

**CITY OF ATLANTIS, FLORIDA**

**ANNUAL FINANCIAL REPORT**

**For the Year Ended September 30, 2007**

**CITY COUNCIL**

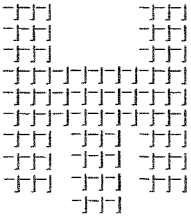
MANUEL A. FERNANDEZ..... MAYOR - COUNCILMAN  
FRED FURTADO ..... VICE MAYOR - COUNCILMAN  
DAVID CANTLEY ..... MAYOR PRO TEM - COUNCILMAN  
MICHAEL C. DAHLGREN ..... TREASURER - COUNCILMAN  
FRANK AUSTINO ..... ASSISTANT TREASURER - COUNCILMAN

**CITY MANAGER**

MO THORNTON

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# Holyfield & Thomas, LLC

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## INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and Members of the City Council  
City of Atlantis, Florida

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the City of Atlantis, Florida, as of and for the year ended September 30, 2007, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of City of Atlantis, Florida's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the 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, and each major fund of the City of Atlantis, Florida as of September 30, 2007, and the respective changes in financial position, and, where applicable, the cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 7, 2008, on our consideration of the City of Atlantis, Florida's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis, budgetary comparison information, and schedules of defined benefit trust on pages 2 through 9 and 38 through 42, are not a required part of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

*Holyfield & Thomas, LLC*

West Palm Beach, Florida  
January 7, 2008

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

As management of the City of Atlantis, Florida (City), we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended September 30, 2007. Please read it in conjunction with the accompanying basic financial statements.

### **FINANCIAL HIGHLIGHTS**

- The City's total net assets at September 30, 2007 were \$8.5 million. Of this amount, \$4.1 million (unrestricted net assets) may be used to meet the City's ongoing obligations to citizens and creditors.
- Governmental net assets were \$5.2 million.
- The total revenues from all sources were \$5.7 million.
- The total cost of all City programs was \$5.3 million.
- In the government-wide financials, the City's governmental activity revenues exceeded expenses by \$166,000; for business-type activities revenues exceeded expenses by \$265,000.
- Total expenditures in the general fund financial statements exceeded total revenues by \$241,000, resulting in a 9% decrease in fund balance. The utility's net assets increased by 9%.
- At the end of the current fiscal year, unreserved fund balance for the general fund was \$2,357,000, or approximately 51% of total general fund expenditures.
- Of significance to the financial condition was the capital projects performed during the year. A total of \$635,300 in capital projects included the addition of security cameras at all the city entrances, a fountain water feature at the City's main entrance and an upgrade to the generator and fuel storage for City Hall and the Police Department. While we projected to use \$530,000 in allocated reserves for these projects; we used only \$240,000 of our reserves.

## USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The three components of the financial statements are:

- (1) Government-wide financial statements that include the Statement of Net Assets and the Statement of Activities. These statements provide information about the activities of the City as a whole.
- (2) Fund financial statements tell how these services were financed in the short term, as well as what remains for future spending. Fund financial statements also report the City's operations in more detail than the government-wide statements.
- (3) Notes to the financial statements, which provide more information about amounts reported in the government-wide and fund financial statements as well as information about the City as a whole.

## REPORTING THE CITY AS A WHOLE

### Statement of Net Assets and the Statement of Activities (Government-wide)

A frequently asked question regarding the City's financial health is whether the year's activities contributed positively to the overall financial well being. The Statement of Net Assets and the Statement of Activities report information about the City as a whole and about its activities in a way that helps answer this question. These statements include *all* assets and liabilities using the *accrual basis of accounting*, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account, regardless of when cash is received or paid.

These two statements report the City's net assets and changes therein. Net assets, the difference between assets and liabilities, are one way to measure the City's financial health, or financial position. Over time, increases or decreases in net assets are an indicator of whether the financial health is improving or deteriorating.

The Statement of Net Assets and the Statement of Activities present information about the following:

- Governmental activities – All of the City's basic services are considered to be governmental activities, including general government, public safety, protective inspections, and physical environment. Property taxes, franchise taxes, building permit fees, sales tax, and grants from other governments finance most of these activities.
- Business type activities – The City's water and sewer utility is reported in this category. The City charges a fee to customers to cover the cost of the services provided.

## REPORTING THE CITY'S FUNDS

### Fund Financial Statements

The fund financial statements provide detailed information about the individual funds – not the City as a whole. The City's three kinds of funds; *governmental*, *proprietary*, and *fiduciary* use different accounting approaches as explained below.

- *Governmental funds* – Most of the City's basic services are reported in a governmental fund. Governmental funds focus on how resources flow in and out, with the balances remaining at year-end that are available for spending. These funds are reported using an accounting method called the *modified accrual* accounting method, which measures cash and all other *financial* assets that can readily be converted to cash. The governmental fund statements provide a detailed *short-term* view of the City's general government operations and the basic services it provides. Governmental fund information shows whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. The City reports one governmental fund – the general fund. The general fund financial statements can be found on pages 13-16 of this report.
- *Proprietary funds* – Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Assets and the Statement of Activities. The City's only proprietary fund is the Water and Sewer Utility fund, which charges customers for the services it provides. The basic proprietary fund financial statements can be found on pages 17-19 of this report.
- *Fiduciary funds* – Fiduciary funds are used to account for resources held for the benefit of parties outside the government. These include the Police Pension Fund and the City's 457 Deferred Compensation Plan. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the City's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds. The basic fiduciary fund financial statements can be found on pages 20-21 of this report. However, since the City's Deferred Compensation Plan is qualified, it is not required to be presented in these financial statements and is not included in the fiduciary fund financial statements.

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City, total assets minus total liabilities equaled \$8.5 million in net assets at the close of the most recent fiscal year.

The largest portion of the City's net assets (48%) is unrestricted and may be used to meet the government's ongoing obligations to citizens and creditors. Another portion (42%) reflects the City's investment in capital assets (e.g., land, buildings, streets, etc.), less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

**City of Atlantis**  
**Net Assets**  
(In Thousands)

	<b>Governmental Activities 2007</b>	<b>Business Activities 2007</b>	<b>Total Activities 2007</b>
<b>Assets:</b>			
Current and other assets	\$ 2,841	\$ 3,019	\$ 5,860
Capital assets	2,890	2,305	5,195
<b>Total assets</b>	<b>\$ 5,731</b>	<b>\$ 5,324</b>	<b>\$11,055</b>
<b>Liabilities:</b>			
Long-term debt outstanding	\$ -	\$ 1,318	\$ 1,318
Other liabilities	484	774	1,258
<b>Total liabilities</b>	<b>\$ 484</b>	<b>\$ 2,092</b>	<b>\$ 2,576</b>
<b>Net Assets:</b>			
Invested in capital assets, net of debt	\$ 2,890	\$ 703	\$ 3,593
Restricted	-	811	811
Unrestricted	2,357	1,718	4,075
<b>Total net assets</b>	<b>\$ 5,247</b>	<b>\$ 3,232</b>	<b>\$ 8,479</b>

At the end of the fiscal year, the City is able to report positive balances in all three categories of net assets for the government as a whole. There was an increase of \$430,000 in the City's net assets during the current fiscal year.

