

THE CITY OF NAPLES, FLORIDA
Comprehensive Annual Financial Report
For the Year Ended September 30, 2006
(With Independent Auditors' Report Thereon)

Prepared By:
FINANCE DEPARTMENT



City of Naples, Florida

Principal Officials

September 30, 2006

Mayor

Bill Barnett

Vice Mayor

Johnny Nocera

City Council

William R. MacIlvaine

Gary Price

John Sorey III

Penny Taylor

Bill Willkomm

City Attorney

Robert D. Pritt

City Clerk

Tara Norman

City Manager

Dr. Robert E. Lee

Department Directors

Chief of Police & Emergency Services	Victor M. Morales
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 27, 2007

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, 2006 is hereby submitted. This Annual Report was prepared by the Finance Department, and is in compliance with Florida Statutes Chapter 218.39, Chapter 10.550 of the Rules of the Auditor General of the State of Florida, and Section 2-601 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 season. The region enjoys a climate that is classified as subtropical. Cool weather is 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 are 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 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 elected City official may serve.

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 Special Taxing District, East Naples Bay Special Taxing District and the Community Redevelopment Agency are blended component units of this reporting entity, because all districts are governed by Naples City Council. The two Special Taxing Districts were created and established by Ordinances #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 the taxing districts are provided through an ad valorem tax that is levied only within these specified districts. Ordinance #94-7099 created the Community Redevelopment Agency for the rehabilitation, conservation or redevelopment of the designated district. The tax increment from both Collier County and the City provides the source of revenue for the Community Redevelopment Agency.

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 nonprofit 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 home-owner associations and city committees to develop a viable budget. By March, departments will be preparing their Five-Year Capital Improvement requests.

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 Five Year Capital Improvement Program is presented to Council by June 1, in accordance with the City Code, but the final budget is not adopted until September.

The adopted budget may be amended in two ways.

1. The budget ordinance enables City Manager to administratively 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. In the integrated automated financial system, a Purchase Order is required prior to committing funds. The automated system verifies the availability of funds prior to issuance of a Purchase Order. 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 nonmajor funds. Only major funds are shown separately in the financial statements while nonmajor 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 the individual governmental or enterprise fund are at least 10 percent of the corresponding total of all funds of that category; and
- Total assets, liabilities, revenues or expenditures/expenses of the individual governmental or enterprise fund are at least 5 percent of the total for all governmental and enterprise funds combined.

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 four additional funds, the Debt Service Fund, Community Redevelopment Fund, Streets and Traffic Fund, and Stormwater Fund, were to be included as a major fund, even though they do 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.

With 40 public beach access points, the City Pier, and several vibrant commercial areas, the City of Naples continues to be the destination point for Collier County residents as well as residents from the east and northern coasts of Florida. The rapid growth in Southwest Florida (particularly Collier County) has had a direct impact on the City. While the geographic boundaries of Naples reflect minimal increase due to

small annexations, the population that Naples serves has grown tremendously and the City's infrastructure needs and level of service requirements have grown along with it. Unfortunately, most of these service requirements do not bring with them corresponding revenues. For example, the cost related to County residents' and guests use of parks, beaches and roadways are generally not recovered.

In the City of Naples, increased demands for services, tripling property insurance rates, double digit health insurance increases, an increase in electric fees, and unprecedented jumps in the costs of fuel affecting all supplies have caused expenses to increase well beyond forecasts projected just one year earlier. As these costs affect the city government, these costs also affect the City workforce. Retention of employees has become a challenge when the cost to live in this area is higher than most places. Governments, schools, hospitals and businesses in Collier County face the difficult ordeal of limited workforce (affordable) housing. Recently, the National City Corporation named the Naples' housing market the most overvalued U.S. market. With a median price for a home at \$367,200, housing costs were more than 100 percent greater than what National City Corporation judged it should be.

Adding to the high cost of living, another large impact to the local economy is 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.

The increase in housing costs eventually is reflected in the city's taxable property valuation. Despite the 1992 "Save Our Homes" constitutional amendment that limits the growth in assessed valuation on homesteaded residential property, Naples' taxable value continues to grow. As of July 2006, the taxable value of the City was over \$16.6 billion, a growth of 21% over the prior year.

The property tax from taxable real estate provides the City with its 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 2005-06 of 1.14 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.

Long-term financial planning

On September 6, 2006, the City Council passed a resolution adopting a set of financial policies. These policies covered five major areas:

- I. Budgetary and Financial Planning
- II. Financial Reporting
- III. Capital Improvement
- IV. Debt Management
- V. Investments (which references the Investment Policy Ordinance 05-10940)

The purpose of these policies was to demonstrate that the City is committed to strong financial operations and to provide a strong precedent for future policy makers and financial managers regarding the city's financial goals.

In addition to that resolution, the City has also adopted a separate fund balance policy, resolution 02-9845, which passed in October 2002. That resolution establishes a plan for the fund balance for the primary operating funds, and sets up a plan for deviations from that plan. According to that policy, the fund balance should be within certain percentages of the prior year's operating budget, and a report made to council on a regular basis, confirming compliance.

In 1995, the City established a 10-year vision program, aptly named Vision 2005. At the passing of Vision 2005 in Fiscal Year 2005-2006, the City began a new program to discover out a new vision for the City. Expected to be incorporated into the 2007-08 budgets and beyond, the vision will incorporate goals and ideas from as many sectors of our community as possible.

Major Initiatives

Operationally and financially, fiscal year 2005-06 was impacted by Hurricane Wilma, which hit the City on October 24, 2005. Excluding the cost of replacement trees and administrative overhead, the financial impact of this Category 3 hurricane is slightly over \$6.8 million. Insurance and the Federal Emergency Management Agency (FEMA) is expected to cover \$6.4 million of that cost.

The residents and employees of the City of Naples take pride in the beauty of their city. As the City evolves from a growing city to a built-out city, updating City features as well as replacing and upgrading the infrastructure is more paramount in the capital and construction projects.

The City continued its annual Tree City USA designation and, during the year, the City planted 250 trees as part of the annual "fill in" program and removed 80% of the exotic trees within City parks. In addition, the City completed a citywide (post Wilma) tree inventory and developed a Wilma tree replacement program that will commence in January 2007. The City also completed a full replacement of all irrigation lines and landscaping on the U.S. 41 medians between Fleischmann Boulevard and Seagate. Entry islands were constructed and landscaped at the north end of Crayton and West Boulevard and the City's traffic and maintenance divisions installed 239 wooden decorative stop signs to replace the standard metal signs.

The dredging of Doctors Pass was completed this year and an engineering firm was selected to obtain permits for the dredging of the East Naples Bay canals.

Fleishmann Park, one of the largest and most used multi-purpose parks in the City has nearly completed an \$8 million renovation. This multi-year project included correcting the drainage problems, updating the skate park, adding lights to the ball fields, adding parking spaces and reconfiguring the football fields. On Saturday, September 9, 2006, the city celebrated the re-opening of the Fleischmann Park skate park and the opening of the new playground/water splash facility. The main parking lot was filled to capacity and vehicles were directed to the new 113 space parking lot, showing off even more of the new features of the park.

In addition to the beautification projects, some of the many other projects completed, or substantially completed during this fiscal year include:

- Lowdermilk Parking Lot Upgrade and Expansion
- Reuse Line Expansion
- Wastewater Plant Roof Replacement
- Sludge processing facility –building improvement
- Police Administration Roof Replacement
- Acquisition of two Recycling Trucks
- Solana Road Corridor Improvements related to annexation Agreement
- Riverside Drive Parking and Storage Expansion

As aesthetics are important, so is customer service. Customer service enhancement initiatives were implemented this year. For the first time, business taxes can now be paid on line, and customers can now pay bills such as parking tickets or utility bills with credit cards at the customer service cashier stations. In addition, the City installed the first of two parking machines to replace the old parking meters at the Pier. These new machines expand customer service by allowing customers to pay with a credit card or bills, as opposed to the old machines that took only quarters.

Increasing public access to City government also enhanced customer service. The general public can now go online and access streaming video and audio of archived City Workshops and Regular Meetings. This service is available online at www.naplesgov.com or www.naplesgov.tv. A live feed of the City's government channel (TV 12) is also available from either web site.

During 2005-06, the City's contract for curbside recycling service expired, requiring a bid. Bids came back at nearly three times the current contract, and double our estimates of handling recycling in-house. Council and staff thoroughly analyzed the options, finally determining that the best option would be to reinstate the in-house recycling program. This required the acquisition of an additional four employees and two trucks, plus contracts for the disposal of the collected materials. Not completed by October 2006, the prior service provider offered to continue to provide curbside recycling until the City's program was fully operational or approximately mid-January 2007.

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 2006, the City worked on only two requests for annexation, including areas known as Pelican Bay and Collier Park of Commerce. The former, consisting of approximately 2,104 acres, was rejected by the City, and the latter, consisting of 112 acres, is still under consideration.

Cash Management

During fiscal year 2005-06, the City earned \$1,833,114 in interest income on an average balance of cash and investments of \$61,493,787. This income resulted in a rate of return of 4.15%, outpacing the portfolio's benchmark of 3.74% for the 1-3 year Merrill Lynch index, but falling slightly below the 4.97% for the funds invested with the State Board of Administration. Returns were significantly higher than the prior year's yield of 2.52%.

Investment activity was governed by City's investment policy adopted in September 2005. The primary objectives are 1) Safety 2) Liquidity and 3) Yield. Cash temporarily idle during the year was invested through the Fifth Third banking contract at the federal funds rate less 27 basis points for all monies on deposit in excess of the compensating \$750,000 balance. The City maintained accounts with the State Board of Administration's Local Government Investment Pool. PFM is contracted as the City's investment advisor, and their active management of the portfolio includes investment activity as outlined in the investment policy for the purpose of increasing yields while maintaining diversity, safety and liquidity.

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 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. GASB 45 requires that the City begin recording an obligation for this liability starting with fiscal year 2008-2009.

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 this requirement, and the independent auditors' report has been included in this report.

Distinguished Budget

The City's budget for 2005-06 received the GFOA's Distinguished Budget Presentation Award. In order to qualify for the Distinguished Budget Presentation Award, the budget had to be judged proficient as a policy document, a financial plan, an operations guide and a communications device.

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, 2005.

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.

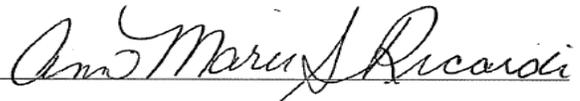
Acknowledgements

The timely preparation of the Comprehensive Annual Financial Report was made possible by the efficient and dedicated service and teamwork of the Accounting Division 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, CPA Associates 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, 2005

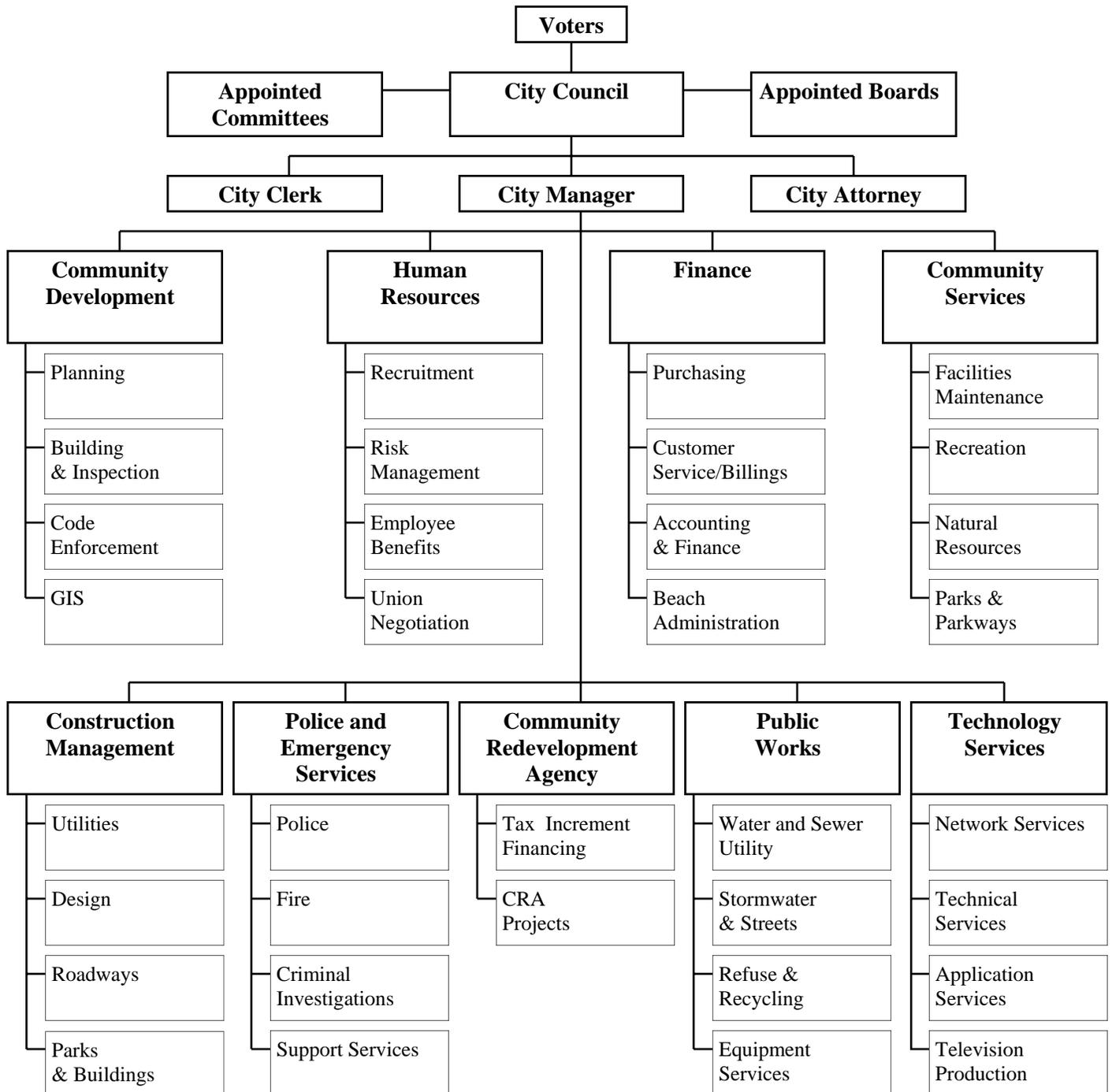
A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards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



President

Executive Director

City of Naples Organizational Chart





INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the governmental activities, 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, 2006, 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 control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our 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, 2006, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 26, 2007 on our consideration of the City of Naples, Florida's, internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and pension schedules on pages 3 through 13 and pages 92 through 94, respectively, are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. 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 combining and individual fund financial statements and schedules and other supplemental information listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audit of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The accompanying introductory and statistical sections, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements. This information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

CPA Associates

Bradenton, Florida
January 26, 2007

THE CITY OF NAPLES, FLORIDA

Management's Discussion and Analysis (Unaudited)

September 30, 2006

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, 2006.

Financial Highlights

- The assets of the City of Naples exceeded its liabilities at September 30, 2006 by \$163.6 million (net assets). Of this amount, \$60 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 \$15.5 million.
- As of September 30, 2006, the City of Naples' governmental activities reported combined ending net assets of \$84.6 million. This is an increase of \$10.3 million from the prior year. Approximately 44% of this total is unrestricted.
- The City of Naples total debt decreased by \$3.7 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 14) 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 16) 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.

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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 18. 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

THE CITY OF NAPLES, FLORIDA

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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 25 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 28 – 33) 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 41.

Required Supplementary Information

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

THE CITY OF NAPLES, FLORIDA

Management's Discussion and Analysis (Unaudited)

September 30, 2006

Government-wide Financial Analysis

The City's combined net assets as of September 30, 2006 were \$163.6 million. The City's combined revenues, including contributions, grants, charges for services and taxes were \$91.7 million. Total expenses, citywide were \$76.2 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	
	2006	2005	2006	2005	2006	2005
Current and other assets	\$ 49,605	46,877	33,346	28,920	82,951	75,797
Capital assets	63,693	56,773	84,972	85,505	148,665	142,278
Total assets	113,298	103,650	118,318	114,425	231,616	218,075
Long term liabilities outstanding	23,074	24,157	33,101	36,290	56,175	60,447
Other liabilities	5,630	5,199	6,233	4,306	11,863	9,505
Total liabilities	28,704	29,356	39,334	40,596	68,038	69,952
Net assets:						
Invested in capital assets, net of debt	44,278	36,375	50,606	48,444	94,884	84,819
Restricted	3,080	3,033	5,608	5,956	8,688	8,989
Unrestricted	37,236	34,886	22,770	19,429	60,006	54,315
Total net assets	\$ 84,594	74,294	78,984	73,829	163,578	148,123

The largest portion of the City's net assets (58%) 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 5% of the total net assets) are subject to external restrictions on how they may be used. The remaining 37% of unrestricted net assets, \$60 million may be used to meet the City's ongoing obligations to the citizens and creditors.

For the total primary government, including both governmental and business type activities, net assets increased \$15.455 million. Governmental activities increased the City of Naples net assets by \$10.3 million, thereby accounting for 67% of the total growth in net assets of the City of Naples. Business type activities accounted for \$5.156 million of the increase.

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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	
	2006	2005	2006	2005	2006	2005
Revenues:						
Program revenues:						
Charges for services	\$ 7,323	6,767	33,670	31,640	40,993	38,407
Operating grants and contributions	11,017	4,294	409	430	11,426	4,724
Capital grants and contributions	2,822	794	2,508	659	5,330	1,453
General revenues:						
Property taxes	15,927	14,405	—	—	15,927	14,405
Other taxes	11,426	8,901	—	—	11,426	8,901
Intergovernmental revenues	3,659	3,628	—	—	3,659	3,628
Unrestricted investment earnings	2,068	1,088	1,111	511	3,179	1,599
Other	(309)	105	35	1	(274)	106
Total revenues	53,933	39,982	37,733	33,241	91,666	73,223
Expenses:						
General government	12,563	4,629	—	—	12,563	4,629
Public safety	20,692	18,423	—	—	20,692	18,423
Physical and economic environment	2,292	1,727	—	—	2,292	1,727
Transportation	2,365	2,348	—	—	2,365	2,348
Cultural and recreation	6,489	6,104	—	—	6,489	6,104
Interest and fiscal charges	940	998	—	—	940	998
Water and wastewater	—	—	20,284	20,052	20,284	20,052
Solid waste	—	—	5,127	4,858	5,127	4,858
Stormwater	—	—	1,290	1,302	1,290	1,302
Other enterprises	—	—	4,169	3,851	4,169	3,851
Total expenses	45,341	34,229	30,870	30,063	76,211	64,292
Increase in net assets before transfers	8,592	5,753	6,863	3,178	15,455	8,931
Transfers	1,708	1,676	(1,708)	(1,676)	—	—
Increase in net assets	10,300	7,429	5,155	1,502	15,455	8,931
Net assets – beginning	74,294	66,865	73,829	72,327	148,123	139,192
Net assets – ending	\$ 84,594	74,294	78,984	73,829	163,578	148,123

The total primary government revenues show an \$18.4 million increase or 25.2% over last years total revenues. Governmental activities were the primary contributor to the increase, showing a \$14 million revenue increase. The primary reasons for this large increase in governmental activity revenue are as follows:

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- Property value increased 12.7% for the tax year. Despite a decrease in the millage rate from 1.16 in FY 2005 to 1.14 in FY 2005-06, the impact of the property value increased property taxes by \$1.5 million.
- Operating grants and contributions increased \$6.7 million, or 157%. Most of this can be attributed to the FEMA grants related to Hurricane Wilma.
- Investment Earnings increased \$980 thousand, or 90% over the prior year, due to the improved investment market.

However, business-type activities also showed an increase in revenues, increasing \$4.5 million or 13.6% over the revenues of 2005. Business type activity revenue was led by an increase in charges for services, most notable the water and sewer utility, which increased \$1.3 million due primarily to an increased rate but also increased usage. Also, capital contributions increased \$1.8 million, which is related to a major grant of \$1.2 million for the reuse line extension.

The total primary government's expenses increased \$11.919 million or 18.5%. Governmental activities represented 93% of the increase in expenses, with business type activities making up only 7% of the increase. Like revenues, the primary reason for the increase would be the costs booked related to the impact of Hurricane Wilma, making up about \$6.9 million. Excluding that extraordinary item, the increase in expenses for both governmental and business type activities closely paralleled inflation mixed with the overall increases in the cost of living, such as contractual raises and benefits increase.

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 \$45.3 million. As shown in the statement of activities on page 16, the net cost that was ultimately paid through taxes was \$24.2 million. The \$24.2 million of the cost of governmental activities not covered by taxes was provided by:

- \$7.3 million in charges for services, made of 3.7 million in building/permit fees, \$1.1 million in police and fire services, \$0.7 million for recreation fees, and the balance from various fees related to transportation and general government services.
- \$11 million in operating grants and contributions, including \$6.9 million in FEMA grants related to Hurricane Wilma \$1.9 million from Collier County's share of the Community Redevelopment Tax Increment Financing District, and the remaining from other grants from agencies including Tourism Development and Collier County.
- \$2.8 million in capital grants and contributions, which includes \$1.9 million in transportation grants such as those for the upgrade of the traffic signalization system, \$0.5 million from impact fees and special assessments, and \$0.4 million from general government, public safety, and recreation grants.

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Table 3

Governmental Activities

(In thousands)

	Total cost of service		Net cost of service	
	2006	2005	2006	2005
Public safety	\$ 20,692	18,423	15,143	12,226
Physical and economic environment	2,292	1,727	(501)	(267)
Transportation	2,365	2,348	232	1,730
Cultural and recreation	6,489	6,104	5,352	5,023
All others	13,503	5,627	3,953	3,661
Totals	\$ 45,341	34,229	24,179	22,373

Business-type activities

Revenues of the City's business-type activities (see Table 2) totaled \$37.8 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 \$1,299,320 and \$342,875 respectively, from last year. Interest income from all Business-type activities showed a 117% over prior years, due to the overall improved investment market.

City Code allows for Solid Waste and Water Sewer Fees to be adjusted automatically, based on the Consumers Price Index and the Public Service Commission Deflator Index, respectively. These small annual increases (3.5% and 2.17%, respectively) prevent any major rate jumps in any single year.

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 fund financial statements for the governmental funds are shown on pages 18-25. 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 \$37.564 million, an increase of \$2.972 million in comparison with the prior year. Approximately 43% of this total (or \$16.175 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 (\$3.853 million), 2) meet reserve requirements for debt service in accordance with bond covenants (\$1.707 million), 3) pay for future construction projects

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(\$7.559million), 4) pay for a City-wide emergency (\$2.933 million), 5) complete projects for the City's parks (\$3.525 million), and 6) a variety of other restricted purposes (\$1.812 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 \$9.173 million, while the total fund balance was \$12.937 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 25% of the total fiscal year 2006 general fund expenditures, while total general fund balance represents 35% of that same amount.

General government expenditures were nearly \$6.3 million over budget, due to the authorized but not budgeted expenditures and revenues related to the damage repair after Hurricane Wilma. Excluding that \$6.7 million, the city ended the year with expenditures \$0.4 million under budget. Most variances in general government areas were minor and due to short periods of vacancies or minor cost under-runs in operating expenses. However, there were areas of expenditures in Public Safety and Culture/Recreation with notable variances. In Public Safety, both Police and Fire pension boards increased the required contribution rate, and a change in accounting methods for the state pension money caused both retirement contributions and state insurance premium taxes to exceed budgets by \$553,988, resulting in public safety overall being over budget by \$425,998.

Offsetting that budgetary over-run is the cost under-run in the Community Services area. With a high vacancy rate causing salaries to be \$370,003 under budget, and many subcontracted services such as landscape maintenance outsourced but not completed, the year-end expenditures for Community Services was \$707,645 less than budgeted.

The fund balance of the City's general fund increased by \$3.52 million during the fiscal year. The budget was developed as a balanced budget, with revenues equal expenditures, therefore factors in this growth are primarily due to revenues exceeding expectations, as described below:

- Despite a tax rate decrease, ad valorem taxes exceeded projections by \$214,107.
- Franchise fees exceeding budget by \$1,057,364, the largest of these being the electric franchise fee, due to public utility rate increases which impact the basis for the franchise fee.
- Interest income exceeded budgetary expectations by \$305,173 due to market improving more than expected.

Proprietary funds. Like the fund financial statements of governmental funds, the fund financial statements for the City's proprietary funds provide the same type of information in the government-wide financial statements, but in more detail. The fund statements of the proprietary funds start on page 28.

Unrestricted net assets of the proprietary funds at the end of the fiscal year amounted to \$15.0407 million in the Water and Sewer fund, \$4.417 million in the Solid Waste fund, \$2.027 million in the Stormwater fund, \$302 thousand in the Naples Beach fund, \$523 thousand in the City Dock fund and \$61 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.

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Management's Discussion and Analysis (Unaudited)

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General Fund Budgetary Highlights

Differences between the General Fund's appropriations in the original and final amended budget was approximately \$1,717,000, of which \$1,639,829 was budgeted for Police and Fire Pension expenditures derived from Fire and Casualty premium taxes collected during the year and in addition \$73,000 for the City of Naples from an Urban and Community Forestry Grant that provided post hurricane reforestation throughout the City.

Capital Assets and Debt Administration

Capital Assets

The City as of year-end had \$148.7 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.

Table 4

Capital Assets at Year End

(In thousands)

	Governmental activities		Business-type activities		Total	
	2006	2005	2006	2005	2006	2005
Land	\$ 11,792	11,780	2,897	2,897	14,689	14,677
Buildings	27,576	26,697	59,569	59,523	87,145	86,220
Improvements other than buildings	23,013	23,003	26,740	26,025	49,753	49,028
Infrastructure	27,199	23,608	59,882	58,734	87,081	82,342
Machinery and equipment	14,599	13,468	14,312	14,358	28,911	27,826
Construction in progress	3,133	1,458	3,144	402	6,277	1,860
Less accumulated depreciation	(43,619)	(43,241)	(81,572)	(76,434)	(125,191)	(119,675)
Total net capital assets	\$ 63,693	56,773	84,972	85,505	148,665	142,278

This year's major additions are:

Governmental activities:	
Solana Road Corridor	\$ 1,480,512
Fire Suppression Vehicle	717,558
CC-Naples Phase II Signal System	1,498,772
Fleischman Park Renovation	4,336,157
Business-type activities:	
Reuse Expansion	\$ 1,811,848
RDP Building Enhancement	470,616
Lowdermilk Park Parking Lot Improvement	311,920

Additional information regarding the City's capital assets is included in the notes to the financial statements, note (D) page 58.

