

## Management's Discussion and Analysis

*Management's Discussion and Analysis* provides the reader with a narrative overview and analysis of the financial activities of the City for the fiscal year ended September 30, 2005. *Management's Discussion and Analysis (MD & A)* should be read in conjunction with the City's *Transmittal Letter*, which begins on page vii of this report.

### Financial Highlights

The City's assets exceeded its liabilities at the close of fiscal year 2005 by \$524.4 million (*net assets*). Of this amount, \$164.4 million (*unrestricted net assets*) may be used to meet the government's ongoing obligations to citizens and creditors.

The City's total net assets increased by \$36.9 million, or 7.6%, during fiscal 2005. Net assets for governmental activities increased by \$25.2 million, or 10.3%, while the business-type net assets increased by \$11.7 million, or 4.8%.

Significant factors related to the \$25.2 million increase in governmental net assets included a \$10 million capital grant reimbursement for construction costs for the Memorial Causeway Bridge; \$11.3 million in additional operating and capital grants and contributions; and a \$4.0 million budgetary variance in the General Fund due to revenues in excess of budget along with expenditure savings as discussed in the General Fund budgetary analysis that follows.

The \$11.7 million increase in business-type net assets is the result of operating revenues in excess of operating expenses for all major enterprise funds, along with current year capital grants and contributions of \$6.1 million for Stormwater system and Water and Sewer system improvements.

At September 30, 2005, the City's governmental funds reported combined ending fund balances of \$93.7 million, an increase of \$15.3 million (or 19.5%) in comparison with the prior year. Of this amount, \$60.6 million (or 64.7%) is *available for spending* at the government's discretion (*unreserved fund balance*). The increase of \$15.3 million in governmental fund balances is primarily due a \$10 million capital grant reimbursement for Memorial Causeway Bridge construction costs, along with a current year General Fund surplus of \$2.8 million due to revenue surpluses and expenditure savings, as discussed in the following "General Fund Budgetary Highlights" section.

At September 30, 2005, unreserved fund balance for the General Fund was \$15.6 million, or 16.1% of total current year general fund expenditures.

Total actual revenues for the General Fund for fiscal 2005 were \$2.2 million greater than final budgeted revenues, or 2.3%. This was partially due to "other governmental" revenues that were \$0.9 million, or 9.2%, greater than budgeted due to an increase in electric and gas franchise fees as a result of increased usage volume; and a \$0.6 million, or 14.7% positive variance in licenses, permits, and fees due to increased redevelopment activity and related master building permits. Also contributing to the positive variance in actual revenues versus budgeted was a \$0.2 million, or 38.5% increase in miscellaneous revenues due primarily to increased beach concession revenues. The remainder of the positive variance was due to minor increases over numerous revenue categories.

Total fiscal 2005 actual expenditures for the General Fund were less than final budgeted expenditures by \$1.1 million, or 1.1%. This was due to relatively minor budget savings across numerous City departments for fiscal 2005.

Finally, actual General Fund interfund transfers out were \$0.3 million, or 4.5%, less than final budgeted interfund transfers out, for a combined General Fund fiscal 2005 savings of \$3.7 million (budgetary basis).

### Overview of the Financial Statements

This discussion and analysis (MD&A) is intended to serve as an introduction to the City of Clearwater's *basic financial statements*. The City's basic financial statements are comprised of three components: 1) *government-wide financial statements*, 2) *fund financial statements*, and 3) *notes to the financial statements*. This report also contains other supplementary information in addition to the basic financial statements themselves.

#### Government-Wide Financial Statements

The government-wide financial statements are the *statement of net assets* and the *statement of activities*. These statements report information about the City as a whole using accounting methods similar to those used by private-sector businesses. Emphasis is placed on the net assets of *governmental activities* and *business-type activities*, and the *change in net assets*. Governmental activities are principally supported by taxes and intergovernmental revenues. Governmental activities include most of the City's basic services, including police, fire, public works, parks and

recreation, and general administration. Business-type activities are intended to recover all or a significant portion of their costs through user fees and charges. The City's water and sewer system, stormwater system, gas system, solid waste, recycling, marine, aviation, convention center, and parking system operations are reported as business-type activities.

- The *statement of net assets* presents information on all of the City's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator as to whether the financial position of the City is improving or deteriorating. Net assets are reported in three major categories: 1) invested in capital assets, net of related debt; 2) restricted; and 3) unrestricted.
- The *statement of activities* presents information showing how the City's net assets changed as a result of the year's activities. All changes in net assets are recorded in the period in which the underlying event takes place, which may differ from the period in which cash is received or disbursed. The Statement of Activities displays the expense of the City's various programs net of related revenues, as well as a separate presentation of revenues available for general purposes.

The government-wide financial statements include not only the City of Clearwater itself but also the Clearwater Redevelopment Agency (CRA). The CRA, though legally separate, is reported as part of the *primary government* as a *blended* component unit due to the City Council serving as the CRA's governing board.

## **Fund Financial Statements**

A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The fund financial statements provide detailed information about the City's major funds – not the City as a whole. *Fund accounting* helps to ensure and demonstrate *compliance* with finance-related legal requirements. Based on restrictions on the use of monies, the City has established many funds that account for the multitude of services provided to residents. These fund financial statements focus on the City's most significant funds: *governmental*, *proprietary*, and *fiduciary*.

## **Governmental funds**

*Governmental funds* are used to report most of the City's basic services. These funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. The funds focus on the *inflows and outflows of current resources* and the *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The City maintains eleven individual governmental funds. Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balances for the General, Special Development, and Capital Improvement funds, which are considered to be major funds. Data from the other eight governmental funds are combined into a single aggregated columnar presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of *combining statements* in the supplementary information section of this report.

Annual appropriated budgets are adopted for the General Fund, the Special Development Special Revenue Fund, and the Community Redevelopment Agency Special Revenue Fund. Budgetary comparison statements and/or schedules have been provided for these funds to demonstrate budgetary compliance.