## Governmental Activities

Governmental activities increased the City's net assets by \$166,000. Key elements of this increase are as follows:

<b>City of Atlantis</b>			
<b>Changes in Net Assets</b>			
(In Thousands)			
	<b>Governmental Activities 2007</b>	<b>Business Activities 2007</b>	<b>Total Activities 2007</b>
<b>Revenues:</b>			
Program revenues:			
Charges for services	\$ 336	\$ 1,185	\$ 1,521
Operating grants and contributions	120	-	120
Capital grants and contributions	42	-	42
General revenues:			
Property taxes	2,877	-	2,877
Sales and use taxes	163	-	163
Franchise fees	384	-	384
Gas tax	103	-	103
Occupational licenses	62	-	62
Other taxes and shared revenues	71	-	71
Investment earnings	203	147	350
Miscellaneous	16	-	16
<b>Total revenues</b>	<b>4,377</b>	<b>1,332</b>	<b>5,709</b>
<b>Expenses:</b>			
Program expenses:			
General government	693	-	693
Law enforcement	2,201	-	2,201
Fire control	472	-	472
Protective inspections	117	-	117
Physical environment	715	-	715
Hurricane expenses	13	-	13
Interest on long-term debt	-	71	71
Water and sewer utility	-	996	996
<b>Total expenses</b>	<b>4,211</b>	<b>1,067</b>	<b>5,278</b>
Increase in net assets	166	265	431
Net assets – October 1, 2006	5,081	2,967	8,048
<b>Net assets – September 30, 2007</b>	<b>\$ 5,247</b>	<b>\$ 3,232</b>	<b>\$ 8,479</b>

The City's programs include General Government, Public Safety (law enforcement and fire control), Protective Inspections, and Physical Environment. Each program's net cost (total cost, less revenues generated by the activities) is presented below. The net cost shows the extent to which the City's general taxes support each of the City's programs.

**City of Atlantis  
Governmental Activities**  
(In Thousands)

	<b>Total Cost Of Services</b>	<b>Net Cost of Services</b>
General government	\$ 693	\$ 565
Public safety:		
Law enforcement	2,201	1,904
Fire control	472	472
Protective inspections	117	75
Physical environment	715	715
Hurricane expenses	13	(18)
	<b>\$ 4,211</b>	<b>\$ 3,713</b>

The cost of all governmental activities this year was \$4.2 million. As shown on the Statement of Activities, \$.5 million of this cost was paid by those who directly benefited from the programs or from grants and contributions. \$3.7 million was financed through general revenues.

**Business Type Activities**

Net assets of the Proprietary Fund (Water and Sewer Utility) at September 30, 2007, were \$3.2 million. The cost of providing all Proprietary (Business Type) activities this year was \$1.1 million. As shown in the Statement of Activities, customers paid \$1.2 million and investment income was \$150 thousand, leaving net revenue of \$250 thousand.

**FINANCIAL ANALYSIS OF THE CITY'S FUNDS**

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds – The general fund is the chief operating fund of the City. The focus of the general fund is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the City's general fund reported an ending fund balance of \$2.357 million, a decrease of \$240,000 from the prior year. The entire ending fund balance is unreserved and available for spending at the government's discretion. However, the board has designated \$300,000 for upgrades to the radio system. It is projected that the radio project will commence within the next 18 months. As a measure of the general fund's liquidity, it may be useful to compare the fund balance to total fund expenditures. Fund balance represents 51% of total general fund expenditures.

## CAPITAL ASSET AND DEBT ADMINISTRATION

### Capital Assets

The capital assets of the City are those assets that are used in the performance of City functions or programs. Capital assets include equipment, buildings, land, park facilities, etc.

The City's investment in capital assets for its governmental and business-type activities as of September 30, 2007, amounts to \$5.2 million (net of accumulated depreciation).

#### City of Atlantis Capital Assets (In Thousands)

	Governmental Activities	Business Activities	Total
Land	\$ 241	\$ 132	\$ 373
Streets	4,421	-	4,421
Buildings and improvements	1,359	245	1,604
Improvements other than buildings	620	3,463	4,052
Furniture, fixtures and equipment	912	86	999
Parks	362	-	392
Vehicles	259	53	312
<b>Total assets</b>	<b>8,174</b>	<b>3,979</b>	<b>12,153</b>
Less accumulated depreciation	5,284	1,674	6,958
<b>Net Assets</b>	<b>\$ 2,890</b>	<b>\$ 2,305</b>	<b>\$ 5,195</b>

Additional information on the City's capital assets can be found in Note 4 of this report.

### Debt

At the end of the current fiscal year, the City had total debt of \$1.6 million, all of which was in the enterprise fund. In 2002, the City renegotiated terms of its bonds, resulting in an interest rate decrease from 5.3% to 4.0% and reducing the debt's maturity date from September 2018 to September 2012.

## NEXT YEAR'S BUDGET AND ECONOMIC FACTORS

In its consideration of the City's budget for 2007 – 2008, the City Council and management considered the current tax and real estate market. During the 2007 legislative session, state legislators passed new regulations governing the ad valorem tax process. In a subsequent special session, a constitutional amendment was proposed to reduce the tax base of local government by doubling the homestead exemption and allowing for the portability of the "Save-Our-Homes" tax benefit for homesteaded property owners. The referendum is scheduled for a January 29, 2008 vote. As more than 50% of the city's General Fund revenue comes from Ad Valorem tax revenue, the city council was cautious in budgeting for new capital projects.

In November 2007, the City's \$2,891,829 on deposit with the State Board of Administration, Local Government Investment Pool was frozen. Due to certain investments of the State Board, the pool experienced an unprecedented amount of withdrawals; this coupled with the absence of liquidity for certain

securities in the fund resulted in a restructuring of the pool. As of this report date, the City has been able to withdraw \$2,000,000. The remaining \$891,829 has been segregated into Fund A and Fund B. The \$415,971 in Fund B remains frozen. Fund A assets of \$475,858 remain with limited liquidity. (See Note 10 for further information.)

### **CONTACTING THE CITY'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the City Manager, at the City of Atlantis, 260 Orange Tree Drive, Atlantis, Florida 33462.

*As of September 30, 2007*

	<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total</b>
<b>ASSETS</b>			
Cash and cash equivalents	\$ 1,722,196	\$ 984,944	\$ 2,707,140
Investments	1,030,100	1,034,714	2,064,814
Receivables (net)	88,042	183,805	271,847
Supplies and prepaid expenses	708	5,000	5,708
Restricted assets:			
Cash and cash equivalents	-	810,636	810,636
Capital assets:			
Nondepreciable:			
Land	240,622	132,000	372,622
Depreciable:			
Streets	4,421,468	-	4,421,468
Buildings and improvements	1,359,300	245,104	1,604,404
Improvements other than buildings	508,844	3,461,961	3,970,805
Furniture, fixtures and equipment	911,588	86,267	997,855
Park development	361,794	-	361,794
Vehicles	258,839	52,631	311,470
Other	111,650	1,072	112,722
Less: accumulated depreciation	<u>(5,284,082)</u>	<u>(1,674,254)</u>	<u>(6,958,336)</u>
Total assets	<u>\$ 5,731,069</u>	<u>\$ 5,323,880</u>	<u>\$ 11,054,949</u>
<b>LIABILITIES</b>			
Accounts payable and other current liabilities	\$ 398,157	\$ 145,395	\$ 543,552
Accrued interest payable	-	5,104	5,104
Deferred revenue	73,608	239,327	312,935
Deposits	12,500	100,274	112,774
Bond payable, current	-	284,050	284,050
Noncurrent liabilities:			
Bond payable, non-current	-	1,317,370	1,317,370
Total liabilities	<u>484,265</u>	<u>2,091,520</u>	<u>2,575,785</u>
<b>NET ASSETS</b>			
Invested in capital assets (net of related debt)	2,890,023	703,361	3,593,384
Restricted for debt service & future utility expenses	-	810,636	810,636
Unrestricted	<u>2,356,781</u>	<u>1,718,363</u>	<u>4,075,144</u>
Total net assets	<u>5,246,804</u>	<u>3,232,360</u>	<u>8,479,164</u>
Total liabilities and net assets	<u>\$ 5,731,069</u>	<u>\$ 5,323,880</u>	<u>\$ 11,054,949</u>

