

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, 2009. *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 2009 by \$706.7 million (*net assets*). Of this amount, \$224.0 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 \$41.0 million, or 6.2%, during fiscal 2009. Net assets for governmental activities increased by \$15.1 million, or 4.1%, while the business-type net assets increased by \$25.9 million, or 8.8%.

Significant factors contributing to the \$15.1 million increase in governmental net assets included operating and capital grants and contributions totaling \$11.7 million, and a \$2.8 million, or 48%, increase in investment earnings versus the prior year due to more favorable investment market conditions.

The \$25.9 million increase in business-type net assets is primarily the result of operating revenues in excess of operating expenses for Water & Sewer Utility, Gas Utility, Solid Waste Utility, Stormwater Utility, and Parking System operations. Also contributing to the increase was the receipt by the Gas Utility of \$4.15 million from the buyout of the City's rights under a 20-year gas pre-purchase agreement; along with a \$2.6 million, or 60%, increase in investment earnings versus the prior year, across all business-type activities, due to more favorable investment market conditions.

At September 30, 2009, the City's governmental funds reported combined ending fund balances of \$113.4 million, a decrease of \$1.5 million (or 1.3%) in comparison with the prior year. Of this amount, \$73.0 million (or 64.3%) is *available for spending* at the government's discretion (*unreserved fund balance*). The decrease of \$1.5 million in governmental fund balances is primarily the result of a \$6.9 million current year decrease in Capital Improvement fund balance due to current year project expenditures in excess of current year project funding, partially offset by General Fund expenditures that were \$4.7 less than budgeted due to cost savings across all departments, and a \$1.0 million increase in the Special Programs fund balance due to a transfer from Central Insurance fund reserves for funding of the Emergency Operations program.

At September 30, 2009, unreserved fund balance for the General Fund was \$19.2 million, or 17.4% of total current year general fund expenditures.

Total actual revenues for the General Fund for fiscal 2009 were \$1.0 million, or 0.9%, greater than final budgeted revenues. A major factor contributing to the revenue surplus was a \$0.7 million, or 51%, surplus of investment earnings versus budgeted due to improved investment market conditions. Total fiscal 2009 actual expenditures for the General Fund were less than final budgeted expenditures by \$4.7 million, or 4.1%. This was due to budget savings across all City departments for fiscal 2009, including \$1.1 million, or 4.9%, for Fire, \$0.9 million, or 4.8%, for Parks and Recreation, and \$0.6 million, or 1.7% for Police.

Finally, actual General Fund interfund transfers in were \$57,000, or 0.7%, greater than final budgeted interfund transfers in, while actual General Fund interfund transfers out were \$285,000, or 2.6%, less than final budgeted interfund transfers out. The total combined General Fund fiscal 2009 budgetary savings per above was \$5.8 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, downtown boat slips, 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 thirteen 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 ten 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, convention center, and downtown boat slip 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 six *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 obligations to provide pension benefits and other post-employment 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 obligations to provide pension benefits and other post-employment 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 2009 and fiscal 2008 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 \$706.7 million at the close of the fiscal year ended September 30, 2009. This represents an increase of \$41.0 million from the September 30, 2008 total net assets of \$665.7 million. Net assets of both the governmental and the business-type activities increased primarily due to operating and capital grants and contributions of \$14.4 million, favorable operating results for business-type activities, and a \$5.4 million, or 53%, increase in investment earnings versus the prior year due to more favorable investment market conditions. 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:

	Governmental Activities		Business-type Activities		Total	
	2009	2008	2009	2008	2009	2008
Assets						
Current and other assets	\$ 171,382,786	\$ 180,564,878	\$ 235,779,420	\$ 153,203,780	\$ 407,162,206	\$ 333,768,658
Capital assets	280,712,145	266,990,980	361,528,638	357,132,952	642,240,783	624,123,932
Total assets	452,094,931	447,555,858	597,308,058	510,336,732	1,049,402,989	957,892,590
Liabilities						
Current and other liabilities	6,754,742	8,645,410	18,890,369	14,898,178	25,645,111	23,543,588
Long-term debt outstanding:						
Due within one year	17,697,486	17,780,463	7,953,042	10,541,317	25,650,528	28,321,780
Due in more than one year	40,855,580	49,478,629	250,541,848	190,846,612	291,397,428	240,325,241
Total liabilities	65,307,808	75,904,502	277,385,259	216,286,107	342,693,067	292,190,609
Net assets						
Invested in capital assets, net of related debt	240,549,768	218,384,354	158,128,827	170,734,916	398,678,595	389,119,270
Restricted	42,681,351	39,019,943	41,332,593	39,635,185	84,013,944	78,655,128
Unrestricted	103,556,004	114,247,059	120,461,379	83,680,524	224,017,383	197,927,583
Total net assets	\$ 386,787,123	\$ 371,651,356	\$ 319,922,799	\$ 294,050,625	\$ 706,709,922	\$ 665,701,981

A large portion of the City's net assets (56.4%) represent 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 (11.9%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets (\$224.0 million or 31.7%) may be used to meet the government's ongoing obligations to citizens and creditors.

