

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, 2007. *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 2007 by \$638.9 million (*net assets*). Of this amount, \$192.3 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 \$45.8 million, or 7.7%, during fiscal 2007. Net assets for governmental activities increased by \$31.0 million, or 9.6%, while the business-type net assets increased by \$14.8 million, or 5.5%.

Significant factors contributing to the \$31.0 million increase in governmental net assets included: operating and capital grants and contributions totaling \$21.4 million; a \$2.6 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 \$2.6 million General Fund surplus, due to revenues in excess of budget, and expenditures less than budget, as discussed in the General Fund budgetary analysis that follows.

The \$14.8 million increase in business-type net assets is the result of operating revenues in excess of operating expenses, as well as current year capital grants and contributions of \$6.4 million for Water and Sewer system and Stormwater system improvements.

At September 30, 2007, the City's governmental funds reported combined ending fund balances of \$113.7 million, an increase of \$6.5 million (or 6.1%) in comparison with the prior year. Of this amount, \$61.5 million (or 54.1%) is *available for spending* at the government's discretion (*unreserved fund balance*). The increase of \$6.5 million in governmental fund balances is primarily the result of a \$2.6 million General Fund surplus for fiscal 2007, due to revenues in excess of budget and expenditures less than budgeted, as discussed in the General Fund budgetary analysis that follows; a \$1.1 million increase in the Special Programs special revenue fund balance reserved for grant programs, primarily due to fiscal 2007 low income housing loans; and \$0.9 million in local grant monies received from Pinellas County to establish a Local Housing Assistance Trust special revenue fund during fiscal 2007.

At September 30, 2007, unreserved fund balance for the General Fund was \$23.6 million, or 20.7% of total current year general fund expenditures.

Total actual revenues for the General Fund for fiscal 2007 were \$0.9 million, or 0.7%, greater than final budgeted revenues. Some of the major factors contributing to this surplus of revenues in excess of final budgeted revenues include: \$0.4 million of utility tax revenues and franchise fees in excess of budget, primarily due to increases in electric rates and usages; and \$0.4 million of interest income in excess of budget due to market conditions.

Total fiscal 2007 actual expenditures for the General Fund were less than final budgeted expenditures by \$2.2 million, or 1.9%. This was due to budget savings across all City departments for fiscal 2007.

Finally, actual General Fund interfund transfers in were \$58 thousand, or 0.7%, greater than final budgeted interfund transfers in, while actual General Fund interfund transfers out were \$0.2 million, or 1.6%, less than final budgeted interfund transfers out. The total combined General Fund fiscal 2007 budgetary savings per above was \$3.3 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 twelve 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 nine 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 2007 and fiscal 2006 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 \$638.9 million at the close of the fiscal year ended September 30, 2007. This represents an increase of \$45.8 million over the September 30, 2006 total net assets of \$593.1 million. Net assets of both the governmental and the business-type activities increased primarily due to operating and capital grants and contributions of \$27.9 million, along with favorable operating results for business-type activities. Finally, a \$3.1 million improvement in interest and investment earnings due to improved market conditions 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	
	2007	(as restated) 2006	2007	(as restated) 2006	2007	(as restated) 2006
Assets						
Current and other assets	\$ 181,438,251	\$ 165,553,724	\$ 144,678,358	\$ 152,539,252	\$ 326,116,609	\$ 318,092,976
Capital assets	257,158,639	241,465,182	357,153,807	342,254,874	614,312,446	583,720,056
Total assets	<u>438,596,890</u>	<u>407,018,906</u>	<u>501,832,165</u>	<u>494,794,126</u>	<u>940,429,055</u>	<u>901,813,032</u>
Liabilities						
Current and other liabilities	14,934,059	7,053,406	15,352,425	14,007,056	30,286,484	21,060,462
Long-term debt outstanding:						
Due within one year	13,779,719	13,576,757	9,263,876	9,979,774	23,043,595	23,556,531
Due in more than one year	54,999,045	62,476,423	193,174,332	201,590,438	248,173,377	264,066,861
Total liabilities	<u>83,712,823</u>	<u>83,106,586</u>	<u>217,790,633</u>	<u>225,577,268</u>	<u>301,503,456</u>	<u>308,683,854</u>
Net assets:						
Invested in capital assets, net of related debt	205,078,530	182,473,813	164,246,170	156,727,363	369,324,700	339,201,176
Restricted	41,543,137	41,204,075	35,774,790	35,054,134	77,317,927	76,258,209
Unrestricted	108,262,400	100,234,432	84,020,572	77,435,361	192,282,972	177,669,793
Total net assets	<u>\$ 354,884,067</u>	<u>\$ 323,912,320</u>	<u>\$ 284,041,532</u>	<u>\$ 269,216,858</u>	<u>\$ 638,925,599</u>	<u>\$ 593,129,178</u>

A large portion of the City's net assets (57.8%) 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 (12.1%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets (\$192.3 million or 30.1%) may be used to meet the government's ongoing obligations to citizens and creditors.