*See accompanying notes to financial statements.*

**STATEMENT OF ACTIVITIES**

***For the Year Ended September 30, 2007***

<b>Function/Program Activities</b>	<b>Expenses</b>	<b>Program Revenues</b>		
		<b>Charges for Services</b>	<b>Operating Grants and Contributions</b>	<b>Capital Grants and Contributions</b>
Governmental activities				
General government	\$ 692,876	\$ 128,162	\$ -	\$ -
Public safety				
Law enforcement	2,200,990	164,697	120,315	12,048
Fire control	471,960	-	-	-
Protective inspections	117,647	42,721	-	-
Physical environment	714,714	-	-	-
Hurricane expenses	12,757	-	-	30,352
Total governmental activities	<u>\$ 4,210,944</u>	<u>\$ 335,580</u>	<u>\$ 120,315</u>	<u>\$ 42,400</u>
Business-type activities				
Water and sewer utility	996,218	1,185,078	-	-
Interest on long term debt	71,130	-	-	-
Total business-type activities	<u>\$ 1,067,348</u>	<u>\$ 1,185,078</u>	<u>\$ -</u>	<u>\$ -</u>
General revenues				
Taxes				
Property taxes				
Sales and use taxes				
Franchise fees				
Gas tax				
Occupational licenses				
Other taxes and shared revenues				
Investment earnings				
Miscellaneous				
Gain on disposal of assets				
Total general revenues				
Change in net assets				
Net assets, beginning of year				
Net assets, end of year				

*See accompanying notes to financial statements.*

**STATEMENT OF ACTIVITIES**

<b>Net (Expense) Revenue and Change in Net Assets</b>		
<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total</b>
\$ (564,714)	\$ -	\$ (564,714)
	-	
(1,903,930)	-	(1,903,930)
(471,960)	-	(471,960)
(74,926)	-	(74,926)
(714,714)	-	(714,714)
17,595	-	17,595
<u>(3,712,649)</u>	<u>-</u>	<u>(3,712,649)</u>
-	188,860	188,860
<u>-</u>	<u>(71,130)</u>	<u>(71,130)</u>
<u>-</u>	<u>117,730</u>	<u>117,730</u>
2,876,869	-	2,876,869
162,747	-	162,747
383,609	-	383,609
102,654	-	102,654
61,713	-	61,713
71,445	-	71,445
203,155	147,072	350,227
15,620	-	15,620
450	-	450
<u>3,878,262</u>	<u>147,072</u>	<u>4,025,334</u>
165,613	264,802	430,415
<u>5,081,191</u>	<u>2,967,558</u>	<u>8,048,749</u>
<u>\$ 5,246,804</u>	<u>\$ 3,232,360</u>	<u>\$ 8,479,164</u>

*See accompanying notes to financial statements.*

*As of September 30, 2007*

	<u>General Fund</u>
ASSETS	
Cash and cash equivalents	\$ 1,722,196
Investments	1,030,100
Receivables	88,042
Supplies and prepaid expenses	708
Total assets	<u>\$ 2,841,046</u>
LIABILITIES AND FUND BALANCE	
Liabilities	
Accounts payable and accrued expenses	\$ 398,157
Deferred revenue	73,608
Deposits	12,500
Total liabilities	<u>484,265</u>
Fund balance	
Undesignated	2,056,781
Designated for technology	300,000
Total unreserved fund balance	<u>2,356,781</u>
Total liabilities and fund balances	<u>\$ 2,841,046</u>

*See accompanying notes to financial statements.*

*As of September 30, 2007*

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Total governmental fund balances \$ 2,356,781

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds. The cost and accumulated depreciation are reported in the government-wide statement of net assets.

Cost of assets 8,174,105

Accumulated depreciation (5,284,082)

Total net assets \$ 5,246,804

*See accompanying notes to financial statements.*

*For the Year Ended September 30, 2007*

	<u>General Fund</u>
REVENUES	
Taxes	\$ 3,363,132
Licenses and permits	232,596
Intergovernmental revenue	506,674
Fines and forfeitures	54,930
Miscellaneous revenue	219,225
Total revenues	<u>4,376,557</u>
EXPENDITURES	
Current:	
General government	
Legislative	57,000
Executive	273,324
Financial	10,500
Legal services	81,013
City clerk	85,048
Maintenance and supervision	143,983
Public safety	
Law enforcement	2,453,367
Fire control	471,960
Protective inspections	117,647
Physical environment	910,671
Hurricane expenses	12,757
Total expenditures	<u>4,617,270</u>
Net change in fund balance	(240,713)
Fund balance, October 1, 2006	<u>2,597,494</u>
Fund balance, September 30, 2007	<u><u>\$ 2,356,781</u></u>

*See accompanying notes to financial statements.*

***For the Year Ended September 30, 2007***

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Net change in fund balances - total governmental funds \$ (240,713)

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 capital assets is allocated over their estimated useful lives and reported as depreciation expense:

Expenditures for capital assets 635,296

Current year depreciation (228,970)

Change in net assets \$ 165,613

*See accompanying notes to financial statements.*

*As of September 30, 2007*

	<u>Enterprise Fund</u>
ASSETS	
Current assets	
Cash and cash equivalents	
Unrestricted	\$ 984,944
Restricted	810,636
Investments	1,034,714
Receivables	183,805
Supplies and prepaid expenses	5,000
Total current assets	<u>3,019,099</u>
Noncurrent assets	
Property, plant and equipment, net	<u>2,304,781</u>
Total assets	<u><u>\$ 5,323,880</u></u>
LIABILITIES	
Current liabilities	
Accounts payable and accrued expenses	\$ 145,395
Interest payable	5,104
Deferred revenue	239,327
Deposits	100,274
Current portion of long-term debt	284,050
Total current liabilities	<u>774,150</u>
Noncurrent liabilities	
Revenue bonds payable - long-term portion	<u>1,317,370</u>
Total liabilities	<u>2,091,520</u>
NET ASSETS	
Invested in capital assets, net of related debt	703,361
Restricted for debt service and future utility expense	810,636
Unrestricted	1,718,363
Total net assets	<u>3,232,360</u>
Total liabilities and net assets	<u><u>\$ 5,323,880</u></u>

*See accompanying notes to financial statements.*

*For the Year Ended September 30, 2007*

	<u>Enterprise Fund</u>
Operating revenues	
Water income	\$ 656,887
Sewer income	505,040
Other operating income	23,151
Total operating revenues	<u>1,185,078</u>
Operating expenses	
Water utility services	291,652
Sewer services	270,618
Water/sewer combination services	300,412
Depreciation	133,536
Total operating expenses	<u>996,218</u>
Operating income	<u>188,860</u>
Nonoperating revenues (expenses)	
Investment income	
Interest income	150,186
Unrealized gains	28,414
Realized losses	(31,528)
Interest expense	(71,130)
Total nonoperating revenues (expenses)	<u>75,942</u>
Change in net assets	264,802
Net assets, October 1, 2006	<u>2,967,558</u>
Net assets, September 30, 2007	<u><u>\$ 3,232,360</u></u>

*See accompanying notes to financial statements.*

*For the Year Ended September 30, 2007*

	<u>Enterprise Fund</u>
Cash flows from operating activities:	
Cash received from customers	\$ 1,211,560
Cash payments to suppliers for goods and services	(605,637)
Cash payments to employees for services	(165,275)
Other revenues	23,151
Net cash provided by operating activities	<u>463,799</u>
Cash flows from capital and related financing activities:	
Bond principal payment	(273,021)
Interest paid on debt	(72,274)
Acquisition of capital assets	(29,151)
Net cash provided by capital and related financing activities	<u>(374,446)</u>
Cash flows from investing activities:	
Interest on investments	148,834
Purchase of investments	(337,028)
Proceeds from sale of investments	400,000
Net cash provided by investing activities	<u>211,806</u>
Net increase in cash and cash equivalents	301,159
Cash and cash equivalents, beginning of year	<u>1,494,421</u>
Cash and cash equivalents, end of year	<u><u>\$ 1,795,580</u></u>
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	\$ 188,860
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation expense	133,536
Change in assets and liabilities:	
Decrease in accounts receivable	50,428
Increase in accounts payable and accrued expenses	91,770
Decrease in deferred revenue	(2,258)
Increase in deposits	1,463
Net cash provided by operating activities	<u><u>\$ 463,799</u></u>

See accompanying notes to financial statements.