THE CITY OF NAPLES, FLORIDA

Management's Discussion and Analysis (Unaudited)

September 30, 2006

Debt Outstanding

As of year-end, the City had \$53,780,590 in debt (bonds, notes, etc.) outstanding compared to \$57,459,063 in 2005, a 6.4% decrease.

Table 5

Outstanding Debt, at Year-end

	<u>2006</u>	<u>2005</u>
Governmental:		
General obligation	\$ 4,440,000	4,825,000
Public service tax revenue	9,815,000	10,214,107
Redevelopment	5,265,000	5,475,000
Unamortized issuance discount	(104,985)	(116,646)
Sub-total	<u>19,415,015</u>	<u>20,397,461</u>
Business-type:		
Water/Wastewater Revenue	9,705,000	12,115,000
State Revolving Loan – Wastewater	19,802,935	21,141,581
State Revolving Loan – Stormwater	3,144,816	3,386,237
Capital Improvement note	1,310,000	—
City Dock Public Service Tax	—	30,893
City Tennis Public Service Tax	490,000	530,000
Unamortized issuance discount	(32,883)	(43,156)
Unamortized original issue premium	81,608	113,550
Unamortized deferred loss on refunding	(135,901)	(212,503)
Sub-total	<u>34,365,575</u>	<u>37,061,602</u>
Totals	<u>\$ 53,780,590</u>	<u>57,459,063</u>

Additional information regarding the City's outstanding debt is included in the notes to financial statements, note (G) page 67.

Economic Factors and Next Year Budget and Rates

In September 2006, the City Council approved a \$134.8 million budget for fiscal year 2006-07, which is approximately a 10% 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

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- Employee quality and working conditions
- Fiscal conservatism

The City of Naples' 2006-07 budget required a tax rate increase, despite growth in property values in the City, which has averaged 15% per year over the past five years. Increased costs related to public safety pensions and contractual services such as attorney and landscape and an increased transfer to the Streets Fund to pay for enhanced level of road maintenance were costs that contributed to a required rate increase.

Property taxes are the largest source of revenue to the General Fund, providing 54% of the revenue to that fund.

The following economic factors were considered in developing the budget for fiscal year 2006-07:

- Taxable values of \$16,640,704,052 increased 21% over the prior year.
- The budget includes a Water and Sewer Utility rate increase of 2.74%, consistent with the city's policy of increasing rates annually by the amount of Florida Public Services Commission's Deflator Index, and a Solid Waste rate increase of 3.5%.
- Personnel costs make up a significant portion of City operating costs. For 2006-07, 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.
- Health insurance expenses are budgeted to increase by \$758,300 or 12.9%.
- Pension expenses are projected to increase approximately 128% for Police contributions and 119% for Fire contributions, due to the continued lack of past performances of the capital market.
- Ten positions were added in the 2006-07 budget: a CRA Police Officer and a CRA Landscape Technician in the Community Redevelopment Fund, four new positions for the newly created Recycling Division in the Solid Waste Fund, a Plans Examiner in the Building Permits Fund, two Service Worker II positions in Facilities Maintenance and an Irrigation Technician for a total of 4 in the General Fund.
- Unemployment in Naples continues to be low, making it difficult to hire and retain workers. The September 2006 unemployment rate was 3.4% compared to a September 2005 rate of 3.7%, and the United States average of 4.4%.
- Property insurance costs due to Wilma and other hurricanes will continue to affect the City and its residents, with premiums for the city government expected to triple the prior year's expenses.

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, 2006

Assets	Primary Government		
	Governmental activities	Business-type activities	Total
Cash and investments	\$ 39,673,992	18,456,556	58,130,548
Receivables (net, where applicable, of allowance for uncollectible)			
Accounts	558,887	6,163,867	6,722,754
Special assessments	195,989	234,000	429,989
Utility taxes	209,036	—	209,036
Accrued interest	4,074	14,337	18,411
Internal balances	170,147	(170,147)	—
Due from other governments	5,177,429	1,421,092	6,598,521
Inventories	161,325	917,697	1,079,022
Prepaid items	22,265	669	22,934
Restricted assets:			
Cash and investments	1,707,311	6,250,450	7,957,761
Net pension assets	1,569,584	—	1,569,584
Deferred charges	154,932	57,926	212,858
Capital assets:			
Land and land improvements	11,791,787	2,896,850	14,688,637
Buildings and utility plants	27,575,499	59,569,315	87,144,814
Improvements other than buildings	23,013,372	26,739,589	49,752,961
Infrastructure	27,199,465	59,882,055	87,081,520
Equipment	14,599,015	14,311,937	28,910,952
Accumulated depreciation	(43,619,052)	(81,572,232)	(125,191,284)
Construction in progress	3,133,191	3,144,373	6,277,564
Net capital assets	63,693,277	84,971,887	148,665,164
Total assets	\$ 113,298,248	118,318,334	231,616,582

See accompanying notes to financial statements.

CITY OF NAPLES, FLORIDA

Statement of Net Assets

September 30, 2006

Liabilities	Primary Government		
	Governmental activities	Business-type activities	Total
Accounts payable and other current liabilities	\$ 4,518,256	2,456,695	6,974,951
Due to other governments	—	389,522	389,522
Unearned revenue	384,779	1,029,339	1,414,118
Customer deposits	453	25,723	26,176
Liabilities payable from restricted assets:			
Customer deposits	—	291,988	291,988
Current maturities of long-term debt	529,167	1,689,801	2,218,968
Accrued interest payable	197,188	350,159	547,347
Noncurrent liabilities:			
Revenue bonds payable, net of unamortized discounts and premiums:			
Due within one year	529,172	865,781	1,394,953
Due in more than one year	18,356,676	31,809,993	50,166,669
Compensated absences:			
Due within one year	330,375	57,689	388,064
Due in more than one year	1,392,247	367,067	1,759,314
Claims payable:			
Due within one year	1,209,855	—	1,209,855
Due in more than one year	1,256,147	—	1,256,147
Total noncurrent liabilities	23,074,472	33,100,530	56,175,002
Total liabilities	28,704,315	39,333,757	68,038,072
Net Assets			
Invested in capital assets, net of related debt	44,278,262	50,606,312	94,884,574
Restricted for:			
Debt service	1,510,123	4,536,447	6,046,570
Renewal and replacement	—	1,071,856	1,071,856
Net pension obligation	1,569,584	—	1,569,584
Unrestricted	37,235,964	22,769,962	60,005,926
Total net assets	\$ 84,593,933	78,984,577	163,578,510

CITY OF NAPLES, FLORIDA

Statement of Activities

Year ended September 30, 2006

	<u>Expenses</u>	<u>Indirect expenses allocation</u>	<u>Charges for services</u>
Functions/programs:			
Governmental activities:			
General government	\$ 15,716,333	(3,153,520)	1,477,212
Public safety	20,405,220	287,500	5,001,465
Physical and economic environment	2,167,446	124,800	11,982
Transportation	2,244,917	120,000	65,681
Culture and recreation	6,488,868	—	766,409
Interest	939,738	—	—
Total governmental activities	<u>47,962,522</u>	<u>(2,621,220)</u>	<u>7,322,749</u>
Business-type activities:			
Water and sewer	18,450,717	1,832,720	22,736,438
Solid waste	4,823,411	303,500	6,175,311
Stormwater	1,164,960	125,000	1,500,320
Beach	1,534,839	201,000	830,339
Dock	1,813,996	131,000	1,880,153
Tennis	460,366	28,000	547,122
Total business-type activities	<u>28,248,289</u>	<u>2,621,220</u>	<u>33,669,683</u>
Total primary government	\$ <u><u>76,210,811</u></u>	<u><u>—</u></u>	<u><u>40,992,432</u></u>

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
8,024,290	47,840	(3,013,471)	—	(3,013,471)
36,242	511,675	(15,143,338)	—	(15,143,338)
2,781,479	—	501,215	—	501,215
138,315	1,929,105	(231,816)	—	(231,816)
37,026	332,951	(5,352,482)	—	(5,352,482)
—	—	(939,738)	—	(939,738)
<u>11,017,352</u>	<u>2,821,571</u>	<u>(24,179,630)</u>	<u>—</u>	<u>(24,179,630)</u>
—	2,094,998	—	4,547,999	4,547,999
—	—	—	1,048,400	1,048,400
—	7,298	—	217,658	217,658
363,819	405,707	—	(135,974)	(135,974)
45,000	—	—	(19,843)	(19,843)
—	—	—	58,756	58,756
<u>408,819</u>	<u>2,508,003</u>	<u>—</u>	<u>5,716,996</u>	<u>5,716,996</u>
<u>11,426,171</u>	<u>5,329,574</u>	<u>(24,179,630)</u>	<u>5,716,996</u>	<u>(18,462,634)</u>
General revenues:				
Property taxes		15,926,721	—	15,926,721
Franchise and utility taxes		8,095,021	—	8,095,021
Insurance premium tax		1,751,337	—	1,751,337
Motor fuel taxes		1,579,996	—	1,579,996
Intergovernmental revenues – unrestricted		3,658,867	—	3,658,867
Unrestricted investment earnings		2,068,237	1,111,333	3,179,570
Miscellaneous revenues		54,863	—	54,863
Gain on sale of capital assets		(363,775)	35,256	(328,519)
Transfers		1,708,000	(1,708,000)	—
Total general revenues and transfers		<u>34,479,267</u>	<u>(561,411)</u>	<u>33,917,856</u>
Change in net assets		10,299,637	5,155,585	15,455,222
Net assets – beginning		<u>74,294,296</u>	<u>73,828,992</u>	<u>148,123,288</u>
Net assets – ending		<u>\$ 84,593,933</u>	<u>78,984,577</u>	<u>163,578,510</u>

CITY OF NAPLES, FLORIDA

Balance Sheet

Governmental Funds

September 30, 2006

	<u>General</u>	<u>Debt service</u>	<u>Capital projects</u>
Assets:			
Cash and investments	\$ 8,973,625	1,916,528	9,240,288
Receivables (net, where applicable, of allowance for uncollectible):			
Accounts	548,483	—	—
Special assessments	—	—	195,989
Utility taxes	—	209,036	—
Accrued interest receivables	—	4,074	—
Due from other funds	87,968	—	91,108
Advances due from other funds	623,255	—	594,584
Due from other governments	4,537,287	72,492	359,292
Inventories	18,577	—	—
Prepaid items	20,095	—	—
	<u>14,809,290</u>	<u>2,202,130</u>	<u>10,481,261</u>
Total assets	\$		
Liabilities:			
Accounts payable	\$ 1,034,138	105	1,274,214
Accrued payroll	658,831	—	—
Due to other funds	—	—	—
Advances payable to other funds	—	—	—
Deferred revenue	178,697	—	195,989
Customer deposits	453	—	—
	<u>1,872,119</u>	<u>105</u>	<u>1,470,203</u>
Total liabilities			
Fund balances:			
Reserved:			
Encumbrances	155,724	—	1,182,083
Advances	623,255	—	594,584
Inventories	18,577	—	—
Prepaid items	20,095	—	—
Debt service	—	1,707,311	—
Unreserved, designated			
Emergency	2,932,550	—	—
Capital projects	—	—	3,709,321
Other purposes	13,791	—	3,525,070
Unreserved, undesignated:			
Reported in general fund	9,173,179	—	—
Reported in debt service funds	—	494,714	—
Reported in special revenue funds	—	—	—
Reported in capital projects funds	—	—	—
	<u>12,937,171</u>	<u>2,202,025</u>	<u>9,011,058</u>
Total fund balances	\$		
Total liabilities and fund balances	<u>14,809,290</u>	<u>2,202,130</u>	<u>10,481,261</u>

See accompanying notes to financial statements.

Community redevelopment	Streets and traffic	Other nonmajor governmental	Total
4,332,126	4,493,092	6,857,397	35,813,056
—	—	1,976	550,459
—	—	—	195,989
—	—	—	209,036
—	—	—	4,074
43,983	43,983	47,125	314,167
—	353,766	—	1,571,605
—	144,863	47,925	5,161,859
—	18,387	—	36,964
—	—	—	20,095
4,376,109	5,054,091	6,954,423	43,877,304
52,971	1,004,536	135,870	3,501,834
14,286	14,840	60,081	748,038
—	—	41,896	41,896
1,625,177	—	19,340	1,644,517
—	—	1,976	376,662
—	—	—	453
1,692,434	1,019,376	259,163	6,313,400
2,500	2,494,395	18,625	3,853,327
—	353,766	—	1,571,605
—	18,387	—	36,964
—	—	—	20,095
—	—	—	1,707,311
—	—	—	2,932,550
2,681,175	1,168,167	—	7,558,663
—	—	169,846	3,708,707
—	—	—	9,173,179
—	—	—	494,714
—	—	5,056,858	5,056,858
—	—	1,449,931	1,449,931
2,683,675	4,034,715	6,695,260	37,563,904
4,376,109	5,054,091	6,954,423	43,877,304

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CITY OF NAPLES, FLORIDA

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

September 30, 2006

Total fund balances governmental funds (page 19)	\$ 37,563,904
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 (\$63,693,277) less amounts included in the internal service funds (\$740,171).	62,953,106
Accrued long term debt interest expense is not a financial use and, therefore, is not reported in the funds.	(197,188)
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 (\$23,603,639) less amounts reported in the internal service funds (\$2,732,015).	(20,871,624)
Certain long term assets are not available to pay for current period expenditures and, therefore are not recorded in the funds.	1,724,516
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>3,421,219</u>
Net assets of governmental activities (page 15)	<u>\$ 84,593,933</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, 2006

	<u>General</u>	<u>Debt service</u>	<u>Capital projects</u>
Revenues:			
Taxes	\$ 20,933,327	4,024,462	—
Licenses and permits	310,788	—	—
Intergovernmental	10,399,035	—	781,506
Charges for services	1,575,530	—	—
Charges to other funds	3,806,515	—	—
Fines and forfeitures	382,847	—	—
Special assessments	—	—	49,992
Impact fees	—	—	460,959
Interest	560,173	67,087	535,695
Donations	—	—	—
Miscellaneous	40,678	—	130
	<u>38,008,893</u>	<u>4,091,549</u>	<u>1,828,282</u>
Expenditures:			
Current:			
General government	14,738,646	64,000	313,400
Public safety	16,300,812	—	—
Physical and economic environment	625,280	—	—
Transportation	—	—	—
Culture and recreation	5,326,984	—	—
Capital outlay:			
General government	—	—	4,521,938
Public safety	20,181	—	1,298,958
Physical and economic environment	—	—	—
Transportation	—	—	1,808,959
Culture and recreation	4,195	—	430,962
Debt service:			
Principal	—	994,107	—
Interest and fiscal charges	—	873,538	—
	<u>37,016,098</u>	<u>1,931,645</u>	<u>8,374,217</u>
Excess (deficiency) of revenues over expenditures	<u>992,795</u>	<u>2,159,904</u>	<u>(6,545,935)</u>
Other financing sources (uses):			
Transfers in	1,728,775	473,753	2,309,275
Transfers out	(285,800)	(2,309,275)	—
Insurance recoveries	1,088,553	—	—
Proceeds from sale of capital assets	—	—	32,125
	<u>2,531,528</u>	<u>(1,835,522)</u>	<u>2,341,400</u>
Change in fund balances	3,524,323	324,382	(4,204,535)
Fund balances – beginning of year	<u>9,412,848</u>	<u>1,877,643</u>	<u>13,215,593</u>
Fund balances – end of year	\$ <u>12,937,171</u>	<u>2,202,025</u>	<u>9,011,058</u>

See accompanying notes to financial statements.

Community redevelopment	Streets and traffic	Other nonmajor governmental	Total
596,000	1,579,996	219,290	27,353,075
—	594	3,476,449	3,787,831
1,999,477	1,765,753	732,002	15,677,773
—	—	248,903	1,824,433
—	—	—	3,806,515
—	—	195,715	578,562
—	—	—	49,992
—	200,000	—	660,959
219,764	181,039	269,356	1,833,114
—	—	70,506	70,506
—	15,689	14,055	70,552
2,815,241	3,743,071	5,226,276	55,713,312
—	—	15,212	15,131,258
—	—	2,667,245	18,968,057
1,008,266	—	100,949	1,734,495
—	1,421,391	—	1,421,391
—	—	20,870	5,347,854
—	—	—	4,521,938
—	—	56,692	1,375,831
274,461	—	675,889	950,350
—	1,975,227	—	3,784,186
—	—	—	435,157
—	—	—	994,107
59,998	—	—	933,536
1,342,725	3,396,618	3,536,857	55,598,160
1,472,516	346,453	1,689,419	115,152
5,800	280,000	—	4,797,603
(404,927)	—	(68,826)	(3,068,828)
—	—	—	1,088,553
—	—	6,977	39,102
(399,127)	280,000	(61,849)	2,856,430
1,073,389	626,453	1,627,570	2,971,582
1,610,286	3,408,262	5,067,690	34,592,322
2,683,675	4,034,715	6,695,260	37,563,904

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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, 2006

Net Changes in Fund Balances – total governmental funds (page 23) \$ 2,971,582

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 (\$11,067,462) exceeded depreciation (\$3,838,875) in the
current period. 7,228,587

The net effect of various miscellaneous transactions involving capital assets
(i.e., sales, trade-ins, and donations) decrease net assets. (403,578)

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. 994,107

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. (397,357)

Decreases in the net pension asset in the statement of activities do not provide
current financial resources and therefore are not reported in governmental funds. (43,514)

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. (50,190)

Change in net assets of governmental activities (page 17) \$ 10,299,637

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, 2006

	<u>Original budget</u>	<u>Final budget</u>	<u>Actual</u>	<u>Variance with final budget positive (negative)</u>
Revenues:				
Taxes:				
Ad valorem	\$ 14,315,020	14,315,020	14,529,127	214,107
Franchise	3,595,500	3,595,500	4,652,864	1,057,364
Insurance premium tax	—	1,639,829	1,751,336	111,507
Licenses and permits	289,500	289,500	310,788	21,288
Intergovernmental	3,349,150	3,411,475	10,399,035	6,987,560
Charges for services	1,481,100	1,481,100	1,575,530	94,430
Charges to other funds	3,806,515	3,806,515	3,806,515	—
Fines and forfeitures	371,500	371,500	382,847	11,347
Interest	255,000	255,000	560,173	305,173
Miscellaneous	30,000	30,000	40,678	10,678
Total revenues	<u>27,493,285</u>	<u>29,195,439</u>	<u>38,008,893</u>	<u>8,813,454</u>
Expenditures:				
Current:				
General government:				
Mayor and City Council	236,943	236,943	233,103	3,840
City Attorney	552,223	651,523	634,510	17,013
City Clerk	522,794	522,794	479,991	42,803
City Manager	527,061	527,061	492,442	34,619
Planning	564,981	564,981	514,758	50,223
Finance	1,543,002	1,543,002	1,515,488	27,514
Nondepartmental	4,236,274	4,131,174	10,868,354	(6,737,180)
Total general government	<u>8,183,278</u>	<u>8,177,478</u>	<u>14,738,646</u>	<u>(6,561,168)</u>
Public safety:				
Fire	5,116,694	6,098,255	6,503,791	(405,536)
Police	8,935,750	9,595,517	9,660,918	(65,401)
Code inspections	179,392	179,392	136,103	43,289
Total public safety	<u>14,231,836</u>	<u>15,873,164</u>	<u>16,300,812</u>	<u>(427,648)</u>
Physical and economic environment:				
Human resources	651,335	651,335	625,280	26,055
Total physical and economic environment	<u>651,335</u>	<u>651,335</u>	<u>625,280</u>	<u>26,055</u>
Culture and recreation:				
Community services	5,952,924	6,031,824	5,326,984	704,840
Total culture and recreation	<u>5,952,924</u>	<u>6,031,824</u>	<u>5,326,984</u>	<u>704,840</u>

CITY OF NAPLES, FLORIDA

General Fund

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

Year ended September 30, 2006

	<u>Original budget</u>	<u>Final budget</u>	<u>Actual</u>	Variance with final budget positive (negative)
Capital outlay:				
Public safety:				
Fire	10,130	5,952	5,161	791
Police	13,200	15,879	15,020	859
Culture and recreation:				
Community Services	2,800	7,000	4,195	2,805
Total capital outlay	<u>26,130</u>	<u>28,831</u>	<u>24,376</u>	<u>4,455</u>
Total expenditures	29,045,503	30,762,632	37,016,098	(6,253,466)
Excess (deficiency) of revenues over expenditures	\$ <u>(1,552,218)</u>	<u>(1,567,193)</u>	<u>992,795</u>	<u>2,559,988</u>
Other financing sources (uses):				
Transfers in	1,832,218	1,852,993	1,728,775	(124,218)
Transfers out	(280,000)	(285,800)	(285,800)	—
Insurance recoveries	<u>—</u>	<u>—</u>	<u>1,088,553</u>	<u>1,088,553</u>
Total other financing sources (uses)	<u>1,552,218</u>	<u>1,567,193</u>	<u>2,531,528</u>	<u>964,335</u>
Change in fund balances	—	—	3,524,323	3,524,323
Fund balances – beginning of year	<u>9,412,848</u>	<u>9,412,848</u>	<u>9,412,848</u>	—
Fund balances – end of year	\$ <u><u>9,412,848</u></u>	<u><u>9,412,848</u></u>	<u><u>12,937,171</u></u>	<u><u>3,524,323</u></u>

See accompanying notes to financial statements.

CITY OF NAPLES, FLORIDA

Statement of Net Assets

Proprietary Funds

September 30, 2006

Assets	Business-type activities – Enterprise Funds		
	Water and Sewer Fund	Solid Waste Fund	Stormwater Fund
Current assets:			
Cash and investments	\$ 11,630,926	3,790,634	2,239,155
Restricted cash and investments	5,979,180	—	254,670
Restricted prepaid items	—	—	—
Receivables (net, where applicable, of allowance for uncollectibles):			
Accounts	4,788,986	1,043,763	277,917
Special assessments	234,000	—	—
Miscellaneous	—	—	—
Accrued interest	14,337	—	—
Advances due from other funds	19,340	—	53,572
Due from other governments	800,000	—	7,298
Inventories	890,455	—	—
Prepays	—	—	—
Total current assets	24,357,224	4,834,397	2,832,612
Capital assets:			
Land	1,731,983	1,145,053	19,814
Buildings and utility plants	57,125,980	522,015	—
Improvements other than buildings	19,165,871	976,102	—
Infrastructure	52,427,848	—	7,454,207
Equipment	10,976,977	2,034,493	305,238
Accumulated depreciation	(70,173,936)	(2,089,428)	(3,341,903)
Construction in progress	2,825,663	—	318,710
Net capital assets	74,080,386	2,588,235	4,756,066
Unamortized issuance cost	55,535	—	—
Total noncurrent assets	74,135,921	2,588,235	4,756,066
Total assets	98,493,145	7,422,632	7,588,678

See accompanying notes to financial statements.

Nonmajor funds	Total	Governmental activities – Internal Service Funds
795,841	18,456,556	5,568,247
16,600	6,250,450	—
—	—	—
52,865	6,163,531	—
—	234,000	—
336	336	8,428
—	14,337	—
—	72,912	—
613,794	1,421,092	15,570
27,242	917,697	124,361
669	669	2,170
1,507,347	33,531,580	5,718,776
—	2,896,850	—
1,921,320	59,569,315	326,404
6,597,616	26,739,589	—
—	59,882,055	—
995,229	14,311,937	1,798,353
(5,966,965)	(81,572,232)	(1,384,586)
—	3,144,373	—
3,547,200	84,971,887	740,171
2,391	57,926	—
3,549,591	85,029,813	740,171
5,056,938	118,561,393	6,458,947

(Continued)

CITY OF NAPLES, FLORIDA

Statement of Net Assets

Proprietary Funds

September 30, 2006

Business-type activities – Enterprise Funds

Liabilities	Water and Sewer Fund	Solid Waste Fund	Stormwater Fund
Current liabilities:			
Accounts payable	\$ 1,233,025	266,256	546,012
Accrued payroll	185,076	45,070	2,675
Due to other funds	—	—	—
Due to other governments	389,522	—	—
Deferred revenue	949,559	—	—
Customer deposits	—	—	—
Current portion of compensated absences	37,310	15,179	1,000
Current maturities of long-term debt	1,508,172	—	147,879
Insurance claims payable	—	—	—
Total payable from current assets	<u>4,302,664</u>	<u>326,505</u>	<u>697,566</u>
Current liabilities (payable from restricted assets):			
Customer deposits	291,988	—	—
Current maturities of long-term debt	758,216	—	96,315
Accrued interest payable	312,634	—	32,175
Total payable from restricted assets	<u>1,362,838</u>	<u>—</u>	<u>128,490</u>
Total current liabilities	<u>5,665,502</u>	<u>326,505</u>	<u>826,056</u>
Noncurrent liabilities:			
Due in more than one year:			
Revenue bonds payable, net of unamortized discounts and premiums	28,464,371	—	2,900,622
Compensated absences	232,066	90,758	1,217
Insurance claims payable	—	—	—
Total noncurrent liabilities	<u>28,696,437</u>	<u>90,758</u>	<u>2,901,839</u>
Total liabilities	<u>34,361,939</u>	<u>417,263</u>	<u>3,727,895</u>
Net Assets			
Invested in capital assets, net of related debt	43,349,627	2,588,235	1,611,250
Restricted for debt service	4,302,702	—	222,495
Restricted for renewal and replacement	1,071,856	—	—
Unrestricted	15,407,021	4,417,134	2,027,038
Net assets of business-type activities	<u>\$ 64,131,206</u>	<u>7,005,369</u>	<u>3,860,783</u>

See accompanying notes to financial statements.