There was a \$22.2 million increase in *invested in capital assets, net of related debt* for *governmental activities*. This was primarily due to a \$13.7 million increase in governmental activities *capital assets* along with a \$7.4 million decrease in related revenue bond debt, due to scheduled principal payments, and a \$1.3 million decrease in lease purchase contracts payable. Major capital asset additions contributing to the \$13.7 million net increase in governmental capital assets included \$2.5 million in current year capitalized expenditures for infrastructure improvement to the Long Center, \$2.5 million in capital expenditures for the Royalty Theatre acquisition, \$2.3 million for improvements to the Carpenter Complex clubhouse, \$1.0 million for improvements to Station Square Park, \$0.8 million for the Bayfront Promenade, \$0.7 million of Beach Walk capital expenditures, and \$0.5 million of capital expenditures for the downtown boat slips.

Invested in capital assets, net of related debt for business-type activities decreased by \$12.6 million primarily due to \$17.1 million in current year depreciation expense, along with a \$17 million increase in related bond debt (net of unspent bond proceeds) due to additional water and sewer utility revenue bonds issued during the current fiscal year, that offset the related current year capital asset additions.

Changes in Net Assets

The following table reflects the changes in net assets for the years ended September 30, 2009, and September 30, 2008:

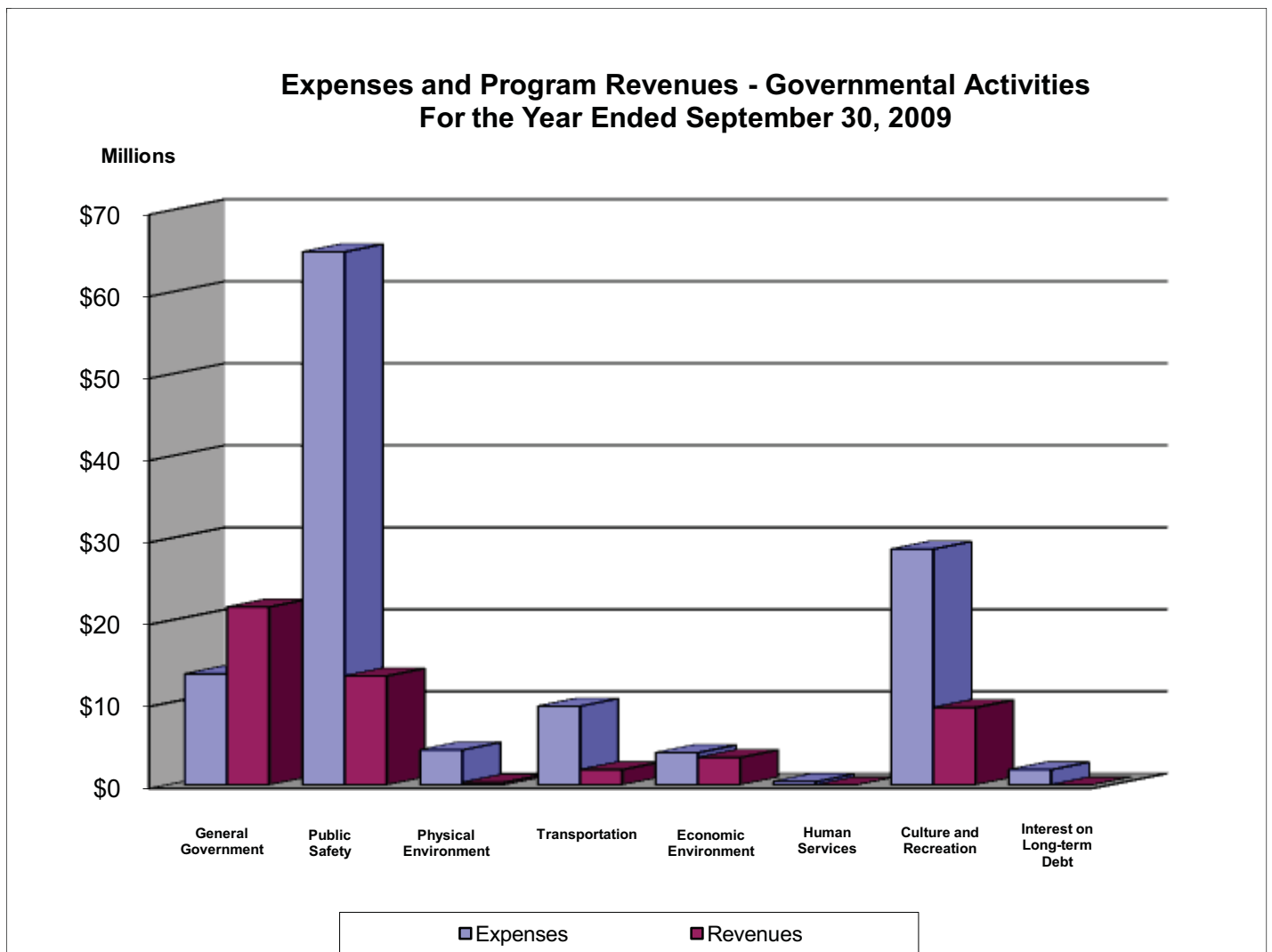
	City of Clearwater, Florida - Changes in Net Assets					
	Governmental Activities		Business-type Activities		Totals	
	2009	2008	2009	2008	2009	2008
Revenues						
Program revenues:						
Charges for services	\$ 38,161,263	\$ 37,153,216	\$ 137,555,458	\$ 137,928,582	\$ 175,716,721	\$ 175,081,798
Operating grants and contributions	8,542,267	9,123,267	83,139	82,834	8,625,406	9,206,101
Capital grants and contributions	3,168,601	7,632,251	2,609,441	1,085,821	5,778,042	8,718,072
General revenues:						
Property taxes	46,893,141	50,347,341	-	-	46,893,141	50,347,341
Sales taxes	13,849,909	15,674,741	-	-	13,849,909	15,674,741
Utility taxes	12,020,599	11,532,529	-	-	12,020,599	11,532,529
Other taxes	13,978,792	15,469,954	-	-	13,978,792	15,469,954
Other	8,747,924	6,273,848	6,904,419	4,313,456	15,652,343	10,587,304
Total revenues	145,362,496	153,207,147	147,152,457	143,410,693	292,514,953	296,617,840
Expenses						
General Government	13,515,387	14,342,322	-	-	13,515,387	14,342,322
Public Safety	64,977,624	66,582,460	-	-	64,977,624	66,582,460
Physical Environment	4,265,721	2,729,999	-	-	4,265,721	2,729,999
Transportation	9,594,793	12,321,965	-	-	9,594,793	12,321,965
Economic Environment	3,923,820	4,534,093	-	-	3,923,820	4,534,093
Human Services	401,615	439,555	-	-	401,615	439,555
Culture and Recreation	28,740,133	37,687,902	-	-	28,740,133	37,687,902
Interest on Long-term Debt	1,849,634	1,997,817	-	-	1,849,634	1,997,817
Water and Sewer Utility	-	-	54,520,158	52,014,934	54,520,158	52,014,934
Gas Utility	-	-	29,285,270	35,943,600	29,285,270	35,943,600
Solid Waste Utility	-	-	14,801,035	16,035,672	14,801,035	16,035,672
Stormwater Utility	-	-	11,775,346	11,069,529	11,775,346	11,069,529
Other	-	-	13,856,476	14,664,687	13,856,476	14,664,687
Total expenses	127,268,727	140,636,113	124,238,285	129,728,422	251,507,012	270,364,535
Increase in net assets before transfers	18,093,769	12,571,034	22,914,172	13,682,271	41,007,941	26,253,305
Transfers	(2,958,002)	4,196,255	2,958,002	(4,196,255)	-	-
Increase in net assets	15,135,767	16,767,289	25,872,174	9,486,016	41,007,941	26,253,305
Net assets - beginning	371,651,356	354,884,067	294,050,625	284,564,609	665,701,981	639,448,676
Net assets - ending	\$ 386,787,123	\$ 371,651,356	\$ 319,922,799	\$ 294,050,625	\$ 706,709,922	\$ 665,701,981