There was a \$22.6 million increase in *invested in capital assets, net of related debt* for *governmental activities*. This was primarily due to a \$15.7 million increase in governmental activities *capital assets* along with a \$6.6 million decrease in related revenue bond debt, due to scheduled principal payments. Major capital asset additions contributing to the \$15.7 million net increase in governmental capital assets included \$12.1 million in current year construction-in-progress expenditures for the Beach Walk capital project and \$5.2 million in construction-in-progress for the Downtown Streetscape project.

Invested in capital assets, net of related debt for *business-type activities* increased by \$7.5 million primarily due to a \$14.9 million increase in business-type activities net capital assets along with an \$8.6 million decrease in related bond debt and a \$0.5 million decrease in capital leases payable; offset by a \$16.9 million decrease in unspent bond proceeds that are netted against the debt. The increase in net capital assets and related decrease in unspent bond proceeds was primarily due to Water & Sewer Utility and Stormwater Utility system asset additions as detailed in the Capital Assets discussion section of this report. The decrease in bonded debt is due to current year scheduled principal payments, as well as the current year cash payoff of the balance of \$3.5 million in Gas Revenue Bonds, Series 1997A & 1997B.

Changes in Net Assets

The following table reflects the changes in net assets for the years ended September 30, 2007, and September 30, 2006:

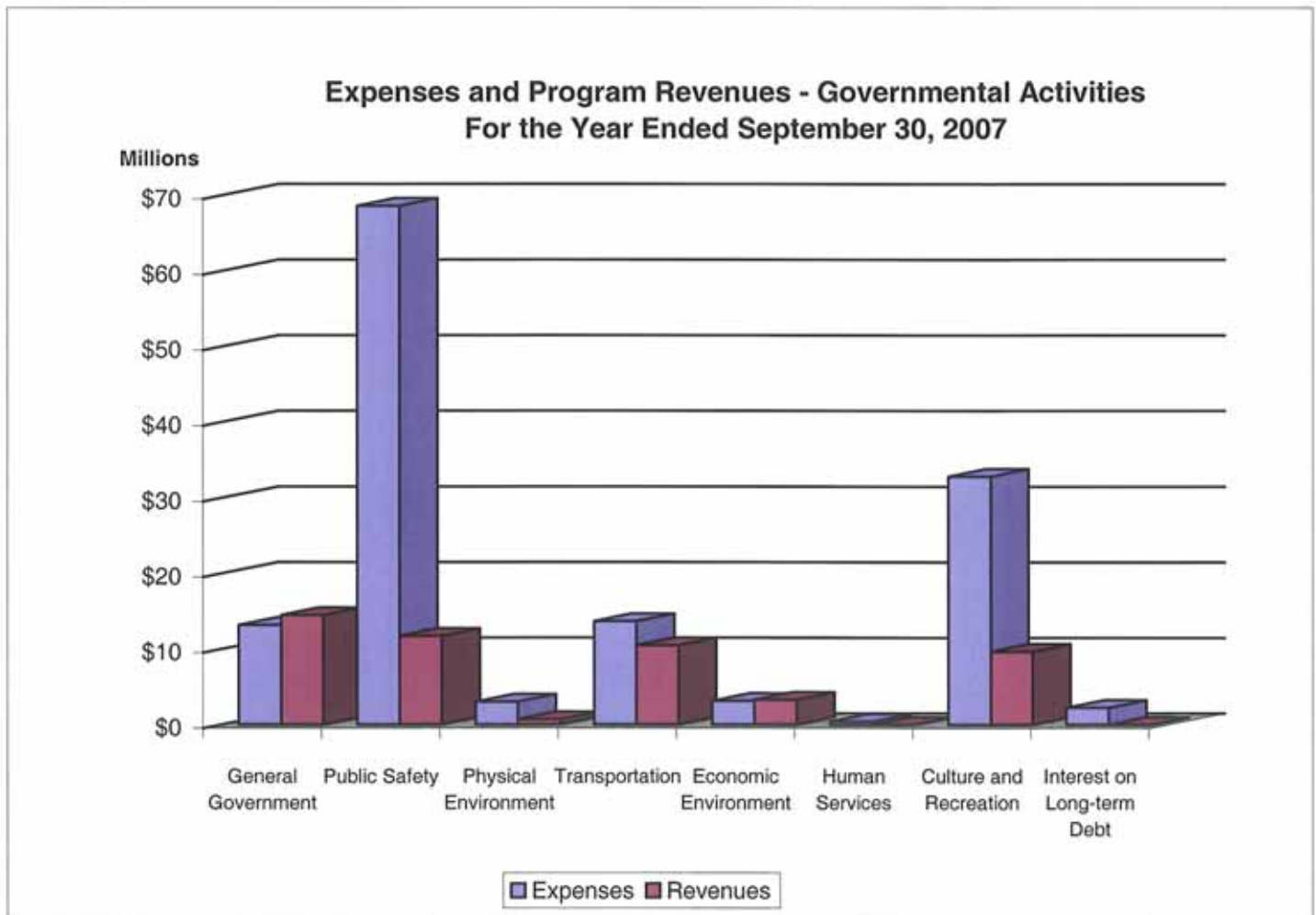
	City of Clearwater, Florida - Changes in Net Assets					
	Governmental Activities		Primary Government Business-type Activities		Totals	
	2007	2006	2007	2006	2007	2006
Revenues						
Program revenues:						
Charges for services	\$ 29,017,217	\$ 28,640,081	\$ 132,724,743	\$ 134,123,445	\$ 161,741,960	\$ 162,763,526
Operating grants and contributions	9,687,083	7,181,060	83,371	59,429	9,770,454	7,240,489
Capital grants and contributions	11,747,831	3,405,482	6,381,716	6,638,780	18,129,547	10,044,262
General revenues:						
Property taxes	53,716,907	48,076,050	-	-	53,716,907	48,076,050
Sales taxes	16,078,625	17,154,748	-	-	16,078,625	17,154,748
Franchise fees and utility taxes	20,915,906	27,552,445	-	-	20,915,906	27,552,445
Other taxes	12,562,520	5,523,351	-	-	12,562,520	5,523,351
Other	7,533,336	5,748,530	5,372,509	4,341,509	12,905,845	10,090,039
Total revenues	161,259,425	143,281,747	144,562,339	145,163,163	305,821,764	288,444,910
Expenses						
General Government	13,169,343	13,203,133	-	-	13,169,343	13,203,133
Public Safety	68,635,737	60,178,290	-	-	68,635,737	60,178,290
Physical Environment	3,026,923	3,097,392	-	-	3,026,923	3,097,392
Transportation	13,693,579	13,898,269	-	-	13,693,579	13,898,269
Economic Environment	3,141,473	3,320,950	-	-	3,141,473	3,320,950
Human Services	448,495	444,253	-	-	448,495	444,253
Culture and Recreation	32,872,241	32,635,470	-	-	32,872,241	32,635,470