Nonmajor funds	Total	Governmental activities – Internal Service Funds
141,613	2,186,906	180,645
36,968	269,789	87,739
243,059	243,059	29,212
—	389,522	—
79,780	1,029,339	8,117
25,723	25,723	—
4,200	57,689	24,375
33,750	1,689,801	—
—	—	1,209,855
565,093	5,891,828	1,539,943
—	291,988	—
11,250	865,781	—
5,350	350,159	—
16,600	1,507,928	—
581,693	7,399,756	1,539,943
445,000	31,809,993	—
43,026	367,067	241,638
—	—	1,256,147
488,026	32,177,060	1,497,785
1,069,719	39,576,816	3,037,728
3,057,200	50,606,312	740,171
11,250	4,536,447	—
—	1,071,856	—
918,769	22,769,962	2,681,048
3,987,219	78,984,577	3,421,219

CITY OF NAPLES, FLORIDA

Proprietary Funds

Statement of Revenues, Expenses and Changes in Fund Net Assets

Year ended September 30, 2006

	Business-type activities – Enterprise Funds		
	Water and Sewer Fund	Solid Waste Fund	Stormwater Fund
Operating revenues:			
Charges for services:			
Water revenues	\$ 13,086,983	—	—
Sewer revenues	9,649,455	—	—
Other	—	6,175,311	1,500,320
Total operating revenues	<u>22,736,438</u>	<u>6,175,311</u>	<u>1,500,320</u>
Operating expenses:			
Personal services	4,880,503	1,339,403	189,274
Supplies and services	3,242,567	3,114,261	215,905
Materials	1,699,448	—	—
Utilities	2,466,055	14,695	22,064
Depreciation and amortization	4,851,607	246,979	624,068
General administration	1,832,720	303,500	125,000
Other	126,221	108,073	15,694
Total operating expenses	<u>19,099,121</u>	<u>5,126,911</u>	<u>1,192,005</u>
Operating income (loss)	<u>3,637,317</u>	<u>1,048,400</u>	<u>308,315</u>
Nonoperating revenues (expenses):			
Operating grants	—	—	—
Interest income	811,107	160,245	101,251
Interest expense	(1,184,316)	—	(97,955)
Gain (loss) on sale of capital assets	12,386	23,339	—
Total nonoperating revenues (expenses)	<u>(360,823)</u>	<u>183,584</u>	<u>3,296</u>
Income (loss) before contributions and transfers	3,276,494	1,231,984	311,611
Capital contributions	2,094,998	—	7,298
Transfers out (payment in lieu of taxes)	(1,268,000)	(340,000)	—
Change in net assets	4,103,492	891,984	318,909
Net assets – beginning of year	60,027,714	6,113,385	3,541,874
Net assets – end of year	<u>\$ 64,131,206</u>	<u>7,005,369</u>	<u>3,860,783</u>

See accompanying notes to financial statements.

Nonmajor funds	Totals	Governmental activities – Internal Service Funds
—	13,086,983	—
—	9,649,455	—
3,257,614	10,933,245	11,979,700
<u>3,257,614</u>	<u>33,669,683</u>	<u>11,979,700</u>
1,079,245	7,488,425	2,378,403
1,655,061	8,227,794	8,294,985
—	1,699,448	884,543
187,626	2,690,440	31,690
670,727	6,393,381	210,100
360,000	2,621,220	428,275
192,725	442,713	16,942
<u>4,145,384</u>	<u>29,563,421</u>	<u>12,244,938</u>
<u>(887,770)</u>	<u>4,106,262</u>	<u>(265,238)</u>
408,819	408,819	—
38,730	1,111,333	235,122
(23,817)	(1,306,088)	—
(469)	35,256	701
<u>423,263</u>	<u>249,320</u>	<u>235,823</u>
(464,507)	4,355,582	(29,415)
405,707	2,508,003	—
(100,000)	(1,708,000)	(20,775)
<u>(158,800)</u>	<u>5,155,585</u>	<u>(50,190)</u>
4,146,019	73,828,992	3,471,409
<u>3,987,219</u>	<u>78,984,577</u>	<u>3,421,219</u>

CITY OF NAPLES, FLORIDA

Statement of Cash Flows

Proprietary Funds

Year ended September 30, 2006

	<u>Water and Sewer Fund</u>	<u>Solid Waste Fund</u>
Cash flows from operating activities:		
Cash received from customers	\$ 22,059,770	5,945,152
Cash payments to suppliers	(7,404,609)	(3,174,381)
Cash payments to employees	(4,833,593)	(1,303,583)
Cash payments for interfund services	<u>(1,832,720)</u>	<u>(303,500)</u>
Net cash provided by (used in) operating activities	<u>7,988,848</u>	<u>1,163,688</u>
Cash flows from noncapital financing activities:		
Transfers out	(1,268,000)	(340,000)
Loans/advances and repayments from (to) other funds	22,335	—
Operating grants	<u>—</u>	<u>—</u>
Net cash provided by (used in) noncapital financing activities	<u>(1,245,665)</u>	<u>(340,000)</u>
Cash flows from capital and related financing activities:		
Principal paid on long-term debt	(3,748,646)	—
Interest paid on long-term debt	(1,167,345)	—
Capital contributions	1,294,998	—
Proceeds from construction loan	1,310,000	—
Proceeds from sale of capital assets	15,406	23,339
Acquisition and construction of capital assets	<u>(4,501,962)</u>	<u>(244,567)</u>
Net cash used in capital and related financing activities	<u>(6,797,549)</u>	<u>(221,228)</u>
Cash flows from investing activities:		
Interest and investment earnings	<u>852,386</u>	<u>170,101</u>
Net cash provided by investing activities	<u>852,386</u>	<u>170,101</u>
Net increase (decrease) in cash and cash equivalents	798,020	772,561
Cash and cash equivalents – beginning of year	<u>16,812,086</u>	<u>3,018,073</u>
Cash and cash equivalents – end of year	<u><u>\$ 17,610,106</u></u>	<u><u>3,790,634</u></u>

Stormwater Fund	Nonmajor Funds	Total	Governmental Activities – Internal Service Funds
1,451,750	3,232,388	32,689,060	11,972,106
(320,771)	(2,084,735)	(12,984,496)	(9,358,800)
(198,461)	(1,049,487)	(7,385,124)	(2,291,134)
(125,000)	(360,000)	(2,621,220)	(428,275)
<u>807,518</u>	<u>(261,834)</u>	<u>9,698,220</u>	<u>(106,103)</u>
—	(100,000)	(1,708,000)	(20,775)
32,716	243,059	298,110	(2,602)
<u>—</u>	<u>54,123</u>	<u>54,123</u>	<u>—</u>
<u>32,716</u>	<u>197,182</u>	<u>(1,355,767)</u>	<u>(23,377)</u>
(241,421)	(70,893)	(4,060,960)	—
(100,816)	(24,622)	(1,292,783)	—
—	405,707	1,700,705	—
—	—	1,310,000	—
—	—	38,745	1,143
(130,927)	(407,053)	(5,284,509)	(305,905)
<u>(473,164)</u>	<u>(96,861)</u>	<u>(7,588,802)</u>	<u>(304,762)</u>
<u>107,169</u>	<u>40,947</u>	<u>1,170,603</u>	<u>253,490</u>
<u>107,169</u>	<u>40,947</u>	<u>1,170,603</u>	<u>253,490</u>
474,239	(120,566)	1,924,254	(180,752)
<u>2,019,586</u>	<u>933,007</u>	<u>22,782,752</u>	<u>5,748,999</u>
<u>2,493,825</u>	<u>812,441</u>	<u>24,707,006</u>	<u>5,568,247</u>

(Continued)

CITY OF NAPLES, FLORIDA

Statement of Cash Flows

Proprietary Funds

Year ended September 30, 2006

	<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)	\$ 3,637,317	1,048,400
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization	4,851,607	246,979
Changes in assets and liabilities:		
(Increase) decrease in accounts receivable, net	(961,705)	(230,159)
(Increase) decrease in special assessments receivable	39,550	—
(Increase) decrease in miscellaneous receivables	—	—
(Increase) decrease in due from other governments	—	—
(Increase) decrease in inventories	(501,326)	—
(Increase) decrease in prepaid items	—	—
Increase (decrease) in accounts payable	631,008	62,648
Increase (decrease) in accrued payroll / personal leave	4,010	1,283
Increase (decrease) in due to other governments	(344,924)	—
Increase (decrease) in deferred revenue	583,076	—
Increase (decrease) in customer deposits	7,335	—
Increase (decrease) in insurance claims payable		
Increase (decrease) in compensated absences payable	42,900	34,537
Net cash provided by (used in) operating activities	<u>\$ 7,988,848</u>	<u>1,163,688</u>

See accompanying notes to financial statements.

Stormwater Fund	Nonmajor funds	Total	Governmental Activities – Internal Service Funds
308,315	(887,770)	4,106,262	(265,238)
624,068	670,727	6,393,381	210,100
(48,570)	(12,289)	(1,252,723)	—
—	—	39,550	—
—	—	—	(223)
—	(16,247)	(16,247)	(4,256)
—	(6,746)	(508,072)	(10,181)
—	15,090	15,090	50,572
(67,108)	(43,553)	582,995	(146,033)
(6,661)	(1,191)	(2,559)	4,126
—	—	(344,924)	—
—	(10,781)	572,295	(3,115)
—	(23)	7,312	—
(2,526)	30,949	105,860	(24,998)
<u>807,518</u>	<u>(261,834)</u>	<u>9,698,220</u>	<u>83,143</u>
<u>807,518</u>	<u>(261,834)</u>	<u>9,698,220</u>	<u>(106,103)</u>

CITY OF NAPLES, FLORIDA

Statement of Fiduciary Net Assets

Fiduciary Funds

September 30, 2006

	Pension Trust Funds	Agency Funds
Assets:		
Cash	\$ 4,032,047	116,439
Accounts receivable	2,899	—
Accrued interest	379,749	—
Investments, at fair value:		
Corporate bonds	10,759,084	—
U.S. Government securities	6,616,301	—
Common stock	47,821,300	—
Mortgage – backed securities	6,394,964	—
Mutual funds	4,100,040	—
Total investments	<u>75,691,689</u>	<u>—</u>
Total assets	<u>80,106,384</u>	<u>116,439</u>
Liabilities:		
Accounts payable	<u>287</u>	<u>116,439</u>
Total liabilities	<u>287</u>	<u>116,439</u>
Net assets:		
Held in trust for pension benefits and other purposes	<u>\$ 80,106,097</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, 2006

	<u>Pension Trust Funds</u>
Additions:	
Contributions:	
Employee contributions	\$ 1,289,367
Employer contributions	1,922,453
State contributions	1,751,337
Total contributions	<u>4,963,157</u>
Investment earnings:	
Interest and dividend income	2,299,128
Net appreciation in fair value of investments	3,664,254
Less investment expense	(434,762)
Net investment earnings	<u>5,528,620</u>
Total additions	<u>10,491,777</u>
Deductions:	
Benefits paid	3,321,897
Refunds of contributions	770,684
General administration	152,832
Total deductions	<u>4,245,413</u>
Change in net assets	6,246,364
Net assets – beginning of year	<u>73,859,733</u>
Net assets – end of year	<u>\$ 80,106,097</u>

See accompanying notes to financial statements.

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THE CITY OF NAPLES, FLORIDA

Notes to Financial Statements

September 30, 2006

(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 Special Taxing District, East Naples Bay Special Taxing District and the Community Redevelopment Agency are blended component units of this reporting entity, because all districts are governed by Naples City Council. The two Special Taxing Districts were created and established by Ordinances #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 the taxing districts are provided through an ad valorem tax that is levied only within these specified districts. Ordinance #94-7099 created the Community Redevelopment Agency for the rehabilitation, conservation or redevelopment of the designated district. The tax increment from both Collier County and the City provides the source of revenue for the Community Redevelopment Agency.

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 CITY OF NAPLES, FLORIDA

Notes to Financial Statements

September 30, 2006

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment, and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not 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 taxes, 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.

THE CITY OF NAPLES, FLORIDA

Notes to Financial Statements

September 30, 2006

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

Community Redevelopment Fund – a blended component unit 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 Fund – 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

THE CITY OF NAPLES, FLORIDA

Notes to Financial Statements

September 30, 2006

contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

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

THE CITY OF NAPLES, FLORIDA

Notes to Financial Statements

September 30, 2006

(a) Advances to Other Funds

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

(b) Short-Term Interfund Receivables/Payables

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

THE CITY OF NAPLES, FLORIDA

Notes to Financial Statements

September 30, 2006

(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 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	2 – 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 financial statements, long-term debt and other long-term obligations are reported as liabilities. 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

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Notes to Financial Statements

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reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

(8) Fund Equity

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

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

Restricted net assets in the Water and Sewer Fund and the Stormwater Fund are created by restrictions of assets for debt service and renewal and replacement. These net assets increase as 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 \$3,806,515 for fiscal year 2006, and included \$463,995 charged to internal service and fiduciary funds and \$721,300 charged to governmental 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 (\$20,871,624) difference are as follows:

Bonds payable	\$ (19,520,000)
Less issuance discounts (to be amortized as interest expense)	104,985
Compensated absences	<u>(1,456,609)</u>
Net adjustment to reduce fund balance – total governmental funds to arrive at net assets – governmental activities	<u>\$ (20,871,624)</u>

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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 \$1,724,516 difference are as follows:

Net pension assets	\$	1,569,584
Unamortized bond issuance costs		<u>154,932</u>
Net adjustment to increase fund balance – total governmental funds to arrive at net assets – governmental activities	\$	<u><u>1,724,516</u></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 \$7,228,587 difference are as follows:

Capital outlay	\$	11,067,462
Depreciation expense, less internal service fund depreciation		<u>(3,838,875)</u>
Net adjustment to decrease net changes in fund balances – total governmental funds to arrive at changes in net assets of governmental activities	\$	<u><u>7,228,587</u></u>

Another element of that reconciliation states that “The net effect of various miscellaneous transactions involving capital assets (i.e., sales, trade-ins, and donations) is to decrease net assets.” The details of this (\$403,578) 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>(403,578)</u>
Net adjustment to decrease net changes in fund balances – total governmental funds to arrive at changes in net assets of governmental activities	\$	<u><u>(403,578)</u></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

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when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities.” The details of this \$994,107 difference are as follows:

Debt issued or incurred:

Principal repayments:

General obligation debt	\$	385,000
Revenue bonds debt		<u>609,107</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>994,107</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 \$397,356 difference are as follows:

Compensated absences	\$	(370,700)
Accrued interest		5,459
Amortization of issuance costs		(20,455)
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>(397,357)</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 is the only governmental fund 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.

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- 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 in accordance with the adopted annual budget ordinance. 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, 2006, expenditures exceeded appropriations as follows:

General Fund – Fire Department	\$ 404,745
General Fund – Police Department	64,542
General Fund – Nondepartmental	6,737,180

In the General fund, the overages were funded by sufficient unused appropriations within the fund as well as FEMA reimbursements related to Hurricane Wilma.

(C) Deficit Fund Balances

The Community Development Block Grant Fund has a deficit fund balance of \$17,070 at September 30, 2006. Such deficit will be recovered through future local program income.

The Construction Management internal service fund has deficit net assets of \$164,180 at September 30, 2006. This deficit will be recovered in future years through increased charges to participating funds.

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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 debt service, enterprise and trust funds.

Cash and Cash Equivalents

At September 30, 2006, the carrying amount of the City's bank deposit account was \$6,925,301. 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 \$29,033,260 is reported at amortized cost. The investment pool had an average of 32 days to maturity as of September 30, 2006.

Investment Portfolios

Investment holdings consist of a \$34,278,233 Investment Portfolio and a \$75,691,689 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).

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September 30, 2006

As of September 30, 2006, 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	\$ 7,433,204	1.121
Federal Agency – Notes	10,874,826	0.713
Federal Agency - Mortgage Backed Notes	12,674,150	0.452
Corporate – Note	995,581	0.670
Government Trust Money Market	2,300,472	0.885
Total	<u>\$ 34,278,233</u>	0.775

Interest receivable on the City's investment portfolio amounted to \$225,197 as of September 30, 2006.

Pension Portfolio

<u>Investment</u>	<u>Fair value</u>	<u>Average effective duration</u>
Corporate Bonds	\$ 10,759,084	
U.S. Government Securities	6,616,301	
Corporate Stocks	47,821,300	
Asset Backed Securities	6,394,964	
Mutual Funds	4,100,040	
Total	<u>\$ 75,691,689</u>	3.160

Interest receivable on the City's pension portfolio amounted to \$379,749 as of September 30, 2006.

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.

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Notes to Financial Statements

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The City utilizes “effective duration” as a measurement of interest rate risk and as of September 30, 2006, 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.

Investment Account/Portfolio	Fair value	Average effective duration
Cash	\$ 6,925,301	0.000
Local Government Surplus Funds Trust Fund (“SBA”)	29,033,260	0.089
Investment Portfolio	34,278,233	0.775
Pension Portfolio	75,691,689	3.160
Total	\$ 145,928,483	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 “Aa” by Moody’s and “AA” 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 of 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.

Corporate notes issued by corporations organized and operating within the United States or by depository institutions licensed by the United States that have a long term debt rating at the time of purchase, at a minimum, “Aa” by Moody’s and “AA” by Standard & Poor’s.

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, 2006, the City’s investment securities in the investment and pension portfolios, valued at \$39,897,114, were individually rated AAA by Standard & Poor’s and Aaa by Moody’s Investor Services.

The City’s investment of \$18,151,468 in High Quality Bonds as of September 30, 2006 was rated at least “A” by Moody’s and Standard & Poor’s.

The City’s \$29,033,260 investment deposit in the Local Government Surplus Funds Trust fund investment pool was unrated as of September 30, 2006.

THE CITY OF NAPLES, FLORIDA

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September 30, 2006

The City's cash balance of \$6,925,301 was deposited in a qualified public depository, as required by Chapter 280, Florida Statutes.

The Pension portfolio also contains \$47,821,300 in Equity Securities and \$4,100,040 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 securities purchased 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, 2006, 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, and 20% of available funds may be invested in money market mutual funds.

As of September 30, 2006, the City's Investment Portfolio had the following issuer concentration based on fair value:

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Issuer	Fair value	Percentage of portfolio
Cash	\$ 2,893,254	4.37%
Local Government Surplus Funds Trust Fund ("SBA")	29,033,260	43.85%
United States Treasury	6,478,711	9.79%
Federal National Mortgage Association	8,160,024	12.33%
Federal Home Loan Bank	16,341,607	24.68%
Corporate Note	997,420	1.51%
Money Market Mutual Funds	2,300,472	3.47%
	<u>\$ 66,204,748</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.

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, 2006, the City's Pension Portfolio had the following issuer concentration based on fair value:

Issuer	Fair value	Percentage of portfolio
Cash	\$ 4,032,047	5.06%
United States Government Securities	6,616,301	8.30%
Corporate Bonds	10,759,084	13.50%
Corporate Stocks	47,821,300	59.98%
Asset Backed Securities	6,394,964	8.02%
Mutual Funds	4,100,040	5.14%
	<u>\$ 79,723,736</u>	

Foreign Currency Risk

The City's investment policy does not allow for investments in foreign currency; therefore the City has no exposure to 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, 2005, the assessed value of the principal taxing authority's property upon

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Notes to Financial Statements

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which the 2005-06 levy was based was \$13.8 billion. The millage rate to finance general government services for the fiscal year ended September 30, 2006 was 1.140 (\$1.140 per \$1,000 of assessed value). The voted debt service millage was 0.0439 (\$0.0439 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, 2005 of the dependent special districts, East Naples Bay and Moorings Bay, were \$381 million, and \$1,376 million, respectively. In addition to the City's 1.14 millage rate and the voted debt service millage rate of 0.0439, 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, 2006. Total ad valorem taxes collected for the year ended September 30, 2006, aggregated \$15,926,721, net of cash discounts, of which \$14,529,127 was designated for general government services, \$815,290 for capital projects, and \$582,305 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.

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 2006 tax roll year, the assessment roll was opened for collection on November 1, 2005, and discounts for payment prior to April 1, 2006, 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 2006 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, 2006

(C) Receivables

Receivables at September 30, 2006, 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	\$ 548,483	—	—	4,537,287	—	5,085,770
Debt service	—	—	209,036	72,492	4,074	285,602
Capital projects	—	195,989	—	359,292	—	555,281
Streets and traffic	—	—	—	144,863	—	144,863
Nonmajor	1,976	—	—	47,925	—	49,901
Internal service	—	—	—	15,570	8,428	23,998
	<u>\$ 550,459</u>	<u>195,989</u>	<u>209,036</u>	<u>5,177,429</u>	<u>12,502</u>	<u>6,145,415</u>
Business type activities:						
Major funds:						
Water and sewer	\$ 4,788,986	234,000	—	800,000	14,337	5,837,323
Solid waste	1,043,763	—	—	—	—	1,043,763
Stormwater	277,917	—	—	7,298	—	285,215
Nonmajor	52,865	—	—	613,794	336	666,995
	<u>\$ 6,163,531</u>	<u>234,000</u>	<u>—</u>	<u>1,421,092</u>	<u>14,673</u>	<u>7,833,296</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, 2006 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, 2006

(D) Capital Assets

Governmental Activities:

A summary of changes in the capital assets of governmental activities for the year ended September 30, 2006 is as follows:

	<u>Balance</u> <u>October 1</u>	<u>Additions</u>	<u>Transfers/ retirements</u>	<u>Balance</u> <u>September 30</u>
Capital assets, not being depreciated:				
Land	\$ 11,780,407	11,380	—	11,791,787
Construction in progress	1,458,046	3,021,140	(1,345,995)	3,133,191
Total capital assets, not being depreciated	<u>13,238,453</u>	<u>3,032,520</u>	<u>(1,345,995)</u>	<u>14,924,978</u>
Capital assets, being depreciated:				
Buildings	26,697,412	1,176,367	(298,280)	27,575,499
Improvements other than buildings	23,002,671	1,880,864	(1,870,163)	23,013,372
Infrastructure	23,607,720	3,591,745	—	27,199,465
Equipment	13,467,923	3,039,865	(1,908,773)	14,599,015
Total capital assets being depreciated	<u>86,775,726</u>	<u>9,688,841</u>	<u>(4,077,216)</u>	<u>92,387,351</u>
Less accumulated depreciation for:				
Buildings	(7,354,591)	(881,444)	276,975	(7,959,060)
Improvements other than buildings	(11,723,160)	(1,211,464)	1,578,016	(11,356,608)
Infrastructure	(14,851,744)	(600,429)	—	(15,452,173)
Equipment	(9,311,779)	(1,355,638)	1,816,206	(8,851,211)
Total accumulated depreciation	<u>(43,241,274)</u>	<u>(4,048,975)</u>	<u>3,671,197</u>	<u>(43,619,052)</u>
Total capital assets, being depreciated, net	<u>43,534,452</u>	<u>5,639,866</u>	<u>(406,019)</u>	<u>48,768,299</u>
Governmental activities capital assets, net	\$ <u>56,772,905</u>	<u>8,672,386</u>	<u>(1,752,014)</u>	<u>63,693,277</u>

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Notes to Financial Statements

September 30, 2006

Business-Type Activities:

A summary of changes in capital assets of business-type activities for the year ended September 30, 2006 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	\$ 1,731,983	—	—	1,731,983
Construction in progress	339,959	2,485,704	—	2,825,663
Total capital assets not being depreciated	<u>2,071,942</u>	<u>2,485,704</u>	<u>—</u>	<u>4,557,646</u>
Capital assets being depreciated:				
Buildings and utility plants	57,080,093	45,887	—	57,125,980
Improvements other than buildings	18,808,455	547,673	(190,257)	19,165,871
Infrastructure	51,650,654	777,194	—	52,427,848
Machinery and equipment	10,710,398	645,502	(378,923)	10,976,977
Total capital assets being depreciated	138,249,600	2,016,256	(569,180)	139,696,676
Less accumulated depreciation for:				
Buildings	(17,905,365)	(1,288,184)	—	(19,193,549)
Improvements other than buildings	—	(1,009,191)	8,047	(9,601,336)
Infrastructure	(30,500,946)	(1,448,912)	138,755	(31,811,103)
Equipment	(8,941,487)	(1,045,821)	419,360	(9,567,948)
Total accumulated depreciation	<u>(65,947,990)</u>	<u>(4,792,108)</u>	<u>566,162</u>	<u>(70,173,936)</u>
Total capital assets being depreciated, net	<u>72,301,610</u>	<u>(2,775,852)</u>	<u>(3,018)</u>	<u>69,522,740</u>
Water and sewer fund capital assets, net	<u>\$ 74,373,552</u>	<u>(290,148)</u>	<u>(3,018)</u>	<u>74,080,386</u>

THE CITY OF NAPLES, FLORIDA

Notes to Financial Statements

September 30, 2006

<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	522,015	—	—	522,015
Improvements other than buildings	955,592	23,910	(3,400)	976,102
Equipment	2,361,973	220,658	(548,138)	2,034,493
Total capital assets being depreciated	3,839,580	244,568	(551,538)	3,532,610
Less accumulated depreciation for:				
Buildings and utility plants	(122,761)	(26,108)	—	(148,869)
Improvements other than buildings	(417,210)	(72,100)	3,400	(485,910)
Equipment	(1,854,015)	(148,772)	548,138	(1,454,649)
Total accumulated depreciation	(2,393,986)	(246,980)	551,538	(2,089,428)
Total capital assets being depreciated, net	1,445,594	(2,412)	—	1,443,182
Solid waste fund capital assets, net	\$ 2,590,647	(2,412)	—	2,588,235

THE CITY OF NAPLES, FLORIDA

Notes to Financial Statements

September 30, 2006

<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	318,710	(43,469)	318,710
Total capital assets not being depreciated	<u>63,283</u>	<u>318,710</u>	<u>(43,469)</u>	<u>338,524</u>
Capital assets being depreciated:				
Improvements other than buildings	7,083,560	370,647	—	7,454,207
Equipment	301,889	3,349	—	305,238
Total capital assets being depreciated	<u>7,385,449</u>	<u>373,996</u>	<u>—</u>	<u>7,759,445</u>
Less accumulated depreciation for:				
Improvements other than buildings	(2,431,115)	(615,190)	—	(3,046,305)
Equipment	(286,720)	(8,878)	—	(295,598)
Total accumulated depreciation	<u>(2,717,835)</u>	<u>(624,068)</u>	<u>—</u>	<u>(3,341,903)</u>
Total capital assets being depreciated, net	<u>4,667,614</u>	<u>(250,072)</u>	<u>—</u>	<u>4,417,542</u>
Stormwater fund capital assets, net	\$ <u>4,730,897</u>	<u>68,638</u>	<u>(43,469)</u>	<u>4,756,066</u>

THE CITY OF NAPLES, FLORIDA

Notes to Financial Statements

September 30, 2006

<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	\$ 18,375	—	(18,375)	—
Capital assets being depreciated:				
Buildings and utility plants	1,921,320	—	—	1,921,320
Improvements other than buildings	6,261,081	336,535	—	6,597,616
Equipment	984,160	88,893	(77,824)	995,229
Total capital assets being depreciated	9,166,561	425,428	(77,824)	9,514,165
Less accumulated depreciation for:				
Buildings and utility plants	(613,359)	(128,594)	—	(741,953)
Improvements other than buildings	(4,059,401)	(447,878)	—	(4,507,279)
Equipment	(701,855)	(92,962)	77,084	(717,733)
Total accumulated depreciation	(5,374,615)	(669,434)	77,084	(5,966,965)
Total capital assets being depreciated, net	3,791,946	(244,006)	(740)	3,547,200
Nonmajor fund business-type activities capital assets, net	\$ 3,810,321	(244,006)	(19,115)	3,547,200
Total business – type capital assets, net	\$ 85,505,417	(466,760)	(66,770)	84,971,887

THE CITY OF NAPLES, FLORIDA

Notes to Financial Statements

September 30, 2006

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

Governmental activities:	
General government	\$ 426,436
Public safety	962,483
Physical and economic environment	535,755
Transportation	901,227
Cultural and recreation	1,012,974
Internal service	<u>210,100</u>
Total depreciation expense – governmental activities	\$ <u>4,048,975</u>
Business-type activities:	
Water and sewer	\$ 4,792,108
Solid waste	246,979
Stormwater	624,068
Other nonmajor enterprise funds	<u>669,434</u>
Total depreciation expense – business-type activities	\$ <u>6,332,589</u>

(E) Interfund Transactions

Individual fund interfund receivable and payable balances at September 30, 2006 are as follows:

	<u>Interfund receivable</u>	<u>Interfund payable</u>
Governmental Activities:		
General Fund	\$ 87,968	—
Capital Projects Fund	91,108	—
Community Redevelopment Fund	43,983	—
Streets and Traffic Fund	43,983	—
Nonmajor Funds:		
Building and Zoning Fund	47,125	—
Community Development Block Grant Fund	—	41,896
Internal Service Fund:		
Construction Management Fund	—	29,212
Business-Type Activities:		
Naples Beach Fund	<u>—</u>	<u>243,059</u>
	\$ <u>314,167</u>	<u>314,167</u>

THE CITY OF NAPLES, FLORIDA

Notes to Financial Statements

September 30, 2006

Interfund receivables and payables generally represent recurring activities between funds as well as temporary deficit cash balances. The interfund payable for the community development block grant fund represents project costs to be funded by grant dollars.