## Proprietary funds

The City maintains two different types of proprietary funds. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City uses enterprise funds to account for the fiscal activities related to water and sewer, gas, solid waste and stormwater utilities, along with recycling, marine, aviation, parking system, and convention center operations. *Internal service funds* are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City uses internal service funds to account for the City's building maintenance, custodial services, self-insurance program, risk management program, employee group insurance, vehicle acquisition and maintenance, and various support activities including data processing, legal, telecommunications, postal, and printing services. All of the City's internal service funds predominantly benefit governmental activities and consequently have been aggregated and included within *governmental activities* in the government-wide financial statements.

*Proprietary funds* provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Water and Sewer Utility, Gas Utility, Solid Waste Utility, and Stormwater Utility enterprise funds, which are considered to be *major* funds of the City. The remaining four *non-major* enterprise funds are combined into a single aggregated presentation in the proprietary fund financial statements. Similarly, governmental activity *internal service* funds are aggregated into a single presentation. Individual fund data for the non-major enterprise funds and the internal service funds is provided in the form of *combining statements* in the supplementary information section of this report.

## Fiduciary 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 fiduciary funds are not available to support the City's own programs. The accounting used for fiduciary funds is similar to proprietary funds.

## Notes to the Financial Statements

The *notes to the financial statements* provide additional information that is essential for a full understanding of the information provided in the government-wide and fund financial statements. The notes also present certain required supplementary information concerning the City's progress in funding its obligation to provide pension benefits to its employees.

## Other Information

In addition to the basic financial statements and accompanying notes, this report also presents certain required *supplementary information* concerning the City's progress in funding its obligation to provide pension benefits to its employees.

The *combining statements* referred to earlier in connection with non-major governmental funds, non-major enterprise funds, and internal service funds, are presented immediately following the required supplementary information.

## Government-Wide Financial Analysis

The overall financial position of the City improved in both the fiscal 2005 and fiscal 2004 years. 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, assets exceeded liabilities by \$524.4 million at the close of the fiscal year ended September 30, 2005. This represents an increase of \$36.9 million over the September 30, 2004 total net assets of \$487.5 million. Net assets of both the governmental and the business-type activities increased due primarily to operating results and capital grant contributions. The City reports positive balances in all three categories of net assets, both for the government as a whole as well as for its separate governmental and business-type activities, for both the current year and the prior year, as indicated in the following table:

**City of Clearwater - Net Assets  
Primary Government**

	Governmental Activities		Business-type Activities		Total	
	2005	2004	2005	2004	2005	2004
<b>Assets</b>						
Current and other assets	\$ 152,437,449	\$ 178,697,641	\$ 144,066,179	\$ 149,126,954	\$ 296,503,628	\$ 327,824,595
Capital assets	207,862,112	205,163,022	317,017,775	299,942,144	524,879,887	505,105,166
Total assets	360,299,561	383,860,663	461,083,954	449,069,098	821,383,515	832,929,761
<b>Liabilities</b>						
Current and other liabilities	7,723,128	49,717,785	16,197,025	11,533,555	23,920,153	61,251,340
Long-term debt outstanding:						
Due within one year	13,589,844	13,892,273	9,808,257	8,888,510	23,398,101	22,780,783
Due in more than one year	68,075,018	74,575,061	181,593,152	186,852,232	249,668,170	261,427,293
Total liabilities	89,387,990	138,185,119	207,598,434	207,274,297	296,986,424	345,459,416
<b>Net assets:</b>						
Invested in capital assets, net of related debt	143,504,986	133,711,161	146,476,449	136,964,219	289,981,435	270,675,380
Restricted	34,667,776	31,262,403	35,353,622	31,186,180	70,021,398	62,448,583
Unrestricted	92,738,809	80,701,980	71,655,449	73,644,402	164,394,258	154,346,382
Total net assets	\$ 270,911,571	\$ 245,675,544	\$ 253,485,520	\$ 241,794,801	\$ 524,397,091	\$ 487,470,345

A large portion of the City's net assets (55.3%) reflects its investment in capital assets (e.g., land, land improvements, buildings, and equipment), less any related outstanding debt used to acquire those assets. The City uses these capital assets to provide services to citizens, and consequently these assets are not available for future spending. Although the City's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other resources, since the capital assets themselves will not be used to liquidate these liabilities.

An additional portion of the City's net assets (13.3%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets (\$164.4 million or 31.3%) may be used to meet the government's ongoing obligations to citizens and creditors.

There was a \$9.8 million increase in *invested in capital assets, net of related debt* for *governmental activities*, due to a \$2.7 million increase in governmental activities *net capital assets*, along with a \$6.8 million decrease in related debt due to scheduled debt service payments. The increase of \$2.7 million in governmental activities net capital assets was primarily due to completion of the Ross Norton recreation complex, acquisition of land and building at the site of the Joe DiMaggio Recreation Complex, and construction of the McMullen Booth pedestrian overpass.

*Invested in capital assets, net of related debt for business-type activities* increased by \$9.5 million primarily due to a \$17.1 million increase in business-type activities net capital assets, in addition to a \$4.9 million decrease in related debt, offset by a \$12.6 million decrease in unspent bond proceeds that is netted against the debt. The increase in net capital assets was primarily due to Water & Sewer Utility and Stormwater Utility system asset additions as detailed in the Capital Assets discussion section of this report. These referenced system asset additions for construction are also the primary cause of the decrease in unspent bond proceeds. The decrease in debt was due to scheduled debt service principal payments.