Interest on Long-term Debt	2,247,560	2,373,282	-	-	2,247,560	2,373,282
Water and Sewer Utility	-	-	49,839,529	48,591,560	49,839,529	48,591,560
Gas Utility	-	-	33,579,403	36,946,956	33,579,403	36,946,956
Solid Waste Utility	-	-	16,172,339	16,012,769	16,172,339	16,012,769
Stormwater Utility	-	-	9,464,921	9,013,014	9,464,921	9,013,014
Other	-	-	13,733,800	13,944,762	13,733,800	13,944,762
Total expenses	137,235,351	129,151,039	122,789,992	124,509,061	260,025,343	253,660,100
Increase in net assets before transfers	24,024,074	14,130,708	21,772,347	20,654,102	45,796,421	34,784,810
Transfers	6,947,673	3,658,035	(6,947,673)	(3,658,035)	-	-
Increase in net assets	30,971,747	17,788,743	14,824,674	16,996,067	45,796,421	34,784,810
Net assets - beginning, as restated	323,912,320	306,123,577	269,216,858	252,220,791	593,129,178	558,344,368
Net assets - ending	\$ 354,884,067	\$ 323,912,320	\$ 284,041,532	\$ 269,216,858	\$ 638,925,599	\$ 593,129,178

Governmental Activities

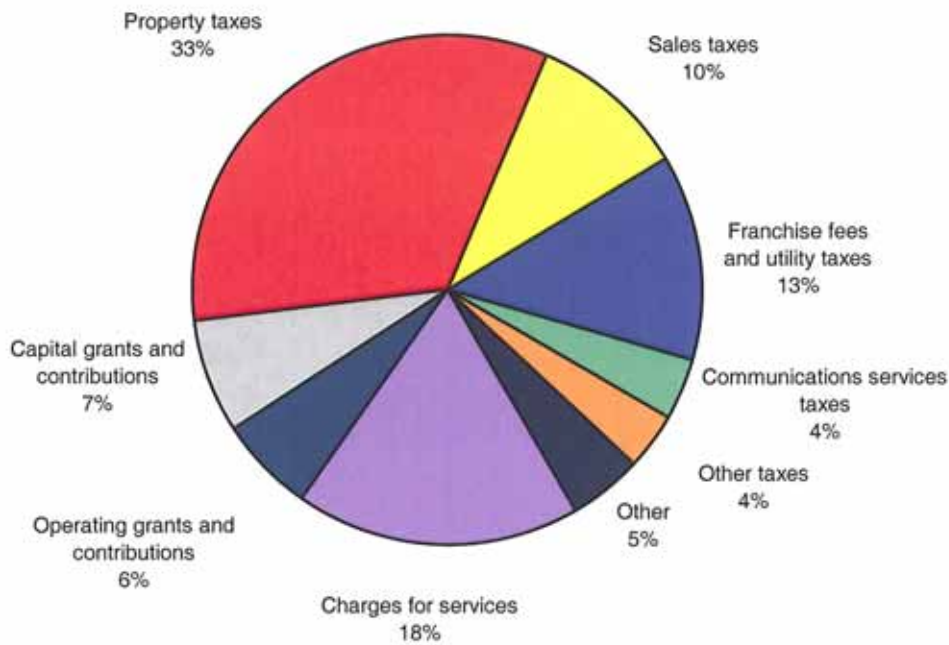
Governmental activities net assets increased by \$31.0 million from \$323.9 million as of September 30, 2006, to \$354.9 million as of September 30, 2007. This increase, due to governmental activities, accounted for 68% of the total increase in net assets for the City and represented a 9.6% increase in net assets for governmental activities. Key elements of this increase are as follows:

- Operating and capital grants and contributions totaling \$21.4 million.
- A passback from the internal service funds of \$2.6 million representing governmental activities' share of the current year increase in net assets of the internal service funds.
- A General Fund surplus of \$2.6 million as discussed in the General Fund budgetary analysis that follows.

The cost of all governmental activities this year was \$137.2 million. This reflects an \$8.0 million, or 6.2%, increase over the fiscal 2006 total of \$129.2 million. However, as shown on the *Statement of Activities*, the amount that the City's taxpayers ultimately financed for these activities totaled \$86.8 million, because some of the cost was paid for by those who directly benefited from the programs (\$29.0 million) or by other governments and organizations that subsidized certain programs with grants and contributions (\$21.4 million). This total of \$86.8 million is a decrease of \$3.1 million, or 3.5%, from the fiscal 2006 total of \$89.9 million financed from general revenues.



**Revenues by Sources - Governmental Activities
For the Year Ended September 30, 2007**



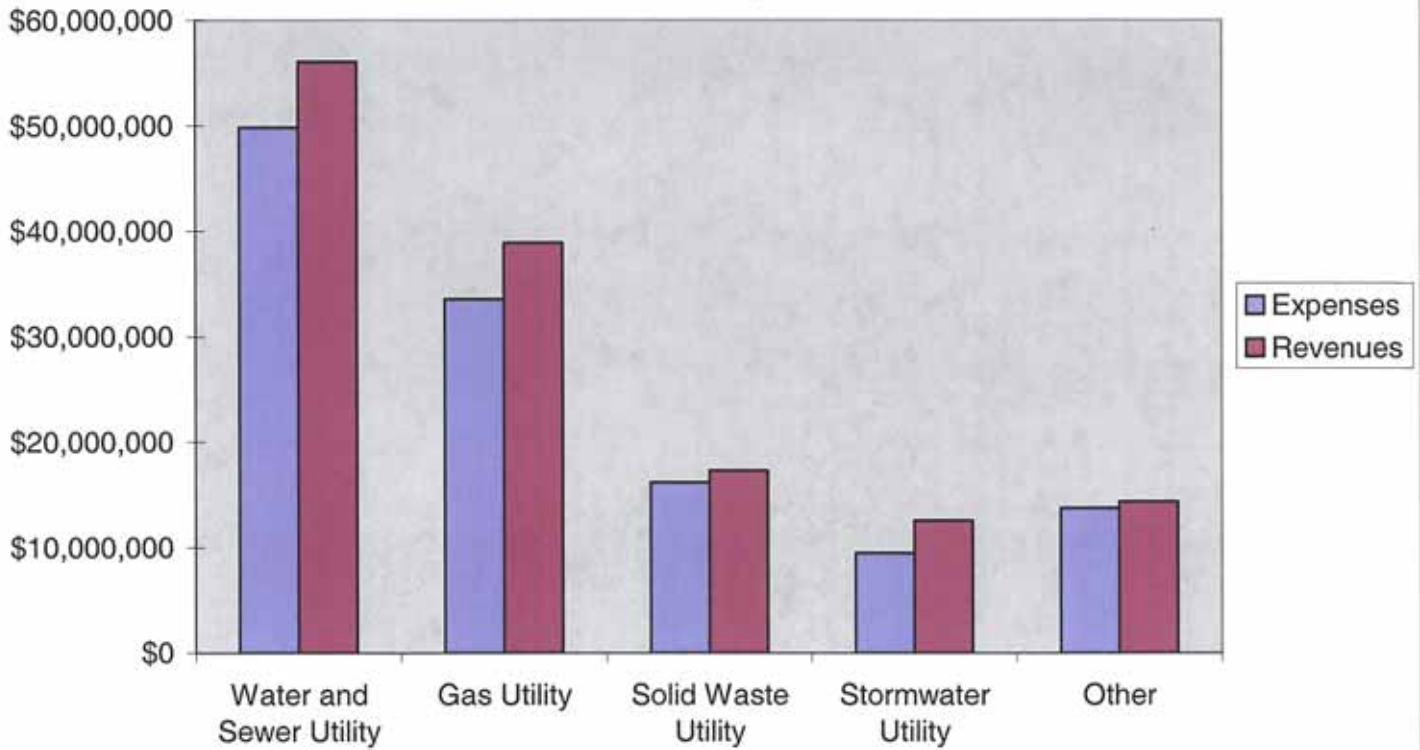
Business-type Activities

Net assets for business-type activities increased from \$269.2 million to \$284.0 million. This increase totaled \$14.8 million, reflecting a 5.5% increase in business-type activities net assets and 32% of the total increase in net assets for the City. The current year increase was \$2.2 million less than the fiscal year 2006 increase in net assets of \$17.0 million. The increase of \$14.8 million was the result of operating revenues in excess of operating expenses, along with \$6.4 million in current year capital grants and contributions, and current year interest and investment earnings totaling \$5.4 million, offset by \$10.1 million in interest expense on long term debt.

Total revenues for business-type activities decreased by \$0.6 million, or 0.4%, to \$144.6 million versus the prior year total of \$145.2 million, due to a decrease in charges for services revenue of \$1.4 million, or 1.0%; and a decrease in capital grants and contributions of \$0.3 million, or 3.9%; partially offset by an increase in investment earnings of \$1.0 million, or 23.7%, due to favorable market conditions. The decrease in charges for services was primarily due to a decrease in gas system charges of \$4.2 million, largely attributable to decreased fuel costs. The decrease in gas system revenues was partially offset by increases in charges for services for the other business-type activities with the exception of a \$0.3 million, or 6.6%, decrease in parking system charges for services due to a decrease in beach parking spaces related to Beach Walk construction. Stormwater system and water and sewer increases of \$1.2 million and \$0.8 million, respectively, were due to scheduled rate increases. Please refer to the discussion of proprietary funds operating results that follows for additional discussion of these revenues.

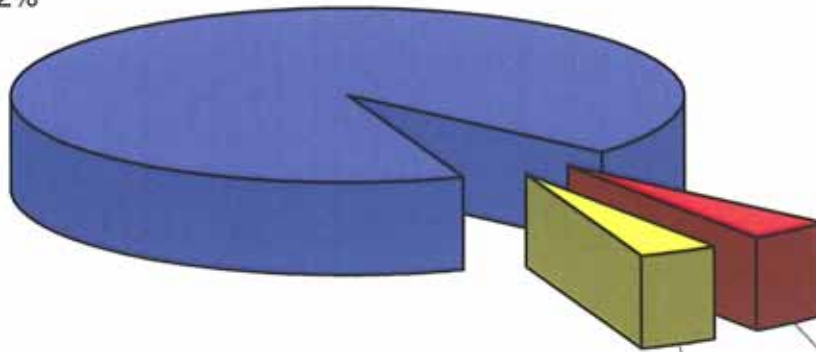
Total expenses for business-type activities decreased by \$1.7 million, or 1.4%, from \$124.5 million in fiscal 2006 to \$122.8 million for fiscal 2007. A significant factor contributing to this \$1.7 million decrease was a \$3.8 million, or 17.4%, decrease in gas system purchases for resale as a result of decreased fuel costs. This decrease was partially offset by a \$1.1 million, or 11.9%, increase in interest expense, primarily due to \$0.9 million of additional interest expense from issuance of the Water and Sewer Revenue Bonds, Series 2006.

**Expenses and Program Revenue - Business-type Activities
For the Year Ended September 30, 2007**



**Revenues by Source - Business-type Activities
For the Year Ended September 30, 2007**

Charges for services
92%



Capital grants and contributions
4%

Other
4%

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, 2007, reflect a combined *fund balance* of \$113.7 million versus \$107.2 million for the prior year, an increase of \$6.5 million. A total of \$61.5 million, or 54%, 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 (\$23.2 million); 2) to pay debt service (\$6.8 million); 3) for advances due from other funds (\$2.0 million); 4) for land held for resale (\$2.0 million); and 5) for specific program purposes per grant restrictions and related loan agreements (\$18.2 million).

The General Fund is the chief operating fund of the City. At September 30, 2007, unreserved fund balance of the General Fund totaled \$23.6 million, with the remainder of the \$27.1 million in fund balance "reserved" to indicate it has already been committed for purchase orders of the prior period (\$1.5 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 20.7% 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 \$2.6 million during the current fiscal year, versus a final budgeted decrease of \$1.2 million. This \$3.8 million variance from budgeted was the result of total revenues in excess of budgeted revenues by \$0.9 million and total expenditures less than budgeted expenditures by a total of \$2.7 million (\$2.2 million on non-GAAP budgetary basis adjusted to GAAP basis). Additionally, transfers out (to other funds) were \$0.2 million less than budgeted.