*As of September 30, 2007*

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	<b>Pension Trust Fund</b>
Assets	
Cash and cash equivalents	\$ 81,458
Investments	1,614,364
Receivables	613
Total assets	<u>\$ 1,696,435</u>
Liabilities	
Total liabilities	<u>\$ -</u>
Net Assets	
Held in trust for employees' pension benefits	<u>1,696,435</u>
Total net assets	<u>\$ 1,696,435</u>

*See accompanying notes to financial statements.*

*For the Year Ended September 30, 2007*

	<b>Pension Trust Fund</b>
Additions:	
Contributions	
Employer	\$ 34,905
Plan members	514
Total contributions	<u>35,419</u>
Investment income	
Dividend and interest income	56,203
Realized gains	135,649
Unrealized gains (losses)	<u>(27,523)</u>
Total investment income	164,329
Less investment expense	<u>8,602</u>
Net investment earnings	<u>155,727</u>
Total additions	<u>191,146</u>
Deductions:	
Administration expenses	7,939
Benefits	<u>75,784</u>
Total deductions	<u>83,723</u>
Net increase in net assets	107,423
Net assets held in trust for pension benefits, beginning of year	<u>1,589,012</u>
Net assets held in trust for pension benefits, end of year	<u><u>\$ 1,696,435</u></u>

*See accompanying notes to financial statements.*

*For the Year Ended September 30, 2007*

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### **1. Summary of Accounting Policies**

The City of Atlantis, Florida (“the City”) was chartered on June 19, 1959, under the provisions of the State of Florida. The City operates under the Council-Manager form of government and provides the following services as authorized by its charter: public safety (police and fire), streets, sanitation, health and social services, culture and recreation, public improvements, planning and zoning and general administrative services.

The accounting policies of the City conform to accounting principles generally accepted in the United States of America as applicable to governments. As required, the City follows GASB No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*. The following is a summary of the more significant policies:

#### *The Reporting Entity*

These basic financial statements include all of the funds relevant to the operations of the City of Atlantis. The financial statements presented herein do not include agencies, which have been formed under applicable state laws as separate and distinct units of government apart from the City of Atlantis.

The financial statements of the City include those of separately administered organizations that are controlled by or dependent on the City. Control or dependence is determined on the basis of budget adoption, taxing authority, funding, and appointment of the respective governing board. Based on the foregoing criteria, the financial statements of the Atlantis Utilities Department are included in the accompanying financial statements. The operations of the Atlantis Utilities Department are reported in the Water and Sewer System Fund, an enterprise fund.

Based on the application of the criteria set forth by the Governmental Accounting Standards Board (“GASB”), the City is not aware of any entity that would consider the City to be a component unit.

#### *Government-Wide and Fund Financial Statements*

##### Government-Wide Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the non-fiduciary activities of the City. Governmental activities, which are normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

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

##### Fund Financial Statements

The accounts of the City are organized on the basis of funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for by providing a separate set of self-balancing accounts, which are comprised of each fund’s assets, liabilities, fund equity, revenues and expenditures or expenses, as appropriate.

*For the Year Ended September 30, 2007*

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**1. Summary of Accounting Policies, Fund Financial Statements, continued**

Government resources are allocated to and for individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. Separate fund financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. The various funds are grouped in the fund financial statements as follows:

Governmental Fund Type

The City reports only one governmental fund. The general fund is the primary operating fund and is used to account for all financial resources applicable to the general operations of the City except those required to be accounted for in another fund.

Proprietary Fund Type

The City reports only one proprietary fund – an enterprise fund. Enterprise funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes. The accounting policies of the enterprise fund conform to generally accepted accounting principles applicable to commercial businesses and FASB pronouncements are applied accordingly. The City's water and sewer system fund is used to account for the activities related to the water and sewer utility.

Fiduciary Fund Types

The City reports the following fiduciary funds:

*Pension Trust Fund*

The pension trust fund accounts for assets held by the City in a trustee capacity for the City of Atlantis Police Officers that remain in the defined benefit plan held by the City. The pension trust fund is accounted for essentially the same as the proprietary fund since capital maintenance is critical.

*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 financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements and the agency fund are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period.

***For the Year Ended September 30, 2007***

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***1. Summary of Accounting Policies, Measurement Focus, Basis of Accounting and Financial Statement Presentation, continued***

Property taxes, franchise taxes, licenses and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the City. Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred.

The proprietary fund and pension trust fund are accounted for using the accrual basis of accounting and the flow of economic resources measurement focus. This means that all assets and all liabilities (whether current or noncurrent) associated with the activity are included on the balance sheet. The proprietary fund operating statement presents increases (revenues) and decreases (expenses) in net total assets. Their revenues are recognized when they are earned, and their expenses are recognized when they are incurred. Unbilled utility services receivables of the Water and Sewer System Fund are recorded at year-end.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City's water and sewer system enterprise fund are charges to customers for sales and services. Operating expenses for the enterprise fund 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 non-operating revenues and expenses.

The City has elected to not apply FASB Statements and Interpretations issued after November 30, 1989, as permitted by Statement No. 20 of the Governmental Accounting Standards Board, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*.

***Budgets and Budgetary Accounting***

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

- a. Formal budgetary integration is employed as a management control device during the year for the General Fund as well as for the Enterprise Fund. These budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP).
- b. The City Council approves, by ordinance, total budget appropriations only. The City Manager is authorized to transfer budget amounts between departments within any fund; however, any revisions that alter the total appropriations of any fund must be approved by the City Council. Therefore, the level of budgetary responsibility is by total appropriations; however, for report purposes, this level has been expanded to a functional basis (General Government, Public Safety, etc).
- c. Unused appropriations for all of the above annually budgeted funds lapse at the end of year.

***For the Year Ended September 30, 2007***

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***1. Summary of Accounting Policies, Budgets and Budgetary Accounting, continued***

- d. Normally, the budget amounts shown in the budgetary comparison schedule represent both the original and the final authorized amounts as revised during the year. However, this year the budget was not revised, and therefore, the original budget is compared to the actual results. Furthermore, this year the budget was prepared including a balance forward of \$530,000 from prior years. Therefore the budget reflects a \$530,000 over expenditure.

As required by GASB Statement No. 34, a budgetary comparison schedule is presented for the general fund. Budgetary comparison schedules are not required, and have not been presented for the enterprise fund.

***Cash and Cash Equivalents***

Cash and cash equivalents include amounts in demand deposits as well as in money market accounts and in highly liquid investments with an original maturity of three months or less. For purposes of the statement of cash flows, the Proprietary Fund Type (Enterprise – Utility) considers all highly liquid investments with maturity of three months or less when purchased to be cash equivalents.

***Investments***

Statutes authorize the City to invest in certificates of deposit, repurchase agreements, passbooks, bankers' acceptances and other available bank investments provided that approved securities are pledged to secure those funds on deposit in an amount equal to the amount of those funds. In addition, the City may invest in direct debt securities of the United States unless law expressly prohibits such an investment. The pension trust fund is also authorized to invest in various instruments in accordance with the State of Florida Municipal Police Officers and Firefighters Retirement Law. As of the report date, the pension trust investments consisted of stocks and bonds of publicly held companies and obligations of the U.S. Government and its agencies. The pension trust investments are carried at market value, and are uninsured and unregistered at September 30, 2007.

In computing realized gain or loss, investments are stated at amortized cost determined on a FIFO basis.

The calculation of realized gains and losses is independent of the calculation of the net change in the fair value of investments. Also, realized gains and losses on investments that have been held in more than one fiscal year, and sold in the current year, were included as a change in the fair value of investments reported in the prior year(s) and the current year.

