

## Management's Discussion and Analysis

This *Management's Discussion and Analysis* report provides the reader with a narrative overview and analysis of the financial activities of the City for the fiscal year ended September 30, 2006. *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 2006 by \$595.5 million (*net assets*). Of this amount, \$177.7 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 \$34.8 million, or 6.2%, during fiscal 2006. Net assets for governmental activities increased by \$17.8 million, or 5.8%, while the business-type net assets increased by \$17.0 million, or 6.7%.

Significant factors contributing to the \$17.8 million increase in governmental net assets included: an increase in net assets related to current year accumulation of funds for major capital projects, including \$3.0 million towards a new main fire station and \$3.1 million towards downtown streetscaping; a \$3.6 million passback from the internal service funds of governmental activities' share of the current year increase in net assets of the internal service funds; and a \$5.8 million General Fund budgetary variance of actual results versus original budget, due to revenues in excess of budget, and expenditures less than budget, as discussed in the General Fund budgetary analysis that follows.

The \$17.0 million increase in business-type net assets is the result of operating revenues in excess of operating expenses for all major enterprise funds, as well as current year capital grants and contributions of \$6.3 million for Water and Sewer system and Stormwater system improvements.

At September 30, 2006, the City's governmental funds reported combined ending fund balances of \$107.2 million, an increase of \$13.5 million (or 14.4%) in comparison with the prior year. Of this amount, \$68.9 million (or 64.3%) is *available for spending* at the government's discretion (*unreserved fund balance*). The increase of \$13.5 million in governmental fund balances is primarily the result of a \$6.0 million surplus in the Capital Improvement capital project fund, due to current year funding of major capital projects, including \$3.0 million towards a new main fire station and \$3.1 million towards downtown streetscaping; along with a current year General Fund surplus of \$5.8 million, as the result of revenues in excess of budget along with expenditure savings as discussed in the General Fund budgetary analysis that follows.

At September 30, 2006, unreserved fund balance for the General Fund was \$21.5 million, or 20.5% of total current year general fund expenditures.

Total actual revenues for the General Fund for fiscal 2006 were \$3.0 million, or 2.7%, greater than final budgeted revenues. Some of the major factors contributing to this surplus of revenues in excess of final budgeted revenues include: utility tax revenues \$454,000, or 4.2%, greater than final budget due to increases in electric utility taxes; franchise fees totaling \$429,000, or 4.8%, in excess of budgeted franchise fees; \$417,000, or 13.0%, of state revenue sharing proceeds in excess of final budget revenues due to increased state collections of Sales and Use Tax and One Cent Municipal Fuel Tax; interest income in excess of final budget by \$402,000, or 45.8%, due to improved market interest rates; communications services taxes \$307,000, or 4.7%, greater than final budget; and licenses, permits and fees \$249,000, or 4.9%, greater than budget due to increases in building permit fees resulting from increased development activity.

Total fiscal 2006 actual expenditures for the General Fund were less than final budgeted expenditures by \$0.9 million, or 0.9%. This was due to relatively minor budget savings across numerous City departments for fiscal 2006.

Finally, actual General Fund interfund transfers in were \$0.4 million, or 6.4%, greater than final budgeted interfund transfers in, while actual General Fund interfund transfers out were \$0.2 million, or 2.3%, less than final budgeted interfund transfers out. The total combined General Fund fiscal 2006 budgetary savings per above was \$4.3 million.

## 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 ten 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 seven 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, including 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 2006 and fiscal 2005 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 \$595.5 million at the close of the fiscal year ended September 30, 2006. This represents an increase of \$34.8 million over the September 30, 2005 total net assets of \$560.7 million. Net assets of both the governmental and the business-type activities increased primarily due to operating results. Operating and capital grants and contributions in excess of \$17 million also contributed to the increase. Finally, a significant improvement in interest and investment earnings due to improved market interest rates also contributed to the increase. 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	
	(as restated)				(as restated)	
	2006	2005	2006	2005	2006	2005
<b>Assets</b>						
Current and other assets	\$ 164,288,995	\$ 152,437,449	\$ 153,803,981	\$ 144,066,179	\$ 318,092,976	\$ 296,503,628
Capital assets	243,789,933	244,134,140	342,254,874	317,017,775	586,044,807	561,151,915
Total assets	<u>408,078,928</u>	<u>396,571,589</u>	<u>496,058,855</u>	<u>461,083,954</u>	<u>904,137,783</u>	<u>857,655,543</u>
<b>Liabilities</b>						
Current and other liabilities	7,053,406	7,723,128	14,007,056	16,197,025	21,060,462	23,920,153
Long-term debt outstanding:						
Due within one year	13,576,757	13,589,844	9,979,774	9,808,257	23,556,531	23,398,101
Due in more than one year	62,476,423	68,075,018	201,590,438	181,593,152	264,066,861	249,668,170
Total liabilities	<u>83,106,586</u>	<u>89,387,990</u>	<u>225,577,268</u>	<u>207,598,434</u>	<u>308,683,854</u>	<u>296,986,424</u>
<b>Net assets:</b>						
Invested in capital assets, net of related debt	184,798,564	179,777,014	156,727,363	146,476,449	341,525,927	326,253,463
Restricted	41,204,075	34,667,776	35,054,134	35,353,622	76,258,209	70,021,398
Unrestricted	98,969,703	92,738,809	78,700,090	71,655,449	177,669,793	164,394,258
Total net assets	<u>\$ 324,972,342</u>	<u>\$ 307,183,599</u>	<u>\$ 270,481,587</u>	<u>\$ 253,485,520</u>	<u>\$ 595,453,929</u>	<u>\$ 560,669,119</u>