## Changes in Net Assets

The following table reflects the changes in net assets for the years ended September 30, 2005, and September 30, 2004:

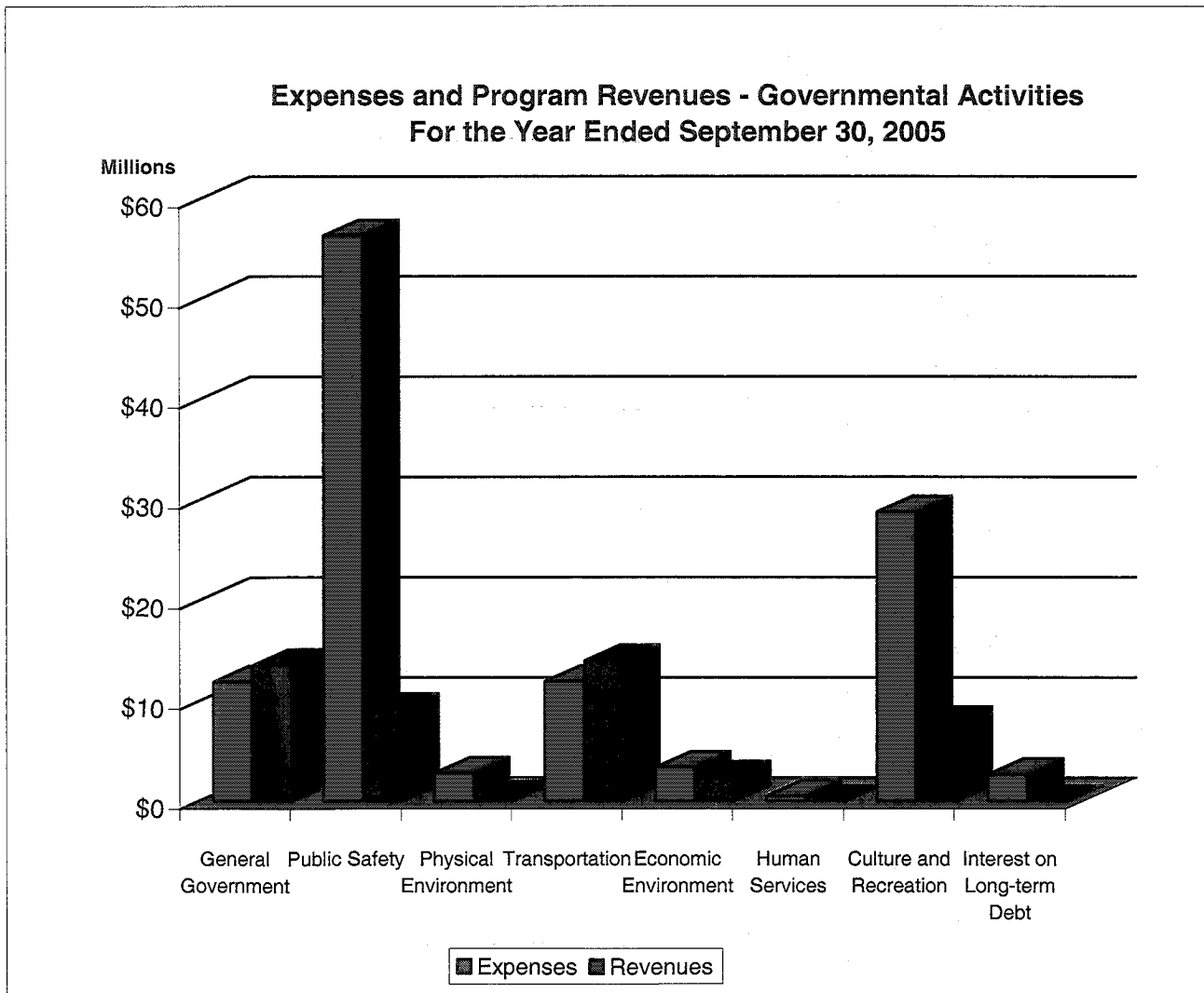
	City of Clearwater, Florida - Changes in Net Assets					
	Governmental Activities		Primary Government Business-type Activities		Totals	
	2005	2004	2005	2004	2005	2004
<b>Revenues</b>						
Program revenues:						
Charges for services	\$ 26,284,135	\$ 25,369,232	\$ 122,743,027	\$ 114,053,097	\$ 149,027,162	\$ 139,422,329
Operating grants and contributions	6,272,376	6,604,498	59,318	420,745	6,331,694	7,025,243
Capital grants and contributions	15,058,058	3,129,174	6,138,128	5,590,839	21,196,186	8,720,013
General revenues:						
Property taxes	41,588,595	37,156,501	-	-	41,588,595	37,156,501
Sales taxes	16,350,790	15,263,152	-	-	16,350,790	15,263,152
Franchise fees and utility taxes	25,719,255	24,531,736	-	-	25,719,255	24,531,736
Other taxes	5,183,332	4,434,776	-	-	5,183,332	4,434,776
Other	2,798,998	3,989,131	2,210,089	1,987,223	5,009,087	5,976,354
Total revenues	<u>139,255,539</u>	<u>120,478,200</u>	<u>131,150,562</u>	<u>122,051,904</u>	<u>270,406,101</u>	<u>242,530,104</u>
<b>Expenses</b>						
General Government	11,945,245	11,772,205	-	-	11,945,245	11,772,205
Public Safety	56,455,771	51,454,273	-	-	56,455,771	51,454,273
Physical Environment	2,825,805	2,683,815	-	-	2,825,805	2,683,815
Transportation	12,000,935	12,509,956	-	-	12,000,935	12,509,956
Economic Environment	3,394,903	3,224,788	-	-	3,394,903	3,224,788
Human Services	529,647	555,298	-	-	529,647	555,298
Culture and Recreation	28,875,199	25,401,578	-	-	28,875,199	25,401,578
Interest on Long-term Debt	2,699,538	3,013,441	-	-	2,699,538	3,013,441
Water and Sewer Utility	-	-	43,852,341	41,995,093	43,852,341	41,995,093
Gas Utility	-	-	33,393,976	29,152,391	33,393,976	29,152,391
Solid Waste Utility	-	-	15,615,274	15,095,925	15,615,274	15,095,925
Stormwater Utility	-	-	8,767,984	8,249,467	8,767,984	8,249,467
Other	-	-	13,122,737	11,971,212	13,122,737	11,971,212
Total expenses	<u>118,727,043</u>	<u>110,615,354</u>	<u>114,752,312</u>	<u>106,464,088</u>	<u>233,479,355</u>	<u>217,079,442</u>
Increase in net assets before special item and transfers	20,528,496	9,862,846	16,398,250	15,587,816	36,926,746	25,450,662
Special item - donation	-	10,047,388	-	-	-	10,047,388
Transfers	4,707,531	4,515,442	(4,707,531)	(4,515,442)	-	-
Increase in net assets	<u>25,236,027</u>	<u>24,425,676</u>	<u>11,690,719</u>	<u>11,072,374</u>	<u>36,926,746</u>	<u>35,498,050</u>
Net assets - beginning	245,675,544	221,249,868	241,794,801	230,722,427	487,470,345	451,972,295
Net assets - ending	<u>\$ 270,911,571</u>	<u>\$ 245,675,544</u>	<u>\$ 253,485,520</u>	<u>\$ 241,794,801</u>	<u>\$ 524,397,091</u>	<u>\$ 487,470,345</u>

