



CITY OF CLEARWATER

POST OFFICE BOX 4748, CLEARWATER, FLORIDA 33758-4748
CITY HALL, 112 SOUTH OSCEOLA AVENUE, CLEARWATER, FLORIDA 33756
TELEPHONE (727) 562-4040 FAX (727) 562-4052

CITY MANAGER

March 24, 2010

The Honorable Mayor, Councilmembers,
and Citizens of the City of Clearwater:

The City of Clearwater Charter (Section 2.01(c)3), Florida Statutes, and various covenants relating to debt and pension obligations of the City require an annual audit of the City's financial statements of all funds of the City by a firm of licensed certified public accountants. These statements must be presented in conformity with generally accepted accounting principles (GAAP) and audited in accordance with generally accepted auditing standards. Pursuant to these requirements we hereby issue the comprehensive annual financial report of the City of Clearwater for the fiscal year ended September 30, 2009.

This report consists of management's representations concerning the finances of the City. Consequently, management assumes full responsibility for the completeness and reliability of all of the information presented in this report. To provide a reasonable basis for making these representations, management of the City has established a comprehensive internal control framework that is designed both to protect the government's assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of the City's financial statements in conformity with GAAP. Because the cost of internal controls should not outweigh their benefits, the City's comprehensive framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatement. As management, we assert that, to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

Cherry, Bekaert & Holland L.L.P., a firm of licensed certified public accountants, has audited the City's financial statements. The goal of the independent audit was to provide reasonable assurance that the financial statements of the City for the fiscal year ended September 30, 2009, are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditor concluded that there was a reasonable basis for rendering an unqualified opinion that the City's financial statements for the fiscal year ended September 30, 2009, are fairly presented in conformity with GAAP. The independent auditor's report is presented as the first component of the financial section of the report.

The independent audit of the financial statements of the City was part of a broader, federally mandated "Single Audit" designed to meet the special needs of federal and state grantor agencies. The standards governing Single Audit engagements require the independent auditor to report not only on the fair presentation of the financial statements, but also on the audited government's internal controls and compliance with legal requirements, with special emphasis on internal controls and legal requirements involving the administration of federal and state awards. These reports are in the Single Audit section of this report.



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"EQUAL EMPLOYMENT AND AFFIRMATIVE ACTION EMPLOYER"

GAAP requires that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of the Management's Discussion and Analysis report (MD&A). This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The City's MD&A can be found immediately following the report of the independent auditors.

Profile of the City of Clearwater, Florida

Clearwater is located on the Pinellas Peninsula on Florida's west coast. It is directly located on the Gulf of Mexico, 20 miles west of Tampa and 20 miles north of St. Petersburg. Clearwater is the county seat of Pinellas County and one of the largest cities in the Tampa Bay area. The Clearwater area offers a semitropical climate and 28 miles of beautiful beaches. Consequently, tourism is an important component of the economy. In addition to tourism, Clearwater enjoys a diversity of manufacturing businesses, service industries, high-tech companies, and a large retirement population.

The City operates under the council/manager form of government. Policymaking and legislative authority are vested in the City Council, which consists of a mayor and four members elected at large on a non-partisan basis. The City Council is responsible for adopting ordinances, adopting the budget, and hiring the City Manager and City Attorney. The City Manager is responsible for carrying out the policies and ordinances of the City Council, for overseeing the day-to-day operations of the City, and for appointing the heads of the City's departments.

The City provides police and fire protection; construction and maintenance of streets, bridges, sidewalks, storm drainage, public parks, and recreation facilities; planning, zoning, subdivision, and building code regulation and enforcement; redevelopment of commercial and residential neighborhoods; supervised recreation programs; public libraries; water supply and distribution; waste water collection, treatment, and disposal; natural gas distribution; solid waste collection and recycling; stormwater management; marina, airpark, convention center, downtown boat slips, public fishing pier operations; and operation of the city-wide parking system.