A large portion of the City's net assets (57.4%) reflects its investment in capital assets (e.g., land, infrastructure, 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 (12.8%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets (\$177.7 million or 29.8%) may be used to meet the government's ongoing obligations to citizens and creditors.

There was a \$5.0 million increase in *invested in capital assets, net of related debt* for *governmental activities*. This was due to \$6.6 million decrease in related revenue bond debt, due to scheduled principal payments, offset by a \$0.3 million decrease in governmental activities *capital assets* and a \$1.2 million increase in related capital leases payable.

*Invested in capital assets, net of related debt for business-type activities* increased by \$10.3 million primarily due to a \$25.2 million increase in business-type activities net capital assets, offset by a \$20.6 million increase in related bonded debt, less a \$4.7 million increase in unspent bond proceeds that are netted against the debt. The increase in net capital assets was primarily due to Water & Sewer Utility, Gas Utility, and Stormwater Utility system asset additions as detailed in the Capital Assets discussion section of this report. The increase in bonded debt is due to the current year issuance of Water and Sewer Utility revenue bonds, less current year scheduled principal payments, as discussed in the Long Term Debt section of this report. The Water and Sewer Utility revenue bonds issuance is also the cause of the current year increase in unspent bond proceeds.

## Changes in Net Assets

The following table reflects the changes in net assets for the years ended September 30, 2006, and September 30, 2005:

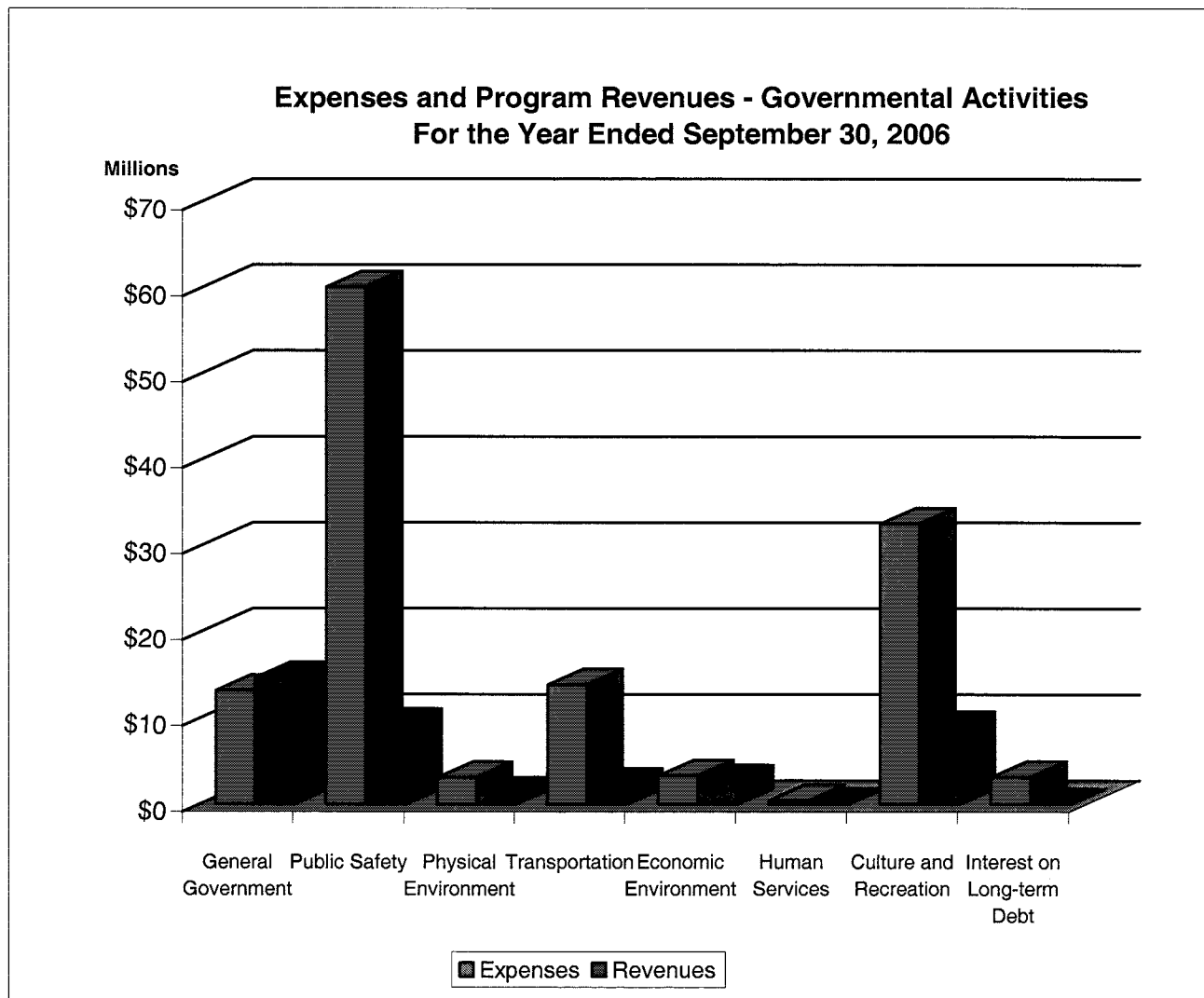
	City of Clearwater, Florida - Changes in Net Assets					
	Governmental Activities		Primary Government Business-type Activities		Totals	
	2006	2005	2006	2005	2006	2005
<b>Revenues</b>						
Program revenues:						
Charges for services	\$ 28,640,081	\$ 26,284,135	\$ 134,123,445	\$ 122,743,027	\$ 162,763,526	\$ 149,027,162
Operating grants and contributions	7,181,060	6,272,376	59,429	59,318	7,240,489	6,331,694
Capital grants and contributions	3,405,482	15,058,058	6,638,780	6,138,128	10,044,262	21,196,186
General revenues:						
Property taxes	48,076,050	41,588,595	-	-	48,076,050	41,588,595
Sales taxes	17,154,748	16,350,790	-	-	17,154,748	16,350,790
Franchise fees and utility taxes	27,552,445	25,719,255	-	-	27,552,445	25,719,255
Other taxes	5,523,351	5,183,332	-	-	5,523,351	5,183,332
Other	6,551,538	2,798,998	4,341,509	2,210,089	10,893,047	5,009,087
Total revenues	<u>144,084,755</u>	<u>139,255,539</u>	<u>145,163,163</u>	<u>131,150,562</u>	<u>289,247,918</u>	<u>270,406,101</u>
<b>Expenses</b>						
General Government	13,203,133	11,945,245	-	-	13,203,133	11,945,245
Public Safety	60,178,290	56,455,771	-	-	60,178,290	56,455,771
Physical Environment	3,097,392	2,825,805	-	-	3,097,392	2,825,805
Transportation	13,898,269	12,000,935	-	-	13,898,269	12,000,935
Economic Environment	3,320,950	3,394,903	-	-	3,320,950	3,394,903
Human Services	444,253	529,647	-	-	444,253	529,647
Culture and Recreation	32,635,470	28,875,199	-	-	32,635,470	28,875,199
Interest on Long-term Debt	3,176,290	2,699,538	-	-	3,176,290	2,699,538
Water and Sewer Utility	-	-	48,591,560	43,852,341	48,591,560	43,852,341
Gas Utility	-	-	36,946,956	33,393,976	36,946,956	33,393,976
Solid Waste Utility	-	-	16,012,769	15,615,274	16,012,769	15,615,274
Stormwater Utility	-	-	9,013,014	8,767,984	9,013,014	8,767,984
Other	-	-	13,944,762	13,122,737	13,944,762	13,122,737
Total expenses	<u>129,954,047</u>	<u>118,727,043</u>	<u>124,509,061</u>	<u>114,752,312</u>	<u>254,463,108</u>	<u>233,479,355</u>
Increase in net assets before special item and transfers	14,130,708	20,528,496	20,654,102	16,398,250	34,784,810	36,926,746
Transfers	3,658,035	4,707,531	(3,658,035)	(4,707,531)	-	-
Increase in net assets	17,788,743	25,236,027	16,996,067	11,690,719	34,784,810	36,926,746
Net assets - beginning, as restated	307,183,599	281,947,572	253,485,520	241,794,801	560,669,119	523,742,373
Net assets - ending	<u>\$ 324,972,342</u>	<u>\$ 307,183,599</u>	<u>\$ 270,481,587</u>	<u>\$ 253,485,520</u>	<u>\$ 595,453,929</u>	<u>\$ 560,669,119</u>