Advances from/to other funds are as follows:

	<u>Advances receivable</u>	<u>Advances payable</u>
Governmental activities:		
General Fund	\$ 623,255	—
Capital Projects Fund	594,584	—
Streets and Traffic Fund	353,766	—
Community Redevelopment Fund	—	1,625,177
Nonmajor Fund:		
Community Development Block Grant Fund	—	19,340
Business-type activities:		
Water and Sewer Fund	19,340	—
Stormwater Fund	53,572	—
	<u>\$ 1,644,517</u>	<u>1,644,517</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 \$369,674.

THE CITY OF NAPLES, FLORIDA

Notes to Financial Statements

September 30, 2006

Interfund Transfers:

Transfers during the year ended September 30, 2006 consisted of the following:

	<u>Transfers in</u>	<u>Transfers out</u>
Governmental activities:		
General Fund	\$ 1,728,775	285,800
Debt Service Fund	473,753	2,309,275
Capital Projects Fund	2,309,275	—
Community Redevelopment Fund	5,800	404,927
Streets and Traffic Fund	280,000	—
Nonmajor Fund:		
East Naples Bay District Fund	—	68,826
Internal Service Fund:		
Risk Management Fund	—	20,775
Business-type activities:		
Water and sewer Fund	—	1,268,000
Solid waste Fund	—	340,000
Nonmajor Fund:		
City Dock Fund	—	100,000
	<u>\$ 4,797,603</u>	<u>4,797,603</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, 2006

(F) Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses at September 30, 2006, for the City's individual major funds and for the total nonmajor funds were as follows:

	Accounts payable	Accrued payroll	Total
Governmental activities:			
Major funds:			
General	\$ 1,034,138	658,831	1,692,969
Debt service	105	—	105
Capital projects	1,274,214	—	1,274,214
Community redevelopment	52,971	14,286	67,257
Streets and traffic	1,004,536	14,840	1,019,376
Nonmajor	135,870	60,081	195,951
Internal service	180,645	87,739	268,384
	\$ 3,682,479	835,777	4,518,256
Business type activities:			
Major funds:			
Water and sewer	\$ 1,233,025	185,076	1,418,101
Solid waste	266,256	45,070	311,326
Stormwater	546,012	2,675	548,687
Nonmajor	141,613	36,968	178,581
	\$ 2,186,906	269,789	2,456,695

THE CITY OF NAPLES, FLORIDA

Notes to Financial Statements

September 30, 2006

(G) Long-Term Obligations

Governmental activities long-term obligations at September 30, 2006 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%	\$ 425,000
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%	1,270,000
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%	9,390,000
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%	5,265,000
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	(104,985)
Compensated absences payable	<u>1,722,622</u>
	<u>\$ 21,137,637</u>

THE CITY OF NAPLES, FLORIDA

Notes to Financial Statements

September 30, 2006

Changes in long-term obligations for the year ended September 30, 2006 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>
Bonds Payable:					
2000 General Obligation Bonds	\$ 1,655,000	—	385,000	1,270,000	400,000
2004 General Obligation Bonds	3,170,000	—	—	3,170,000	—
1993 Public Service Tax Refunding Bonds	674,107	—	249,107	425,000	135,000
2001 Public Service Tax Revenue Bonds	9,540,000	—	150,000	9,390,000	315,000
2003 Redevelopment Revenue and Refunding Bonds	5,475,000	—	210,000	5,265,000	220,000
Unamortized issuance discounts	(116,646)	—	(11,661)	(104,985)	(11,661)
Total bonds payable	<u>20,397,461</u>	<u>—</u>	<u>982,446</u>	<u>19,415,015</u>	<u>1,058,339</u>
Claims and judgements	2,491,000	5,782,234	5,807,232	2,466,002	1,209,855
Compensated absences payable	<u>1,268,779</u>	<u>813,891</u>	<u>360,048</u>	<u>1,722,622</u>	<u>330,375</u>
Total	\$ <u>24,157,240</u>	<u>6,596,125</u>	<u>7,149,726</u>	<u>23,603,639</u>	<u>3,256,908</u>

Internal service funds predominantly serve the governmental funds. Accordingly, long-term liabilities for them are included as part of the above totals for governmental activities. At year end, \$266,013 in compensated absences and \$2,466,002 in claims and judgments of internal service funds are included in the above amounts. The compensated balances are made up by the following funds: General Fund \$1,382,642, Building and Zoning Fund \$32,566, Community Redevelopment Fund \$4,489, Streets and Traffic Fund \$36,912 and internal service funds \$266,013.

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

	<u>Principal</u>	<u>Interest</u>
Year ended September 30:		
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	1,320,000	621,629
2012-2016	6,960,000	2,266,006
2017-2021	6,180,000	909,972
2022	415,000	7,552
	\$ <u>19,520,000</u>	<u>6,799,094</u>

THE CITY OF NAPLES, FLORIDA

Notes to Financial Statements

September 30, 2006

Long-term liabilities of the business-type activities at September 30, 2006 are comprised of the following issues:

Water and Sewer Fund:

\$10,000,000 Capital Improvement Revenue Note, Series 2005 principal sums drawn in an amount not to exceed \$10,000,000 for the construction of reuse water lines. This note shall have a final maturity date of March 1, 2008. Interest on the principal balance shall be equal to 67% of the LIBOR Rate minus 0.15%, adjusted monthly on the 12th day of each month. Interest payments commenced March 1, 2006 and on each subsequent September 1 and March 1 thereafter until the Maturity Date.	\$ 1,310,000
\$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.	9,705,000
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%.	19,802,935
Unamortized issuance discounts	(32,883)
Unamortized original issue premium	81,608
Unamortized deferred loss on refunding	(135,901)
Compensated absences payable	269,376
Total water and sewer fund	<u>\$ 31,000,135</u>

THE CITY OF NAPLES, FLORIDA

Notes to Financial Statements

September 30, 2006

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%.

Compensated absences payable

Total Stormwater fund

\$	3,144,816
	<u>2,217</u>
\$	<u><u>3,147,033</u></u>

Nonmajor funds:

City Tennis Fund:

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

Unamortized issuance discount

Compensated absences payable

Total nonmajor funds

	490,000
	—
	<u>47,226</u>
\$	<u><u>537,226</u></u>

THE CITY OF NAPLES, FLORIDA

Notes to Financial Statements

September 30, 2006

Changes in proprietary fund debt for the year ended September 30, 2006 are as follows:

	<u>Water and Sewer</u>	<u>Solid Waste</u>	<u>Stormwater</u>	<u>Nonmajor</u>
Bonds and loans – October 1, 2005	\$ 33,114,472	—	3,386,237	560,893
Debt retired	(3,748,646)	—	(241,421)	(70,893)
Debt issued	1,310,000	—	—	—
Original issue discount	10,273	—	—	—
Original issue premium	(31,941)	—	—	—
Deferred loss on refunding	76,601	—	—	—
Total bonds and loans payable 2006	<u>30,730,759</u>	<u>—</u>	<u>3,144,816</u>	<u>490,000</u>
Compensated absences – October 1, 2005	226,476	71,400	4,743	16,277
Compensated absences additions	87,684	47,117	1,953	46,259
Compensated absences deductions	(44,784)	(12,580)	(4,479)	(15,310)
Total compensated absences 2006	<u>269,376</u>	<u>105,937</u>	<u>2,217</u>	<u>47,226</u>
Long term obligations – September, 2006	\$ <u>31,000,135</u>	<u>105,937</u>	<u>3,147,033</u>	<u>537,226</u>
Due in one year				
Revenue bonds	\$ 3,566,392	—	244,194	45,000
Compensated absences payable	37,310	15,179	1,000	4,200

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, 2006

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:		
2007	\$ 2,275,867	995,821
2008	3,664,130	919,307
2009	2,433,467	837,670
2010	2,513,907	754,599
2011	2,600,482	668,146
2012-2016	13,143,047	1,849,967
2017-2021	4,110,001	190,731
2022-2023	77,034	1,186
	<u>\$ 30,817,935</u>	<u>6,217,427</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:		
2007	\$ 244,194	93,429
2008	169,154	86,617
2009	174,319	81,453
2010	179,641	76,131
2011	185,125	70,647
2012-2016	1,013,933	264,926
2017-2021	1,178,450	100,408
2022-2023	—	—
	<u>\$ 3,144,816</u>	<u>773,611</u>

THE CITY OF NAPLES, FLORIDA

Notes to Financial Statements

September 30, 2006

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:		
2007	\$ 45,000	21,398
2008	45,000	19,553
2009	50,000	17,708
2010	50,000	15,658
2011	55,000	13,558
2012-2015	<u>245,000</u>	<u>29,445</u>
	\$ <u>490,000</u>	<u>117,320</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. Interest was capitalized during the year ended September 30, 2006 in the Water and Sewer fund in the amount of \$12,082.

As of September 30, 2006, the following issue has been defeased by refunding issues and remains outstanding:

	<u>Defeased Bonds Outstanding</u>
1977 Water and Sewer Refunding	\$ <u>11,670,000</u>

THE CITY OF NAPLES, FLORIDA

Notes to Financial Statements

September 30, 2006

(H) Additional Information

The City has one nonmajor enterprise fund which has revenue bonds outstanding at September 30, 2006. 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, 2006 follows:

Statement of Net Assets

Cash and investments	\$ 135,087
Inventories	10,895
Prepays	409
Restricted assets	<u>16,600</u>
Total current assets	162,991
Other assets	2,391
Capital assets, net	<u>457,046</u>
Total assets	<u>622,428</u>
Current liabilities	80,572
Current liabilities (payable from restricted assets)	16,600
Noncurrent liabilities	<u>453,497</u>
Total liabilities	<u>550,669</u>
Net assets:	
Restricted for debt service	11,250
Unrestricted	<u>60,509</u>
Total net assets	<u>\$ 71,759</u>

Statement of Changes in Net Assets

Operating revenues:	
Charges for services	\$ 547,122
Total operating revenues	<u>547,122</u>
Operating expenses	429,807
Depreciation and amortization	<u>35,930</u>
Total operating expenses	<u>465,737</u>
Operating income	81,385
Nonoperating revenues (expenses):	
Interest income	8,658
Interest expense	(22,629)
Loss on sale of capital assets	<u>(140)</u>
Change in net assets	<u>67,274</u>
Net assets – beginning of year	<u>4,485</u>
Net assets – end of year	<u>\$ 71,759</u>

THE CITY OF NAPLES, FLORIDA

Notes to Financial Statements

September 30, 2006

Statement of Cash Flows

Cash flows from operating activities:	
Cash received from customers	\$ 539,462
Cash payments to suppliers	(205,511)
Cash payments to employees	(168,516)
Cash payments for interfund services	<u>(28,000)</u>
Net cash provided by operating activities	<u>137,435</u>
Cash flows from capital and related financing activities:	
Principal paid on long term debt	(40,000)
Interest paid on long term debt	<u>(23,038)</u>
Net cash used in capital and related financing activities	<u>(63,038)</u>
Cash flows from investing activities:	
Interest and investment earnings	<u>8,658</u>
Net cash provided by investing activities	<u>8,658</u>
Net increase in cash and cash equivalents	83,055
Cash and cash equivalents, beginning of year	<u>68,632</u>
Cash and cash equivalents, end of year	\$ <u><u>151,687</u></u>

(I) Fund Equity

The following is a summary of fund balances that were designated for other purposes as of September 30, 2006:

<u>Designated for</u>	<u>General Fund</u>	<u>Capital Projects</u>	<u>Other non-major governmental funds</u>
Sable bay litigation	\$ 13,791	—	—
Parks and recreation	—	3,342,227	—
Low income housing	—	182,843	—
Donation requests	—	—	169,846
	\$ <u>13,791</u>	<u>3,525,070</u>	<u>169,846</u>

THE CITY OF NAPLES, FLORIDA

Notes to Financial Statements

September 30, 2006

(J) Employee Pension Plans

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

i. General Pension Plan

The General Retirement Plan provides benefits for all full-time American Federation of State and Municipal Employees (AFSME) union, 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, 2006, and current membership, as of October 1, 2006 the date of the most recent actuarial valuation, is as follows:

General pension plan:

Covered payroll for the year ended September 30, 2006	\$ 11,422,183
Covered payroll as a percentage of the City's total payroll of \$ 18,910,087	60.4%
Retirees and beneficiaries currently receiving benefits (disabled)	186
Vested terminated employees	22

Active employees:

Fully vested	178
Nonvested	91

THE CITY OF NAPLES, FLORIDA

Notes to Financial Statements

September 30, 2006

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 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, 2006 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, 2006, 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, 2006, 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

THE CITY OF NAPLES, FLORIDA

Notes to Financial Statements

September 30, 2006

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:			
09/30/06	\$ 1,028,430	102%	(634,492)
09/30/05	920,693	109%	(618,959)
09/30/04	842,346	100%	(537,237)

General Pension Plan

Annual Pension Cost and Net Pension Obligation

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Annual Required Contribution (ARC)	\$ 982,267	\$ 882,965	839,114
Interest on Net Pension Obligation (NPO)	(52,613)	(45,665)	(45,940)
Adjustment to ARC	(98,775)	(83,393)	(49,172)
Annual Pension Cost (APC)	1,028,430	920,693	842,346
Contributions made	1,043,963	1,002,415	839,114
Increase (decrease) in NPO	(15,533)	(81,722)	3,232
NPO at beginning of year	(618,959)	(537,237)	(540,469)
NPO at end of year	(634,492)	(618,959)	(537,237)

THE CITY OF NAPLES, FLORIDA

Notes to Financial Statements

September 30, 2006

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 06-11100. 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, 2006, and current membership, as of October 1, 2006, the date of the most recent actuarial valuation is as follows:

Police pension plan:

Covered payroll for the year ended September 30, 2006	\$ 4,238,516
Covered payroll as a percentage of the City's total payroll of \$ 18,910,087	22.4%
Retirees and beneficiaries currently receiving benefits	34
Vested terminated employees	19

Active employees:

Fully vested	44
Nonvested	27

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

	Benefits	Vesting
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 CITY OF NAPLES, FLORIDA

Notes to Financial Statements

September 30, 2006

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, 2006, 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, 2006, 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 contribution to the Police Officers' Pension Plan for the year ended September 30, 2006 was \$773,954. 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 8.00% 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.

	<u>Annual pension cost (APC)</u>	<u>% of APC contributed</u>	<u>Net pension obligation</u>
Year ending:			
09/30/06	\$ 1,093,836	95%	(560,527)
09/30/05	947,581	100%	(612,520)
09/30/04	120,401	304%	(611,869)

THE CITY OF NAPLES, FLORIDA

Notes to Financial Statements

September 30, 2006

**Police Pension Plan
Annual Pension Cost and Net Pension Obligation**

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Annual Required Contribution (ARC) \$	1,041,843	\$ 902,963	118,210
Interest on Net Pension Obligation (NPO)	(50,533)	(52,009)	(31,141)
Adjustment to ARC	(102,526)	(96,627)	(33,332)
Annual Pension Cost (APC)	1,093,836	947,581	120,401
Contributions made	1,041,843	948,232	365,900
Increase (decrease) in NPO	51,993	(651)	(245,499)
NPO at beginning of year	(612,520)	(611,869)	(366,370)
NPO at end of year	(560,527)	(612,520)	(611,869)

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 06-11152. 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, 2006, and current membership, as of October 1, 2006, the date of the most recent actuarial valuation, is as follows:

Firefighters' pension plan:

Covered payroll for the year ended September 30, 2006	\$ 3,249,388
Covered payroll as a percentage of the City's total payroll of \$ 18,910,087	17.2%
Retirees and beneficiaries currently receiving benefit (includes 1 disability)	18
Vested terminated employees	6

Active employees:

Fully vested	44
Nonvested	9

THE CITY OF NAPLES, FLORIDA

Notes to Financial Statements

September 30, 2006

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

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

The system also provides disability and survivors' benefits.

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

As of September 30, 2006, 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, 2006, 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 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, 2006

contribution to the Firefighters' Pension Plan for the year ended September 30, 2006 was \$977,383. 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 7.5% 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 age 50 for retirements after June 30, 2005.

Fire – Three Year Trend Information

	<u>Annual pension cost (APC)</u>	<u>% of APC contributed</u>	<u>Net pension obligation</u>
Year ending:			
09/30/06	\$ 1,004,049	99%	(374,565)
09/30/05	856,239	98%	(381,619)
09/30/04	1,757	6,312%	(402,960)

**Fire Pension Plan
Annual Pension Cost and Net Pension Obligation**

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Annual Required Contribution (ARC)	\$ 976,355	831,293	—
Interest on Net Pension Obligation (NPO)	(30,530)	(34,252)	(24,974)
Adjustment to ARC	(58,224)	(59,198)	(26,731)
Annual Pension Cost (APC)	1,004,049	856,239	1,757
Contributions made	996,995	834,898	110,901
Increase (decrease) in NPO	7,054	21,341	(109,444)
NPO at beginning of year	(381,619)	(402,960)	(293,816)
NPO at end of year	(374,565)	(381,619)	(402,960)

THE CITY OF NAPLES, FLORIDA

Notes to Financial Statements

September 30, 2006

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, 2006:

Statements of Fiduciary Net Assets

	General Pension Fund	Police Officers' Pension Fund	Firefighters' Pension Fund
	<u> </u>	<u> </u>	<u> </u>
Assets:			
Cash and investments	\$ 1,142,091	1,558,683	1,331,273
Receivables:			
Accounts	—	2,899	—
Accrued interest	157,141	123,150	99,458
Investments, at fair value:			
Corporate bonds	4,569,422	3,546,056	2,643,606
U.S. Government securities	2,643,501	2,143,684	1,829,116
Common stock	21,990,081	14,525,785	11,305,434
Mortgage – backed securities	<u>2,639,373</u>	<u>2,113,687</u>	<u>1,641,904</u>
Total investments	<u>31,842,377</u>	<u>22,329,212</u>	<u>17,420,060</u>
Total assets	<u>33,141,609</u>	<u>24,013,944</u>	<u>18,850,791</u>
Liabilities:			
Accounts payable	<u>—</u>	<u>—</u>	<u>287</u>
Net assets:			
Held in trust for pension benefits	\$ <u><u>33,141,609</u></u>	<u><u>24,013,944</u></u>	<u><u>18,850,504</u></u>

THE CITY OF NAPLES, FLORIDA

Notes to Financial Statements

September 30, 2006

Statements of Changes in Fiduciary Net Assets

	General Pension Fund	Police Officers' Pension Fund	Firefighters' Pension Fund
	<u> </u>	<u> </u>	<u> </u>
Additions:			
Contributions:			
Employee contributions	\$ 583,629	225,503	170,478
Employer contributions	1,043,963	379,397	288,351
State contributions	—	773,954	977,383
	<u>1,627,592</u>	<u>1,378,854</u>	<u>1,436,212</u>
Total contributions			
Investment earnings:			
Interest and dividend income	911,752	657,870	516,820
Net appreciation in fair value of investments	1,706,855	1,120,707	846,239
Less investment expense	<u>(200,753)</u>	<u>(129,788)</u>	<u>(104,221)</u>
	<u>2,417,854</u>	<u>1,648,789</u>	<u>1,258,838</u>
Net investment earnings			
Total additions	<u>4,045,446</u>	<u>3,027,643</u>	<u>2,695,050</u>
Deductions:			
Benefits paid	1,813,413	968,783	539,701
Refunds of contributions	268,303	17,150	11,308
General administration	<u>60,212</u>	<u>39,676</u>	<u>52,944</u>
	<u>2,141,928</u>	<u>1,025,609</u>	<u>603,953</u>
Total deductions			
Changes in net assets	1,903,518	2,002,034	2,091,097
Net assets – beginning of year	<u>31,238,091</u>	<u>22,011,910</u>	<u>16,759,407</u>
Net assets – end of year	<u>\$ 33,141,609</u>	<u>24,013,944</u>	<u>18,850,504</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 Supplemental Plan does not issue a stand-alone

THE CITY OF NAPLES, FLORIDA

Notes to Financial Statements

September 30, 2006

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 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 provisions 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, 2006 there were 195 active Plan members. The City's contribution for the year was \$166,694. Covered payroll for the year ended September 30, 2006 was \$8,419,152. Contributions and earnings are returned to participants upon retirement or termination. Employee contributions were \$290,879 for the year ended September 30, 2006.

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 Retirement Corporation.

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, 2006

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 provisions 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, 2006, 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 \$44,048. Covered payroll for the year ended September 30, 2006 was \$629,258. Employee contributions were \$18,878 for the year ended September 30, 2006.

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, 2006:

Statements of Fiduciary Net Assets

	Supplemental General Pension	Managers' 401 Pension
	<u> </u>	<u> </u>
Assets:		
Investments, at fair value:		
Mutual funds	\$ 3,589,477	510,563
Total investments	<u>3,589,477</u>	<u>510,563</u>
Total assets	<u>3,589,477</u>	<u>510,563</u>
Liabilities:		
Accounts payable	<u>—</u>	<u>—</u>
Total liabilities	<u>—</u>	<u>—</u>
Net assets:		
Held in trust for pension benefits	\$ <u>3,589,477</u>	<u>510,563</u>

THE CITY OF NAPLES, FLORIDA

Notes to Financial Statements

September 30, 2006

Statements of Changes in Fiduciary Net Assets

	Supplemental General Pension	Managers' 401 Pension
	<u> </u>	<u> </u>
Additions:		
Contributions:		
Employee contributions	\$ 290,879	18,878
Employer contributions	166,694	44,048
Direct state contributions	—	—
Total contributions	<u>457,573</u>	<u>62,926</u>
Investment earnings:		
Interest and dividend income	170,864	41,822
Net depreciation in fair value of investments	(9,511)	(36)
Net investment earnings	<u>161,353</u>	<u>41,786</u>
Total additions	<u>618,926</u>	<u>104,712</u>
Deductions:		
Refunds of contributions	<u>236,367</u>	<u>237,556</u>
Total deductions	<u>236,367</u>	<u>237,556</u>
Changes in net assets	382,559	(132,844)
Net assets – beginning of year	<u>3,206,918</u>	<u>643,407</u>
Net assets – end of year	<u>\$ 3,589,477</u>	<u>510,563</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, 2006

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		
Police and Fire personnel		200,000
All other personnel		150,000
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, \$108,979 and \$708,761 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, 2006. Estimates were based on an evaluation of claims pending and past experience. At September 30, 2006, \$2,466,002 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, 2006

A reconciliation of estimated claims liabilities is as follows:

	<u>Risk management</u>	<u>Health benefits</u>	<u>Total</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	1,706,000	785,000	2,491,000
Current year claims incurred and change in estimates	1,928,518	3,898,813	5,827,331
Claim payments	<u>(1,715,516)</u>	<u>(4,136,813)</u>	<u>(5,852,329)</u>
Balance September 30, 2006	\$ <u>1,919,002</u>	<u>547,000</u>	<u>2,466,002</u>

iv. Construction Projects

At September 30, 2006, the City had commitments for the completion of various construction projects totaling by fund:

Capital Projects Fund	\$ 2,160,287
Streets Fund	1,148,335
Water and Sewer Fund	7,206,452
Naples Beach Fund	47,704
Stormwater Fund	<u>381,514</u>
	\$ <u>10,944,292</u>

REQUIRED SUPPLEMENTAL INFORMATION
(Unaudited)

THE CITY OF NAPLES, FLORIDA

Required Supplemental Information

September 30, 2006

(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>
10/01/06	\$ 36,354	39,593	3,239	92%	11,422	28%
10/01/05	33,998	37,339	3,341	91%	11,268	30%
10/01/04	32,966	38,022	5,056	87%	10,946	46%
10/01/03	33,113	35,356	2,243	94%	11,297	20%
10/01/02	34,466	35,661	1,195	97%	10,426	11%
10/01/01	35,556	35,556	—	100%	9,591	0%

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>Required annual contribution</u>	<u>Employer actual contribution</u>	<u>Percentage contributed</u>
Fiscal year ended:			
09/30/06	\$ 982	1,044	106%
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	602

See accompanying independent auditors' report.