***Receivables***

Receivables in the Government Fund Type primarily consist of an amount due for a grant receivable for fixed assets. Receivables in the Proprietary Fund Type (Enterprise – Utility) consist of water and sewer bills owed by City residents and commercial customers and financed water connection charges. The City has no significant concentration in accounts receivable that, if uncollected, would materially affect the financial statements of either fund type. Furthermore, there is no provision for doubtful accounts.

***For the Year Ended September 30, 2007***

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***1. Summary of Accounting Policies, continued****Vacation, Holiday and Sick Leave*

All full-time and part-time employees who work a regular schedule shall be granted annual leave with pay. The schedule is graded based on full-time or part-time status and on the number of years worked. For example, a full-time time employee earns twelve days of vacation after twelve months of employment.

Vacation can be carried over from one year to the next. However, employees must use two thirds of accrued vacation by the end of the fiscal year and are able to accrue one third for use in the subsequent fiscal year or for payout upon termination. Termination payments are limited to a maximum of 240 hours for employees with more than 1 but less than 20 years of service and 500 hours for employees with 20 or more years of service. Furthermore, in the event of involuntary termination the accrued vacation will be forfeited.

Ten holidays are paid each year for all full-time employees and part-time employees who work a regular schedule.

Sick leave will be earned at the rate of one day per month not to exceed twelve days per fiscal year for all full-time employees. Sick leave will begin to accrue when the employee has been in service of the City for six months. Employees can accrue 100% of unused sick leave per fiscal year with no maximum. Termination payments are limited to a maximum of 50% of accrued sick time for employees with more than 5, but less than 10 years of service, 480 hours, plus ½ of the remaining time up to 960 hours for employees with more than 10, but less than 25 years of service, and 100% of accrued sick time up to 960 hours for employees with more than 25 years of service.

*Capital Assets and Depreciation*

Capital assets, which include property, plant, and equipment, are reported in the applicable governmental or business-type activities column in the government-wide financial statements.

The accounting and reporting treatment applied to the capital assets associated with a fund are determined by its measurement focus. General capital assets are assets of the City as a whole. When purchased, such assets are recorded as expenditures in the governmental funds and capitalized as assets in the government-wide statement of net assets. General capital assets are carried at historical cost. Where cost cannot be determined from the available records, estimated historical cost has been used to record the estimated value of the assets. Assets acquired by gift or bequest are recorded at their fair value at the date of donation.

Capital assets of the enterprise fund are capitalized in the fund itself. The valuation basis for enterprise fund capital assets are the same as those used for general capital assets.

Additions, improvements, and other capital outlay that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred.

Depreciation has been provided over the estimated useful lives using the straight-line method of depreciation. The estimated lives for each major class of depreciable fixed assets are as follows:

Buildings and improvements	30 years
Improvements other than buildings	10 - 30 years
Furniture and equipment	3 - 10 years
Streets	30 years

*For the Year Ended September 30, 2007*

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**1. Summary of Accounting Policies, continued***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 in the business-type activities, or proprietary fund statement of net assets. Bond premiums and discounts, as well as issuance costs, if any, 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.

*Net Assets*

Equity in the government-wide statement of net assets is displayed in three categories: 1) invested in capital assets net of related debt, 2) restricted, and 3) unrestricted. Net assets invested in capital assets net of related debt consist of capital assets reduced by accumulated depreciation and by any outstanding debt incurred to acquire, construct, or improve those assets. Net assets are reported as restricted when there are legal limitations imposed on their use by City legislation or external restrictions by other governments, creditors, or grantors. Unrestricted net assets consist of all net assets that do not meet the definition of either of the other two components.

*Fund Equity*

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Unreserved fund balance amounts that are reported as designations of fund balances represent tentative plans for financial resource utilization in a future period. The following is a description of the reserves and designations used by the City.

Designated for technology – Designated by the Council for future upgrades to the police radio system.

Held in trust for employees' pension benefits – Restricted for payment of retirement benefits.

*Revenue Recognition - Property Taxes*

The City follows Governmental Accounting Standards Board Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*. This statement requires that revenues pertaining to nonexchange transactions be recognized when they become both available and measurable. The City's application of this statement has had no effect on the reported balances in the financial statements.

Property taxes attach as an enforceable lien on property as of January 1. Tax rolls are completed and become measurable in October. Taxes are levied on November 1 and are due and payable at that time. All unpaid taxes levied November 1 became delinquent April 1 of the following year. Delinquent taxes are considered fully collectible and therefore no allowance for uncollectible taxes is provided.

***For the Year Ended September 30, 2007***

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***1. Summary of Accounting Policies, continued****Pension Plan*

In the September 30, 2005 fiscal year, a decision was made to provide enhanced benefits to its employees by transferring its pension plans for police officers and general employees to the Florida Retirement System (FRS). FRS is a consolidated statewide retirement system for Florida's public employees administered by the Division of Retirement of the State of Florida.

Also in that year, the police officers were given a period of time to opt out of the plan, take a lump sum payment, and join FRS. Only two active officers did not opt out. For those officers and other non-active participants, the existing plan remains with the City and will be terminated upon final payment to the last remaining participant or beneficiary.

For those non-civilian public safety employees that decided to stay in the City plan, they are covered under a defined benefit plan administered by an independent Board of Trustees. The police officers pension fund is accounted for by the City as a separate fiduciary fund.

*Use of estimates*

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

***2. Deposits and Investments****Deposits*

All of the City's deposits are held in qualified public depositories pursuant to State of Florida Statutes, Chapter 280, "Florida Security for Public Deposits Act." Under the Act, every qualified public depository shall deposit with the Treasurer eligible collateral of the depository to be held subject to his or her order. The Treasurer, by rule, shall establish minimum required pledging levels. The pledging level may range from 25% to 125% of the average monthly balance of public deposits, depending upon the depository's financial condition and establishment period. All collateral must be deposited with an approved financial institution. Any losses to public depositories are covered by applicable deposit insurance, sale of securities pledged as collateral, and, if necessary, assessments against other qualified public depositories of the same type as the depository in default. At year-end, the City's deposits were covered by federal depository insurance.

The City's deposits are categorized to give an indication of the level of risk assumed by the City at September 30, 2007. The categories are described as follows:

- Category 1 – Insured or collateralized with securities held by the City or by its agent in the City's name.
- Category 2 – Collateralized with securities held by the pledging financial institution's trust department or agent in the City's name.
- Category 3 – Uncollateralized.

***For the Year Ended September 30, 2007*****2. Deposits and Investments, Deposits, continued**

Cash and cash equivalents on deposit, categorized by level of risk, are as follows:

	Category			Total
	3 With Banks	2 With State Board of Administration	3 With Brokers	
General fund (unrestricted)	\$ 88,279	\$ 1,382,341	\$ 251,576	\$ 1,722,196
Enterprise fund (Utility)				
Unrestricted	\$ 65,472	\$ 675,773	\$ 243,699	\$ 984,944
Restricted for:				
Renewal & replacement	-	50,000	-	50,000
Water capacity	-	342,615	-	342,615
Sewer capacity	-	78,420	-	78,420
Customer deposits & prepayments	-	339,601	-	339,601
Sub-total restricted	-	810,636	-	810,636
Total Enterprise fund	\$ 65,472	\$ 1,486,409	\$ 243,699	\$ 1,795,580
Pension trust (restricted)	\$ -	\$ -	\$ 81,458	\$ 81,458

The City's deposits with banks are swept daily to a bank investment account comprised of short-term U.S. treasury obligations, which are not covered by federal depository insurance.