**Governmental Activities**

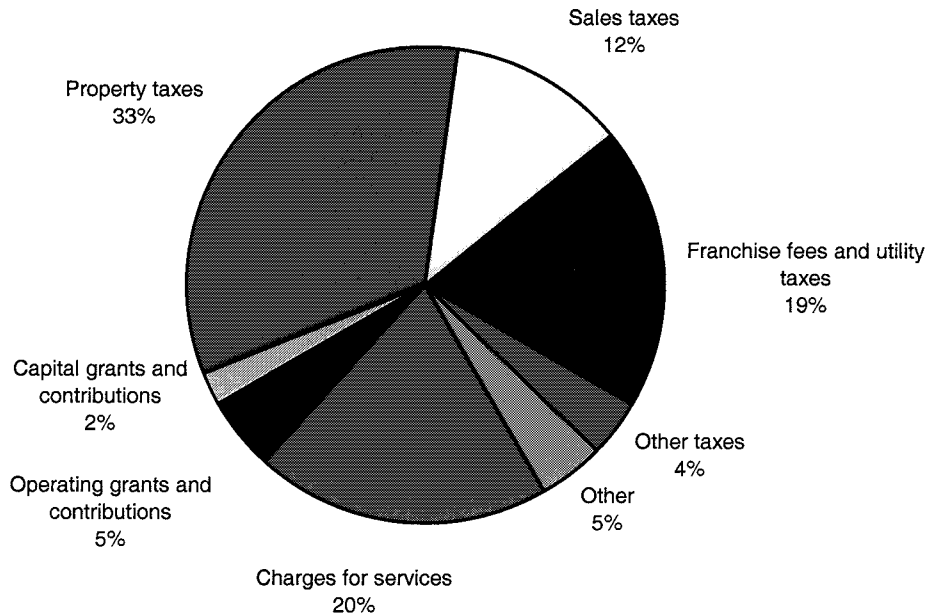
*Governmental activities net assets* increased by \$17.8 million from \$307.2 million as of September 30, 2005, to \$325.0 million as of September 30, 2006. This increase due to governmental activities accounted for 51% of the total increase in net assets for the City and represented a 5.8% increase in net assets for governmental activities. Key elements of this increase are as follows:

- Budgeted increases in capital projects funding during the current year, including \$3.0 million towards a new main fire station and \$3.1 million towards downtown streetscaping
- A passback from the internal service funds of \$3.6 million representing governmental activities' share of the current year increase in net assets of the internal service funds
- A General Fund surplus of \$5.8 million as discussed in the General Fund budgetary analysis that follows.

The cost of all governmental activities this year was \$130.0 million. This reflects an \$11.3 million, or 9.5%, increase over the fiscal 2005 total of \$118.7 million. However, as shown on the *Statement of Activities*, the amount that the City's taxpayers ultimately financed for these activities totaled \$90.7 million, because some of the cost was paid for by those who directly benefited from the programs (\$28.6 million) or by other governments and organizations that subsidized certain programs with grants and contributions (\$10.6 million). This total of \$90.7 million is an increase of \$19.6 million, or 27.6%, from the fiscal 2005 total of \$71.1 million financed from general revenues.