THE CITY OF NAPLES, FLORIDA

Required Supplemental Information

September 30, 2006

(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>
10/01/06	\$ 22,535	32,420	9,885	70%	4,238	233%
10/01/05	20,543	29,415	8,872	70%	4,052	219%
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%

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>Required annual contribution</u>	<u>Employer actual contribution</u>	<u>State actual contribution</u>	<u>Percentage contributed</u>
Fiscal year ended:				
09/30/06	\$ 1,041	379	663	100%
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%

See accompanying independent auditors' report.

THE CITY OF NAPLES, FLORIDA

Required Supplemental Information

September 30, 2006

(Unaudited)

**Fire 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>
10/01/06	\$ 18,677	30,409	11,732	61%	3,249	361%
10/01/05	16,019	24,141	8,122	66%	2,982	272%
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%

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:				
09/30/06	\$ 976	288	709	102%
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%

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 District 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, 2006

		Special revenue	
		Community	
	Building and	Development	
	Zoning	Block	Improvement
	Fund	Grant	Fund
	<u> </u>	<u> </u>	<u> </u>
Assets:			
Cash and investments	\$ 4,899,592	—	171,305
Accounts receivable		—	1,976
Due from other funds	47,125	—	—
Due from other governments	—	47,925	—
	<u> </u>	<u> </u>	<u> </u>
Total assets	\$ 4,946,717	47,925	173,281
	<u> </u>	<u> </u>	<u> </u>
Liabilities:			
Accounts payable	\$ 87,164	3,759	1,459
Accrued payroll	60,081	—	—
Due to other funds	—	41,896	—
Advances payable to other funds	—	19,340	—
Deferred revenue	—	—	1,976
	<u> </u>	<u> </u>	<u> </u>
Total liabilities	147,245	64,995	3,435
	<u> </u>	<u> </u>	<u> </u>
Fund balances:			
Reserved for encumbrances	18,625	—	—
Unreserved:			
Designated for other purposes	—	—	169,846
Undesignated (deficit)	4,780,847	(17,070)	—
	<u> </u>	<u> </u>	<u> </u>
Total fund balances (deficit)	4,799,472	(17,070)	169,846
	<u> </u>	<u> </u>	<u> </u>
Total liabilities and fund balances	\$ 4,946,717	47,925	173,281
	<u> </u>	<u> </u>	<u> </u>

See accompanying independent auditor's report.

Capital projects

Confiscated Properties Fund	Land Conservation Trust Fund	East Naples Bay District	Moorings Bay District	Total Nonmajor Governmental
299,681	132,989	507,620	846,210	6,857,397
—	—	—	—	1,976
—	—	—	—	47,125
—	—	—	—	47,925
<u>299,681</u>	<u>132,989</u>	<u>507,620</u>	<u>846,210</u>	<u>6,954,423</u>
6,600	—	—	36,888	135,870
—	—	—	—	60,081
—	—	—	—	41,896
—	—	—	—	19,340
—	—	—	—	1,976
<u>6,600</u>	<u>—</u>	<u>—</u>	<u>36,888</u>	<u>259,163</u>
—	—	—	—	18,625
—	—	—	—	169,846
<u>293,081</u>	<u>132,989</u>	<u>507,620</u>	<u>809,322</u>	<u>6,506,789</u>
<u>293,081</u>	<u>132,989</u>	<u>507,620</u>	<u>809,322</u>	<u>6,695,260</u>
<u>299,681</u>	<u>132,989</u>	<u>507,620</u>	<u>846,210</u>	<u>6,954,423</u>

CITY OF NAPLES, FLORIDA

Combining Statement of Revenues, Expenditures and Changes in Fund Balances

Nonmajor Governmental Funds

Year ended September 30, 2006

	Special revenue		
	Building and Zoning Fund	Community Development Block Grant	Improvement Fund
Revenues:			
Taxes	\$ —	—	—
Licenses and permits	3,476,449	—	—
Intergovernmental	—	45,656	—
Charges for services	238,903	10,000	—
Fines and forfeitures	—	—	—
Interest	207,265	—	—
Donations	—	—	70,506
Miscellaneous	14,055	—	—
Total revenues	<u>3,936,672</u>	<u>55,656</u>	<u>70,506</u>
Expenditures:			
Current:			
General government	—	—	15,212
Public safety	2,535,733	—	34,175
Physical and economic environment	—	45,656	—
Culture and recreation	—	—	20,870
Capital outlay:			
Public safety	33,361	—	—
Physical and economic environment	—	—	—
Total expenditures	<u>2,569,094</u>	<u>45,656</u>	<u>70,257</u>
Excess (deficiency) of revenues over expenditures	1,367,578	10,000	249
Other financing sources (uses):			
Transfers out:			
Debt service fund	—	—	—
Proceeds from sale of capital assets	—	—	—
Total other financing sources (uses)	<u>—</u>	<u>—</u>	<u>—</u>
Change in fund balances	1,367,578	10,000	249
Fund balances (deficit) – beginning of year	<u>3,431,894</u>	<u>(27,070)</u>	<u>169,597</u>
Fund balances (deficit)– end of year	<u>\$ 4,799,472</u>	<u>(17,070)</u>	<u>169,846</u>

See accompanying independent auditor's report.

Capital projects

Confiscated Properties Fund	Land Conservation Trust	East Naples Bay District	Moorings Bay District	Total Nonmajor Governmental
—	—	186,034	33,256	219,290
—	—	—	—	3,476,449
—	—	—	686,346	732,002
—	—	—	—	248,903
195,715	—	—	—	195,715
11,860	6,684	22,107	21,440	269,356
—	—	—	—	70,506
—	—	—	—	14,055
207,575	6,684	208,141	741,042	5,226,276
—	—	—	—	15,212
97,337	—	—	—	2,667,245
—	—	198	55,095	100,949
—	—	—	—	20,870
23,331	—	—	—	56,692
—	11,381	5,000	659,508	675,889
120,668	11,381	5,198	714,603	3,536,857
86,907	(4,697)	202,943	26,439	1,689,419
—	—	(68,826)	—	(68,826)
6,977	—	—	—	6,977
6,977	—	(68,826)	—	(61,849)
93,884	(4,697)	134,117	26,439	1,627,570
199,197	137,686	373,503	782,883	5,067,690
293,081	132,989	507,620	809,322	6,695,260

CITY OF NAPLES, FLORIDA

Nonmajor Special Revenue Funds

Schedule of Revenues, Expenditures and Changes in Fund Balances

Budget and Actual

Year ended September 30, 2006

	Building and Zoning Fund			
	Original budget	Final budget	Actual	Variance with final budget positive (negative)
Revenues:				
Licenses and permits	\$ 2,470,600	2,520,600	3,476,449	955,849
Intergovernmental	—	—	—	—
Charges for services	242,960	242,960	238,903	(4,057)
Interest	60,000	60,000	207,265	147,265
Miscellaneous	1,000	1,000	14,055	13,055
Total revenues	<u>2,774,560</u>	<u>2,824,560</u>	<u>3,936,672</u>	<u>1,112,112</u>
Expenditures:				
Current:				
Public safety	2,571,685	2,743,315	2,535,733	207,582
Physical and economic environment	—	—	—	—
Capital outlay:				
Public safety	18,000	69,262	33,361	35,901
Physical and economic environment	—	—	—	—
Total expenditures	<u>2,589,685</u>	<u>2,812,577</u>	<u>2,569,094</u>	<u>243,483</u>
Excess of revenues over expenditures	<u>184,875</u>	<u>11,983</u>	<u>1,367,578</u>	<u>1,355,595</u>
Change in fund balances	184,875	11,983	1,367,578	1,355,595
Fund balances – beginning of year	<u>3,481,894</u>	<u>3,431,894</u>	<u>3,431,894</u>	<u>—</u>
Fund balances – end of year	<u>\$ 3,666,769</u>	<u>3,443,877</u>	<u>4,799,472</u>	<u>1,355,595</u>

See accompanying independent auditor's report.

Community Development Block Grant

Original budget	Final budget	Actual	Variance with final budget positive (negative)
—	—	—	—
137,000	188,475	45,656	(142,819)
—	10,000	10,000	—
—	—	—	—
—	—	—	—
<u>137,000</u>	<u>198,475</u>	<u>55,656</u>	<u>(142,819)</u>
—	—	—	—
14,000	78,475	45,656	32,819
—	—	—	—
<u>123,000</u>	<u>120,000</u>	<u>—</u>	<u>120,000</u>
<u>137,000</u>	<u>198,475</u>	<u>45,656</u>	<u>152,819</u>
—	—	10,000	10,000
—	—	10,000	10,000
<u>(27,070)</u>	<u>(27,070)</u>	<u>(27,070)</u>	<u>—</u>
<u>(27,070)</u>	<u>(27,070)</u>	<u>(17,070)</u>	<u>10,000</u>

(Continued)

CITY OF NAPLES, FLORIDA

Nonmajor Special Revenue Funds

Schedule of Revenues, Expenditures and Changes in Fund Balances

Budget and Actual

Year ended September 30, 2006

	Confiscated Properties Fund			
	Original budget	Final budget	Actual	Variance with final budget positive (negative)
Revenues:				
Fines and forfeitures	\$ —	—	195,715	195,715
Interest	—	—	11,860	11,860
Miscellaneous	—	—	—	—
Total revenues	<u>—</u>	<u>—</u>	<u>207,575</u>	<u>207,575</u>
Expenditures:				
Current:				
Public safety	—	185,000	97,337	87,663
Physical and economic environment	—	—	—	—
Capital outlay:				
Public safety	—	70,000	23,331	46,669
Physical and economic environment	—	—	—	—
Total expenditures	<u>—</u>	<u>255,000</u>	<u>120,668</u>	<u>134,332</u>
Excess (deficiency) of revenues over expenditures	<u>—</u>	<u>(255,000)</u>	<u>86,907</u>	<u>341,907</u>
Other financing sources:				
Proceeds from sale of capital assets	—	—	6,977	6,977
Change in fund balances	—	(255,000)	93,884	348,884
Fund balances – beginning of year	<u>199,197</u>	<u>199,197</u>	<u>199,197</u>	<u>—</u>
Fund balances – end of year	<u>\$ 199,197</u>	<u>(55,803)</u>	<u>293,081</u>	<u>348,884</u>

See accompanying independent auditor's report.

CITY OF NAPLES, FLORIDA
 Nonmajor Capital Projects Funds
 Schedule of Revenues, Expenditures and Changes in Fund Balances
 Budget and Actual
 Year ended September 30, 2006

Land Contribution Trust Fund				Variance with final budget positive (negative)
	Original budget	Final budget	Actual	
Revenues:				
Interest	\$ —	—	6,684	6,684
Total revenues	—	—	6,684	6,684
Expenditures:				
Capital outlay:				
Physical and economic environment	—	11,381	11,381	—
Total expenditures	—	11,381	11,381	—
Excess (deficiency) of revenues over expenditures	—	(11,381)	(4,697)	6,684
Fund balances – beginning of year	137,686	137,686	137,686	—
Fund balances – end of year	\$ 137,686	126,305	132,989	6,684

(Continued)

See accompanying independent auditor's report.

CITY OF NAPLES, FLORIDA

Nonmajor Capital Projects Funds

Schedule of Revenues, Expenditures and Changes in Fund Balance

Budget and Actual

Year ended September 30, 2006

	East Naples Bay District			
	Original budget	Final budget	Actual	Variance with final budget positive (negative)
Revenues:				
Taxes	\$ 183,016	183,016	186,034	3,018
Intergovernmental	—	—	—	—
Interest	11,250	11,250	22,107	10,857
Total revenues	<u>194,266</u>	<u>194,266</u>	<u>208,141</u>	<u>13,875</u>
Expenditures:				
Current:				
Physical and economic environment	4,200	4,200	198	4,002
Capital outlay:				
Physical and economic environment	146,000	146,000	5,000	141,000
Total expenditures	<u>150,200</u>	<u>150,200</u>	<u>5,198</u>	<u>145,002</u>
Excess (deficiency) of revenues over expenditures	<u>44,066</u>	<u>44,066</u>	<u>202,943</u>	<u>158,877</u>
Other financing uses:				
Transfers	(68,825)	(68,825)	(68,826)	(1)
Total other financing uses	<u>(68,825)</u>	<u>(68,825)</u>	<u>(68,826)</u>	<u>(1)</u>
Net changes in fund balances	(24,759)	(24,759)	134,117	158,876
Fund balances – beginning of year	<u>373,503</u>	<u>373,503</u>	<u>373,503</u>	<u>—</u>
Fund balances – end of year	<u>\$ 348,744</u>	<u>348,744</u>	<u>507,620</u>	<u>158,876</u>

See accompanying independent auditor's report.

Moorings Bay District

Original budget	Final budget	Actual	Variance with final budget positive (negative)
33,028	33,028	33,256	228
65,000	782,144	686,346	(95,798)
11,000	11,000	21,440	10,440
<u>109,028</u>	<u>826,172</u>	<u>741,042</u>	<u>(85,130)</u>
98,200	133,200	55,095	78,105
—	749,103	659,508	89,595
<u>98,200</u>	<u>882,303</u>	<u>714,603</u>	<u>167,700</u>
<u>10,828</u>	<u>(56,131)</u>	<u>26,439</u>	<u>82,570</u>
—	—	—	—
—	—	—	—
10,828	(56,131)	26,439	82,570
782,883	782,883	782,883	—
<u>793,711</u>	<u>726,752</u>	<u>809,322</u>	<u>82,570</u>

CITY OF NAPLES, FLORIDA

Debt Service Fund

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

Year ended September 30, 2006

	<u>Original budget</u>	<u>Final budget</u>	<u>Actual</u>	Variance with final budget positive (negative)
Revenues:				
Taxes:				
Ad valorem	\$ 579,854	579,854	582,305	2,451
Utility	3,160,000	3,160,000	3,442,157	282,157
Interest	26,000	26,000	67,087	41,087
Total revenues	<u>3,765,854</u>	<u>3,765,854</u>	<u>4,091,549</u>	<u>325,695</u>
Expenditures:				
Current:				
General government	64,000	64,000	64,000	—
Debt service:				
Principal	994,107	994,107	994,107	—
Interest and fiscal charges	872,225	872,225	873,538	(1,313)
Total expenditures	<u>1,930,332</u>	<u>1,930,332</u>	<u>1,931,645</u>	<u>(1,313)</u>
Excess of revenues over expenditures	<u>1,835,522</u>	<u>1,835,522</u>	<u>2,159,904</u>	<u>324,382</u>
Other financing sources (uses):				
Transfers in	473,753	473,753	473,753	—
Transfers out	(2,309,275)	(2,309,275)	(2,309,275)	—
Total other financing sources (uses)	<u>(1,835,522)</u>	<u>(1,835,522)</u>	<u>(1,835,522)</u>	<u>—</u>
Change in fund balances	—	—	324,382	324,382
Fund balances – beginning of year	<u>1,877,643</u>	<u>1,877,643</u>	<u>1,877,643</u>	<u>—</u>
Fund balances – end of year	<u>\$ 1,877,643</u>	<u>1,877,643</u>	<u>2,202,025</u>	<u>324,382</u>

See accompanying independent auditor's report.

CITY OF NAPLES, FLORIDA

Capital Projects Fund

Schedule of Revenues, Expenditures and Changes in Fund Balance

Budget and Actual

Year ended September 30, 2006

	<u>Original budget</u>	<u>Final budget</u>	<u>Actual</u>	Variance with final budget positive (negative)
Revenues:				
Intergovernmental	\$ 811,700	1,362,136	781,506	(580,630)
Special assessments	69,500	69,500	49,992	(19,508)
Impact fees	55,200	55,200	460,959	405,759
Interest	702,000	702,000	535,695	(166,305)
Miscellaneous	29,950	29,950	130	(29,820)
Total revenues	<u>1,668,350</u>	<u>2,218,786</u>	<u>1,828,282</u>	<u>(390,504)</u>
Expenditures:				
Current:				
General government	301,400	313,400	313,400	—
Capital outlay:				
City Manager	2,500	3,610	—	3,610
City Clerk	6,000	6,000	3,481	2,519
Finance	884,735	883,625	91,812	791,813
Fire	1,108,000	1,423,133	1,006,843	416,290
Police	337,728	592,397	292,115	300,282
Transportation	1,455,000	3,297,962	1,808,959	1,489,003
Community services	957,315	1,493,283	430,962	1,062,321
Nondepartmental	4,110,899	6,830,033	4,426,645	2,403,388
Total expenditures	<u>9,163,577</u>	<u>14,843,443</u>	<u>8,374,217</u>	<u>6,469,226</u>
Excess (deficiency) of revenues over expenditures.	<u>(7,495,227)</u>	<u>(12,624,657)</u>	<u>(6,545,935)</u>	<u>6,078,722</u>
Other financing sources:				
Transfers in	2,470,461	2,470,461	2,309,275	(161,186)
Proceeds from sale of capital assets	—	—	32,125	32,125
Total other financing sources	<u>2,470,461</u>	<u>2,470,461</u>	<u>2,341,400</u>	<u>(129,061)</u>
Net changes in fund balances	<u>(5,024,766)</u>	<u>(10,154,196)</u>	<u>(4,204,535)</u>	<u>5,949,661</u>
Fund balances – beginning of year	<u>13,215,593</u>	<u>13,215,593</u>	<u>13,215,593</u>	<u>—</u>
Fund balances – end of year	<u>\$ 8,190,827</u>	<u>3,061,397</u>	<u>9,011,058</u>	<u>5,949,661</u>

See accompanying independent auditor's report.

CITY OF NAPLES, FLORIDA
Community Redevelopment Fund
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
Year ended September 30, 2006

	<u>Original budget</u>	<u>Final budget</u>	<u>Actual</u>	Variance with final budget positive (negative)
Revenues:				
Taxes:				
Ad valorem	\$ 596,000	596,000	596,000	—
Intergovernmental	1,990,000	1,990,000	1,999,477	9,477
Interest	46,800	46,800	219,764	172,964
Total revenues	<u>2,632,800</u>	<u>2,632,800</u>	<u>2,815,241</u>	<u>182,441</u>
Expenditures:				
Current:				
Physical and economic environment	1,262,467	1,368,803	1,008,266	360,537
Capital outlay:				
Physical and economic environment	5,903,000	6,369,684	274,461	6,095,223
Debt service:				
Interest	395,067	395,067	59,998	335,069
Total expenditures	<u>7,560,534</u>	<u>8,133,554</u>	<u>1,342,725</u>	<u>6,790,829</u>
Excess (deficiency) of revenues over expenditures	<u>(4,927,734)</u>	<u>(5,500,754)</u>	<u>1,472,516</u>	<u>6,973,270</u>
Other financing sources (uses):				
Transfers in	—	5,800	5,800	—
Transfers out	(404,927)	(404,927)	(404,927)	—
Bond proceeds	5,000,000	5,000,000	—	(5,000,000)
Total other financing sources (uses)	<u>4,595,073</u>	<u>4,600,873</u>	<u>(399,127)</u>	<u>(5,000,000)</u>
Net changes in fund balances	<u>(332,661)</u>	<u>(899,881)</u>	<u>1,073,389</u>	<u>1,973,270</u>
Fund balances – beginning of year	<u>1,610,286</u>	<u>1,610,286</u>	<u>1,610,286</u>	<u>—</u>
Fund balances – end of year	<u>\$ 1,277,625</u>	<u>710,405</u>	<u>2,683,675</u>	<u>1,973,270</u>

See accompanying independent auditor's 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, 2006

	<u>Original budget</u>	<u>Final budget</u>	<u>Actual</u>	Variance with final budget positive (negative)
Revenues:				
Taxes:				
Motor fuel taxes	\$ 1,565,000	1,565,000	1,579,996	14,996
Licenses and permits	—	—	594	594
Intergovernmental	1,020,400	4,327,572	1,765,753	(2,561,819)
Impact fees	200,000	200,000	200,000	—
Interest	60,000	60,000	181,039	121,039
Miscellaneous	72,564	72,564	15,689	(56,875)
Total revenues	<u>2,917,964</u>	<u>6,225,136</u>	<u>3,743,071</u>	<u>(2,482,065)</u>
Expenditures:				
Current:				
Transportation	2,025,829	2,055,855	1,421,391	634,464
Capital outlay:				
Transportation	1,752,500	5,474,822	1,975,227	3,499,595
Total expenditures	<u>3,778,329</u>	<u>7,530,677</u>	<u>3,396,618</u>	<u>4,134,059</u>
Excess (deficiency) of revenues over expenditures	<u>(860,365)</u>	<u>(1,305,541)</u>	<u>346,453</u>	<u>1,651,994</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	(507,030)	(952,206)	626,453	1,578,659
Fund balances – beginning of year	3,408,262	3,408,262	3,408,262	—
Fund balances – end of year	<u>\$ 2,901,232</u>	<u>2,456,056</u>	<u>4,034,715</u>	<u>1,578,659</u>

See accompanying independent auditor's 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, 2006

Assets	Naples Beach Fund	City Dock Fund	Tennis Fund	Total
Current assets:				
Cash and investments	\$ —	660,754	135,087	795,841
Restricted cash and investments	—	—	16,600	16,600
Restricted prepaid items	—	—	—	—
Receivables (net, where applicable, of allowance for uncollectible):				
Accounts	43,970	8,895	—	52,865
Miscellaneous	—	336	—	336
Accrued interest	—	—	—	—
Due from other governments	595,660	18,134	—	613,794
Inventories	—	16,347	10,895	27,242
Prepays	260	—	409	669
Total current assets	<u>639,890</u>	<u>704,466</u>	<u>162,991</u>	<u>1,507,347</u>
Capital assets:				
Buildings and utility plants	1,128,564	89,487	703,269	1,921,320
Improvements other than buildings	4,262,109	2,331,312	4,195	6,597,616
Equipment	683,715	295,755	15,759	995,229
Accumulated depreciation	(3,474,364)	(2,226,424)	(266,177)	(5,966,965)
Construction in progress	—	—	—	—
Net capital assets	<u>2,600,024</u>	<u>490,130</u>	<u>457,046</u>	<u>3,547,200</u>
Unamortized issuance cost	—	—	2,391	2,391
Total assets	<u>\$ 3,239,914</u>	<u>1,194,596</u>	<u>622,428</u>	<u>5,056,938</u>

See accompanying independent auditor's report.

CITY OF NAPLES, FLORIDA

Combining Statement of Net Assets

Nonmajor Enterprise Funds

September 30, 2006

Liabilities	Naples Beach Fund	City Dock Fund	Tennis Fund	Total
Current liabilities:				
Accounts payable	\$ 10,278	108,472	22,863	141,613
Accrued payroll	22,370	8,322	6,276	36,968
Due to other funds	243,059	—	—	243,059
Deferred revenue	28,118	35,179	16,483	79,780
Customer deposits	1,292	24,431	—	25,723
Current portion of compensated absences	1,500	1,500	1,200	4,200
Current maturities of long-term debt	—	—	33,750	33,750
Total current liabilities	<u>306,617</u>	<u>177,904</u>	<u>80,572</u>	<u>565,093</u>
Current liabilities (payable from restricted assets):				
Current maturities of long-term debt	—	—	11,250	11,250
Accrued interest payable	—	—	5,350	5,350
Total current liabilities (payable from restricted assets)	<u>—</u>	<u>—</u>	<u>16,600</u>	<u>16,600</u>
Noncurrent liabilities:				
Revenue bonds payable, less current maturities net of unamortized discounts and premiums	—	—	445,000	445,000
Compensated absences	31,298	3,231	8,497	43,026
Total noncurrent liabilities	<u>31,298</u>	<u>3,231</u>	<u>453,497</u>	<u>488,026</u>
Total liabilities	<u>337,915</u>	<u>181,135</u>	<u>550,669</u>	<u>1,069,719</u>
Net Assets				
Invested in capital assets, net of related debt	2,600,024	490,130	—	3,090,154
Restricted for debt service	—	—	11,250	11,250
Unrestricted	301,975	523,331	60,509	885,815
Total net assets	<u>\$ 2,901,999</u>	<u>1,013,461</u>	<u>71,759</u>	<u>3,987,219</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, 2006

	Naples Beach Fund	City Dock Fund	Tennis Fund	Total
Operating revenues:				
Charges for services	\$ 830,339	1,880,153	547,122	3,257,614
Total operating revenues	<u>830,339</u>	<u>1,880,153</u>	<u>547,122</u>	<u>3,257,614</u>
Operating expenses:				
Personal services	660,522	246,345	172,378	1,079,245
Supplies and services	197,080	1,262,471	195,510	1,655,061
Utilities	108,654	73,338	5,634	187,626
Depreciation and amortization	500,468	134,329	35,930	670,727
General administration	201,000	131,000	28,000	360,000
Other	68,115	96,325	28,285	192,725
Total operating expenses	<u>1,735,839</u>	<u>1,943,808</u>	<u>465,737</u>	<u>4,145,384</u>
Operating income (loss)	<u>(905,500)</u>	<u>(63,655)</u>	<u>81,385</u>	<u>(887,770)</u>
Nonoperating revenues (expenses):				
Operating grants and contributions	363,819	45,000	—	408,819
Interest income	—	30,072	8,658	38,730
Interest expense	—	(1,188)	(22,629)	(23,817)
Loss on sale of capital assets	—	(329)	(140)	(469)
Total nonoperating revenues (expenses)	<u>363,819</u>	<u>73,555</u>	<u>(14,111)</u>	<u>423,263</u>
Income (loss) before contributions and transfers	<u>(541,681)</u>	<u>9,900</u>	<u>67,274</u>	<u>(464,507)</u>
Capital contributions	405,707	—	—	405,707
Transfers out (payment in lieu of taxes)	—	(100,000)	—	(100,000)
Change in net assets	<u>(135,974)</u>	<u>(90,100)</u>	<u>67,274</u>	<u>(158,800)</u>
Net assets – beginning of year	<u>3,037,973</u>	<u>1,103,561</u>	<u>4,485</u>	<u>4,146,019</u>
Net assets – end of year	<u>\$ 2,901,999</u>	<u>1,013,461</u>	<u>71,759</u>	<u>3,987,219</u>

See accompanying independent auditor's report.