**Governmental Activities**

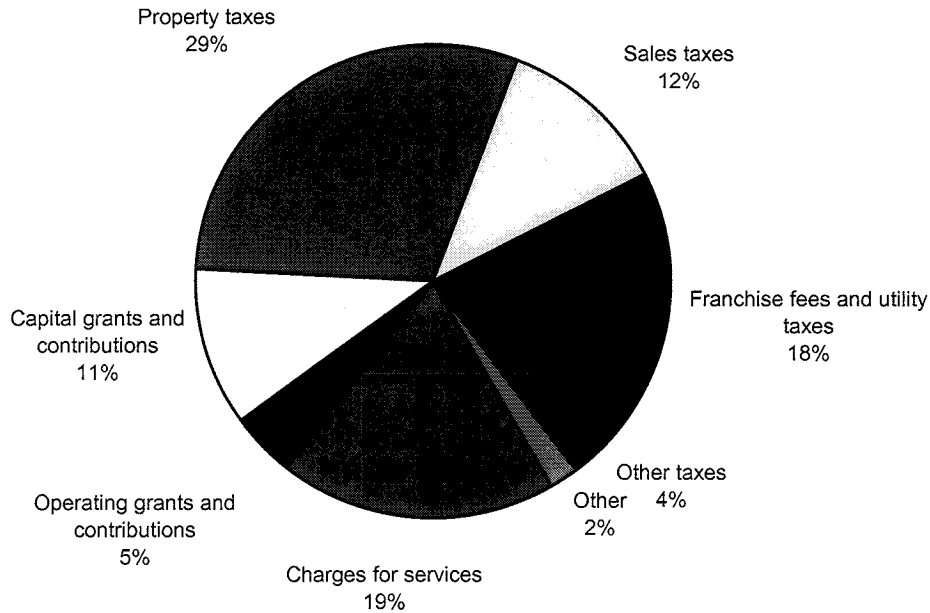
Governmental activities net assets increased by \$25.2 million from \$245.7 million as of September 30, 2004, to \$270.9 million as of September 30, 2005. This increase due to governmental activities accounted for 68% of the total increase in net assets for the City and represented a 10.3% increase in net assets for governmental activities. Key elements of this increase are as follows:

- A \$10 million reimbursement grant received from the Florida Department of Transportation for construction of the new Clearwater Memorial Causeway Bridge.
- An \$11.3 million increase in other operating and capital grants and contributions along with a \$4.0 million budgetary variance in the General Fund due to revenues in excess of budget along with expenditure savings as discussed in the General Fund budgetary analysis that follows.

The cost of all governmental activities this year was \$118.7 million. This reflects an \$8.1 million, or 7.3%, increase over the fiscal 2004 total of \$110.6 million. However, as shown on the *Statement of Activities*, the amount that the City's taxpayers ultimately financed for these activities totaled \$71.1 million, because some of the cost was paid for by those who directly benefited from the programs (\$26.3 million) or by other governments and organizations that subsidized certain programs with grants and contributions (\$21.3 million). This total of \$71.1 million is a decrease of \$4.4 million, or 5.8%, from the fiscal 2004 total of \$75.5 million financed from general revenues.