The annual budget serves as the foundation for the City's financial planning and control. Per the City Code of Ordinances, the City Manager is required to provide to the City Council an operating budget for the ensuing fiscal year, a capital improvement budget, and a five-year capital improvement program, along with an accompanying budget message no later than 60 days prior to the end of the fiscal year. The Council is required to hold public hearings on the budget and to adopt a final operating budget and capital improvement budget no later than September 30, the last day of the City's fiscal year. The appropriated budget is prepared by fund and by department within fund.

Local Economy

The local economy for the Tampa Bay metropolitan area experienced a continued economic downturn during fiscal 2009, fueled by continued declines in real estate values and area employment. The Tampa Bay metropolitan area average unemployment rate increased from 7.1 percent for the year ended September 2008 to 11.8 percent for the year ended September 2009, versus a national rate of 9.8 percent. However, the City remains well-poised to take advantage of the economic recovery when it occurs, with the completion of the Beach Walk, Downtown Streetscapes, and Downtown Boat Slips projects expected to attract redevelopment activity.

Long-term Financial Planning

The economic downturn has necessitated an emphasis on balancing demands for City services with significantly reduced General Fund revenues. Identifying operating efficiencies, consolidating City operations, prioritizing and/or eliminating programs and services, partnering with other governmental entities, and other cost saving initiatives have been the focal point of all City departments. A down-sizing of City services, while continuing to meet the basic needs of residents, as well as properly maintain City assets and infrastructure, is expected to be the trend for at least the next several years in light of current economic conditions and taxpayer sentiments.

Relevant Financial Policies

It is a policy of the City Council to maintain a General Fund reserve equal to 8-1/2% of the subsequent year's budgeted expenditures as a contingency fund to meet unanticipated financial needs. Per Council policy, funds in excess of these required reserves may be appropriated by the City Council for specific capital improvement projects or other one-time needs.

It is a policy of the City Council that all enterprise fund operations shall be self-supporting. Council policy requires a review of rate schedules every five years, at a minimum, to help ensure that enterprise funds are self-supporting.

Major Initiatives

Consistent with the Council policy that enterprise funds shall be self-supporting, the City plans to close the Harborview Convention Center during fiscal 2010, thereby eliminating the current General Fund subsidy to the Harborview Enterprise Fund. The fiscal 2010 budget includes \$950 thousand for demolition of the Harborview Center during fiscal 2010.

Nearly \$32 million of fiscal 2010 capital project expenses are budgeted to proactively support the City's five utility operations, which consist of Water and Sewer, Stormwater, Solid Waste, Recycling, and Gas utility operations. The projects include reverse osmosis plant expansion, reclaimed water distribution system expansion, stormwater improvements to Stevenson and Alligator Creeks, coastal basin improvements, as well as continuance of the Pinellas and Pasco new gas mains and service projects.

Completion of the City's new downtown boat slips is estimated for the summer of 2010. The operation of the boat slips will be accounted for in the Downtown Boat Slips enterprise fund.

Awards and Acknowledgements

The Government Finance Officers Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City for its comprehensive annual financial report (CAFR) for the fiscal year ended September 30, 2008. This was the thirtieth consecutive year that the City received this prestigious award. In order to be awarded a Certificate of Achievement, the government

published an easily readable and efficiently organized CAFR. This report satisfied both GAAP and applicable legal requirements. A Certificate of Achievement is valid for a period of one year only. We believe that our current CAFR continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

In addition, the City received the GFOA's Distinguished Budget Presentation Award for the fiscal year 2009 Budget document, the twenty-third consecutive year that this award has been received. In order to qualify, the City's Budget document was judged to be proficient in several categories including as a policy document, a financial plan, an operations guide, and a communications device.

We wish to thank the many members of the Citywide Annual Financial Reporting (CAFR) Team, which is composed of individuals in the Finance Department and other financial staff throughout the City, for their professionalism and dedication in producing this report. Sincere appreciation is also extended to the City's external auditors, Cherry, Bekaert & Holland, L.L.P., for their advice and assistance in the preparation of this report. Finally, we would like to thank the City Council for their interest, continued support, and leadership in planning and conducting the financial operations of the City in a progressive and responsible manner.

Sincerely,


William B. Horne, II
City Manager


Margaret L. Simmons, CPA
Finance Director