CITY OF NAPLES, FLORIDA

Combining Statement of Cash Flows

Nonmajor Enterprise Funds

Year ended September 30, 2006

	Naples Beach Fund	City Dock Fund
	<hr/>	<hr/>
Cash flows from operating activities:		
Cash received from customers	\$ 811,982	1,880,944
Cash payments to suppliers	(404,708)	(1,474,516)
Cash payments to employees	(633,186)	(247,785)
Cash payments for interfund services	(201,000)	(131,000)
	<hr/>	<hr/>
Net cash provided by (used in) operating activities	(426,912)	27,643
	<hr/>	<hr/>
Cash flows from noncapital financing activities:		
Transfers out	—	(100,000)
Loans from other funds	243,059	—
Operating grants and contributions	9,123	45,000
	<hr/>	<hr/>
Net cash provided by (used in) noncapital financing activities	252,182	(55,000)
	<hr/>	<hr/>
Cash flows from capital and related financing activities:		
Principal paid on long-term debt	—	(30,893)
Interest paid on long-term debt	—	(1,584)
Capital contributions	405,707	—
Proceeds from sale of capital assets	—	—
Acquisition and construction of capital assets	(380,085)	(26,968)
	<hr/>	<hr/>
Net cash provided by (used in) capital and related financing activities	25,622	(59,445)
	<hr/>	<hr/>
Cash flows from investing activities:		
Net purchases of investment securities	—	—
Interest and investment earnings	—	32,289
	<hr/>	<hr/>
Net cash provided by investing activities	—	32,289
	<hr/>	<hr/>
Net increase (decrease) in cash and cash equivalents	(149,108)	(54,513)
	<hr/>	<hr/>
Cash and cash equivalents – beginning of year	149,108	715,267
	<hr/>	<hr/>
Cash and cash equivalents – end of year	\$ —	660,754
	<hr/> <hr/>	<hr/> <hr/>

Tennis Fund	Total
539,462	3,232,388
(205,511)	(2,084,735)
(168,516)	(1,049,487)
(28,000)	(360,000)
<u>137,435</u>	<u>(261,834)</u>
—	(100,000)
—	243,059
—	54,123
<u>—</u>	<u>197,182</u>
(40,000)	(70,893)
(23,038)	(24,622)
—	405,707
—	—
—	(407,053)
<u>(63,038)</u>	<u>(96,861)</u>
—	—
<u>8,658</u>	<u>40,947</u>
<u>8,658</u>	<u>40,947</u>
83,055	(120,566)
<u>68,632</u>	<u>933,007</u>
<u><u>151,687</u></u>	<u><u>812,441</u></u>

(Continued)

CITY OF NAPLES, FLORIDA

Combining Statement of Cash Flows

Nonmajor Enterprise Funds

Year ended September 30, 2006

	<u>Naples Beach Fund</u>	<u>City Dock Fund</u>
Reconciliation of operating income (loss) to net cash provided by operating activities:		
Operating income (loss)	\$ (905,500)	(63,655)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Depreciation and amortization	500,468	134,329
Changes in assets and liabilities:		
(Increase) decrease in accounts receivable, net	(10,648)	(1,641)
(Increase) decrease in due from other governments	(2,133)	(14,114)
(Increase) decrease in inventories	—	1,190
(Increase) decrease in prepaid items	(260)	—
Increase (decrease) in accounts payable	(30,599)	(29,458)
Increase (decrease) in accrued payroll	(637)	(844)
Increase (decrease) in deferred revenue	(5,387)	2,266
Increase (decrease) in customer deposits	(189)	166
Increase (decrease) in compensated absences	27,973	(596)
Net cash provided by (used in) operating activities	\$ <u>(426,912)</u>	<u>27,643</u>

See accompanying independent auditor's report.

Tennis Fund	Total
81,385	(887,770)
35,930	670,727
—	(12,289)
—	(16,247)
(7,936)	(6,746)
15,350	15,090
16,504	(43,553)
290	(1,191)
(7,660)	(10,781)
—	(23)
3,572	30,949
<u>137,435</u>	<u>(261,834)</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		
Police and Fire personnel		200,000
All other personnel		150,000
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 \$2,556,401 for aggregate losses for the nine month period ending September 30, 2006.

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, 2006

Assets	Equipment services	Risk management
Current assets:		
Cash and investments	\$ 686,392	2,726,313
Receivables – miscellaneous	—	4,414
Accrued interest	—	—
Due from other governments	15,570	—
Inventories	124,361	—
Prepays	2,170	—
Total current assets	828,493	2,730,727
Capital assets:		
Buildings	274,447	—
Equipment	207,271	36,795
Accumulated depreciation	(208,551)	(32,417)
Net capital assets	273,167	4,378
Total assets	1,101,660	2,735,105
Liabilities		
Current liabilities:		
Accounts payable	66,821	32,419
Accrued payroll	24,921	6,638
Due to other funds	—	—
Deferred revenue	—	—
Total current liabilities	91,742	39,057
Noncurrent liabilities:		
Due within one year:		
Compensated absences	6,000	875
Insurance claims payable	—	662,855
Due in more than one year:		
Compensated absences	47,751	4,692
Insurance claims payable	—	1,256,147
Total noncurrent liabilities	53,751	1,924,569
Total liabilities	145,493	1,963,626
Net Assets		
Invested in capital assets, net of related debt	273,167	4,378
Unrestricted (deficit)	683,000	767,101
Total net assets (deficit)	\$ 956,167	771,479

See accompanying independent auditor's report.

Health benefits	Construction management	Technology services	Total
1,313,001	—	842,541	5,568,247
4,014	—	—	8,428
—	—	—	—
—	—	—	15,570
—	—	—	124,361
—	—	—	2,170
<u>1,317,015</u>	<u>—</u>	<u>842,541</u>	<u>5,718,776</u>
—	—	51,957	326,404
—	—	1,554,287	1,798,353
—	—	(1,143,618)	(1,384,586)
<u>—</u>	<u>—</u>	<u>462,626</u>	<u>740,171</u>
<u>1,317,015</u>	<u>—</u>	<u>1,305,167</u>	<u>6,458,947</u>
28,042	1,166	52,197	180,645
—	24,103	32,077	87,739
—	29,212	—	29,212
8,117	—	—	8,117
<u>36,159</u>	<u>54,481</u>	<u>84,274</u>	<u>305,713</u>
—	9,000	8,500	24,375
547,000	—	—	1,209,855
—	100,699	88,496	241,638
—	—	—	1,256,147
<u>547,000</u>	<u>109,699</u>	<u>96,996</u>	<u>2,732,015</u>
<u>583,159</u>	<u>164,180</u>	<u>181,270</u>	<u>3,037,728</u>
—	—	462,626	740,171
<u>733,856</u>	<u>(164,180)</u>	<u>661,271</u>	<u>2,681,048</u>
<u>733,856</u>	<u>(164,180)</u>	<u>1,123,897</u>	<u>3,421,219</u>

CITY OF NAPLES, FLORIDA

Internal Service Funds

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

Year ended September 30, 2006

	<u>Equipment services</u>	<u>Risk management</u>	<u>Health benefits</u>
Operating revenues:			
Charges for services	\$ 2,281,532	2,399,312	4,728,255
Operating expenses:			
Personal services	668,604	178,370	—
Supplies, services, and claims	489,154	2,104,143	5,096,924
Materials	883,980	—	—
Utilities	31,690	—	—
Depreciation and amortization	41,833	1,431	—
General administration	139,000	68,775	32,500
Other	2,357	13,861	—
Total operating expenses	<u>2,256,618</u>	<u>2,366,580</u>	<u>5,129,424</u>
Operating income (loss)	24,914	32,732	(401,169)
Nonoperating revenues:			
Interest income	29,515	100,332	67,180
Loss on sale of capital assets	1,143	—	—
Net income (loss) before transfers	<u>55,572</u>	<u>133,064</u>	<u>(333,989)</u>
Transfers	—	(20,775)	—
Change in net assets	<u>55,572</u>	<u>112,289</u>	<u>(333,989)</u>
Net assets (deficit) – beginning of year	<u>900,595</u>	<u>659,190</u>	<u>1,067,845</u>
Net assets (deficit) – end of year	\$ <u><u>956,167</u></u>	<u><u>771,479</u></u>	<u><u>733,856</u></u>

See accompanying independent auditor's report.

Construction management	Technology services	Total
851,820	1,718,781	11,979,700
706,793	824,636	2,378,403
80,080	524,684	8,294,985
563	—	884,543
—	—	31,690
—	166,836	210,100
103,000	85,000	428,275
724	—	16,942
891,160	1,601,156	12,244,938
(39,340)	117,625	(265,238)
—	38,095	235,122
—	(442)	701
(39,340)	155,278	(29,415)
—	—	(20,775)
(39,340)	155,278	(50,190)
(124,840)	968,619	3,471,409
(164,180)	1,123,897	3,421,219

CITY OF NAPLES, FLORIDA
Combining Statement of Cash Flows
Internal Service Funds
Year ended September 30, 2006

	Equipment services	Risk management
Cash flows from operating activities:		
Cash received from customers	\$ 2,277,276	2,399,362
Cash payments to suppliers	(1,399,548)	(1,877,366)
Cash payments to employees	(654,694)	(176,857)
Cash payments for interfund services	(139,000)	(68,775)
Net cash provided by (used in) operating activities	84,034	276,364
Cash flows from noncapital and related financing activities:		
Transfers to other funds	—	(20,775)
Loan repayments to other funds	—	—
Net cash used in noncapital and related financing activities	—	(20,775)
Cash flows from capital and related financing activities:		
Proceeds from sale of capital assets	1,143	—
Acquisition and construction of capital assets	(71,886)	—
Net cash used in capital and related financing activities	(70,743)	—
Cash flows from investing activities:		
Interest and investment earnings	31,611	108,250
Net cash provided by investing activities	31,611	108,250
Net increase (decrease) in cash and cash equivalents	44,902	363,839
Cash and cash equivalents – beginning of year	641,490	2,362,474
Cash and cash equivalents – end of year	\$ 686,392	2,726,313
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:		
Operating income (loss)	\$ 24,914	32,732
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization	41,833	1,431
Changes in assets and liabilities:		
(Increase) decrease in miscellaneous receivables	—	50
(Increase) decrease in due from other governments	(4,256)	—
(Increase) decrease in inventories	(10,181)	—
(Increase) decrease in prepaids	(2,170)	—
Increase (decrease) in accounts payable	19,984	27,636
Increase (decrease) in accrued payroll and personal leave	(2,796)	231
Increase (decrease) in deferred revenue	—	—
Increase (decrease) in insurance claims payable		213,002
Increase (decrease) in compensated absences	16,706	1,282
Net cash provided by (used in) operating activities	\$ 84,034	276,364

See accompanying independent auditor's report.

Health benefits	Construction management	Technology services	Total
4,724,867	851,820	1,718,781	11,972,106
(5,469,093)	(80,841)	(531,952)	(9,358,800)
—	(665,377)	(794,206)	(2,291,134)
(32,500)	(103,000)	(85,000)	(428,275)
(776,726)	2,602	307,623	(106,103)
—	—	—	(20,775)
—	(2,602)	—	(2,602)
—	(2,602)	—	(23,377)
—	—	—	1,143
—	—	(234,019)	(305,905)
—	—	(234,019)	(304,762)
73,280	—	40,349	253,490
73,280	—	40,349	253,490
(703,446)	—	113,953	(180,752)
2,016,447	—	728,588	5,748,999
1,313,001	—	842,541	5,568,247
(401,169)	(39,340)	117,625	(265,238)
—	—	166,836	210,100
(273)	—	—	(223)
—	—	—	(4,256)
—	—	—	(10,181)
52,742	—	—	50,572
(186,911)	526	(7,268)	(146,033)
—	970	5,721	4,126
(3,115)	—	—	(3,115)
(238,000)	—	—	(24,998)
—	40,446	24,709	83,143
(776,726)	2,602	307,623	(106,103)

CITY OF NAPLES, FLORIDA

Combining Statement of Fiduciary Net Assets

Fiduciary Funds

September 30, 2006

	<u>Pension Trust</u>		
	<u>General Pension Fund</u>	<u>Supplemental General Pension</u>	<u>Managers' 401 Pension</u>
Assets:			
Cash	\$ 1,142,091	—	—
Receivables:			
Accounts	—	—	—
Accrued interest	157,141	—	—
Investments, at fair value:			
Corporate bonds	4,569,422	—	—
U.S. Government securities	2,643,501	—	—
Common stock	21,990,081	—	—
Mortgage – backed securities	2,639,373	—	—
Mutual funds	—	3,589,477	510,563
Total investments	<u>31,842,377</u>	<u>3,589,477</u>	<u>510,563</u>
Total assets	<u>33,141,609</u>	<u>3,589,477</u>	<u>510,563</u>
Liabilities:			
Accounts payable	—	—	—
Total liabilities	<u>—</u>	<u>—</u>	<u>—</u>
Net assets:			
Held in trust for pension benefits	<u>\$ 33,141,609</u>	<u>3,589,477</u>	<u>510,563</u>

See accompanying independent auditor's report.

Police Officers' Pension Fund	Firefighters' Pension Fund	Total
1,558,683	1,331,273	4,032,047
2,899	—	2,899
123,150	99,458	379,749
3,546,056	2,643,606	10,759,084
2,143,684	1,829,116	6,616,301
14,525,785	11,305,434	47,821,300
2,113,687	1,641,904	6,394,964
—	—	4,100,040
<u>22,329,212</u>	<u>17,420,060</u>	<u>75,691,689</u>
<u>24,013,944</u>	<u>18,850,791</u>	<u>80,106,384</u>
—	287	287
—	287	287
<u><u>24,013,944</u></u>	<u><u>18,850,504</u></u>	<u><u>80,106,097</u></u>

CITY OF NAPLES, FLORIDA

Combining Statement of Changes in Fiduciary Net Assets

Fiduciary Funds

Year ended September 30, 2006

	General Pension Fund	Supplemental General Pension	Managers' 401 Pension
	<u> </u>	<u> </u>	<u> </u>
Additions:			
Contributions:			
Employee contributions	\$ 583,629	290,879	18,878
Employer contributions	1,043,963	166,694	44,048
State contributions	<u> —</u>	<u> —</u>	<u> —</u>
Total contributions	<u>1,627,592</u>	<u>457,573</u>	<u>62,926</u>
Investment earnings:			
Interest and dividend income	911,752	170,864	41,822
Net appreciation (depreciation) in fair value of investments	1,706,855	(9,511)	(36)
Less investment expense	<u>(200,753)</u>	<u> —</u>	<u> —</u>
Net investment earnings	<u>2,417,854</u>	<u>161,353</u>	<u>41,786</u>
Total additions	<u>4,045,446</u>	<u>618,926</u>	<u>104,712</u>
Deductions:			
Benefits paid	1,813,413	—	—
Refunds of contributions	268,303	236,367	237,556
General administration	<u>60,212</u>	<u> —</u>	<u> —</u>
Total deductions	<u>2,141,928</u>	<u>236,367</u>	<u>237,556</u>
Changes in net assets	1,903,518	382,559	(132,844)
Net assets – beginning of year	<u>31,238,091</u>	<u>3,206,918</u>	<u>643,407</u>
Net assets – end of year	\$ <u><u>33,141,609</u></u>	<u><u>3,589,477</u></u>	<u><u>510,563</u></u>

See accompanying independent auditor's report.

Police Officers' Pension Fund	Firefighters' Pension Fund	Total
225,503	170,478	1,289,367
379,397	288,351	1,922,453
773,954	977,383	1,751,337
<u>1,378,854</u>	<u>1,436,212</u>	<u>4,963,157</u>
657,870	516,820	2,299,128
1,120,707	846,239	3,664,254
(129,788)	(104,221)	(434,762)
<u>1,648,789</u>	<u>1,258,838</u>	<u>5,528,620</u>
<u>3,027,643</u>	<u>2,695,050</u>	<u>10,491,777</u>
968,783	539,701	3,321,897
17,150	11,308	770,684
39,676	52,944	152,832
<u>1,025,609</u>	<u>603,953</u>	<u>4,245,413</u>
2,002,034	2,091,097	6,246,364
<u>22,011,910</u>	<u>16,759,407</u>	<u>73,859,733</u>
<u><u>24,013,944</u></u>	<u><u>18,850,504</u></u>	<u><u>80,106,097</u></u>

CITY OF NAPLES, FLORIDA

Statement of Changes in Assets and Liabilities – Agency Funds

Year ended September 30, 2006

	Balance October 1, 2005	Additions	Deductions	Balance October 1, 2006
Assets				
Cash and investments	\$ 79,606	15,761,791	15,724,958	116,439
Total assets	<u>\$ 79,606</u>	<u>15,761,791</u>	<u>15,724,958</u>	<u>116,439</u>
Liabilities				
Accounts payable	\$ 79,606	15,761,791	15,724,958	116,439
Total liabilities	<u>\$ 79,606</u>	<u>15,761,791</u>	<u>15,724,958</u>	<u>116,439</u>

See accompanying independent auditor's report.

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, 2006

Operating revenue:	
Water	\$ 13,086,983
Sewer	9,649,455
	<u>22,736,438</u>
Operating expenses:	
Personal services	4,880,503
Supplies and services	3,242,567
Materials	1,699,448
Utilities	2,466,055
Other	126,221
	<u>12,414,794</u>
Total operating expenses	12,414,794
Operating income	10,321,644
Other income:	
Interest	<u>811,107</u>
Net revenue available for debt service, renewal and replacement, transfers and capital improvements	\$ <u><u>11,132,751</u></u>
Debt service requirements	\$ <u><u>2,962,385</u></u>
Debt service coverage	<u><u>3.76</u></u>
Debt service coverage requirement	<u><u>1.35</u></u>
Renewal and replacement requirements	\$ <u><u>1,071,856</u></u>

See accompanying independent auditor's report.

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

CITY OF NAPLES, FLORIDA

Capital Assets Used in the Operation of Governmental Funds

Schedule by Function and Activity

Year ended September 30, 2006

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	266,171	—	131,595	1,359	133,217
Law	17,024	—	—	—	17,024
Recording and reporting	83,823	—	—	—	83,823
Human resources	5,612	—	—	—	5,612
Community development	2,862,608	548,627	44,029	1,707,754	562,198
Community redevelopment	9,621,804	51,522	4,937,328	4,571,157	61,797
Other general government	17,069,663	8,701,524	4,158,887	3,245,668	963,584
Total staff agencies	29,926,705	9,301,673	9,271,839	9,525,938	1,827,255
Total general government	29,968,904	9,301,673	9,271,839	9,531,092	1,864,300
Public safety:					
Police protection	7,261,890	—	4,177,250	139,858	2,944,782
Fire protection	6,418,633	350,978	2,730,102	89,127	3,248,426
Protective inspection	4,027,379	—	3,540,401	—	486,978
Engineering – traffic	4,151,970	—	—	3,484,180	667,790
Total public safety	21,859,872	350,978	10,447,753	3,713,165	7,347,976
Physical environment:					
Public works	352,986	37,099	102,682	5,457	207,748
Natural resources	1,324,683	—	—	1,307,820	16,863
Total physical environment	1,677,669	37,099	102,682	1,313,277	224,611
Transportation	29,194,891	556,938	196,314	28,441,639	—
Recreation	19,353,046	1,545,099	7,230,508	7,213,664	3,363,775
Total governmental funds capital assets allocated to functions	102,054,382	11,791,787	27,249,096	50,212,837	12,800,662
Construction in progress	3,133,192				
Total governmental funds capital assets	\$ 105,187,574				

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 auditor's report.

CITY OF NAPLES, FLORIDA

Capital Assets Used in the Operation of Governmental Funds

Comparative Schedule By Source

Year ended September 30, 2006

	Balance October 1, 2005	Additions	Transfers/ retirements	Balance September 30, 2006
Governmental funds capital assets:				
Land	\$ 11,780,407	11,380	—	11,791,787
Buildings	26,387,913	1,156,367	(295,184)	27,249,096
Improvements other than buildings	23,002,670	1,880,865	(1,870,163)	23,013,372
Infrastructure	23,607,721	3,591,744	—	27,199,465
Equipment	11,815,811	2,753,960	(1,769,109)	12,800,662
Construction in progress	1,458,046	3,021,140	(1,345,995)	3,133,191
	<u>\$ 98,052,568</u>	<u>12,415,456</u>	<u>(5,280,451)</u>	<u>105,187,573</u>
Investments in governmental funds				
capital assets by source:				
Bond proceeds	\$ 27,628,457	2,219,189	—	29,847,646
Federal grants	5,089,674	—	—	5,089,674
Note proceeds	1,915,105	—	—	1,915,105
State grants	582,831	—	—	582,831
General and streets funds	21,183,235	2,938,621	—	24,121,856
Capital projects fund	39,824,345	7,234,315	(5,280,451)	41,778,209
Risk management fund	17,830	—	—	17,830
Contributions	1,811,091	23,331	—	1,834,422
	<u>\$ 98,052,568</u>	<u>12,415,456</u>	<u>(5,280,451)</u>	<u>105,187,573</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 auditor's 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, 2006

Function and activity	Balance October 1, 2005	Additions	Transfers/ retirements	Balance September 30, 2006
General government:				
Control:				
Executive	\$ 42,199	—	—	42,199
Total control	<u>42,199</u>	<u>—</u>	<u>—</u>	<u>42,199</u>
Staff agencies:				
Finance	240,142	32,408	(6,379)	266,171
Law	17,024	—	—	17,024
Recording and reporting	80,342	3,481	—	83,823
Human resources	6,452	—	(840)	5,612
Community development	2,868,181	—	(5,573)	2,862,608
Community redevelopment	9,347,341	274,463	—	9,621,804
Other general government	<u>16,972,834</u>	<u>111,763</u>	<u>(14,934)</u>	<u>17,069,663</u>
Total staff agencies	<u>29,532,316</u>	<u>422,115</u>	<u>(27,726)</u>	<u>29,926,705</u>
Total general government	<u>29,574,515</u>	<u>422,115</u>	<u>(27,726)</u>	<u>29,968,904</u>
Public safety:				
Police protection	7,397,537	329,554	(465,201)	7,261,890
Fire protection	5,551,152	2,045,020	(1,177,539)	6,418,633
Protective inspection	4,008,650	22,880	(4,151)	4,027,379
Engineering – traffic	<u>3,880,560</u>	<u>275,054</u>	<u>(3,644)</u>	<u>4,151,970</u>
Total public safety	<u>20,837,899</u>	<u>2,672,508</u>	<u>(1,650,535)</u>	<u>21,859,872</u>
Physical environment:				
Public works	354,986	—	(2,000)	352,986
Natural resources	<u>664,100</u>	<u>664,508</u>	<u>(3,925)</u>	<u>1,324,683</u>
Total physical environment	<u>1,019,086</u>	<u>664,508</u>	<u>(5,925)</u>	<u>1,677,669</u>
Transportation	<u>25,680,398</u>	<u>3,550,493</u>	<u>(36,000)</u>	<u>29,194,891</u>
Recreation	<u>19,482,624</u>	<u>2,120,692</u>	<u>(2,250,270)</u>	<u>19,353,046</u>
Total governmental funds capital assets allocated to functions	96,594,522	9,430,316	(3,970,456)	102,054,382
Construction in progress	<u>1,458,046</u>	<u>3,021,833</u>	<u>(1,346,687)</u>	<u>3,133,192</u>
Total governmental funds capital assets	\$ <u><u>98,052,568</u></u>	<u><u>12,452,149</u></u>	<u><u>(5,317,143)</u></u>	<u><u>105,187,574</u></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 auditor's report.

STATISTICAL SECTION (unaudited)

This part of the City of Naples, Florida's comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the City's overall financial health.

<u>Contents</u>	<u>Page</u>
Financial Trends	
These schedules contain trend information to help the reader understand how the City's financial performance and well-being have changed over time.	141
Revenue Capacity	
These schedules contain information to help the reader assess the factors affecting the City's most significant local revenue source, the property tax.	148
Debt Capacity	
These schedules present information to help the reader assess the affordability of the City's current levels of outstanding debt and the City's ability to issue additional debt in the future. The City has no legal debt margin and therefore it is not reported in these schedules.	153
Demographic and Economic Information	
These schedules offers demographic and economic indicators to help the reader understand the environment within which the City's financial activities take place and to help make comparisons over time and with other governments.	157
Operating Information	
These schedules contain information about the City's operations and resources to help the reader understand how the City's financial information relates to the services the City provides and the activities it performs.	159
 <i>Sources: Unless otherwise noted, the information in these schedules is derived from the comprehensive annual financial reports for the relevant year. The City implemented Statement 34 in 2003; schedules presenting government-wide information include information beginning in that year.</i>	

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Schedule 1
City of Naples
Net Assets by Component,
Last Four Fiscal Years
(accrual basis of accounting)

	Fiscal Year			
	2003	2004	2005	2006
Governmental activities				
Invested in capital assets, net of related debt	\$ 31,961,883	32,178,726	36,375,444	44,278,262
Restricted	2,410,852	2,972,191	3,033,223	3,079,707
Unrestricted	24,851,663	31,713,893	34,885,629	37,235,964
Total governmental activities net assets	\$ 59,224,398	66,864,810	74,294,296	84,593,933
Business-type activities				
Invested in capital assets, net of related debt	\$ 49,577,562	48,184,197	48,443,815	50,606,312
Restricted	5,956,252	5,956,252	5,956,252	5,608,303
Unrestricted	15,243,549	18,187,025	19,428,925	22,769,962
Total business-type activities net assets	\$ 70,777,363	72,327,474	73,828,992	78,984,577
Primary government				
Invested in capital assets, net of related debt	\$ 81,539,445	80,362,923	84,819,259	94,884,574
Restricted	8,367,104	8,928,443	8,989,475	8,688,010
Unrestricted	40,095,212	49,900,918	54,314,554	60,005,926
Total primary government net assets	\$ 130,001,761	139,192,284	148,123,288	163,578,510

Note: The city began to report accrual information when it implemented GASB Statement 34 in fiscal year 2001.