**Revenues by Sources - Governmental Activities  
For the Year Ended September 30, 2005**



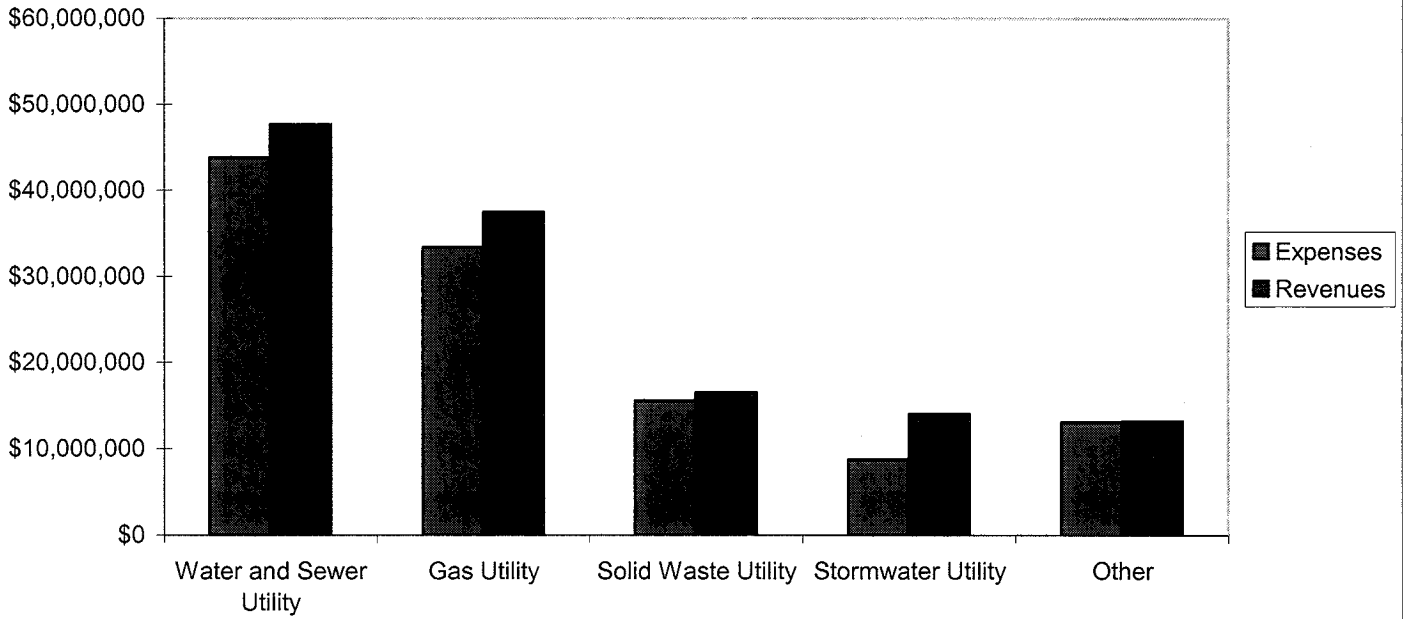
**Business-type Activities**

*Net assets for business-type activities* increased from \$241.8 million to \$253.5 million. This increase totaled \$11.7 million, reflecting a 4.8% increase in business-type activities net assets and 32% of the total increase in net assets for the City. The current year increase was \$0.6 million greater than the fiscal year 2004 increase in net assets of \$11.1 million. The increase of \$11.7 million was primarily the result of operating revenues in excess of operating expenses, as well as current year capital grants and contributions totaling \$6.1 million, versus the fiscal 2004 total of \$5.6 million.

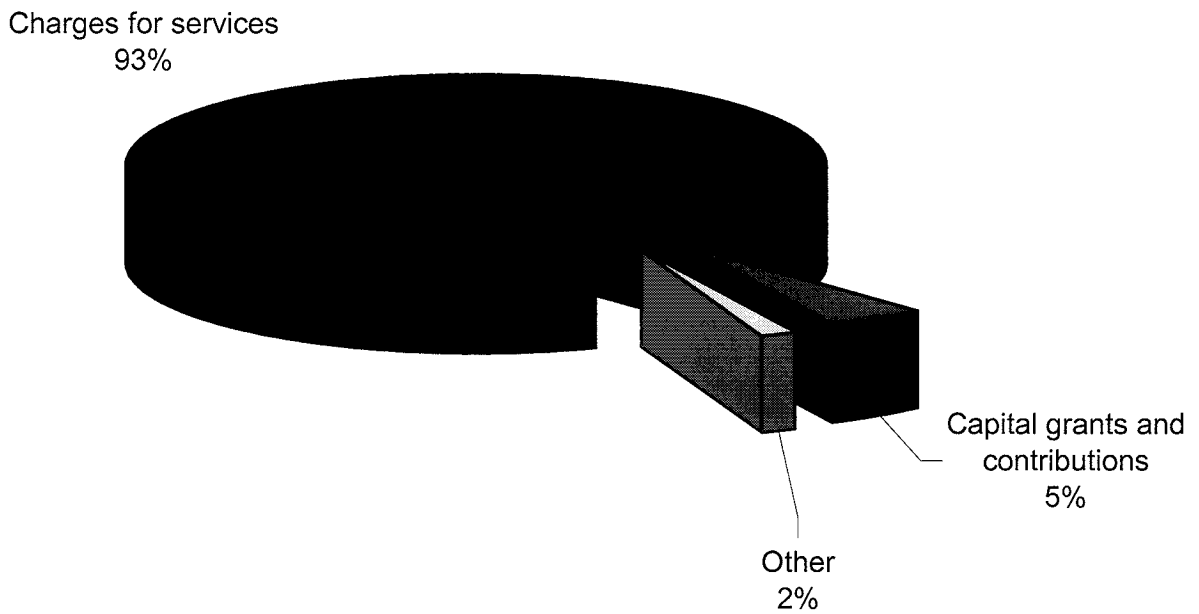
Total revenues for business-type activities increased by \$9.1 million, or 7.5%, to \$131.2 million versus the prior year total of \$122.1 million, due to an increase in charges for services revenues of \$8.7 million, or 7.6%. The increase was partially due to a \$4.4 million increase in gas system sales versus the previous year, as a result of price increases. Also contributing to the increase in charges for services revenues were stormwater system and water and sewer system rate increases and related increases in sales of \$2.3 million and \$0.8 million for the water and sewer utility and the stormwater systems, respectively. Additionally, capital grants and contributions revenue increased by \$0.5 million, or 9.8%, versus the prior year, primarily due to grant reimbursements for stormwater system improvements. Please refer to the discussion of proprietary funds operating results that follows for additional discussion of these revenues.

Total expenses for business-type activities increased by \$8.3 million, or 7.8%, from \$106.5 million in fiscal 2004 to \$114.8 million for fiscal 2005. A significant factor contributing to this \$8.3 million increase was a \$4.0 million, or 26.8%, increase in gas system purchases for resale as a result of increased fuel costs. Also contributing significantly to the increase in expenses for business-type activities was a 6.2%, or \$1.4 million increase in personal services, due to significant increases in pension, workers comp, and medical insurance costs, in addition to normally scheduled wage increases.

