



# CITY OF CLEARWATER

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CITY MANAGER

March 28, 2016

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 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 (GAAS). Pursuant to these requirements we hereby issue the comprehensive annual financial report of the City of Clearwater for the fiscal year ended September 30, 2015.

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 LLP, 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, 2015, 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 unmodified opinion that the City's financial statements for the fiscal year ended September 30, 2015, 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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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, 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.

After five consecutive years of decline in City taxable property values, approximating 33 percent in total, we have now experienced three consecutive years of increases: 3.1%, 6.0% and 6.6% increases for January 1, 2013, 2014, and 2015 tax rolls, respectively. Additionally, the Tampa Bay metropolitan area experienced an improvement in the unemployment rate as it decreased from the September 1, 2014 rate of 5.9% to 5.0% as of September 30, 2015. The metro area rate of 5.0% compares favorably to a national rate of 5.1% and a state unemployment rate of 5.3% as of September 30, 2015. Local tourism continues to increase at record rates and contributes to optimism that the area's economic recovery is underway.

The City's Beach Walk development has contributed to significant economic redevelopment on the beach. The downtown area is well-poised for similar redevelopment with the completion of downtown streetscaping, the Clearwater Harbor Marina, and Capitol Theatre, along with construction underway on an apartment complex of 257 high-end units adjacent to downtown's Prospect Lake Park.

## **Long-term Financial Planning**

Financial planning continues to be of critical importance to the City in meeting the challenges of both the immediate and foreseeable future. Major projects undertaken by the City will continue to have long term financial implications for existing as well as future resources and revenues. The planning and decisions undertaken by the City are always evaluated in the context of the financial burden that will be placed on both current and prospective residents, as well as the potential economic and environmental impacts.

The economic downturn in recent years 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 in recent years. The City continues to strategically review the efficiency and effectiveness of service operations for potential cost savings via reengineering and/or outsourcing of services.

## **Relevant Financial Policies**

It is a policy of the City Council to maintain a General Fund reserve equal to eight and one-half percent (8.5%) of the subsequent year's budgeted expenditures 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. Additionally, Council policy requires that unrestricted fund balances of the enterprise funds be maintained at a level equivalent to the greater of three months of operation and maintenance expenses, or other reserve levels indicated in the current rate study for the enterprise fund.

## **Major Initiatives**

The City continues to proactively fund capital projects to support the City's five utility operations, which consist of Water and Sewer, Stormwater, Solid Waste, Recycling, and Gas Utility operations. A total of \$44.4 million of utility projects are budgeted for fiscal 2016 with \$216.0 million budgeted over the next six years. A major utility project in process is a \$29 million groundwater replenishment project that is currently in the design and permitting phase.

In the Spring of 2014 the City sponsored an Urban Land Institute (ULI) Advisory Services Panel to provide strategic advice about the revitalization of the downtown area. The ULI panel recommendations indicated the City needed to address three crucial topics: strategy, communication, and partnerships. During fiscal 2015 the City embarked on implementing high priority recommendations. Significant high priority items include, among others, creating a brand identity for the City, and activating the "Bluff" waterfront area and Coachman Park to encourage new commercial and residential uses and draw visitors and residents to the waterfront. The ULI panel recommendations and initiatives will continue to be a high priority for the City during fiscal 2016.

## 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, 2014. This was the 36<sup>th</sup> 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 2015 Budget document, the 29<sup>th</sup> 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. A special thank you goes to Monica Mitchell, Assistant Finance Director, for her leadership in completion of this report. Sincere appreciation is also extended to the City's external auditors, Cherry, Bekaert LLP, 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



Brian Jay Ravins  
Finance Director