Governmental Activities

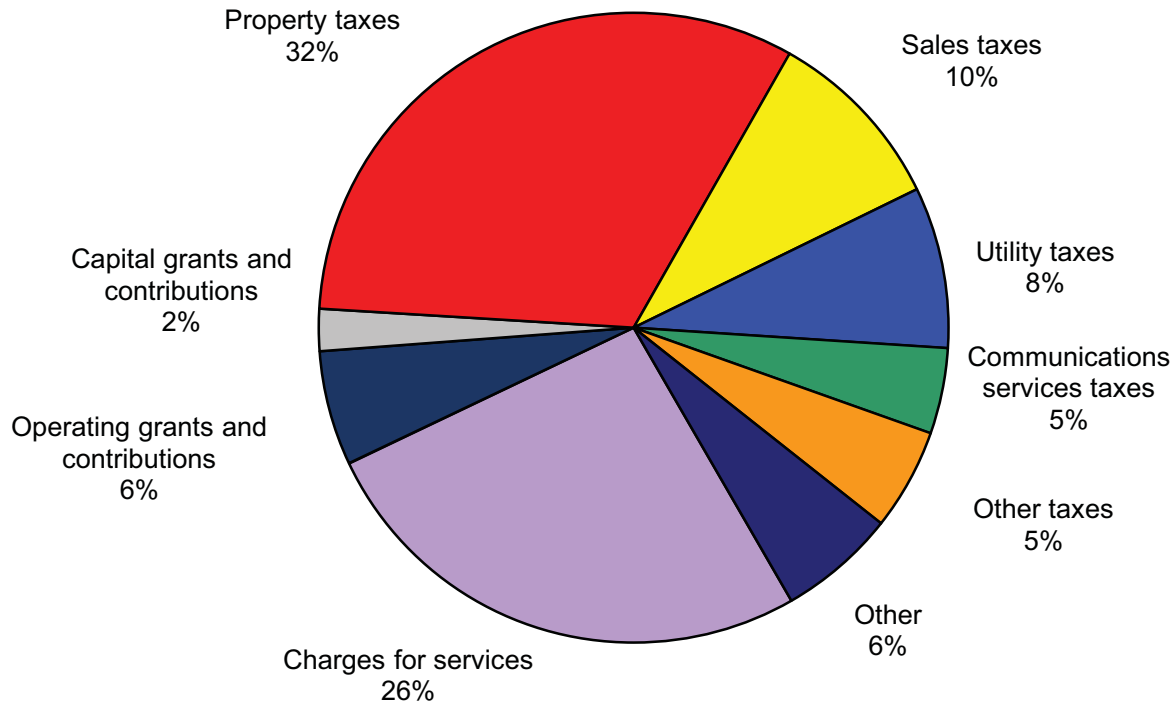
Governmental activities net assets increased by \$15.1 million from \$371.7 million as of September 30, 2008, to \$386.8 million as of September 30, 2009. This increase, due to governmental activities, accounted for 37% of the total increase in net assets for the City and represented a 4.1% increase in net assets for governmental activities. Key elements of this increase are as follows:

- Operating and capital grants and contributions totaling \$11.7 million.
- A total of \$1.0 million in General Fund revenues in excess of budget primarily due in improved investment markets and performance, along with General Fund expenditures that were \$4.7 million less than budgeted due to cost cutting across all departments.

The cost of all governmental activities this year was \$127.3 million. This reflects a \$13.3 million, or 9.5%, decrease from the fiscal 2008 total of \$140.6 million. However, as shown on the *Statement of Activities*, the amount that the City's taxpayers ultimately financed for these activities totaled \$77.4 million, because some of the cost was paid for by those who directly benefited from the programs (\$38.2 million) or by other governments and organizations that subsidized certain programs with grants and contributions (\$11.7 million). This total of \$77.4 million is \$9.3 million less than the fiscal 2008 amount financed from general revenues.



**Revenues by Sources - Governmental Activities
For the Year Ended September 30, 2009**



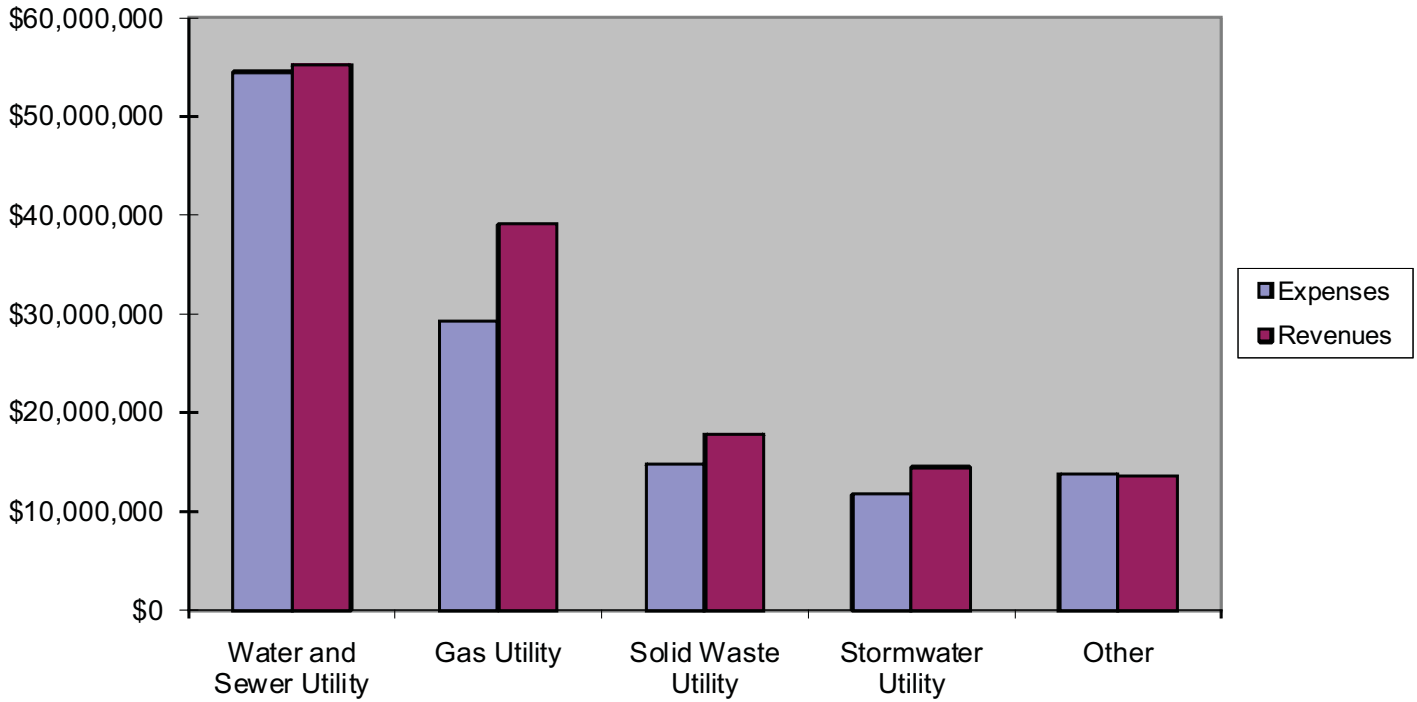
Business-type Activities

Net assets for business-type activities increased from \$294.0 million to \$319.9 million. This increase totaled \$25.9 million, reflecting an 8.8% increase in business-type activities net assets and 63% of the total increase in net assets for the City. The current year increase was \$16.4 million more than the fiscal year 2008 increase in net assets of \$9.5 million. The increase of \$25.9 million was the result of operating revenues in excess of operating expenses, along with \$2.6 million in current year capital grants and contributions, and current year interest and investment earnings totaling \$6.9 million, offset by \$10.3 million in interest expense on long term debt. Also contributing to the \$25.9 million increase was the receipt by the Gas Utility of \$4.15 million from the buyout of the City's rights under a 20 year gas pre-purchase agreement.