Deposits with the State Board of Administration (SBA) are in an external investment pool that invests principally in Treasury Bills, Treasury Notes, Commercial Paper, and other approved short-term investments. In accordance with Government Accounting Standards Board Standard No. 31, the pool records investments at amortized cost, and securities lending cash collateral at fair value, based on quoted prices. The pool examines the difference between amortized cost and fair value monthly, and is directed to take specific action if the two values differ by more than 0.5%. At September 30, 2006, (the date of the most recent SBA financial statements) the ratio of amortized cost to fair value was 99.98%. Amortized cost is also used to determine the value of participant's shares sold and redeemed. Because the difference between amortized cost and fair value is historically negligible (as it was at September 30, 2006), the amounts illustrated approximate fair value. The pool does not require any local government or State agency to participate. Furthermore, the Pool is governed by the Florida Administrative Code, and is audited by the Office of the Auditor General. A copy of the SBA's financial statements is available from the SBA, State of Florida. See Note 10 for further information on the SBA deposits.

Deposits with brokers are invested in money market accounts that are not insured.

***For the Year Ended September 30, 2007***

**2. Deposits and Investments, continued**

*Investments*

The City is authorized to invest its funds as follows:

1. Interest-bearing checking or savings accounts in qualified public depositories, as defined in Florida State Statute 280.02;
2. Interest-bearing time deposits in qualified public depositories, as defined in Florida State Statute 280.02;
3. The Local Government Surplus Funds Trust Fund or any intergovernmental investment pool authorized pursuant to the Florida Interlocal Cooperation Act, as provided in Florida State Statute 163.01;
4. Securities and Exchange Commission registered money market funds with the highest credit quality rating from a nationally recognized rating agency;
5. Direct obligations of the United States Treasury;
6. Federal agencies and instrumentalities;
7. Securities of, or interest in, any open-end or closed-end management-type investment company or investment trust registered under the Investment Company Act of 1940, 15 U.S.C. sections 80a-1 et seq., as amended from time to time, provided that the portfolio of such investment company or investment trust is limited to obligations of the United States Government or any agency or instrumentality thereof and to repurchase agreements fully collateralized by such United States Government obligations, and provided that such investment company or investment trust takes delivery of such collateral either directly or through an authorized custodian;
8. Other investments authorized by law or by ordinance by the City.

Investments of the Police Officers' Pension Fund can consist of every kind of investment except for: options, futures, municipal bonds, non-investment grade bonds, foreign securities, precious metals, private placements, short sales, purchases on margin, real estate, and partnerships.

Investments, net of accrued interest receivable, all of which are category 2, are as follows:

	Total Cost			Total Market Value		
	City	Enterprise Fund (Utility)	Fiduciary Fund (Pension Trust)	City	Enterprise Fund (Utility)	Fiduciary Fund (Pension Trust)
U.S. Gov't Securities	\$ 1,038,697	\$ 1,041,964	\$ 297,512	\$ 1,014,112	\$ 1,014,158	\$ 300,536
Stocks	-	-	1,068,795	-	-	1,190,768
Bonds	-	-	124,124	-	-	123,060
<b>Total</b>	<b>\$ 1,038,697</b>	<b>\$ 1,041,964</b>	<b>\$ 1,490,431</b>	<b>\$ 1,014,112</b>	<b>\$ 1,014,158</b>	<b>\$ 1,614,364</b>

The investments of the utility are restricted for debt service and future water connections. The investments of the pension trust are restricted for payment of retirement benefits.

***For the Year Ended September 30, 2007***

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**2. Deposits and Investments, Investments, continued**

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The City mitigates this risk for the general government and the utility by holding the U.S. Government securities until maturity. The maturities for these investments range from one to five years. The fiduciary obligations have maturities ranging from one to five years, with a weighted average maturity of approximately three years.

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The City mitigates this risk in the fiduciary corporate debt by holding investment grade bonds.

**3. Pension Plan**

The City of Atlantis has one single-employer pension plan as of September 30, 2007. The defined benefit pension plan covers full-time sworn police officers who did not elect to participate in the Florida Retirement System (FRS).

The valuation information presented on the following page represents the most recent valuation performed as of October 1, 2006.

**A. Police Officers' Pension Fund**

The City of Atlantis Police Officers' Pension Fund as established October 18, 1989 by the authority of City Ordinance 205.

- |                       |  |
|-----------------------|--|
| Annual benefit        | - 3.0% of Average Final Compensation (AFC) multiplied by Credited Service. AFC is the average salary for the best five years preceding retirement or termination.  |
| Other benefits        | - Plan also provides for early retirement, disability retirement and death benefits.   |
| Vesting               | - 100% after ten years of credited service at the earlier of age 55 and 6 years of service or 25 years of service, regardless of age.  |
| Employee contribution | - 0.5% of salary.  |
| City contributions    | - City contributions are based upon actuarially determined amounts, which, together with earnings and employee contributions are sufficient to fund the plan. It is the City's policy to fund the actuarially determined contribution. |

***For the Year Ended September 30, 2007***

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**3. Pension Plans, Police Officers' Pension Fund, continued**

The following information is from the most recent actuarial valuation report prepared by Foster & Foster, Inc.

- a. Valuation Date – October 1, 2006.
- b. Actuarial Assumptions - The discount rate and projected salary increases used in the calculation of the Pension Benefit Obligation are the same as those used for funding purposes. The more significant assumptions are:
  - 1. Rate of return on investment of present and future assets - 8% compounded annually.
  - 2. Projected salary increases due to inflation and merit or seniority - 7.5%.

c. Number of Members Included in the Calculations

1. Retirees & Beneficiaries Currently Receiving Benefits and Terminated Employees Entitled to Benefits but Not Yet Receiving Them	5
2. Current Employees	
a) Vested	2

d. Actuarial Present Value of Accumulated Plan Benefits

1. Vested Benefits	
a) Inactives	\$ 534,436
b) Actives	593,043
c) Member Contributions	103,929
d) Total	1,231,408
2. Non-vested Benefits	-
3. Total Actuarial Present Value of Accumulated Plan	<b>\$1,231,408</b>
4. Accumulated Contributions of Active Members	<b>\$ 103,929</b>

e. Changes in the Actuarial Present Value of Accumulated Plan Benefits

1. Total Value at Last Valuation	<b>\$1,249,362</b>
2. Increase (Decrease) During the Period Attributable to	
a) Plan Amendment	-
b) Change in Actuarial Assumptions	-
c) New Accrued Benefits	(102,460)
d) Benefits Paid	(84,490)
e) Interest	168,996
f) Net Decrease	<b>\$ (17,954)</b>

***For the Year Ended September 30, 2007*****3. Pension Plans, Police Officers' Pension Fund, continued**

3. Total Value at End of Period \$1,231,408

f. Market Value of Assets at October 1, 2006 \$1,594,583

Additional information obtained from this October 1, 2006 valuation is provided as Required Supplementary Information following these notes to financial statements. Furthermore, the Police Officer's Pension Plan has stand-alone plan reports for the most recent and prior year's valuations, and has separately issued financial statements for the most recent and prior year's fiscal periods. These reports and financial statements are available from the City Manager's office.