**Revenues by Sources - Governmental Activities  
For the Year Ended September 30, 2006**



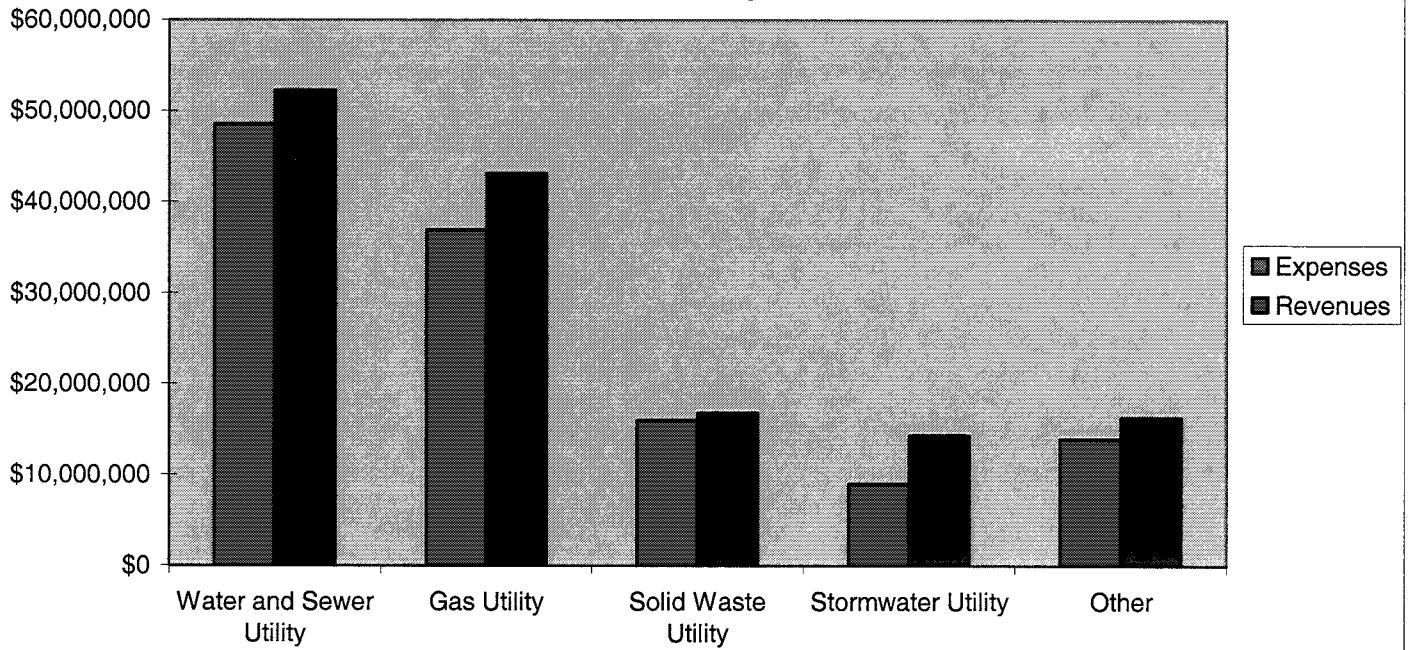
**Business-type Activities**

*Net assets for business-type activities* increased from \$253.5 million to \$270.5 million. This increase totaled \$17.0 million, reflecting a 6.7% increase in business-type activities net assets and 49% of the total increase in net assets for the City. The current year increase was \$5.3 million greater than the fiscal year 2005 increase in net assets of \$11.7 million. The increase of \$17.0 million was the result of operating revenues in excess of operating expenses, along with \$6.6 million in current year capital grants and contributions, and current year interest and investment earnings totaling \$4.3 million, offset by \$9.0 million in interest expense on long term debt.

Total revenues for business-type activities increased by \$14.0 million, or 12.2%, to \$145.2 million versus the prior year total of \$131.2 million, due to an increase in charges for services revenue of \$11.4 million, or 9.3%, along with a \$2.1 million, or 96%, increase in interest and investment earnings. The increase in charges for services was partially due to a \$5.3 million increase in gas system sales versus the previous year as the 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 \$3.8 million and \$0.8 million for the water and sewer utility and the stormwater systems, respectively. The increase in interest and investment earnings was primarily due to more favorable market interest rates. Please refer to the discussion of proprietary funds operating results that follows for additional discussion of these revenues.

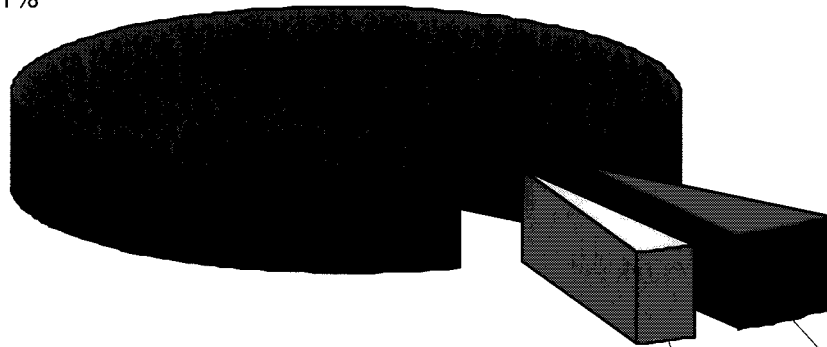
Total expenses for business-type activities increased by \$9.7 million, or 8.5%, from \$114.8 million in fiscal 2005 to \$124.5 million for fiscal 2006. A significant factor contributing to this \$9.7 million increase was a \$3.1 million, or 16.1%, increase in gas system purchases for resale as a result of increased fuel costs. Another cause of the increase in expenses for business-type activities was a 6.1%, or \$1.5 million, increase in personal services expenses, primarily due to a \$1.4 million increase in pension costs. Finally, contributing to the increase in expenses was a \$1.2 million, or 25.7%, increase in transportation costs and a \$0.5 million, or 19.6%, increase in utility costs as a result of increased fuel costs.

**Expenses and Program Revenue - Business-type Activities  
For the Year Ended September 30, 2006**



**Revenues by Source - Business-type Activities  
For the Year Ended September 30, 2006**

Charges for services  
91%



Capital grants and contributions  
6%

Other  
3%

## 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, 2006, reflect a combined *fund balance* of \$107.2 million versus \$93.7 million for the prior year, an increase of \$13.5 million. A total of \$68.9 million, or 64.3%, 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 (\$10.5 million); 2) to pay debt service (\$6.7 million); 3) for advances due from other funds (\$2.0 million); 4) for land held for resale (\$2.0 million); or 5) for specific program purposes per grant restrictions and related loan agreements (\$17.0 million).