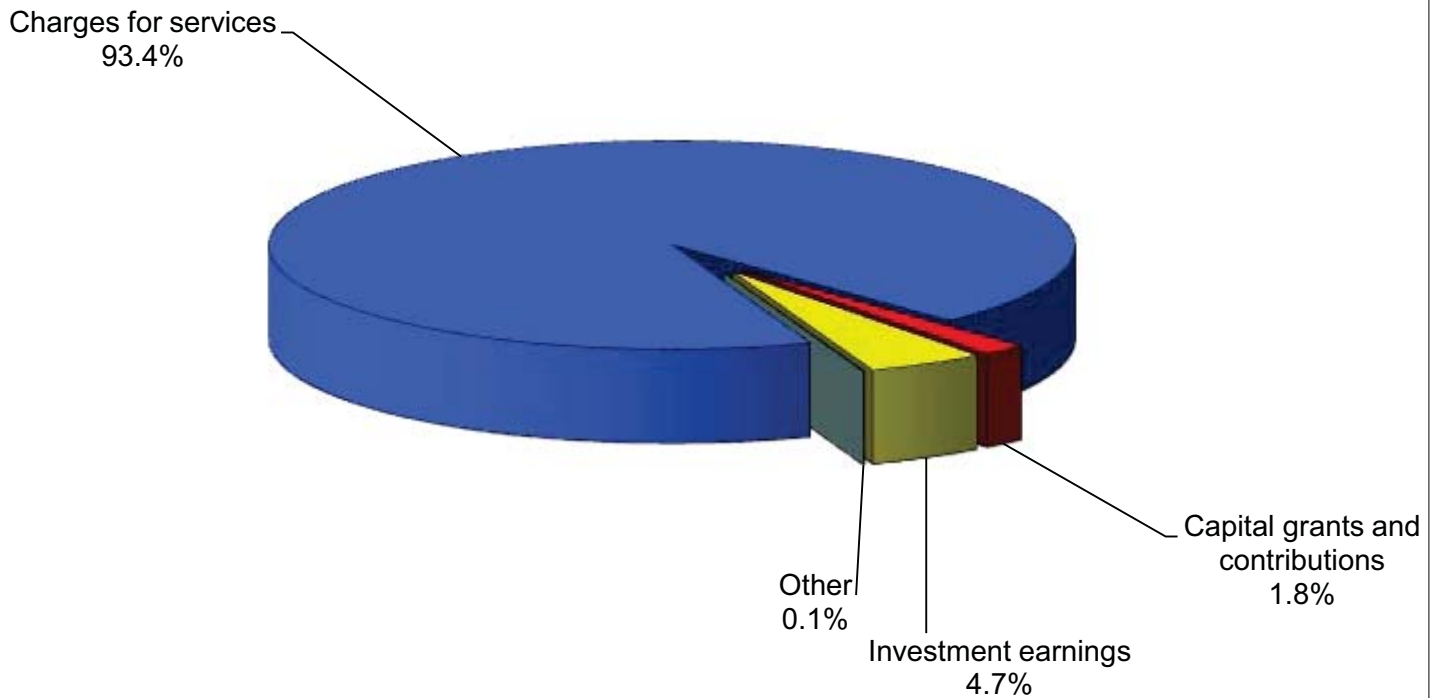
Total revenues for business-type activities increased by \$3.7 million, or 2.6%, to \$147.1 million versus the prior year total of \$143.4 million, primarily due to: the receipt of \$4.15 million by the Gas Utility from the buyout of the City's rights under a gas pre-purchase agreement; an increase in investment earnings of \$2.6 million, or 60%, due to improved investment market conditions; and a \$1.5 million, or 140% increase in capital grants and contributions due to current year grant monies and developer contributions received by the Stormwater Utility and the Water and Sewer Utility. These revenue increases were offset by a decrease in Gas Utility operating revenues of \$5.6 million due to decreased fuel prices. 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 \$5.5 million, or 4.2%, from \$129.7 million in fiscal 2008 to \$124.2 million for fiscal 2009. A significant factor contributing to this \$5.5 million decrease was a \$5.2 million, or 25%, decrease in gas system purchases for resale as a result of decreased fuel costs. Please refer to the discussion of proprietary funds operating results that follows for additional discussion of a number of offsetting decreases and increases in specific expense categories that account for the balance of the \$5.5 million current year decrease.