The General Fund revenues in excess of budgeted total of \$0.9 million was primarily due to: \$0.4 million of utility taxes and franchise fees in excess of budget, primarily due to increases in electric rates and usage; and \$0.4 million of interest income in excess of budget due to improved market conditions. 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 \$2.2 million, or 1.9%, was spread across all departments.

The fund balance of the Special Development Fund decreased from \$14.7 million to \$13.1 million, for a decrease of \$1.6 million or 11.0%, during the current fiscal year versus an increase of \$1.1 million for fiscal 2006. The Special Development Fund final amended budget indicated a planned decrease in fund balance of \$2.1 million. Consequently the actual results of a \$1.6 million decrease versus a budgeted \$2.1 million decrease results in a \$0.5 million increase in fund balance versus the final amended budget. This increase is primarily the result of interest income in excess of budget by \$1.4 million due to improved market conditions and higher cash balances, offset by a \$0.9 million decrease in actual sales tax revenues versus budget, due to decreased sales tax collections versus the prior year.

The fund balance for the Capital Improvement Fund decreased from \$37.4 million to \$36.4 million during the current fiscal year. This decrease of \$1.0 million is primarily the result of current year capital project expenditures (\$29.8 million) and transfers out to other funds for the return of unspent project funding (\$2.4 million), in excess of capital project funding received from other funds (\$21.1 million), grant revenues received from federal, state, and local agencies (\$7.8 million), and donations from developers and others (\$2.1 million). This decrease 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 \$30.7 million to \$37.2 million during the current fiscal year. This increase of \$6.5 million was primarily the result of: \$4.5 million transferred from the Capital Improvement major fund to the Community Redevelopment Agency capital improvement fund to segregate and identify project monies owned by the Clearwater Community Redevelopment Agency; a \$1.1 million increase in the Special Programs special revenue fund balance reserved for grant programs, primarily due to new low income housing loans; and \$0.9 million in local grant monies received from Pinellas County to establish a new Local Housing Assistance Trust special revenue fund.

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 \$5.8 million increase in net assets versus a \$3.0 million increase for the prior year. Operating revenues increased by \$1.2 million, or 2.4%, offset by an increase in operating expenses of \$0.7 million, or 1.5%. This resulted in a net increase in operating income from \$5.9 million in fiscal 2006 to \$6.4 million for 2007, reflecting a \$0.5 million, or 8.6% increase. Additionally, capital grants and contributions increased by \$2.6 million, or 83.2%, and investment earnings increased by \$0.4 million, or 19.4%, offset by an increase in interest expense of \$0.6 million, or 11.2%. The increase in operating revenues was primarily the result of scheduled rate increases. The increase in operating expenses was due to increases over a number of categories, including personal services (\$0.3 million, or 3.5%), purchases for resale (\$0.4 million, or 4.5%), and insurance (\$0.4 million, or 122%). The increase in capital grants and contributions was due to grant receipts from the Environmental Protection Agency and the Southwest Water Management District. The increase in investment earnings was due to more favorable market conditions while the increase in interest expense was due to issuance of the 2006 Water & Sewer System Revenue Bonds.

The Gas Utility Fund realized a \$4.1 million increase in net assets versus a \$5.2 million increase for the prior year. Operating revenues decreased by \$4.2 million, or 9.9%, over the prior year, primarily due to decreased fuel costs; offset by a \$3.8 million decrease in cost of purchases for resale due to decreased cost of natural gas. Contributing to the reduction in the increase in net assets versus the prior year was a \$1.2 million increase in the current year dividend paid to the General Fund based on prior year operating results.

The Solid Waste Utility Fund realized a \$0.6 million increase in net assets versus a \$0.2 million increase for the prior year. Operating revenues increased by \$0.5 million, or 2.9%; offset by a \$0.1 million, or 0.5%, increase in operating expenses.