**Expenses and Program Revenue - Business-type Activities  
For the Year Ended September 30, 2005**



**Revenues by Source - Business-type Activities  
For the Year Ended September 30, 2005**



## 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 focus of the City's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the City's financing requirements. In particular, *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. The City reports the General Fund, Special Development Fund, and Capital Improvement Fund as *major* governmental funds.

The City's governmental funds for the year ended September 30, 2005, reflect a combined *fund balance* of \$93.7 million versus \$78.4 million for the prior year, an increase of \$15.3 million. A total of \$60.6 million, or 64.7%, represents *unreserved fund balance* available for spending at the government's discretion. The remainder of the fund balance is *reserved* to indicate that it is not available for new spending because it has already been committed 1) to liquidate construction contracts and purchase orders of the prior period (\$7.0 million); 2) to pay debt service (\$7.8 million); 3) for advances due from other funds (\$3.5 million); 4) for land held for resale (\$1.0 million); 5) for arbitrage rebate (\$0.8 million); or 6) for specific program purposes per grant restrictions and related loan agreements (\$13.0 million).

The General Fund is the chief operating fund of the City. At September 30, 2005, unreserved fund balance of the General Fund totaled \$15.6 million, with the remainder of the \$18.6 million in fund balance "reserved" to indicate it has already been committed for purchase orders of the prior period (\$1.0 million) and for advances due from other funds (\$2.0 million). As a measure of the general fund's liquidity it is useful to compare unreserved fund balance to total fund expenditures. Unreserved fund balance represents 16.1% of total general fund expenditures (GAAP basis before transfers) for the current fiscal year.

The fund balance of the City's General Fund increased by \$2.8 million during the current fiscal year. This increase was the result of total actual revenues in excess of budgeted revenues by \$2.2 million and total actual expenditures less than budgeted expenditures by a total of \$1.1 million. Additionally, actual transfers out (to other funds) was \$0.3 million less than budgeted. Offsetting these revenue, expenditure and transfers variances was a budgeted use of fund balance of \$1.2 million. Finally, reversing the effect of encumbrances (open purchase orders) charged to expenditures on the budgetary "non-GAAP" basis, resulted in a further reduction of total actual expenditures by \$0.3 million.

The General Fund revenues in excess of budgeted total of \$2.2 million included a \$0.9 million or 9.2% overage due to increased intergovernmental revenues from state collections of sales and fuel taxes. Additionally licenses, permits, and fees revenues exceeded budget by \$0.6 million and miscellaneous revenues exceeded budget by \$0.2 million. Additional information on the General Fund revenue surpluses is included in the "General Fund Budgetary Highlights" section on the following pages. General Fund expenditure "savings" of \$1.1 million was spread across numerous departments. General Fund transfers out to other funds was \$0.3 million less than budgeted primarily due to a \$0.3 million decrease in actual transfers to the Notes and Mortgages Debt Service Fund, versus budgeted transfers, for debt service related to lease purchases of capital assets.

The fund balance of the Special Development Fund increased from \$10.2 million to \$13.7 million, for an increase of \$3.5 million or 34.6%, during the current fiscal year versus a decrease of \$0.3 million for fiscal 2004. The Special Development Fund final amended budget indicated a planned decrease in fund balance of \$5.5 million. Consequently the actual results of a \$3.5 million increase versus a budgeted \$5.5 million decrease results in a \$9.0 million increase in fund balance versus the final amended budget. This increase is the result of inclusion of \$7.0 million in the Special Development Fund budget for debt service transfers out for the 2001 Infrastructure Revenue Refunding Bonds, which instead were funded from a \$10 million reimbursement received from the Florida Department of Transportation for Clearwater Memorial Causeway Bridge construction; along with \$1.5 million interfund loan, for the Beachwalk construction project, budgeted in the Special Development Fund as a transfer out to the related capital project fund.

The fund balance for the Capital Improvement Fund increased from \$27.1 million to \$31.4 million during the current fiscal year. This increase of \$4.3 million is primarily the result of capital project funding received from other funds (\$15.8 million), along with grant revenues received from federal, state, and local agencies (\$3.7 million), in excess of current year capital project expenditures (\$14.7 million) and transfers out to other funds for the return of unspent project funding (\$1.0 million). This increase reflects the normal volatility in the Capital Improvement Fund fund balance due to the timing of the funding of capital projects versus project expenditures.

The fund balances for Other (non-major) Governmental Funds increased from \$25.3 million to \$30.0 million during the current fiscal year. This increase of \$4.7 million was primarily due to monies received from the Florida Department of Transportation for reimbursement of Clearwater Memorial Causeway Bridge construction costs and credited to the Infrastructure Sales Tax Revenue Bonds debt service fund for debt service related to the bridge bonds. A total of \$4.2 million of the \$10 million reimbursement remains in the debt service fund after payment of current year debt service principal and interest to pay future debt service. Also contributing to the increase in fund balances for other non-major governmental funds was an increase in fund balance of the Community Redevelopment Agency special revenue fund of \$0.9 million representing land held for resale.

### Proprietary Funds

The City's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail. The City reports the Water and Sewer Utility Fund, the Gas Utility Fund, the Solid Waste Utility Fund, and the Stormwater Utility Fund as major funds.

The Water and Sewer Utility Fund realized a \$2.8 million increase in net assets versus a \$3.0 million increase for the prior year. Operating revenues increased 5.4% over the previous year, partially offset by a 4.6% increase in operating expenses. The increase in operating revenues was due to a rate increase of approximately 7.0% effective October 1, 2004. The increase in operating expenses was partially due to increased operating materials and supplies and professional fees offset by decreases in repairs and maintenance and decreases in inventory purchases for resale due to decreased demand. Operating income of \$6.9 million was offset by \$5.7 million in interest expense on long term debt. Investment earnings and other revenues of \$1.2 million exceeded other expenses of \$0.1 million. Net income before contributions and transfers of \$2.4 million was increased by \$2.3 million in grants and contributions that must be used for capital purposes. Finally, transfers out of \$1.9 million resulted in a net increase in net assets of \$2.8 million.