**Expenses and Program Revenue - Business-type Activities
For the Year Ended September 30, 2009**



**Revenues by Source - Business-type Activities
For the Year Ended September 30, 2009**



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, 2009, reflect a combined *fund balance* of \$113.4 million versus \$114.9 million for the prior year, a decrease of \$1.5 million. A total of \$73.0 million, or 64%, 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 (\$6.7 million); 2) to pay debt service (\$7.2 million); 3) for advances due from other funds (\$2.7 million); 4) for land held for resale (\$2.0 million); and 5) for specific program purposes per grant restrictions and related loan agreements (\$21.8 million).

The General Fund is the chief operating fund of the City. At September 30, 2009, unreserved fund balance of the General Fund totaled \$19.2 million, with the remainder of the \$22.3 million in fund balance "reserved" to indicate it has already been committed for purchase orders of the prior period (\$1.1 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 17.4% 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 \$1.3 million during the current fiscal year versus a final budgeted decrease of \$4.5 million. This \$5.8 million variance from budgeted was primarily the result of total expenditures that were less than budgeted expenditures by \$4.7 million, along with total revenues that were \$1.0 million in excess of budgeted revenues. General Fund expenditure "savings" of \$4.7 million, or 4.1%, was spread across all departments due to an emphasis on cost reduction City-wide. The General Fund revenues were greater than budgeted by \$1.0 million primarily due to a \$692,000 surplus of investment earnings versus budgeted due to improved market conditions.

The fund balance of the Special Development Fund decreased from \$11.4 million to \$11.0 million, for a decrease of \$0.4 million or 3.3%, during the current fiscal year versus a decrease of \$1.7 million for fiscal 2008. The Special Development Fund final amended budget indicated a planned decrease in fund balance of \$1.6 million. This current year \$1.2 million variance from the budgeted decrease in fund balance was primarily due to a \$1.8 million, or 298%, surplus of investment earnings versus budgeted due to favorable investment market conditions, offset by an \$0.8 million, or 8.8%, deficit of sales tax revenues versus budgeted as a result of the significant downturn in the economy.

The fund balance for the Capital Improvement Fund decreased from \$43.4 million to \$36.5 million during the current fiscal year. This decrease of \$6.9 million is primarily the result of current year capital project expenditures (\$24.4 million) in excess of current year capital project funding received from other funds (\$15.4 million), and grant revenues received from federal, state, and local agencies (\$2.4 million). This is typical volatility for the Capital Improvement Fund due to timing differences between project funding and project spending, as evidenced by an offsetting \$7.0 million increase in fund balance in the prior year.

The fund balances for Other (non-major) Governmental Funds increased from \$39.1 million to \$43.5 million during the current fiscal year. This increase of \$4.4 million was primarily the result of: \$1.3 million of current year Special Programs special revenue fund receipts for the retirement incentives program in excess of current year expenditures; \$1.0 million received by the Special Programs special revenue fund from the Central Insurance internal service fund for funding of the emergency operations program; \$941,000 of grant monies received by the Special Programs special revenue fund for the U.S. Department of Housing and Urban Development Home Investment Partnerships Program; a \$668,000 increase in the SHIP Local Housing Assistance Trust special revenue unreserved fund balance due to current year revenues in excess of expenditures; a \$305,000 increase in the Community Redevelopment Agency capital project unreserved fund balance due to current year project funding in excess of capital project expenditures; and a \$272,000 increase in the Pinellas County Local Housing Assistance Trust special revenue unreserved fund balance due to current year revenues in excess of expenditures.

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 \$0.4 million increase in net assets versus a \$0.5 million decrease for the prior year. Operating revenues increased by \$2.0 million, or 3.8%, offset by an increase in operating expenses of \$1.9 million, or 4.1%. This resulted in a net increase in operating income of \$0.1 million, or 1.7%, from \$5.8 million in fiscal 2008 to \$5.9 million for 2009. Additionally, capital grants and contributions increased by \$0.6 million, or 90%, and investment earnings increased by \$1.1 million, or 57%. The increase in operating revenues was primarily the result of scheduled rate increases. The increase in operating expenses was due primarily due to an increase in depreciation expense of \$3.9 million, or 51%, due to a current year change in the depreciable lives used for water and sewer utility systems. The \$3.9 million increase in depreciation expense was offset by a \$1.2 million, or 29.2%, decrease in repairs and maintenance expenses due to a current year emphasis on system improvements rather than repairs and maintenance; and a \$1.0 million, or 10.3%, decrease in water purchases for resale due to increased City well production and a corresponding decrease in water purchased from Pinellas County. The increase in capital grants and contributions was primarily due to increases in contributions from developers that had dropped to nearly zero for fiscal 2008 due to the economic downturn. The increase in investment earnings was due to improvement in investment market conditions.