The Stormwater Utility Fund realized an increase in net assets of \$2.9 million versus a prior year increase of \$5.2 million. Operating revenues increased by \$0.8 million, or 6.5%, due to scheduled rate increases. The increase in operating revenues was offset by a \$0.4 million, or 4.8% increase in operating expenses, attributable to a \$0.2 million, or 16.2%, increase in depreciation expense due to system additions, in addition to minor increases in a number of expense categories. Additionally, the fund realized a \$2.5 million decrease in capital grants and contributions, versus the previous year, 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 2007 and 2006:

Fund	Unrestricted Net Assets		Change in Net Assets	
	2007	2006	2007	2006
Water and Sewer Utility	\$ 26,221,468	\$ 25,732,341	\$ 5,752,905	\$ 2,976,775
Gas Utility	14,778,020	15,654,956	4,111,512	5,244,542
Solid Waste Utility	13,506,846	13,352,948	617,417	222,129
Stormwater Utility	10,766,199	8,755,451	2,938,688	5,189,438
Other funds	16,430,029	12,584,892	440,915	2,507,863
Totals	<u>\$ 81,702,562</u>	<u>\$ 76,080,588</u>	<u>\$ 13,861,437</u>	<u>\$ 16,140,747</u>

General Fund Budgetary Highlights

The final amended budget for General Fund expenditures reflected an increase of \$2.4 million, or 2.1%, over the original budget. Key elements of this increase were as follows:

- \$970 thousand increase in Police and \$763 thousand increase in Fire budgeted expenditures due to change in the accounting for State tax contributions to Police and Fire Supplemental Pension Plans, which are now recorded as General Fund revenues and employer contribution expenditures as recommended by the Governmental Finance Officers Association.
- \$173 thousand increase in Fire Department budgeted expenditures to fund unanticipated retirement payouts.
- \$245 thousand increase in Fire Department budgeted expenditures to fund unanticipated back pay for employees.
- \$452 thousand increase in Marine & Aviation budgeted expenditures due to the transfer of beach lifeguard operations from the Parking System enterprise fund to the General Fund.

Final budgeted revenues reflect a \$4.3 million, or 3.7%, increase over the original budget due to the following:

- \$1.7 million, or 16%, increase in budgeted intergovernmental revenues from state sources to reflect state insurance tax monies received on behalf of the City's police and fire supplemental pension plans. In previous years these were recorded directly in the supplemental pension plans but, as advised by the Governmental Finance Officer's Association, the City is now recording the "on behalf" payment as revenues and pension expenditures of the General Fund.
- \$764 thousand, or 18.9%, increase in budgeted licenses, permits and fees due primarily to increased building permit activity as a result of development activity.
- \$565 thousand, or 5.2%, increase in budgeted intergovernmental revenues from state sources due to year-to-date collections of communications services taxes and sales taxes in excess of forecasted.
- \$784 thousand, or 109%, increase in interest income due to improved market interest rates.
- Actual property tax collections in excess of original budget by \$364 thousand, or 0.7%.

Final budgeted "transfers in" from other funds reflect a \$1.5 million, or 22.6%, increase over the original budget primarily due to:

- \$1.1 million increase in the budgeted dividend payment from the Gas System enterprise fund due to fiscal 2006 operating results in excess of forecast.
- \$452 thousand from the Parking System enterprise fund due to the transfer of beach lifeguard operations from the Parking Fund to the General Fund.

Final budgeted "transfers out" reflect a \$4.7 million, or 62%, increase over the original budget primarily due to the following transfers to capital projects and special programs:

- Transfers to the Capital Improvements capital project fund for new projects including: \$1.2 million for fleet maintenance facility expansion; \$800 thousand for gas main extensions; \$620 thousand for Municipal Services Complex and library hurricane protection; \$500 thousand for "backfile conversion of records" project; \$483 thousand for beach library and beach recreation center renovations; and \$150 thousand for demolition of the Joe DiMaggio Sports Complex.
- \$483 thousand of building permits revenue in excess of costs transferred to the Special Programs special revenue fund to be reserved for the funding of future building permitting costs in accordance with State Statute.

Actual revenues for the General Fund exceeded final budgeted revenues by \$0.9 million, or 0.7%. This surplus was primarily due to \$382 thousand of utility taxes and franchise fees in excess of budget due to increased electric rates and usage, and \$413 thousand of investment earnings in excess of budget due to improved market conditions.

Actual expenditures for the General Fund were \$2.2 million, or 1.9%, less than the final amended budget. This expenditure budget savings accumulated across all departments.

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, 2007, the City had investments in capital assets totaling \$614,312,446 (net of accumulated depreciation).

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

	Governmental Activities				Business-type Activities		Total	
	2007	2006	Prior period Adjustment Garage Fund	Adjusted 2006	2007	2006	2007	Adjusted 2006
Land	\$ 70,545	\$ 70,590	\$ -	\$ 70,590	\$ 28,362	\$ 28,296	\$ 98,907	\$ 98,886
Buildings	83,259	86,333	-	86,333	13,652	14,533	96,911	100,866
Improvements other than buildings	11,783	11,498	-	11,498	268,653	240,603	280,436	252,101
Machinery and equipment	26,210	28,307	(2,325)	25,982	3,930	4,104	30,140	30,086
Infrastructure	35,314	37,461	-	37,461	-	-	35,314	37,461
Construction in progress	30,048	9,601	-	9,601	42,557	54,719	72,605	64,320
Total	\$ 257,159	\$ 243,790	\$ (2,325)	\$ 241,465	\$ 357,154	\$ 342,255	\$ 614,313	\$ 583,720