Schedule 2
City of Naples
Changes in Net Assets,
Last Four Fiscal Years
(accrual basis of accounting)

	Fiscal Year			
	2003	2004	2005	2006
Expenses				
Governmental Activities:				
General government	\$ 2,621,124	3,807,311	4,628,899	12,562,813 (a)
Public safety	14,255,588	15,527,189	18,423,475	20,692,720
Physical and economic environment	1,343,270	1,295,407	1,726,724	2,292,246
Transportation	3,699,598	2,800,124	2,347,916	2,364,917
Culture and recreation	5,384,033	5,645,216	6,103,599	6,488,868
Interest	1,254,318	1,445,860	997,829	939,738
Total governmental activities expenses	<u>28,557,931</u>	<u>30,521,107</u>	<u>34,228,442</u>	<u>45,341,302</u>
Business-type activities:				
Water and sewer	20,151,629	19,524,832	20,052,724	20,283,437
Solid Waste	4,811,567	4,752,101	4,858,461	5,126,911
Stormwater	1,505,526	1,293,518	1,301,876	1,289,960
Other Enterprises	3,654,629	3,536,572	3,850,775	4,169,201
Total business-type activities	<u>30,123,351</u>	<u>29,107,023</u>	<u>30,063,836</u>	<u>30,869,509</u>
Total primary governmental expenses	<u>\$ 58,681,282</u>	<u>59,628,130</u>	<u>64,292,278</u>	<u>76,210,811</u>
Program Revenues				
Governmental Activities:				
Charges for services				
General government	\$ 875,654	1,118,894	1,441,587	1,477,212
Public safety	3,547,146	3,997,967	4,162,944	5,001,465
Physical and economic environment	15,405	10,795	81,385	11,982
Transportation	128,521	83,378	258,621	65,681
Culture and recreation	674,188	738,793	822,085	766,409
Operating grants and contributions	1,789,766	2,015,157	4,294,679	11,017,352 (a)
Capital grants and contributions	1,133,100	486,036	793,780	2,821,571
Total governmental activities revenues	<u>\$8,163,780</u>	<u>8,451,020</u>	<u>\$11,855,081</u>	<u>21,161,672</u>

Business-type activities:				
Water and sewer	18,236,793	20,840,502	21,437,118	22,736,438
Solid Waste	5,484,007	5,632,027	5,560,064	6,175,311
Stormwater	1,375,177	1,414,879	1,419,256	1,500,320
Beach	753,252	815,640	896,446	830,339
Dock	1,780,935	1,622,706	1,872,307	1,880,153
Tennis	467,090	459,358	455,108	547,122
Operating grants and contributions	390,000	486,170	430,347	408,819
Capital grants and contributions	1,688,115	906,832	659,482	2,508,003
Total business-type activities	<u>30,175,369</u>	<u>32,178,114</u>	<u>32,730,128</u>	<u>36,586,505</u>
Total primary governmental revenues	<u>\$ 38,339,149</u>	<u>40,629,134</u>	<u>44,585,209</u>	<u>57,748,177</u>

Net Expense/Revenue

Governmental activities	\$ (20,394,151)	(22,070,087)	(22,373,361)	(24,179,630)
Business-type activities	52,018	3,071,091	2,666,292	5,716,996
Total primary government net expense	<u>\$ (20,342,133)</u>	<u>(18,998,996)</u>	<u>(19,707,069)</u>	<u>(18,462,634)</u>

General Revenues and Other Changes in Net Assets

Governmental activities:

Taxes				
Property taxes	\$ 11,674,715	13,029,256	14,404,764	15,926,721
Franchise and utility taxes	8,592,174	6,881,521	7,315,044	8,095,021
Insurance premium tax	—	—	—	1,751,337 (b)
Motor fuel taxes	2,044,949	1,731,941	1,585,816	1,579,996
Intergovernmental revenues - unrestricted	3,343,425	3,431,686	3,628,176	3,658,867
Unrestricted investment earnings	730,500	683,727	1,087,659	2,068,237
Miscellaneous revenues	20,265	48,428	105,030	54,863
Gain on sale of capital assets	72,636	1,986,363	—	(363,775)
Transfers	—	1,917,577	1,676,358	1,708,000
Total governmental activities	<u>26,478,664</u>	<u>29,710,499</u>	<u>29,802,847</u>	<u>34,479,267</u>

Business-type activities:

Investment earnings	402,726	311,790	511,054	1,111,333
Gain on sale of capital assets	125,781	84,807	530	35,256
Transfers	—	(1,917,577)	(1,676,358)	(1,708,000)
Total business-type activities	<u>528,507</u>	<u>(1,520,980)</u>	<u>(1,164,774)</u>	<u>(561,411)</u>
Total primary government	<u>\$ 27,007,171</u>	<u>28,189,519</u>	<u>28,638,073</u>	<u>33,917,856</u>

Change in Net Assets

Governmental activities	\$ 6,084,513	7,640,421	7,429,486	10,299,637
Business-type activities	580,525	1,550,111	1,501,518	5,155,585
Total primary government	<u>\$ 6,665,038</u>	<u>9,190,532</u>	<u>8,931,004</u>	<u>15,455,222</u>

Notes: The City began to report accrual information when it implemented GASB Statement 34 in fiscal year 2003.

(a) In 2006, the City had Hurricane Wilma damage expenditures of \$7,097,000 and an operating grant from FEMA of \$6,860,772.

(b) The City in FY 2006 recorded the Premium Fire and Casualty Insurance Tax in the General Fund Revenue. In prior years those amounts were deposited directly into the Police and Fire Pension Funds.

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Schedule 3
City of Naples
Fund Balances, Governmental Funds,
Last Ten Fiscal Years
(modified accrual basis of accounting)

	Fiscal Year									
	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
General Fund										
Reserved	\$ 1,932,739	3,404,908	3,482,692	3,490,447	3,596,323	3,672,155	3,726,578	3,974,214	3,851,388	817,651
Unreserved	<u>2,667,797</u>	<u>709,217</u>	<u>880,988</u>	<u>1,134,219</u>	<u>1,380,837</u>	<u>1,154,208</u>	<u>2,114,052</u>	<u>3,140,889</u>	<u>5,561,460</u>	<u>12,119,520</u>
Total general fund	<u>\$ 4,600,536</u>	<u>4,114,125</u>	<u>4,363,680</u>	<u>4,624,666</u>	<u>4,977,160</u>	<u>4,826,363</u>	<u>5,840,630</u>	<u>7,115,103</u>	<u>9,412,848</u>	<u>12,937,171</u>
All Other Governmental Funds										
Reserved										
Special revenue funds	\$ —	—	—	1,198,947	—	—	208,218	211,284	179,187	18,625
Capital projects funds	2,177,334	8,686,777	3,636,532	5,876,702	14,682,899	13,701,547	13,327,848	17,068,197	19,890,914	4,645,715
Debt service funds	845,990	747,879	545,801	444,735	817,618	1,320,027	1,210,197	1,420,125	1,420,125	1,707,311
Unreserved										
Special revenue funds	10,163	1,676,978	2,529,890	9,465	225,907	997,805	1,933,014	2,794,174	3,594,431	5,226,704
Capital projects funds	5,585,041	1,990,216	3,180,971	2,184,172	573,548	3,412,003	2,958,089	3,137,595	(362,701)	12,533,664
Debt service funds	—	—	—	—	—	—	349,416	260,260	457,518	494,714
Total other governmental funds	<u>\$ 8,618,528</u>	<u>13,101,850</u>	<u>9,893,194</u>	<u>9,714,021</u>	<u>16,299,972</u>	<u>19,431,382</u>	<u>19,986,782</u>	<u>24,891,635</u>	<u>25,179,474</u>	<u>24,626,733</u>

Schedule 4

City of Naples

Changes in Fund Balances, Governmental Funds,

Last Ten Fiscal Years

(modified accrual basis of accounting)

	Fiscal Year									
	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Revenues										
Taxes	\$ 11,906,939	12,685,210	13,087,667	13,846,688	16,204,981	19,020,097	20,653,811	21,642,718	23,305,625	27,353,075
Licenses and permits	1,305,287	1,849,787	2,029,474	2,243,164	2,127,794	2,881,466	2,687,224	3,092,953	2,931,552	3,787,831
Intergovernmental	3,531,299	3,187,480	3,522,422	4,157,645	4,688,744	8,067,873	5,254,668	5,558,406	8,015,980	15,677,773
Charges for services	598,903	735,269	725,934	784,988	1,031,482	1,337,358	1,506,150	1,692,378	2,009,871	1,824,433
Charges to other funds	2,952,099	3,458,196	3,650,980	3,787,636	4,001,900	4,125,700	4,459,952	3,713,502	3,748,880	3,806,515
Fines and forfeitures	442,034	683,101	487,814	475,883	426,039	260,495	410,760	348,265	553,888	578,562
Impact fees/special assessments	367,962	402,328	757,772	552,556	453,224	509,215	379,159	272,764	368,576	710,951
Interest	1,499,324	1,233,163	756,592	1,062,686	1,568,401	833,326	678,041	626,030	971,187	1,833,114
Contributions	350,355	—	—	—	—	—	141,580	111,169	263,988	70,506
Miscellaneous	78,943	1,161,625	905,684	743,232	120,939	574,301	561,071	1,065,765	432,022	70,552
Total Revenues	23,033,145	25,396,159	25,924,339	27,654,478	30,623,504	37,609,831	36,732,416	38,123,950	42,601,569	55,713,312
Expenditures										
General government	6,196,412	5,311,744	5,324,603	5,921,852	6,709,873	7,916,054	6,568,239	7,555,904	7,516,247	15,131,258
Public safety	8,820,284	9,080,982	9,839,095	13,065,125	13,161,699	12,708,737	13,944,299	14,990,292	17,606,607	18,968,057
Physical and economic environment	255,404	705,971	784,585	1,032,437	980,472	1,688,135	1,005,981	948,272	1,333,438	1,734,495
Transportation	—	—	—	—	—	—	2,729,772	1,911,489	1,351,547	1,421,391
Culture and recreation	3,065,816	3,314,207	3,751,828	3,929,822	4,199,158	4,676,969	4,715,056	4,959,763	5,289,131	5,347,854
Capital outlay	4,142,007	8,321,262	9,919,607	12,036,421	5,445,100	6,297,839	6,838,305	3,224,855	6,621,225	11,067,462
Debt service										
Principal	563,554	585,063	739,689	994,016	612,058	1,268,084	3,071,257	1,083,379	978,603	994,107
Interest and fiscal charges	274,812	287,066	625,125	637,160	1,477,080	1,299,815	1,215,697	1,118,359	995,570	933,536
Total Expenditures	23,318,289	27,606,295	30,984,532	37,616,833	32,585,440	35,855,633	40,088,606	35,792,313	41,692,368	55,598,160
Excess of revenues over/under expenditures	(285,144)	(2,210,136)	(5,060,193)	(9,962,355)	(1,961,936)	1,754,198	(3,356,190)	2,331,637	909,201	115,152

Other Financing Sources (uses):

Bonds issued	2,126,650	5,349,059	—	8,460,000	9,845,000	—	5,925,000	3,170,000	—	—
Refunding bonds issued	—	—	—	—	—	—	—	—	—	—
Payments to escrow agents	—	—	—	—	(2,370,000)	—	(2,965,529)	(5,021,684)	—	—
Transfers in	5,451,958	10,931,038	4,699,215	13,159,822	11,126,414	3,861,437	6,931,440	7,961,219	4,906,256	4,797,603
Transfers out	(4,273,921)	(9,546,110)	(3,621,242)	(11,561,622)	(9,670,521)	(2,701,577)	(5,273,414)	(6,269,219)	(3,229,898)	(3,068,828)
Insurance recoveries	—	—	—	—	—	—	—	—	—	1,088,553
Proceeds from sale of capita assets	26,077	27,436	29,548	20,129	—	—	72,636	4,007,373	25	39,102
Total other financing sources (uses)	<u>3,330,764</u>	<u>6,761,423</u>	<u>1,107,521</u>	<u>10,078,329</u>	<u>8,930,893</u>	<u>1,159,860</u>	<u>4,690,133</u>	<u>3,847,689</u>	<u>1,676,383</u>	<u>2,856,430</u>
Net change in fund balance	\$ <u><u>3,045,620</u></u>	<u><u>4,551,287</u></u>	<u><u>(3,952,672)</u></u>	<u><u>115,974</u></u>	<u><u>6,968,957</u></u>	<u><u>2,914,058</u></u>	<u><u>1,333,943</u></u>	<u><u>6,179,326</u></u>	<u><u>2,585,584</u></u>	<u><u>2,971,582</u></u>
Debt Service as a percentage of noncapital expenditures	4.4%	4.5%	6.5%	6.4%	7.7%	8.7%	12.9%	6.8%	5.6%	4.3%

Schedule 5

City of Naples

Tax Revenues by Source, Governmental Funds,

Last Ten Fiscal Years

(modified accrual basis of accounting)

<u>Fiscal Year</u>	<u>Property (a)</u>	<u>Payment in Lieu of Taxes</u>	<u>Utility and Communication</u>	<u>Franchise Taxes</u>	<u>Fuel Taxes</u>	<u>Sales & Use</u>	<u>Other</u>	<u>Total</u>
1997	\$ 5,232,445	\$ 1,311,600	\$ 2,629,952	\$ 2,279,170	\$ 1,760,129	\$ 2,062,767	\$ 797,943	\$ 16,074,006
1998	5,625,198	1,379,400	2,701,796	2,283,173	2,040,787	2,199,376	798,967	17,028,697
1999	5,987,629	1,458,924	2,698,762	2,366,946	2,010,232	2,333,815	757,124	17,613,432
2000	6,947,590	1,598,200	2,741,477	2,384,149	1,748,509	2,514,209	788,798	18,722,932
2001	8,717,744	1,668,600	2,874,956	2,729,117	1,846,201	2,589,911	769,325	21,195,854
2002	10,401,098	1,596,900	4,118,185	2,468,600	2,005,345	2,332,893	767,934	23,690,955
2003	11,674,715	1,658,026	4,314,896	2,612,851	2,044,949	2,560,660	782,765	25,648,862
2004	13,029,256	1,692,000 (b)	3,904,133	2,959,293	1,731,941 (c)	2,596,520	835,166	26,748,309
2005	14,404,764	1,676,358 (b)	4,149,829	3,141,721	1,585,816 (c)	2,624,802	1,003,374	28,586,664
2006	15,926,721	1,708,000 (b)	4,269,042	3,825,979	1,579,996 (c)	2,651,227	2,758,977 (d)	32,719,942
Change								
1997 - 2006	204.4%	30.2%	62.3%	67.9%	(10.2)%	28.5%	245.8%	103.6%

Source: City of Naples Finance Department

Notes:

- (a) The City was able to keep its property tax rates fairly stable during the last ten years of this schedule because of substantial growth in property tax values. (See Schedule 7.)
- (b) Reclassified in FY 2004 to Transfers to Other Funds
- (c) New interlocal agreement with county reduced the funding. Agreement is based on total transportation expenditures and percentage of City's total to the total expenditures.
- (d) The City in FY 2006 recorded the Premium Fire and Casualty Insurance Tax in the General Fund Revenue. In prior years those amounts were deposited directly into the Police and Fire Pension Funds. For FY 2006 the taxes amounted to \$ 1,751,336.

Schedule 6

City of Naples

Assessed Value and Estimated Actual Value of Taxable Property,

Last Ten Fiscal Years

<u>Fiscal Year</u>	<u>Real Property</u>	<u>Personal Property</u>	<u>Centrally Assessed Property</u>	<u>Less Net New Taxable Value*</u>	<u>Adjusted Total Taxable Value (for Roll Back)</u>	<u>Final Taxable Value</u>	<u>Total Direct Tax Rate</u>	<u>Estimated Actual Taxable Value</u>	<u>Taxable Assessed Value as a Percentage of Actual Taxable Value</u>
1997	\$ 4,287,214,844	\$ 190,942,552	\$ —	\$ 205,174,083	\$ 4,272,983,313	\$ 4,480,631,775	\$ 1.1800	\$ 5,121,865,459	83.426%
1998	4,628,833,914	201,080,369	—	166,060,396	4,663,853,887	4,826,553,552	1.1800	5,527,505,886	84.375%
1999	4,942,516,914	207,925,760	—	63,830,638	5,086,612,036	5,140,991,963	1.1800	5,945,296,662	85.557%
2000	5,747,394,155	217,143,230	—	113,443,771	5,851,093,614	5,966,815,878	1.1800	7,132,841,028	82.030%
2001	6,564,055,070	240,089,300	—	102,231,972	6,701,912,398	6,806,066,692	1.3060	8,289,950,418	80.844%
2002	8,243,538,300	262,417,299	—	267,814,678	8,238,140,921	8,488,615,092	1.2523	10,721,508,162	76.838%
2003	9,754,294,253	267,069,987	—	189,917,985	9,831,446,255	9,950,900,301	1.1997	12,966,197,227	75.824%
2004	10,960,725,735	286,782,236	—	499,568,676	10,747,939,295	11,212,894,783	1.1870	14,426,299,363	74.502%
2005	11,909,720,094	301,738,680	—	271,725,048	11,939,733,726	12,168,219,538	1.2098	15,427,299,073	77.394%
2006	13,412,338,003	345,957,486	—	192,180,825	13,566,114,664	13,746,713,411	1.1839	17,371,133,725	78.096%

Source: Collier County Tax Collector

Notes: A constitutional revision took effect 1/1/1995 known as "Save our Homes". It annually limits the increase in the assessment of homesteaded properties at 3% or the Consumer Price Index (CPI) whichever is less. Tax rates are per \$1,000 of assessed value.

Adjusted taxable value is the number upon which the state required Truth In Millage (TRIM) data is submitted. Adjusted taxable values are presented to the City by July 1 on form DR420. The final Taxable Values are the taxable values as of the start of the fiscal year, and are presented to the City in October on form DR422.

* Net New Taxable Value is deducted from Real + Personal Property. It consists of New Construction + Additions + Rehabilitative Improvements Increasing Assessed Value by at Least 100% + Annexations - Deletions

Schedule 7
City of Naples
Direct and Overlapping Property Tax Rates,
Last Ten Fiscal Years
(rate per \$1,000 of assessed value)

Fiscal Year	City Millage Rates			Overlapping Rates*									Combined total
	Operating Rate	General Obligation Debt Service	City total	Mosquito control	Collier County	Conservation Collier	Caribbean Gardens	School Board	South Florida Water Management	Water pollution control	Big Cypress Basin		
1997	\$ 1.1800	\$ —	\$ 1.1800	\$ 0.1883	\$ 3.7241	\$ —	\$ —	\$ 8.6860	\$ 0.2840	\$ 0.0489	\$ 0.1980	\$ 14.3093	
1998	1.1800	—	1.1800	0.1821	3.6813	—	—	8.4240	0.2840	0.0452	0.2780	14.0746	
1999	1.1800	—	1.1800	0.1953	3.5510	—	—	8.5100	0.2840	0.0413	0.2780	14.0396	
2000	1.1800	—	1.1800	0.1923	3.5058	—	—	7.7600	0.2840	0.0355	0.2780	13.2356	
2001	1.1800	0.1260	1.3060	0.1748	3.5028	—	—	7.7220	0.2840	0.0445	0.2780	13.3121	
2002	1.1500	0.1023	1.2523	0.1465	3.8772	—	—	7.1370	0.2840	0.0420	0.2425	12.9815	
2003	1.1130	0.0867	1.1997	0.1167	3.8772	—	—	6.9110	0.2840	0.0347	0.2425	12.6658	
2004	1.1100	0.0770	1.1870	0.1051	3.8772	—	—	6.5240	0.2840	0.0347	0.2425	12.2545	
2005	1.1600	0.0498	1.2098	0.0962	3.8772	0.2500	—	6.2200	0.2840	0.0347	0.2425	12.2144	
2006	1.1400	0.0439	1.1839	0.0830	3.5790	0.2500	0.1500	5.9730	0.2840	0.0347	0.2425	11.7801	

Source: Collier County Tax Collector

Note: The City's Operating and Debt Service Rates are not limited and are established by City Ordinances, Bond Resolutions and/or referendums in full compliance with the Constitution and Statutes of the State of Florida.

* Overlapping rates are those of local and county governments that apply to property owners within the City of Naples.

**Schedule 8
City of Naples
Principal Property Tax Payers,
Current Year and Nine Years Ago**

Taxpayer	2006			1997		
	Taxable Assessed	Rank	Percentage of Total	Taxable Assessed	Rank	Percentage of Total
	Value		Assessed Value	Value	Assessed Value	
Florida Power & Light Company	\$ 132,601,103	1	0.81%	\$ 15,489,822	3	0.35%
Coastland Center LP	124,926,587	2	0.76%	36,111,351	1	0.81%
Sandra Gerry	64,360,063	3	0.39%	-	-	-
Sprint-Florida Incorporated	51,236,730	4	0.31%	24,066,500	2	0.54%
Panthers RPN Limited	47,979,822	5	0.29%	-	-	-
Westbury Properties Inc.	44,718,607	6	0.27%	9,570,811	7	0.21%
Naples Hospitality Ltd Partnership	42,724,301	7	0.26%	-	-	-
Herb TR, Judith A	35,656,862	8	0.22%	-	-	-
Heritage Property Investment	34,338,768	9	0.21%	-	-	-
McCurry TR, Susan	21,321,591	10	0.13%	-	-	-
Net Realty Holding Trust	-	-	-	10,654,930	4	0.24%
Scottsdale Company	-	-	-	10,370,350	5	0.23%
Dillard's Department Stores	-	-	-	10,222,612	6	0.23%
Poinciana Professional Park	-	-	-	9,259,011	8	0.21%
Net Realty Holding Trust	-	-	-	9,058,837	9	0.20%
Esping, Perry E.	-	-	-	8,717,756	10	0.19%
	<u>\$ 599,864,434</u>		<u>3.67%</u>	<u>\$ 143,521,980</u>		<u>3.21%</u>

Source: Collier County Property Appraiser

Schedule 9
City of Naples
Property Tax Levies and Collections,
Last Ten Fiscal Years

Fiscal Year Ended Sept 30,	Taxes Levied for the Fiscal Year		Collected within the Fiscal Year of Levy		Collections in Subsequent Years	Total Collections to Date	
	Amount	% of Levy	Amount	% of Levy		Amount	% of Levy
1997	\$ 5,405,630	\$ 96.8%	\$ 5,232,445	96.8%	—	\$ 5,232,445	96.8%
1998	5,816,252	96.7%	5,625,197	96.7%	—	5,625,197	96.7%
1999	6,194,416	96.7%	5,987,629	96.7%	—	5,987,629	96.7%
2000	7,180,330	96.8%	6,947,590	96.8%	—	6,947,590	96.8%
2001	9,014,005	96.7%	8,717,743	96.7%	—	8,717,743	96.7%
2002	10,767,250	96.6%	10,401,098	96.6%	—	10,401,098	96.6%
2003	12,113,826	96.4%	11,674,715	96.4%	—	11,674,715	96.4%
2004	14,365,967	90.7%	13,029,256	90.7%	—	13,029,256	90.7%
2005	14,911,539	93.5%	13,949,624	93.5%	147,184 (a)	14,096,808	94.5%
2006	15,954,162	95.2%	15,183,537	95.2%	—	15,183,537	95.2%

Source: Collier County Tax Appraiser
Collier County Tax Collector

Note: (a) Collections in Subsequent Years was not available prior to 2005.

Schedule 10
City of Naples
Ratios of Outstanding Debt by Type,
Last Ten Fiscal Years

Fiscal Year	Government Activities			Business-type Activities			Total Primary Government	Percentage of Personal Income (a)	Per Capita (a)
	General Obligation Bonds	Public Service Tax Bonds	Redevelopment & Refunding Bonds	Water Bonds/Loans	Storm-water SBA Loan	Non Major Bonds			
1997	\$ —	\$ 7,241,254	\$ —	\$ 42,843,137	\$ —	\$ 1,042,031	\$ 51,126,422	6.83%	\$ 35,292
1998	—	9,056,192	3,000,000	47,829,337	—	952,325	60,837,854	7.75%	36,948
1999	—	8,316,503	3,000,000	47,981,631	351,389	857,428	60,506,951	7.53%	38,104
2000	8,460,000	7,322,487	3,000,000	45,522,345	2,134,247	799,422	67,238,501	8.14%	39,403
2001	8,270,000	14,375,429	3,000,000	42,067,666	3,156,185	736,713	71,605,993	7.89%	41,843
2002	7,850,000	13,552,345	2,975,000	43,074,428	2,948,408	616,002	71,016,183	7.97%	42,102
2003	7,410,000	10,971,090	5,925,000	40,130,531	2,916,602	688,590	68,041,813	7.62%	41,926
2004	5,220,000	10,597,710	5,675,000	36,682,610	3,637,256	627,290	62,439,866	6.71%	42,846
2005	4,825,000	10,097,461	5,475,000	33,114,472	3,386,237	560,893	57,459,063	5.89%	42,846
2006	4,440,000	9,710,015	5,265,000	30,730,759	3,144,816	490,000	53,780,590	5.44%	42,846

Notes: Details regarding the city's outstanding debt can be found in the notes to the financial statements.

(a) See Schedule 14 for personal income and population data. These ratios are calculated using personal income and population for the prior calendar year.