The General Fund is the chief operating fund of the City. At September 30, 2006, unreserved fund balance of the General Fund totaled \$21.5 million, with the remainder of the \$24.4 million in fund balance "reserved" to indicate it has already been committed for purchase orders of the prior period (\$0.9 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 20.5% 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 \$5.8 million during the current fiscal year. This increase was the result of total actual revenues in excess of budgeted revenues by \$3.0 million and total actual expenditures less than budgeted expenditures by a total of \$0.9 million. Additionally, actual transfers out (to other funds) was \$0.2 million less than budgeted and actual transfers in (from other funds) was \$0.3 million greater than budgeted. Finally, the final amended budget included an additional \$1.5 million excess of revenues and other financing sources over expenditures and other financing uses versus the original budget, primarily due to increased building permit fees as a result of redevelopment activity, and increased electric franchise fees due to a fuel-related electric rate increase.

The General Fund revenues in excess of budgeted total of \$3.0 million was primarily due to: \$0.9 million of utility taxes and franchise fees in excess of budget, primarily due to increases in electric rates and usage; a \$0.4 million, or 13%, overage in State revenue sharing intergovernmental revenues from increased state collections of sales and fuel taxes; \$0.4 million of interest income in excess of budget due to improved market interest rates; a \$0.3 million, or 4.7%, excess of communications services taxes versus budget; and a \$0.25 million overage in licenses, permits, and fees as a result of increased development activity and related building permit fees. 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 \$0.9 million was spread across numerous departments.

The fund balance of the Special Development Fund increased from \$13.7 million to \$14.8 million, for an increase of \$1.1 million or 7.7%, during the current fiscal year versus an increase of \$3.5 million for fiscal 2005. The Special Development Fund final amended budget indicated a planned increase in fund balance of \$0.5 million. Consequently the actual results of a \$1.1 million increase versus a budgeted \$0.5 million increase results in a \$0.6 million increase in fund balance versus the final amended budget. This increase is primarily the result of interest income in excess of budget by \$0.9 million due to improved interest rates and higher cash balances.

The fund balance for the Capital Improvement Fund increased from \$31.3 million to \$37.3 million during the current fiscal year. This increase of \$6.0 million is primarily the result of capital project funding received from other funds (\$19.1 million), along with grant revenues received from federal, state, and local agencies (\$1.6 million), in excess of current year capital project expenditures (\$14.2 million) and transfers out to other funds for the return of unspent project funding (\$1.7 million). This increase reflects the normal volatility in the fund balance of the Capital Improvement Fund due to the timing of the funding of capital projects versus project expenditures.

The fund balances for Other (non-major) Governmental Funds increased from \$30.0 million to \$30.7 million during the current fiscal year. This increase of \$0.7 million was the net result of many offsetting revenue and expenditure increases and decreases among the various non-major Governmental Funds.

### 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 \$3.0 million increase in net assets versus a \$2.8 million increase for the prior year. Operating expenses increased by \$4.9 million, or 12.7%, partially offset by an 8.4%, or \$3.8 million increase in operating revenues. The decrease in fiscal 2006 versus fiscal 2005 operating income of \$1.1 million was more than offset by a \$1.0 million increase in investment earnings and a \$0.8 million increase in capital grants and contributions. over the previous year, partially offset by a \$0.5 million increase in transfers out to other funds. The increase in operating expenses was primarily due to an increase in volume of water purchased for resale (\$2.5 million) along with rate increases for water purchased for resale (\$0.7 million). Also contributing to the increase in operating expenses was a \$0.5 million increase in utility costs due to electric rate increases, and \$0.5 million increase in repairs and maintenance expenses for system infrastructure maintenance. The increase in operating revenues was the result of a 6% rate increase effective October 1, 2005. The \$1.0 million increase in investment earnings was due to improved market interest rates while the \$0.8 million increase in capital grants and contributions was due to increased developer water impact fees and sewer tap fees related to increased redevelopment activity on the beach and downtown. Finally, the \$0.5 million increase in transfers out was due to an increase in the "payment in lieu of taxes" paid to the general fund of 5.5% of prior year gross revenues for fiscal 2006 versus 4.5% in fiscal 2005.

The Gas Utility Fund realized a \$5.2 million increase in net assets versus a \$2.8 million increase for the prior year. Operating revenues increased by \$5.7 million, or 15.3%, over the prior year, primarily due to increased fuel costs; partially offset by a \$3.1 million increase in cost of purchases for resale due to increased cost of natural gas. Also contributing to the increase in net assets was an improvement in investment earnings from \$0.3 million in 2005 to \$0.6 million in the current year due to improved market interest rates.

The Solid Waste Utility Fund realized a \$0.2 million increase in net assets versus a \$0.4 million increase for the prior year. Operating expenses increased by \$0.7 million, or 4.6%, primarily due to a \$0.65 million, or 27% increase in transportation costs due to increased fuel costs. The \$0.5 million decrease in operating income from \$0.9 million in 2005 to \$0.4 million in 2006, was partially offset by a \$0.26 million increase in investment earnings due to improved market interest rates.