* Net of accumulated depreciation

Net capital assets for the City's *governmental activities* increased from \$241.5 million to \$257.2 million, reflecting an increase of \$15.7 million for the current fiscal year. Capital asset additions of \$31.7 millions were offset by depreciation expense of \$13.6 million and net capital asset retirements and transfers totaling approximately \$2.4 million. Major fiscal 2007 governmental capital asset transactions included:

- Fiscal 2007 construction-in-progress expenditures totaling \$12.1 million, \$5.2 million, and \$1.0 million for the Beach Walk, Downtown Streetscapes, and fleet maintenance facility expansion projects, respectively.
- Library collection additions of \$2.2 million for fiscal 2007.
- \$3.6 million in Garage internal service fund fleet vehicle additions during fiscal 2007.

Net capital assets for the City's *business-type activities* increased by \$14.9 million from \$342.3 million to \$357.2 million during the current fiscal year. Significant fiscal 2007 additions contributing to this increase included:

- Construction expenditures for major Water and Sewer system projects including: \$4.0 million for reclaimed water distribution system additions and improvements; \$2.6 million for the Beach Walk project; \$1.1 million for wastewater treatment plant generator replacements; \$1.1 million for water pollution control internal recycle modifications; \$1.2 million for water main replacements; \$1.0 million for pump station replacements; and \$1.0 million for elevated water tank upgrades.
- Construction expenditures for new gas mains and service lines totaling \$1.3 million for Pinellas County customers and \$1.0 million for Pasco County customers.
- Construction expenditures for major Stormwater system projects including: \$2.3 million for the Beach Walk project; \$1.5 million for the Downtown Streetscape project; and \$0.7 million for Stevenson Creek drainage basin improvements.

The prior period adjustment for the Garage fund, as indicated in the Notes to the Financial Statements, was a restatement of vehicle capital assets related to the implementation of a new asset management system, and reflects a correction of the general ledger balance to match the total actual vehicles owned and inventoried.

Additional information on the City's capital assets can be found in Note III (C) on pages 55-56 of this report.

Long-term debt

The City's total long-term debt decreased from \$287.6 million to \$271.2 million, a decrease of \$16.4 million or 5.7%. Long-term debt for governmental activities decreased by \$7.3 million, or 9.6%; while long-term debt for business-type activities decreased by \$9.1 million or 4.3%. Key factors contributing to these changes included:

- The decrease in long-term debt for governmental activities is primarily due to a \$6.8 million, or 14.0%, decrease in net revenue bonds payable due to scheduled bond principal payments.
- The decrease in long-term debt for business-type activities is primarily due an \$8.6 million, or 4.2%, decrease in net revenue bonds payable due to the retirement of \$3.5 million of gas system revenue bonds during the current fiscal year, and scheduled bond principal payments.

The City's bonded debt as of September 30, 2007, 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 \$41.5 million while business-type activities totaled \$198.9 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 \$2.0 billion, which is significantly in excess of the City's applicable indebtedness of approximately \$231 million at September 30, 2007.

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 2008 Budgets and Rates

Factors considered in preparing the City of Clearwater's budget for fiscal year 2008 included:

- During fiscal 2007 the Florida Legislature imposed significant restrictions on the ability of municipalities to increase ad valorem millage rates.
- The unemployment rate for the Tampa Bay metropolitan area for September 2007 was 4.3%, an increase from the September 2006 rate of 3.4%. The national rate for September 2007 was 4.7% versus 4.5% for September 2006.
- Local and national economic issues including Florida property tax relief efforts, a weakening U.S. housing market, and the cost of fuel and insurance at an all time high.
- Total taxable assessed values for the City of Clearwater increased approximately 5% for fiscal 2007. The City's millage rate was reduced by 10.2%, from 5.2088 to 4.6777 mills for fiscal 2008. The millage rate has decreased by a total of 18.7% over the past two years.
- A reduction of 59.7 full-time equivalent positions City-wide, including a reduction in General Fund employees of 66 FTE's, from 1,281.5 to 1,215.5, due to service level reductions and program consolidations.
- Service level reductions including: reductions in library and recreation center hours; reduced landscaping and maintenance; reduced programming at Moccasin Lake Nature Park and Bright House Networks Field; elimination of the Officer Friendly program; and a reduction in holiday lighting.
- A reduction in employee medical insurance costs of \$742 thousand, or 6%, from fiscal 2007 due to a budgeted 3% reduction in the rate as well as elimination of approximately 60 full time equivalent positions across the City.
- Budgeted Water and Sewer utility revenues for 2008 reflect a 6% rate increase effective October 1, 2007, while fiscal 2008 budgeted Stormwater utility revenues reflect a 6% rate increase effective October 1, 2007

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.