The Gas Utility Fund realized a \$2.83 million increase in net assets versus a \$2.86 million increase for the prior year. Operating revenues increased by \$4.4 million, or 13.6%, over the prior year, primarily due to price increases. However, the increase in operating revenues was offset by a \$4.3 million, or 15.5%, increase in operating expenses versus the prior year, including a \$4.0 million, or 26.8%, increase in purchases for resale due to increased fuel costs.

The Solid Waste Utility Fund realized a \$0.4 million increase in net assets versus a \$1.2 million increase for the prior year. Operating expenses increased by \$0.4 million, or 2.8%, primarily due to a \$0.4 million, or 8.8% increase in personal services. The increases in personal services were largely due to debris removal related to Hurricane Jeanne. Additionally, nonoperating revenues for the Solid Waste Utility Fund decreased by \$0.4 million versus 2004 due to FEMA hurricane debris removal reimbursements accrued during fiscal 2004 that did not recur in fiscal 2005.

The Stormwater Utility Fund realized an increase in net assets of \$5.1 million versus a prior year increase of \$2.3 million. Operating revenues increased by \$0.8 million, or 8.6%, versus the previous year, primarily due to a rate increase of 8% effective October 1, 2004. Additionally, the fund realized an increase in nonoperating revenues consisting of capital grants & contributions of \$2.1 million due to grant reimbursements from the Southwest Florida Water Management District and Environmental Protection Agency for stormwater capital projects. Finally, operating expenses decreased by \$0.1 million, or 1.3%, due to decreases in professional services and repairs and maintenance expenses.

Unrestricted net assets and changes in net assets of the proprietary funds for fiscal years 2005 and 2004:

Fund	Unrestricted Net Assets		Change in Net Assets	
	2005	2004	2005	2004
Water and Sewer Utility	\$ 22,960,294	\$ 25,231,236	\$ 2,806,121	\$ 3,011,714
Gas Utility	13,042,534	11,920,069	2,832,714	2,858,904
Solid Waste Utility	13,250,067	12,664,249	440,111	1,250,807
Stormwater Utility	9,010,115	8,291,909	5,075,776	2,278,215
Other funds	11,628,257	14,012,812	295,942	1,224,179
Totals	<u>\$ 69,891,267</u>	<u>\$ 72,120,275</u>	<u>\$ 11,450,664</u>	<u>\$ 10,623,819</u>

## General Fund Budgetary Highlights

The final amended budget for General Fund expenditures reflected an increase of \$1.9 million, or 2.0%, over the original budget. Key elements of this increase were as follows:

- \$1,479,000 increase in Fire budgeted expenditures – reflects an increase of \$964,000 for additional personal services expenditures due to a new IAFF union contract approved May 19, 2005; an increase of \$179,000 for retirement and severance payouts; and an increase of \$95,000 for additional personal service overtime due to Hurricane Jeanne emergency response.
- \$243,000 increase in Police budgeted expenditures – due to an increase of \$149,000 for additional personal service overtime expenditures related to Hurricane Jeanne emergency response; along with an increase of \$101,000 for two additional school resource officers

Final budgeted “transfers in” reflect a \$1.4 million, or 28.8%, increase over the original budget due to the following:

- \$309,000 returned to the General Fund from the Special Programs special revenue fund due to closed infill housing and Challenge Loan programs
- \$339,000 of FEMA hurricane reimbursement transferred from the Special Programs special revenue fund
- \$420,000 increase in the budgeted Gas enterprise fund dividend payout as a result of improved Gas Fund operating results
- \$125,000 increase in budgeted net parking fine revenues transferred from the Parking System enterprise fund.

Final budgeted “transfers out” reflect a \$1.3 million, or 20.1%, increase over the original budget due to:

- an increase of \$422,000 in budgeted transfers to the Special Programs special revenue fund for Fire management training initiatives
- an increase of \$429,000 in budgeted transfers to the Capital Improvements capital projects fund for Police headquarters hurricane shutters
- an increase of \$215,000 to the Capital Improvements capital projects fund for professional services for the City’s Evaluation and Appraisal Report (EAR)
- budgeted increase of \$200,000 to the Capital Improvements capital projects fund for Bayview Park improvements

Actual revenues for the General Fund exceeded final budgeted revenues by \$2.2 million, or 2.3%. Key components of this surplus included:

- Other governmental revenues exceeded budget by \$869,000, or 9.2%, primarily due to a \$893,000, or 21.4%, increase in state revenue sharing revenues due to increases in state collections of Sales and Use Tax and One Cent Municipal Fuel Tax
- Licenses, permits, and fees exceeded budget by \$607,000, or 14.7%, primarily due to a 25%, or \$0.5 million, increase in master building permits related to beach redevelopment
- Miscellaneous revenues exceeded budget by \$244,000, or 38.5%, due to increased beach concession and umbrella revenues of \$142,000 related to a new South beach concessions agreement, and capitalized labor in excess of budget of \$98,000

Actual expenditures for the General Fund were \$1.1 million, or 1.1%, less than the final amended budget. This expenditure budget savings occurred over numerous expenditure categories.

## Capital Asset and Debt Administration

### Capital Assets

*Capital assets* include land, buildings and building improvements, improvements other than buildings, and machinery and equipment. Capital assets also include infrastructure assets added since October 1, 2001. Infrastructure assets acquired prior to fiscal 2002 will be added when the City retroactively implements the infrastructure portion of the new financial reporting model during fiscal 2006. The infrastructure asset category includes long-lived capital assets, typically stationary in nature, such as roads, sidewalks, and bridges. At September 30, 2005, the City had investments in capital assets totaling \$524,879,887 (net of accumulated depreciation).