The Stormwater Utility Fund realized an increase in net assets of \$5.2 million versus a prior year increase of \$5.1 million. Operating revenues increased by \$0.8 million, or 8.0%, versus the previous year, due to a rate increase of 8.1% effective October 1, 2005. The increase in operating revenues was offset by a \$0.3 million, or 4.6% increase in operating expenses, primarily due to increased fuel costs. Additionally, the fund realized an increase in investment earnings of \$0.25 million or 121% due to improved market interest rates; more than offset by a \$0.5 million decrease in capital grants and contribution due to a decrease in grant revenue related to stormwater capital projects.

Unrestricted net assets and changes in net assets of the proprietary funds for fiscal years 2006 and 2005:

Fund	Unrestricted Net Assets		Change in Net Assets	
	2006	2005	2006	2005
Water and Sewer Utility	\$ 25,732,341	\$ 22,960,294	\$ 2,976,775	\$ 2,806,121
Gas Utility	15,654,956	13,042,534	5,244,542	2,832,714
Solid Waste Utility	13,352,948	13,250,067	222,129	440,111
Stormwater Utility	8,755,451	9,010,115	5,189,438	5,075,776
Other funds	12,584,892	11,628,257	2,507,863	295,942
Totals	<u>\$ 76,080,588</u>	<u>\$ 69,891,267</u>	<u>\$ 16,140,747</u>	<u>\$ 11,450,664</u>

## General Fund Budgetary Highlights

The final amended budget for General Fund expenditures reflected an increase of \$0.6 million, or 0.6%, over the original budget. Key elements of this increase were as follows:

- \$397,000 increase in Parks and Recreation budgeted expenditures – includes an increase of \$123,000 for increased utility costs at recreation facilities; an increase of \$105,000 for retirement payouts; \$55,000 for new Office of Aging program; \$35,000 for design work on new Morningside recreation facility; and \$30,000 for additional unbudgeted special events.
- \$300,000 decrease in Fire Department budget due to transfer of current year operating savings to fire training programs in the Special Programs special revenue fund.

Final budgeted revenues reflect a \$3.6 million, or 3.4%, increase over the original budget due to the following:

- \$1,214,000 increase in budgeted electric franchise fees due to increase in base rates for electricity.
- \$1,029,000 increase in budgeted licenses, permits and fees due primarily to increase in building permits as a result of increased development activity.
- \$700,000 increase in budgeted other intergovernmental revenues due to: \$500,000 increase in revenue sharing funds from State of Florida primarily due to increased sales tax collections, \$100,000 reimbursement from Florida Department of Transportation for street improvements, and \$77,000 federal grant for emergency management coordinator program.
- \$350,000 increase in interest income due to improved market interest rates
- Actual property tax collections in excess of original budget by \$304,000, or 0.7%.

Final budgeted “transfers out” reflect a \$1.6 million, or 25.1%, increase over the original budget due to:

- a \$1,000,000 transfer to the Emergency Operations program in the Special Programs special revenue fund for reserves for natural disasters or similar emergency events
- \$300,000 of Fire Department operating savings transferred to fire training programs in the Special Programs special revenue
- \$300,000 transferred to the Special Programs special revenue fund for funding of annual contribution to the PACT performing arts program

Actual revenues for the General Fund exceeded final budgeted revenues by \$3.0 million, or 2.7%. Key components of this surplus included:

- Utility tax revenues exceeded budget by \$454,000, or 4.2%, and franchise fees exceeded budget by \$429,000, or 4.8%, primarily due increased electric rates and usage impacting both utility taxes and franchise fees.
- State revenue sharing exceeded budget by \$417,000, or 13.0%, due to increases in state collections of Sales and Use Tax and One Cent Municipal Fuel Tax.
- Interest income exceeded budget by \$402,000, or 45.8%, due to improvement in market interest rates.
- Communications services taxes were \$307,000, or 4.7%, greater than budget.
- Licenses, permits, and fees were \$249,000, or 4.9%, greater than budget due to increased development activity and related building permit fees.

Actual expenditures for the General Fund were \$0.9 million, or 0.9%, 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, machinery and equipment, and infrastructure. Infrastructure assets acquired prior to fiscal 2002 were added when the City retroactively implemented the infrastructure portion of the new financial reporting model, per GASB 34, 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, 2006, the City had investments in capital assets totaling \$586,044,807 (net of accumulated depreciation).