**4. Capital Assets**

Capital assets activity for the year ended September 30, 2007, was as follows:

	Balance October 1, 2006	Additions	Deletions	Balance September 30, 2007
<b>Governmental Activities:</b>				
Non-Depreciable Assets:				
Land	\$ 240,622	\$ -	\$ -	\$ 240,622
<b>Total non-depreciable assets</b>	<b>240,622</b>	<b>-</b>	<b>-</b>	<b>240,622</b>
Depreciable Assets:				
Buildings and improvements	\$ 1,359,300	\$ -	\$ -	\$ 1,359,300
Streets	4,421,468	-	-	4,421,468
Land improvements	143,347	-	-	143,347
Lighting	111,650	-	-	111,650
Park development	361,794	-	-	361,794
City entrances	198,176	167,321	-	365,497
Vehicles	223,099	35,740	-	258,839
Furniture and equipment	479,353	432,235	-	911,588
<b>Total depreciable assets</b>	<b>7,298,187</b>	<b>635,296</b>	<b>-</b>	<b>8,174,105</b>
Less accumulated depreciation	(5,055,112)	(228,970)	-	(5,284,082)
<b>Governmental activities capital assets, net</b>	<b>\$ 2,483,697</b>	<b>\$ 406,326</b>	<b>\$ -</b>	<b>\$ 2,890,023</b>

***For the Year Ended September 30, 2007***

**4. Capital Assets, continued**

	Balance October 1, 2006	Additions	Deletions	Balance September 30, 2007
<b>Business-Type Activities:</b>				
Non-Depreciable Assets:				
Land	\$ 132,000	\$ -	\$ -	\$ 132,000
<b>Total non-depreciable assets</b>	<b>132,000</b>	<b>-</b>	<b>-</b>	<b>132,000</b>
Depreciable Assets:				
Buildings and improvements	\$ 245,104	\$ -	\$ -	\$ 245,104
Improvements other than buildings	3,461,961	-	-	3,461,961
Landscaping	1,072	-	-	1,072
Furniture, fixtures and equipment	134,497	29,151	(24,750)	138,898
<b>Total depreciable assets</b>	<b>3,842,634</b>	<b>29,151</b>	<b>(24,750)</b>	<b>3,847,035</b>
Less accumulated depreciation	(1,565,468)	(133,536)	24,750	(1,674,254)
<b>Business-type activities capital assets, net</b>	<b>\$ 2,409,166</b>	<b>\$(104,385)</b>	<b>\$ -</b>	<b>\$ 2,304,781</b>

Depreciation expense was charged to functions as follows:

<b>Governmental Activities:</b>	
General government	\$ 42,008
Law enforcement	82,450
Physical environment	104,512
<b>Total depreciation expense – governmental activities</b>	<b>\$ 228,970</b>
<b>Business-type activities:</b>	
Water and sewer system	\$ 133,536

**5. Long-term Debt**

During the September 30, 2003 fiscal year, the City modified the terms of its 1998 Series Bonds by decreasing the interest rate from 5.3% to 4.0%, and changing the maturity date from September 1, 2018 to September 1, 2012. The 1998 Series Bonds require semi annual principal and interest payments.

The bonds are collateralized by the water revenues of the City's Enterprise Fund.

***For the Year Ended September 30, 2007***

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**5. Long-term Debt, continued**

The future maturities of the Series 1998 revenue bond are as follows:

Fiscal year ending September 30,	Amount
2008	\$ 345,295
2009	345,295
2010	345,295
2011	345,295
2012	345,295
Thereafter	<u>65,000</u>
Total debt service requirements	1,791,475
Less amount representing interest	<u>190,055</u>
Total bonds payable	<u>\$1,601,420</u>

**6. Deferred Compensation Plan**

The City offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all City employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency.

The City operates the plan under GASB Statement No. 32, *Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*. GASB 32 was issued in response to a change in federal law that removes the assets in deferred compensation plans from the general creditors in the event of a government bankruptcy. Qualified deferred compensation plans must be held in a trust that meets the requirements of IRC Section 457(g). If a deferred compensation plan meets the requirements of IRC Section 457(g), no financial statement presentation or note disclosure is required. The City's deferred compensation plan meets the requirements of IRC Section 457(g) and has been correctly omitted from the current year's financial statements and note disclosures.

**7. Risk Management**

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City continues to purchase workers compensation insurance through the Florida Municipal Insurance Trust. The City purchases property and liability insurance through the Preferred Government Insurance Trust. Retention of risks is limited to excess of those that are insured, those risks that are uninsurable, and deductibles ranging from \$500 to \$10,000 per occurrence.

As a member of each of the Insurance Trusts with the Florida League of Cities, the responsibility of the City is to pay those premiums charged by the non-assessable pool for property, liability and workers compensation coverages. The pool is responsible for paying all claims incurred by the City, less stop loss deductibles for general/professional and automobile liability coverage in the amounts of \$10,000 and \$2,500 respectively; and a deductible for property and allied insurance of \$500. The City may terminate the membership based on a 60 days notice to the pool. All pool policies are on an occurrence basis.

***For the Year Ended September 30, 2007***

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**7. Risk Management**, *continued*

Major uninsurable risks include damage to infrastructure assets. Since the amount of loss cannot be reasonably estimated and the likelihood of occurrence is not determinable, no provision for losses is reflected in the financial statements. There were no settled claims that exceeded insurance coverage during the past three fiscal years.

**8. Commitments and Contingencies**

Insurance – The City insures against loss from damage, theft, litigation and other hazards and contingencies through the Florida Municipal Insurance Trust and the Preferred Government Insurance Trust, offered by the Florida League of Cities, Inc.

**9. Other Disclosures**

An ordinance of the City of Atlantis, Florida, authorized the creation of the Atlantis Safe Neighborhood Improvement District. This dependent special district has not had any revenues, expenses, assets or liabilities since it was formed on August 10, 1988.

The City was awarded a grant for approximately \$81,000 from the Palm Beach County Division of Emergency Management for a portion of the cost of a new generator and associated fuel tanks to operate the 911 equipment and dispatch center. In addition, the City also received a grant for approximately \$11,000 from the Florida Department of Transportation for in car video systems for the police department

**10. SBA Subsequent Event**

As discussed in Note 2, at September 30, 2007, the City had \$2,868,750 invested in the State Board of Administration's Local Government Surplus Funds Trust Fund Investment Pool (Pool). On November 29, 2007, the State Board of Administration implemented a temporary freeze on the assets held in the Pool due to an unprecedented amount of withdrawals from the Fund coupled with the absence of market liquidity for certain securities within the Pool. The significant amount of withdrawals followed reports that the Pool held asset-backed commercial paper that was subject to sub prime mortgage risk. On December 4, 2007, based on recommendations from an outside financial advisor, the State Board of Administration restructured the Pool into two separate pools. Pool A consisted of all money market appropriate assets, which was approximately \$12 billion or 86% of Pool assets. Pool B consisted of assets that either defaulted on a payment, paid more slowly than expected, and/or had any significant credit and liquidity risk, which was approximately \$2 billion or 14% of Pool assets. At the time of the restructuring, all current pool participants had their existing balances proportionately allocated into Pool A and Pool B.

Currently, Pool A participants may withdraw 15% of their balance or \$2 million, whichever is greater, without penalty. Withdrawals from Pool A in excess of the above limit are subject to a 2% redemption fee. New investments in Pool A are not subject to the redemption fee or withdrawal restrictions. Future withdrawal provisions from Pool A will be subject to further evaluation based on the maturities of existing investments and the liquidity requirements of the Pool. On December 21, 2007, Standard and Poor's Ratings Services assigned its "AAAM" principal stability fund rating to Pool A.

*For the Year Ended September 30, 2007*

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**10. SBA Subsequent Event, continued**

Currently, Pool B participants are prohibited from withdrawing any amount from the Pool and a formal withdrawal policy has not yet been developed. Market valuations of the assets held in Pool B are not readily available. In addition, full realization of the principle value of Pool B assets is not readily determinable.

As of January 2008, the City has \$475,858 and \$415,971 invested in Pool A and B, respectively. Additional information regarding the Local Government Surplus Funds Trust Fund may be obtained from the State Board of Administration.

**11. Contingency**

Over fifty percent of the City's General Fund revenue comes from Ad Valorem tax revenue. This revenue could potentially be reduced in the next fiscal year due to a proposed constitutional amendment to reduce the tax base of local government by doubling the homestead exemption and allowing for the portability of the "Save-Our-Homes" tax benefit for homesteaded property owners. This referendum is scheduled to be voted on January 29, 2008.