The Gas Utility Fund realized an \$8.6 million increase in net assets versus a \$3.6 million increase for the prior year. Operating revenues decreased by \$5.6 million, or 14%, from the prior year, primarily due to decreased fuel costs, offset by a \$5.2 million, or 25%, decrease in cost of purchases for resale due to decreased cost of natural gas. Contributing to a \$1.0 million increase in operating income, from \$4.9 million for the prior year to \$5.9 million for the current year, was a \$0.9 million, or 16%, reduction in personal services expenses due to staff reductions. Also contributing to the \$8.6 million increase in net assets were non-operating revenue increases including: receipt by the Gas Utility of \$4.15 million from the buyout of the City's rights under a 20 year gas pre-purchase agreement; and a \$0.3 million, or 54%, increase in investment earnings versus the prior year due to more favorable investment market conditions

The Solid Waste Utility Fund realized a \$2.6 million increase in net assets versus a \$0.6 million increase for the prior year. Operating revenues increased by \$341,000, or 2.0%, while operating expenses decreased by \$1.3 million, or 7.8%, resulting in a \$1.6 million increase in operating income from \$1.0 million in the prior year to \$2.6 million. Contributing to the decrease in operating expenses was a \$364,000, or 6.2%, decrease in personal services; a \$346,000, or 9.9%, decrease in transportation expenses; and a \$417,000, or 9.0%, decrease in dumping charges.

The Stormwater Utility Fund realized an increase in net assets of \$2.6 million versus a prior year increase of \$1.8 million. Operating revenues increased by \$0.9 million, or 6.8%, due to scheduled rate increases. The increase in operating revenues was offset by a \$0.6 million, or 6.0% increase in operating expenses, primarily attributable to a \$0.8 million, or 136%, increase in professional services resulting from the cancellation of capital projects that were not cost effective, and the expensing of related professional services capitalized as construction in progress during the prior year. Also contributing to the increase in net assets was an \$815,000, or 480%, increase in capital grants and contributions due to current year grant monies received from the Southwest Florida Water Management District and the Florida Department of Environmental Protection, along with \$207,000 of developer contributions.

Unrestricted net assets and changes in net assets of the proprietary funds for fiscal years 2009 and 2008:

Fund	Unrestricted Net Assets		Change in Net Assets	
	2009	2008	2009	2008
Water and Sewer Utility	\$ 35,382,376	\$ 18,766,064	\$ 387,545	\$ (485,742)
Gas Utility	21,937,251	14,104,350	8,639,131	3,597,948
Solid Waste Utility	16,981,480	14,266,699	2,588,805	581,057
Stormwater Utility	17,464,603	14,017,572	2,616,680	1,797,533
Other funds	23,853,324	18,905,519	10,417,988	2,692,910
Totals	<u>\$ 115,619,034</u>	<u>\$ 80,060,204</u>	<u>\$ 24,650,149</u>	<u>\$ 8,183,706</u>

General Fund Budgetary Highlights

The final amended budget for General Fund expenditures reflected an increase of \$2.0 million, or 1.8%, from the original budget. Key elements of this increase were as follows:

- \$0.9 million increase in Police and \$1.3 million increase in Fire budgeted expenditures due to the accounting for State tax contributions to Police and Fire Supplemental Pension Plans, which are recorded as General Fund revenues and employer contribution expenditures as recommended by the Governmental Finance Officers Association. These budgeted expenditure increases were offset by an equal increase in budgeted revenues below.

Final budgeted revenues reflect a \$1.6 million, or 1.4%, increase from the original budget primarily due to the following:

- \$1.5 million, or 15%, increase in budgeted intergovernmental revenues from state sources to reflect \$2.2 million in state insurance tax monies received on behalf of the City's police and fire supplemental pension plans, offset by a \$0.5 million decrease in sales tax and \$0.2 million decrease in state revenue sharing due to the continued downturn in the local and national economy.
- \$0.7 million, or 33%, decrease in budgeted licenses, permits, and fees due to slowing of the construction industry and the decline in the economy, offset by a \$0.6 million, or 9.2%, increase in budgeted communications services taxes due to \$383,000 received for a retroactive adjustment to prior year revenues, along with an increase of \$195,000 in estimated receipts for the current year.
- \$0.2 million, or 0.6%, increase in budgeted property taxes due to final tax roll adjustments.

Final budgeted "transfers in" from other funds reflect a \$0.7 million, or 9.4%, increase from the original budget primarily due to:

- \$0.5 million of Special Programs balances from completed programs returned to the General Fund.
- \$0.2 million increase in the budgeted annual gas system dividend payment to the General Fund due to improved gas system profitability.

Final budgeted "transfers out" reflect a \$2.5 million, or 29%, increase from the original budget primarily due to the following transfers: \$1.9 million to the Special Programs special revenue fund for the retirement incentives program; \$200,000 to the Capital Improvements capital projects fund for Carpenter Complex clubhouse renovations; \$119,000 to the Special Programs special revenue fund for the homeless shelter program; and \$100,000 to the Capital Improvements capital projects fund for the Clearwater Golf Course clubhouse acquisition.

Total actual revenues for the General Fund for fiscal 2009 were \$1.0 million, or 0.9%, greater than final budgeted revenues. Contributing to this surplus of actual revenues versus final budgeted revenues was \$0.7 million surplus of investment earnings versus budgeted due to improved investment market conditions.

Actual fiscal 2009 actual expenditures for the General Fund were less than final budgeted expenditures by \$4.7 million, or 4.1%. This was due to budget savings across all City departments for fiscal 2009.

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, 2009, the City had investments in capital assets totaling \$642,240,783 (net of accumulated depreciation).

