities will increase the City's internal control procedures.