City of Clearwater, Florida - Capital Assets*						
	Governmental Activities		Business-type Activities		Total	
	2005	2004	2005	2004	2005	2004
Land	\$ 45,974,433	\$ 44,854,646	\$ 26,215,507	\$ 26,210,508	\$ 72,189,940	\$ 71,065,154
Buildings	87,341,585	85,711,872	15,183,913	16,003,159	102,525,498	101,715,031
Improvements other than buildings	33,918,355	36,609,450	236,297,058	222,402,837	270,215,413	259,012,287
Machinery and equipment	28,169,102	28,364,741	4,100,657	3,913,808	32,269,759	32,278,549
Infrastructure	3,800,353	4,009,061	-	-	3,800,353	4,009,061
Construction in progress	8,658,284	5,613,253	35,220,640	31,411,832	43,878,924	37,025,085
<b>Total</b>	<b>\$ 207,862,112</b>	<b>\$ 205,163,023</b>	<b>\$ 317,017,775</b>	<b>\$ 299,942,144</b>	<b>\$ 524,879,887</b>	<b>\$ 505,105,167</b>

\* Net of accumulated depreciation

Net capital assets for the City's *governmental activities* increased from \$205.2 million to \$207.9 million, reflecting an increase of \$2.7 million for the current fiscal year. Major fiscal 2005 additions contributing to this increase included:

- Completion of the new \$3.6 million Ross Norton Recreation Complex and Extreme Sports Park.
- Acquisition of land and building at the site of the Joe DiMaggio Recreation Center at a total cost of \$1.9 million.
- Fiscal 2005 construction in progress expenditures for the McMullen Booth pedestrian road overpass totaling \$2.1 million

Net capital assets for the City's *business-type activities* increased by \$17.1 million from \$299.9 million to \$317.0 million during the current fiscal year. Significant fiscal 2005 additions contributing to this increase included:

- Construction expenditures for major Stormwater system projects including: \$6.5 million for Myrtle Avenue drainage improvements; \$4.2 million for the Kapok Wetland and Flood Plain Restoration project; and drainage improvements of \$0.9 million and \$0.5 million for Stevenson Creek and Alligator Creek, respectively.
- Construction expenditures for major Water and Sewer system projects including: \$2.2 million for reclaimed water distribution system additions and improvements; \$1.8 million for equipment replacement at the Northeast and Marshall Street wastewater treatment plants; \$1.2 million for rehab of bio-solids treatment equipment at the Northeast and Marshall Street wastewater treatment plants; \$1.0 million for various water system renewal and replacement projects; and \$1.0 million for various sewer system renewal and replacement projects.

Additional information on the City's capital assets can be found in Note III (C) on pages 54-55 of this report.

## Long-term debt

The City's total long-term debt decreased from \$284.2 million to \$273.1 million, a decrease of \$11.1 million or 3.9%. Long-term debt for governmental activities decreased by \$6.8 million, or 7.7%; while long-term debt for business-type activities decreased by \$4.3 million or 2.2%. Key factors contributing to these changes included:

- The decrease in long-term debt for governmental activities is primarily due to a \$6.4 million, or 10.4%, decrease in net revenue bonds payable due to scheduled bond principal payments.
- The decrease in long-term debt for business-type activities is largely attributable to a \$4.9 million, or 2.5%, decrease in net revenue bonds payable as a result of regularly scheduled debt service payments, offset by a \$0.4 million increase in claims payable related to contested stormwater utility fees.

The City's bonded debt as of September 30, 2005, consists entirely of revenue bonds (secured solely by specified revenue sources) with no general obligation debt or special assessment debt outstanding. Governmental activities net revenue bonds totaled \$54.9 million while business-type activities totaled \$187.0 million.

All revenue bond issues of the City have received an insured rating of either AAA by Standard & Poor's or Fitch, or Aaa by Moody's.

The City's Charter limits legal indebtedness to twenty percent of the assessed valuation of non-exempt real estate. The current debt limitation is approximately \$1.4 billion, which is significantly in excess of the City's legal indebtedness of approximately \$236 million at September 30, 2005.

Additional information on the City's long-term debt can be found in Note III (F) on pages 60-64 of this report.

## Economic Factors And Year 2006 Budgets and Rates

Factors considered in preparing the City of Clearwater's budget for fiscal year 2006 included:

- The unemployment rate for the Tampa Bay metropolitan area for September 2005 was 3.7%, a decrease from the September 2004 rate of 4.4%. The national rate for September 2005 was 5.1% versus 5.4% for September 2004.
- Total taxable assessed values for the City of Clearwater increased 15.5% for fiscal 2006.
- Employer pension contributions for City employees funded from the operating budget are budgeted to increase 43% over the fiscal 2005 budget, resulting in a \$2.3 million cost increase Citywide.
- Health insurance costs are budgeted to increase by 3%, or \$0.7 million Citywide; workers' compensation costs are budgeted to increase by 7%, or \$0.2 million Citywide; and property and liability insurance costs are budgeted to increase by 13%, or \$0.3 million Citywide.
- Internal Service costs, representing the labor and operating costs of maintaining the City's growing infrastructure, fleet, and internal networks, are budgeted to increase by 12%, or \$1.2 million Citywide, with nearly half of this increase attributable to escalating fuel costs.
- Budgeted Water and Sewer utility revenues for 2006 reflect a 7% rate increase effective October 1, 2005, while fiscal 2006 budgeted Stormwater utility revenues reflect an 8% rate increase effective October 1, 2005.

## Contacting the City's Financial Management

This financial report is designed to provide a general overview of the City's finances for all those with an interest in our government and to show the City's accountability for the money it receives. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to The City of Clearwater, Finance Department, 100 S. Myrtle Avenue, Clearwater, Florida 33756-5520.