City of Clearwater, Florida - Capital Assets\*  
(amounts in thousands)

	Governmental Activities				Business-type Activities		Total	
	2006	2005	Prior period Adjustment GASB 34	Adjusted 2005	2006	2005	2006	Adjusted 2005
Land	\$ 70,590	\$ 45,975	\$ 26,464	\$ 72,439	\$ 28,296	\$ 26,215	\$ 98,886	\$ 98,654
Buildings	86,333	87,342	-	87,342	14,533	15,184	100,866	102,526
Improvements other than buildings	11,498	33,918	(23,556)	10,362	240,603	236,297	252,101	246,659
Machinery and equipment	28,307	28,169	-	28,169	4,104	4,101	32,411	32,270
Infrastructure	37,461	3,800	33,364	37,164	-	-	37,461	37,164
Construction in progress	9,601	8,658	-	8,658	54,719	35,221	64,320	43,879
<b>Total</b>	<b>\$ 243,790</b>	<b>\$ 207,862</b>	<b>\$ 36,272</b>	<b>\$ 244,134</b>	<b>\$ 342,255</b>	<b>\$ 317,018</b>	<b>\$ 586,045</b>	<b>\$ 561,152</b>

\* Net of accumulated depreciation

Net capital assets for the City's *governmental activities* decreased from \$244.1 million to \$243.8 million, reflecting a decrease of \$0.3 million for the current fiscal year. Depreciation expense of \$14.1 million and capital asset retirements and transfers totaling approximately \$7.0 million were offset by approximately \$20.7 million of capital asset additions in the current year. Major fiscal 2006 governmental capital asset transactions included:

- Transfer of \$2.1 million of general government land to the Marine and Aviation business-type functions.
- Renovations to the Long Center aquatic and recreation complex capitalized in 2006 totaling \$1.0 million.
- Fiscal 2006 construction-in-progress expenditures totaling \$1.3 million, \$0.9 million, and \$0.7 million for the Beachwalk, Coronado/South Gulfview Streetscapes, and Downtown Streetscapes projects, respectively.
- Completion of the McMullen Booth Road overpass infrastructure including \$3.1 million capitalized in fiscal 2006.

Net capital assets for the City's *business-type activities* increased by \$25.3 million from \$317.0 million to \$342.3 million during the current fiscal year. Significant fiscal 2006 additions contributing to this increase included:

- Construction expenditures for major Water and Sewer system projects including: \$3.7 million for reclaimed water distribution system additions and improvements; \$3.9 million for rehab of bio-solids treatment equipment at the Northeast and Marshall Street wastewater treatment plants; and \$6.6 million for various other Water and Sewer system capital projects in progress.
- Construction expenditures for new gas mains and service lines totaling \$1.4 million for Pinellas County customers and \$1.9 million for Pasco County customers.
- Construction expenditures for major Stormwater system projects including: \$6.1 million for Stevenson Creek / Glen Oaks Park implementation projects; \$2.4 million for Myrtle Avenue drainage improvements and \$1.0 million of additional expenditures for the Kapok Wetland and Flood Plain Restoration project.

Additional information on the City's capital assets can be found in Note III (C) on pages 53-54 of this report.

## Long-term debt

The City's total long-term debt increased from \$273.1 million to \$287.6 million, an increase of \$14.5 million or 5.3%. Long-term debt for governmental activities decreased by \$5.6 million, or 6.9%; while long-term debt for business-type activities increased by \$20.2 million or 10.5%. Key factors contributing to these changes included:

- The decrease in long-term debt for governmental activities is primarily due to a \$6.6 million, or 12.0%, decrease in net revenue bonds payable due to scheduled bond principal payments.
- The increase in long-term debt for business-type activities is primarily due to \$26.4 million of Water and Sewer Revenue Bonds issued during the current fiscal year, less scheduled bond principal payments.

The City's bonded debt as of September 30, 2006, 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 \$48.3 million while business-type activities totaled \$207.5 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 indebtedness to twenty percent of the assessed valuation of non-exempt real estate. The current debt limitation is approximately \$1.6 billion, which is significantly in excess of the City's indebtedness of approximately \$248 million at September 30, 2006.

Additional information on the City's long-term debt can be found in Note III (F) on pages 59-63 of this report.

## Economic Factors And Year 2007 Budgets and Rates

Factors considered in preparing the City of Clearwater's budget for fiscal year 2007 included:

- The unemployment rate for the Tampa Bay metropolitan area for September 2006 was 3.2%, a decrease from the September 2005 rate of 3.7%. The national rate for September 2006 was 4.6% versus 5.1% for September 2005.
- Total taxable assessed values for the City of Clearwater increased 23.1% for fiscal 2007. The City's millage rate was reduced by 9.5%, from 5.753 to 5.2088 mills for fiscal 2007.
- Employer pension contributions for City employees funded from the operating budget are budgeted to increase 30% over the fiscal 2006 budget, resulting in a \$2.8 million cost increase Citywide.
- Property and liability insurance costs are budgeted to increase by more than 100% with approximately two-thirds, or \$4.4 million, impacting the fiscal 2007 budget and the balance funded from Central Insurance Fund reserves.
- 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 \$1.3 million, Citywide, with over half of this increase attributable to escalating fuel costs.
- Budgeted Water and Sewer utility revenues for 2007 reflect a 6% rate increase effective October 1, 2006, while fiscal 2007 budgeted Stormwater utility revenues reflect a 6% rate increase effective October 1, 2006

## 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.