*For the Year Ended September 30, 2007*

	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Revenues			
Taxes	\$ 3,415,000	\$ 3,363,132	\$ (51,868)
Licenses and permits	235,000	232,596	(2,404)
Intergovernmental revenue	805,700	506,674	(299,026)
Fines and forfeitures	90,000	54,930	(35,070)
Miscellaneous revenue	137,300	219,225	81,925
Total revenues	<u>4,683,000</u>	<u>4,376,557</u>	<u>(306,443)</u>
Expenditures			
Current			
General government			
Legislative	57,000	57,000	-
Executive	290,700	273,324	17,376
Financial	10,000	10,500	(500)
Legal services	70,000	81,013	(11,013)
City clerk	92,400	85,048	7,352
Maintenance and supervision	139,400	143,983	(4,583)
Public safety			
Law enforcement	2,788,300	2,453,367	334,933
Fire control	484,800	471,960	12,840
Protective inspections	89,000	117,647	(28,647)
Physical environment	1,136,000	910,671	225,329
Capital outlay/contingency	55,400	-	55,400
Hurricane expenses	-	12,757	(12,757)
Total expenditures	<u>5,213,000</u>	<u>4,617,270</u>	<u>595,730</u>
Excess of expenditures over revenues	(530,000)	(240,713)	289,287
Fund balance, October 1, 2006		<u>2,597,494</u>	-
Fund balance, September 30, 2007		<u>\$ 2,356,781</u>	<u>\$ 289,287</u>

See accompanying notes to required supplementary information.

*For the Year Ended September 30, 2007*

<b>Actuarial Valuation Date</b>	<b>Actuarial Value of Assets (a)</b>	<b>Actuarial Accrued Liability (AAL) -Entry Age (b)</b>	<b>Unfunded AAL (UAAL) (b - a)</b>	<b>Funded Ratio (a/b)</b>	<b>Covered Payroll (c)</b>	<b>UAAL as % of Covered Payroll (b-a)/c</b>
1/1/2003	\$ 1,544,875	\$ 1,591,491	\$ 46,616	97.07%	\$ 578,634	8.06%
1/1/2005	1,213,323	1,170,676	(42,647)	103.64%	125,285	-34.04%
10/1/2006	1,385,400	1,397,410	12,010	99.14%	129,922	9.24%

*See accompanying notes to required supplementary information.*

*For the Year Ended September 30, 2007*

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<u>Year Ended</u>	<u>Annual Required Contribution</u>	<u>Actual Contribution</u>	<u>Percentage Contributed</u>
12/31/2004	\$ 116,859	\$ 116,859	100.00%
12/31/2005	43,656	43,656	100.00%
9/30/2006	35,197	35,197	100.00%

*See accompanying notes to required supplementary information.*

*For the Year Ended September 30, 2007***1. Additional Actuarial Information**

The information presented in the required supplementary schedules was determined as part of the actuarial valuations performed by Foster & Foster, Inc. at the date indicated. Additional information as of the latest actuarial valuation:

Valuation date	October 1, 2006
Contribution Rates:	
Employer (and State)	34.8%
Plan Members	0.5%
Actuarial Cost Method	Frozen Entry Age
Amortization Method	Level dollar, closed
Remaining amortization period	29 years
Asset valuation method	5 yr-smoothed market
Actuarial assumptions:	
Investment rate of return	8.0%
Projected salary increases	7.5%
Includes inflation at	4.0%
Post retirement COLA	3.0%

**2. Annual Pension Cost and Net Pension Obligation**

	<u>12/31/04</u>	<u>12/31/05</u>	<u>9/30/06</u>
A. Annual Required Contribution (ARC)*	\$ 116,859	\$ 43,656	\$ 35,197
B. Interest on Net Pension Obligation (NPO)	(15,880)	(15,705)	(18,391)
C. Adjustment to ARC	<u>18,059</u>	<u>(17,861)</u>	<u>(20,915)</u>
D. Annual Pension Cost	119,038	10,090	(4,109)
E. Actual Contributions	<u>(116,859)</u>	<u>(43,656)</u>	<u>(35,197)</u>
F. Increase (decrease) in NPO	2,179	(33,566)	(39,306)
G. NPO at beginning of year	<u>(198,497)</u>	<u>(196,318)</u>	<u>(229,884)</u>
H. NPO at end of year	<u>\$ (196,318)</u>	<u>\$ (229,884)</u>	<u>\$ (269,190)</u>

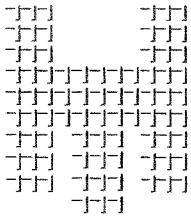
\*Includes expected State contribution – only applies to 12/31/04.

*For the Year Ended September 30, 2007*

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## TREND INFORMATION

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Actual Contribution</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
12/31/2004	\$ 116,859	\$ 116,859	100%	\$ (196,318)
12/31/2005	43,656	43,656	100%	(194,162)
09/30/2006	35,197	35,197	100%	(192,030)



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

To the Honorable Mayor and Members of the City Council  
City of Atlantis, Florida

We have audited the financial statements of the governmental activities, the business-type activities, and each major fund of the City of Atlantis, Florida, as of and for the year ended September 30, 2007, which collectively comprise the City of Atlantis, Florida's basic financial statements and have issued our report thereon dated January 7, 2008. 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 City of Atlantis, Florida's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Atlantis, Florida's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Atlantis, Florida's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City of Atlantis, Florida's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City of Atlantis, Florida's financial statements that is more than inconsequential will not be prevented or detected by the City of Atlantis, Florida's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City of Atlantis, Florida's internal control.

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

### ***Compliance and Other Matters***

As part of obtaining reasonable assurance about whether City of Atlantis, 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.

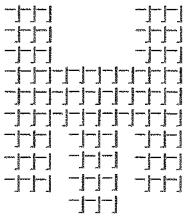
However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of City of Atlantis, Florida in a separate letter dated January 7, 2008.

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

*Holyfield & Thomas, LLC*

West Palm Beach, Florida  
January 7, 2008



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## MANAGEMENT LETTER For the year ended September 30, 2007

To the Honorable Mayor and Members of the City Council  
City of Atlantis, Florida

We have audited the financial statements of the City of Atlantis, Florida as of and for the fiscal year ended September 30, 2007, and have issued our report thereon dated January 7, 2008.

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. We have issued our Independent Auditor's Report on Compliance and Internal Control over financial reporting. Disclosures in this report, which is dated January 7, 2008, should be considered in conjunction with this management letter.

Additionally, our audit was conducted in accordance with the provisions of Chapter 10.550, Rules of the Auditor General, which govern the conduct of local governmental entity audits performed in the State of Florida and, unless otherwise required to be reported in the report on compliance and internal controls, this letter is required to include the following information.

In connection with our audit and in compliance with the rules of the Auditor General, as specifically detailed in the following paragraphs of Section 10.554(1)(i):

1. There were no recommendations made with respect to the preceding annual financial audit report.
2. The City did comply with Section 218.415, Florida Statutes regarding the investment of public funds.
3. We have made recommendations to improve the City's present financial management, accounting procedures or internal controls. They include improving segregation of duties due to reorganization of City personnel; considering centralized purchasing for the City; and having City personnel update the depreciation schedule.
4.
  - a. We did not discover any violation of laws, rules, regulations or contractual provisions or abuse during the scope of our audit.
  - b. We did not discover any improper or illegal expenses that may or may not materially affect the financial statements.

- c. We did not discover any deficiencies, such as:
  - 1. Improper or inadequate accounting procedures.
  - 2. Failure to properly record financial transactions.
  - 3. Other inaccuracies, shortages, defalcations and instances of fraud.
- 5. The City of Atlantis, Florida, chartered on June 19, 1959, was formally established as an operating municipality by the State of Florida legislature under Chapter 59-1055 (House Bill 2187). There are no component units related to the entity.
- 6. a. The City was not in a state of financial emergency.
- b. We did not discover any material variances between the financial report filed with the Florida Department of Financial Services and the Annual Financial Audit Report for the year ended September 30, 2007.
- c.
  - 1. We applied financial condition assessment procedures pursuant to Rule 10.556(7).
  - 2. We did not observe deterioration of financial condition.

Notwithstanding the foregoing comments, it should be noted that our audit was not directed primarily toward obtaining knowledge of such violations.

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



West Palm Beach, Florida  
March 31, 2008