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

	Governmental Activities		Business-type Activities		Total	
	2009	2008	2009	2008	2009	2008
Land	\$ 79,291	\$ 71,018	\$ 31,312	\$ 29,187	\$ 110,603	\$ 100,205
Buildings	81,943	81,016	13,309	12,918	95,252	93,934
Improvements other than buildings	14,130	11,888	297,288	295,039	311,418	306,927
Machinery and equipment	20,680	22,659	2,772	3,126	23,452	25,785
Infrastructure	71,159	49,355	-	-	71,159	49,355
Construction in progress	13,509	31,055	16,848	16,863	30,357	47,918
Total	\$ 280,712	\$ 266,991	\$ 361,529	\$ 357,133	\$ 642,241	\$ 624,124

* Net of accumulated depreciation

Net capital assets for the City's *governmental activities* increased from \$267.0 million to \$280.7 million, reflecting an increase of \$13.7 million for the current fiscal year. Capital asset additions of \$26.5 million and transfers from business-type assets of \$2.2 million were offset by depreciation expense of \$14.5 million and net capital asset retirements totaling approximately \$0.6 million. Major fiscal 2009 governmental capital asset transactions included \$2.5 million in current year capitalized expenditures for infrastructure improvement to the Long Center, \$2.5 million in capital expenditures for the Royalty Theatre acquisition, \$2.3 million for improvements to the Carpenter Complex clubhouse, \$1.0 million for improvements to Station Square Park, \$0.8 million for the Bayfront Promenade, \$0.7 million of Beach Walk capital expenditures, and \$0.5 million of capital expenditures for the downtown boat slips.

Net capital assets for the City's *business-type activities* increased from \$357.1 million to \$361.5 million, reflecting an increase of \$4.4 million for the current fiscal year. Capital asset additions of \$23.9 million were offset by depreciation expense of \$17.2 million and net capital asset retirements and transfers totaling approximately \$2.3 million. Major fiscal 2009 business-type capital asset transactions included \$6.5 million for the downtown boat slips and \$1.3 million for Station Square parking.

Additional information on the City's capital assets can be found in Note III (C) on the notes to the financial statements.

Long-term debt

The City's total long-term debt increased from \$268.7 million to \$317.1 million, an increase of \$48.4 million or 18.0%. Long-term debt for governmental activities decreased by \$8.7 million, or 12.9%; while long-term debt for business-type activities increased by \$57.1 million or 28.4%. Key factors contributing to these changes included:

- The decrease in long-term debt for governmental activities is primarily due to a \$7.4 million, or 19.2%, 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 approximately \$110 million of water and sewer system revenue and revenue refunding bonds issued during fiscal 2009, partially offset by \$45.6 million of outstanding water and sewer bonds that were refunded, along with approximately \$9 million of scheduled bond principal payments.

The City's bonded debt as of September 30, 2009, 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 \$30.9 million while business-type activities totaled \$254.8 million.

The City's Charter limits indebtedness to twenty percent of the assessed valuation of non-exempt real estate. The current debt limitation is approximately \$1.9 billion, which is significantly in excess of the City's applicable indebtedness of approximately \$272 million at September 30, 2009.

Additional information on the City's long-term debt can be found in Note III (F) of the notes to the financial statements.

Economic Factors And Year 2010 Budgets and Rates

Factors considered in preparing the City of Clearwater's budget for fiscal year 2010 included:

- Passage of Amendment 1 to the Florida Constitution on January 29, 2008, providing property tax relief to the citizens of Florida. Related state mandates also limit the level at which the City can set the millage rate.
- A declining economy and real estate market resulting in further reductions in property tax values and revenues, along with sales tax, municipal revenue sharing, communications services tax, and building permit revenues.
- The unemployment rate for the Tampa Bay metropolitan area for September 2009 was 11.8%, an increase from the September 2008 rate of 7.1%. The national rate for September 2009 was 9.8% versus 6.2% for September 2008.
- Total taxable assessed values for the City of Clearwater decreased approximately 12.8% for fiscal 2010. The City's millage rate was increased by 9.1%, from 4.7254 to 5.1550 mills for fiscal 2010, reflecting a 7.19% decrease from the rolled-back rate of 5.5543 mills.
- A reduction of 79.8 full-time equivalent positions City-wide, including a reduction in General Fund employees of 86.2 FTE's, from 1,177.3 to 1,091.1, due to service level reductions and program consolidations.
- An increase of \$13.9 million in the actuarially required contribution to the Employees' Pension Plan, from \$10.0 million in fiscal 2009 to \$23.9 for fiscal 2010. \$5.2 million of this \$13.9 million increase will be funded from the fiscal 2010 budget across all funds, while the balance of \$8.7 million will be funded from the pension plan credit balance, which has a current balance of approximately \$15.3 million.
- A reduction in employee medical insurance costs of \$659,000, or 6%, from fiscal 2009 due to the decrease in employees from the prior year, while maintaining the same cost per employee as the prior year.
- Budgeted Water and Sewer utility revenues for 2010 reflect a 7% rate increase effective October 1, 2009, while fiscal 2010 budgeted Stormwater utility revenues reflect a 6% rate increase effective October 1, 2009.

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: City of Clearwater, Finance Department, 100 South Myrtle Avenue, Clearwater, Florida 33756-5520.