Schedule 11
City of Naples
Ratios of General Bonded Debt Outstanding,
Last Ten Fiscal Years

Fiscal Year	General Bonded Debt Outstanding			Percentage of Actual Taxable Value of Property (a)	Per Capita (b)
	General Obligation Bonds	Redevelopment Bonds	Total		
1997	\$ —	\$ —	\$ —	0.00%	\$ 0.00
1998	—	3,000,000	3,000,000	0.06%	141.29
1999	—	3,000,000	3,000,000	0.05%	142.27
2000	8,460,000	3,000,000	11,460,000	0.17%	546.34
2001	8,270,000	3,000,000	11,270,000	0.14%	519.67
2002	7,850,000	2,975,000	10,825,000	0.11%	511.53
2003	7,410,000	5,925,000	13,335,000	0.12%	626.53
2004	5,220,000	5,675,000	10,895,000	0.09%	501.87
2005	4,825,000	5,475,000	10,300,000	0.08%	452.75
2006	4,440,000	5,265,000	9,705,000	0.06%	420.75

Notes: Details regarding the city's outstanding debt can be found in the notes to the financial statements.
(a) See Schedule 6 for the property tax values.
(b) Population data can be found in Schedule 14.

Schedule 12
City of Naples
Direct and Overlapping Governmental Activities Debt
As of September 30, 2006

	<u>Debt Outstanding</u>	<u>Estimated Percentage Applicable (c)</u>	<u>Estimated Share of Direct and Overlapping Debt</u>
City of Naples Direct Debt:			
General Obligation Bonds	\$ 4,440,000	100.00%	4,440,000
Public Service Tax Bonds	9,710,015	100.00%	9,710,015
Revelopment and Refunding Bonds	5,265,000	100.00%	<u>5,265,000</u>
Total direct debt			<u>19,415,015</u>
Overlapping debt (a):			
Collier County (b):			
Conservation Collier	29,530,000	22.37%	6,605,861
Caribbean Gardens	35,900,000	22.37%	<u>8,030,830</u>
Total overlapping debt			<u>14,636,691</u>
Total direct and overlapping debt			<u><u>\$ 34,051,706</u></u>

- (a) The City of Naples is not responsible for the overlapping debt.
- (b) Payable from County-wide General Property Taxes.
- (c) The percentage of overlapping debt applicable is estimated using taxable assessed property values. Applicable percentages were estimated by determining the portion of the county's taxable value that is within the City's boundaries and dividing it by each unit's total taxable value.

Sources: Assessed value data used to estimate applicable percentages was provided by the Collier County Property Appraisers Office. Debt outstanding data was provided by each governmental unit.

Notes: Overlapping governments are those that coincide, at least in part with the geographic boundaries of the City. This schedule estimates the portion of the outstanding debt of those overlapping governments that is borne by the residents and businesses of Naples. This process recognizes that, when considering the City's ability to issue and repay long-term debt, the entire debt burden borne by the residents and businesses should be taken into account. However, this does not imply that every taxpayer is a resident and therefore responsible for repaying the debt of each overlapping government.

Schedule 13
City of Naples
Pledged-Revenue Coverage
Last Ten Fiscal Years

Fiscal Year	Water Revenue Bonds					Utility Tax Revenue Bonds				Tax Increment Revenue Bonds			
	Utility Service Charges	Less: Operating Expenses	Net Available Revenue	Debt Service Requirement	Coverage	Utility Tax Collections	Debt Service		Coverage	Tax Increment Revenue	Debt Service		Coverage
							Principal	Interest			Principal	Interest	
1997	\$ 16,481,342	\$ 7,073,985	\$ 9,407,357	\$ 3,985,904	2.36	\$ 2,629,952	\$ 563,554	\$ 274,812	3.14	\$ 50,156	\$ —	\$ —	—
1998	18,932,603	7,437,659	11,494,944	3,529,221	3.26	2,701,796	585,063	287,066	3.10	1,273,669	(a)	—	—
1999	17,946,524	7,868,245	10,078,279	3,265,901	3.09	2,698,762	739,689	625,125	1.98	931,380	(a)	—	132,600
2000	18,962,427	8,549,149	10,413,278	3,256,350	3.20	2,741,477	994,016	637,160	1.68	467,526	—	—	132,600
2001	18,638,160	8,872,732	9,765,428	3,047,302	3.20	3,704,490	612,058	858,140	2.52	651,502	—	—	132,600
2002	19,127,894	9,916,239	9,211,655	2,957,085	3.12	4,285,595	823,084	760,907	2.71	1,166,200	25,000	—	132,048
2003	18,575,596	9,936,785	8,638,811	2,957,085	2.92	4,420,958	723,329	570,308	3.42	1,583,361	50,000	—	130,390
2004	21,078,879	10,761,818	10,317,061	2,962,385	3.48	4,159,640	373,379	457,572	5.01	1,782,759	250,000	—	211,101
2005	21,437,118	11,711,345	9,725,773	2,962,385	3.28	4,157,163	383,603	501,271	4.70	2,152,936	200,000	—	202,367
2006	22,736,438	12,414,794	10,321,644	2,962,385	3.48	4,091,549	399,107	479,943	4.65	2,815,241	210,000	—	194,927

Notes: Details regarding the city's outstanding debt can be found in the notes to the financial statements.
Operating expenses do not include interest, depreciation, or amortization expenses.
(a) Revenue includes the sale of parking spaces at the Parking Garage.

Schedule 14
City of Naples
Demographic and Economic Statistics,
Last Ten Calendar Years

Calendar Year	Population	Personal Income <i>(thousands of dollars)</i>	Per Capita Personal Income	Median Age	Education Level in Years of Schooling	County School Enrollment	Unemployment Rate
1997	21,202	\$ 748,260,984	\$ 35,292	-	-	28,275	5.2%
1998	21,233	784,516,884	36,948	-	-	29,513	4.3%
1999	21,087	803,499,048	38,104	42.5	-	31,011	3.9%
2000	20,976	826,496,352	39,402	-	-	31,942	3.7%
2001	21,687	907,449,141	41,843	44.1	13	33,858	4.1%
2002	21,162	890,962,524	42,102	-	-	36,010	4.9%
2003	21,284	892,352,984	41,926	-	14	37,718	4.7%
2004	21,709	930,143,814	42,846	44.7	-	39,821	4.0%
2005	22,750	974,746,500	42,846	-	-	41,588	3.2%
2006	23,068	988,371,528	42,846	44.2	-	42,775	2.7%

Sources: Population, median age and per capita personal income provided by the University of Florida Bureau of Economic and Business Research .
County school enrollment data and education level provided by the Collier County Public Schools Finance Department.

Notes: Population, median age, and education level information are based on surveys conducted during the last quarter of the calendar year.
Personal income information is a total for the year. Unemployment rate information is an adjusted yearly average.
School enrollment is based on the county wide census at the start of the school year.
Certain information prior to GASB Statement 34 is not available

Schedule 15
City of Naples
Principal Employers,
Current Year and Nine Years Ago

Employer	2006			1997		
	<u>Employees</u>	<u>Rank</u>	<u>Percentage of Total City Employment</u>	<u>Employees</u>	<u>Rank</u>	<u>Percentage of Total City Employment</u>
Collier County Public Schools	5,365	1	23.9%	3,008	1	14.97%
Collier County Government	3,788	2	16.9%	2,328	2	11.58%
NCH Healthcare System	2,269	3	10.1%	1,478	3	7.35%
Registry Resort/Naples Grand	880	4	3.9%	-	-	0.00%
Ritz-Carlton Hotel	870	5	3.9%	-	-	0.00%
City of Naples	493	6	2.2%	468	5	2.33%
Naples Beach and Tennis Club	482	7	2.1%	457	4	2.27%
Allen Systems Group, Inc.	221	8	1.0%	172	-	0.86%
Collier County Health Department	219	9	1.0%	142	6	0.71%
Wilsonmiller, Inc	140	10	0.6%	-	-	0.00%

Source: Naples Economic Development Council
Employer Historical Records

Note: Some 1997 information is not available

Schedule 16
City of Naples
Full-time-Equivalent City Government Employees by Function/Program,
Last Ten Fiscal Years

Function/Program	Fiscal Year									
	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
General Fund										
Mayor & Council	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
City Clerk	6.0	6.0	6.0	7.0	7.0	8.0	7.0	8.0	8.0	8.0
City Attorney	3.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
City Manager	4.0	4.0	5.0	4.0	4.0	5.0	4.0	3.0	4.0	4.0
Human Resources	6.0	6.0	6.0	7.0	7.0	7.0	7.0	7.0	7.0	7.0
Planning & Code Enforcement	7.0	8.0	8.0	8.0	8.0	8.0	8.0	7.0	10.0	10.0
Engineering	12.0	11.0	10.0	10.0	10.0	10.0	10.0	(Now Construction Mgt - see below)		
Building & Zoning	14.0	17.0	(Separated from General Fund - see entry below)							
Finance	14.7	16.1	15.1	18.6	18.6	19.8	20.8	21.8	20.8	21.8
Community Services	47.0	50.3	50.5	50.0	51.0	51.0	50.0	43.0	42.0	42.0
Police & Emergency Services										
Police	119.0	117.2	115.2	114.2	114.2	115.7	111.7	111.7	111.7	111.7
Fire	53.0	53.0	53.0	53.0	54.0	55.0	59.0	59.0	59.0	59.0
Natural Resources	1.0	1.0	2.0	2.0	2.0	2.0	2.5	(Now funded in Community Services)		
Non-Departmental	8.9	9.9	9.9	9.9	10.0	10.0	10.0	10.0	10.0	10.0
Water and Sewer Fund	93.0	93.0	93.0	94.0	94.6	93.5	94.0	96.0	99.5	99.5
Solid Waste Fund	32.0	33.0	33.0	33.0	33.0	30.0	26.0	25.0	25.0	25.0
Streets and Traffic Fund	5.0	4.0	4.0	4.0	4.0	5.0	5.0	5.0	5.5	5.5
Stormwater Fund	7.0	5.0	5.0	6.0	6.0	7.0	7.0	7.0	5.5	5.5
City Dock Fund	3.0	3.0	3.5	4.0	4.0	5.0	4.0	5.0	5.0	5.0
Tennis Fund	3.6	3.6	4.6	5.0	6.0	6.0	6.2	4.0	4.0	4.0
Beach Fund	10.7	10.7	10.7	10.7	11.9	13.3	12.6	13.1	14.1	14.1
Information Services Fund	7.0	7.0	7.0	8.0	9.0	10.0	10.0	11.0	11.0	11.0
Equipment Services Fund	11.0	11.0	11.0	11.0	11.0	11.0	11.0	11.0	11.0	11.0
Risk Management Fund		0.5	0.5	1.0	1.0	1.0	2.0	2.0	2.0	2.0
Building and Zoning Fund	(From General Fund)		20.0	21.0	22.5	24.5	24.5	27.5	26.0	27.0
Community Redevelopment	(Newly Funded)		0.0	0.0	2.0	2.5	3.5	3.5	6.0	6.0
Construction Management	(Formerly Engineering)							8.0	8.0	8.0
TOTAL EMPLOYEES	468.9	472.3	475.0	483.4	492.8	502.3	497.8	490.6	497.1	499.1

Schedule 17
City of Naples
Operating Indicators by Function/Program
Last Ten Fiscal Years

	Fiscal Year									
	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Function/Program										
General government										
Commercial Permits Issued	454	241	236	267	322	308	239	247	221	251
Residential Permits Issued	516	604	649	816	888	782	831	974	1,050	1,113
Police										
Physical arrests	1,600	2,032	1,636	1,603	1,114	1,152	1,273	1,138	1,234	972
Parking violations	18,706	19,408	19,801	20,178	17,625	17,767	17,238	16,692	16,631	15,307
Traffic violations	8,655	11,066	10,266	10,409	9,541	10,652	11,446	9,183	8,587	10,974
Fire										
Emergency responses (a)	N/A *	N/A *	N/A *	4,422	4,557	4,498	4,548	4,696	4,654	4,487
Fires extinguished	N/A *	N/A *	N/A *	104	74	52	64	65	56	53
Inspections	N/A *	N/A *	N/A *	4,396	4,044	5,011	5,979	7,120	7,154	6,337
Refuse collection										
Refuse (tons per day)	103	115	112	113	122	124	122	125	118	129
Recyclables (tons per day) (b)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	8	9	10
Other public works										
Street resurfacing (miles)	3	2	3	1	2	4	3	3	1	2
Potholes repaired (c)	N/A	N/A	N/A	N/A	N/A	12	10	2	22	65
Parks and recreation										
Beach parking permits issued	17,452	17,984	18,789	19,382	18,017	18,945	16,297	23,082	21,309	21,236
Water										
New connections	330	296	352	348	288	300	190	262	249	133
Water main breaks	34	60	47	19	42	24	23	9	16	13
Average daily consumption (millions of gallons)	15.9	16.3	17.4	19.4	17.6	18.5	17.1	17.5	16.9	17.8
Peak daily consumption (millions of gallons)	20.2	21.6	23.2	24.4	24.0	24.0	22.5	23.5	21.3	22.4
Wastewater										
Average daily sewage treatment (thousands of gallons)	6,530	7,480	6,660	6,590	6,510	6,900	7,080	6,800	7,240	6,830

Sources: Various city departments

(a) Fire department computer crash lost all data .

(b) The City contracted for recycle prior to 2004.

(c) The number represents the number of work orders given to patch hole contractor.

Schedule 18
City of Naples
Capital Asset Statistics by Function/Program,
Last Ten Fiscal Years

<u>Function/Program</u>	<u>Fiscal Year</u>									
	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
Police										
Number of employees	119	118	122	122	122	123	122	122	121	120
Demand for services	30,981	41,638	43,185	45,177	43,302	36,669	38,095	54,710	56,393	68,365
Fire Stations	3	3	3	3	3	3	3	3	3	3
Refuse collection trucks	29	29	29	29	29	29	25	25	25	27
Other public works										
Streets (miles)	106	106	106	106	106	106	106	106	106	106
Streetlights	2,064	2,222	2,280	2,370	2,370	2,370	2,370	2,370	2,370	2,370
Traffic signals	44	44	44	45	46	47	47	47	47	47
Parks and recreation										
Swimming pools	1	1	1	1	1	1	1	1	1	1
Community Centers	3	3	3	3	3	3	3	3	3	3
Pier	1	1	1	1	1	1	1	1	1	1
Dock	1	1	1	1	1	1	1	1	1	1
Water										
Active Accounts	15,998	16,174	16,385	16,502	16,788	17,196	17,311	17,520	17,697	17,718
Plants	1	1	1	1	1	1	1	1	1	1
Capacity per day (millions of gallons)	30	30	30	30	30	30	30	30	30	30
Sewer										
Active Accounts	8,337	8,490	8,497	8,524	8,496	8,637	8,602	8,614	8,638	8,651
Plants	1	1	1	1	1	1	1	1	1	1
Capacity per day (millions of gallons)	9	9	10	10	10	10	10	10	10	10

Sources: Various city departments

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INDEPENDENT AUDITOR'S 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, City Council,
and City Manager
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, 2006, which collectively comprise the City of Naples, Florida's basic financial statements and have issued our report thereon dated January 26, 2007. 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 financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the City of Naples, Florida, in a separate letter dated January 26, 2007.

This report is intended solely for the information and use of the 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.

CPA Associates

Bradenton, Florida
January 26, 2007



INDEPENDENT AUDITOR'S 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, City Council,
and City Manager
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, 2006. The City of Naples, Florida's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of 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 on the City of Naples, Florida's compliance with those requirements.

In our opinion, the City of Naples, Florida complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended September 30, 2006.

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 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 users.

CPA Associates

Bradenton, Florida
January 26, 2007

CITY OF NAPLES, FLORIDA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2006

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	CFDA Number	Pass Through Grantor Number	Federal Expenditures
United States Department of Agriculture:			
Indirect:			
Florida Department of Agriculture and Consumer Services			
Cooperative Forestry Assistance	10.664	010311	\$ 54,978
Cooperative Forestry Assistance	10.664	00312	26,790
Total United States Department of Agriculture			<u>81,768</u>
United States Department of Housing and Urban Development:			
Direct:			
Community Development Block Grants - Entitlement Grant	14.218	B01MC1-20034	45,656
Total United States Department of Housing and Urban Development			<u>45,656</u>
United States Department of Interior:			
Indirect:			
Florida Department of Environmental Protection			
Land and Water Conservation Fund Grants	15.916	LW413	108,024
Total United States Department of Interior			<u>108,024</u>
United States Department of Justice:			
Direct:			
Equitable Sharing of Federally Forfeited Property	16.Unknown	-	110,119
Edward Byrne Memorial Formula Grant Program	16.579	MIA9A1900001	7,956
Bulletproof Vest Partnership Program	16.607	2001-LB-BX-0234	188
Indirect:			
Florida Department of Law Enforcement			
Edward Byrne Memorial Justice Assistance Grant Program	16.738	2006-JAGD-COLL-2-M9-096	10,000
Total United States Department of Justice			<u>128,263</u>
United States Department of Transportation:			
Indirect:			
Florida Department of Transportation			
Highway Planning and Construction	20.205	AOD18	47,000
Total United States Department of Transportation			<u>47,000</u>
United States Department of Homeland Security:			
Indirect:			
Florida Department of Law Enforcement			
State Domestic Preparedness Equipment Support Program	97.004	2006-SHSP-COLL-1-N9-002	17,125
Florida Department of Community Affairs			
Disaster Grants - Public Assistance (Hurricane Wilma)	97.036	06-WL-&k-09-21-02-672	6,518,187
Disaster Grants - Public Assistance	97.036	EMAC 16	14,607
Direct:			
Assistance to Firefighters Grant	97.044	EMW-2004-FG-12505	83,857
Total United States Department of Homeland Security			<u>6,633,776</u>
Total Expenditures of Federal Awards			<u>\$ 7,044,487</u>

THE CITY OF NAPLES, FLORIDA

Notes to Schedule of Expenditures of Federal Awards

September 30, 2006

Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the City of Naples, Florida, and is presented using the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

Loans Outstanding

The City of Naples, Florida had the following loan balances outstanding at September 30, 2006. Loans made during the year are included in the federal expenditures presented in the schedule.

State Revolving Loan – Drinking Water+	\$	1,916,638
State Revolving Loan – Sewer Treatment Plant		17,886,297
State Revolving Loan – Stormwater		3,144,816

THE CITY OF NAPLES, FLORIDA
 Schedule of Findings and Questioned Costs
 For the Year Ended September 30, 2006

Section I – Summary of Auditor's Results

Basic Financial Statements

Type of auditor's report issued:		<u>Unqualified Opinion</u>		
Internal control over financial reporting:				
Material weakness(es) identified?	_____ yes	_____ <u>X</u> _____	no	
Reportable condition(s) identified not considered to be material weakness(es)?	_____ yes	_____ <u>X</u> _____	no	
Noncompliance material to financial statements noted?	_____ yes	_____ <u>X</u> _____	no	

Federal Awards

Type of auditor's report issued on compliance for major programs:		<u>Unqualified Opinion</u>		
Internal control over major programs:				
Material weakness(es) identified?	_____ yes	_____ <u>X</u> _____	no	
Reportable condition(s) identified not considered to be material weakness(es)?	_____ yes	_____ <u>X</u> _____	no	
Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133?	_____ yes	_____ <u>X</u> _____	no	

Identification of major programs:

CFDA #97.036 – Disaster Grants – Public Assistance

Dollar threshold used to distinguish Type A programs:		<u>\$ 300,000</u>		
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Auditee qualified as low-risk auditee?	_____ <u>X</u> _____	yes	_____	no
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THE CITY OF NAPLES, FLORIDA

Schedule of Findings and Questioned Costs

For the Year Ended September 30, 2006

Section II – Financial Statement Findings

This section identifies the reportable conditions, material weaknesses, fraud, illegal acts, violations of provisions of contracts and grant agreements, and abuse related to the basic financial statements that are required to be reported in accordance with *Government Auditing Standards*.

No reportable conditions, material weaknesses, fraud, illegal acts, violations of provisions of contracts and grant agreements, and abuse related to the basic financial statements that are required to be reported in accordance with *Government Auditing Standards* were identified.

Section III – Federal Awards Findings and Questioned Costs

This section identifies reportable conditions, material weaknesses, and material instances of noncompliance, including questioned costs as well as any abuse findings involving federal awards that are material to a major program, as required by Circular A-133 Section 510(a).

No reportable conditions, material weaknesses, and material instances of noncompliance, including questioned costs as well as any abuse findings involving federal awards that are material to a major program were identified.

Section IV – Summary Schedule of Prior Audit Findings

There were no prior year audit findings reported.



AUDITOR'S MANAGEMENT LETTER

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

We have audited the basic financial statements of the City of Naples, Florida as of and for the fiscal year ended September 30, 2006, and have issued our report thereon dated January 26, 2007, which was unqualified.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; *Government Auditing Standards* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. We have issued our Independent Auditor's 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*, Independent Auditor's Report on Compliance with Requirements Applicable to Each Major Federal Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133, and a Schedule of Findings and Questioned Costs. Disclosures in those reports and schedule, which are dated January 26, 2007, should be considered in conjunction with this management letter.

Additionally, our audit was conducted in accordance with Chapter 10.550, Rules of the Auditor General, which govern the conduct of local governmental entity 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 we address in the management letter, if not already addressed in the auditor's reports on compliance and internal controls or schedule of findings and questioned costs, whether or not recommendations made in the preceding annual financial audit report have been followed. The status of prior year findings are reported under the heading *Status of Prior Year Audit Recommendations*.

As required by the Rules of the Auditor General (Section 10.554(1)(h)2.), the scope of our audit included a review of the provisions of Section 218.415, Florida Statutes, regarding the investment of public funds. In connection with our audit, we determined that the City of Naples, Florida complied with Section 218.415, Florida Statutes.

The Rules of the Auditor General (Section 10.554(1)(h)3.) require that we address in the management letter any findings and recommendations to improve financial management, accounting procedures, and internal controls. Matters required to be disclosed are reported under the heading *Current Year Findings and Recommendations*.

The Rules of the Auditor General (Section 10.554(1)(h)4.) require disclosure in the management letter of the following matters if not already addressed in the auditor's reports on compliance and internal controls or schedule of findings and questioned costs and are not clearly inconsequential: (1) violations of laws, rules, regulations, and contractual provisions that have occurred, or are likely to have occurred; (2) improper or illegal expenditures; (3) improper or inadequate accounting procedures (e.g., the omission of required disclosures from the financial statements); (4) failures to properly record financial transactions; and (5) other inaccuracies, shortages, defalcations, and instances of fraud discovered by, or that come to the attention of, the auditor. Matters required to be disclosed are reported under the heading *Current Year Findings and Recommendations*.

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

The Rules of the Auditor General (Section 10.554(1)(h)5.), also require that the name or official title and legal authority for the primary government and each component unit of the reporting entity be disclosed in the management letter, unless disclosed in the notes to financial statements. The City of Naples, Florida was established pursuant to Article I, Section 1.1 of the Charter for the City of Naples, Florida, in accordance with Chapter 59-1598, Laws of the State of Florida, Acts of 1959. The three blended component units of the City of Naples, Florida were created and established by ordinances of the City Council - Moorings Bay Special Taxing District, East Naples Bay Special Taxing District, and the Community Redevelopment Agency.

As required by the Rules of the Auditor General (Section 10.554(1)(h)6.a.), a statement must be included as to whether or not the local government entity has met one or more of the conditions described in Section 218.503(1), Florida Statutes. At September 30, 2006, two funds reported a deficit fund balance/net assets, the Community Development Block Grant Special Revenue Fund and the Construction Management Internal Service Fund. Both fund deficits will be recovered through future local program income and increased user charges, respectively.

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 of Naples, Florida, for the fiscal year ended September 30, 2006, filed with the Florida Department of Financial Services pursuant to Section 218.32(1)(a), Florida Statutes, is in agreement with the annual financial audit report for the fiscal year ended September 30, 2006.

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 entity's financial condition, and our financial condition assessment was based in part on representations made by management and the review of financial information provided by same.

This management letter is intended solely for the information of the 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.

CPA Associates

Bradenton, Florida
January 26, 2007

PRIOR YEAR FINDINGS AND RECOMMENDATIONS

Cash Cut-off and Bank Reconciliations

During the prior audit, it was noted that the City did not have clean cash cut-offs as of year-end. A recommendation was made for improving the support and explanations for reconciling items on the bank reconciliation to allow the reviewer to verify the proper accounting of reconciling items.

Status – Our review disclosed that the City adhered to clean cash cut offs at year end.

Journal Entry Preparation, Review, and Approval

During the prior audit, a recommendation was made to segregate the responsibilities between individuals who can create and who can post a journal entry in order to increase the City's internal control procedures.

Status – Our review disclosed that secondary approvals were being obtained on journal entries and that the posting function for journal entries was limited to authorized personnel.

CURRENT YEAR FINDINGS AND RECOMMENDATIONS

Unclaimed Property

Our review of utility deposits for the City disclosed approximately \$50,000 in deposits for which the holder of record was unknown. Per inquiry, we were informed that these deposits dated back to 1993 and were carried forward from the prior accounting software. The City is unable to identify the holder of record or the respective amounts due for each holder.

Pursuant to Chapter 717, Florida Statutes, all intangible property that is held, issued, or owing in the ordinary course of the holder's business and for which the owner fails to claim such property for more than a specified period of time after the property becomes payable or distributable is presumed unclaimed property and is subject to the custody of the State of Florida Department of Financial Services. We recommend that the City consult with the Department regarding the proper disposition of these deposits and act accordingly.

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City of Naples

FINANCE DEPARTMENT

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The Honorable William O. Monroe
State of Florida Auditor General
111 West Madison Street
Tallahassee, Florida 32399-1450

Dear Auditor General Monroe:

Please see the current year 2006 management letter comments and response below:

Unclaimed Property

“Our review of utility deposits for the City disclosed approximately \$50,000 in deposits for which the holder of record was unknown. Per inquiry, we were informed that these deposits dated back prior to 1993 and were carried forward from the prior accounting software. The City is unable to identify the holder of record or respective amounts due for each holder.”

The amount of the discrepancy is \$49,615.81. The accounting division has contacted the State of Florida Bureau of Unclaimed Property. This amount will be included on the City's next return due by April 30, 2007. It will be included as one item and will list the owner's name as Unknown.

Respectfully,

Ann Marie S. Ricardi
Finance Director