



CITY OF TAMPA

December 17, 2004

To the Honorable Mayor, Members of City Council, and Citizens of the City of Tampa:

State law requires that all general-purpose local governments publish each fiscal year a complete set of financial statements presented in conformity with generally accepted accounting principles (GAAP) in the United States and audited in accordance with auditing standards generally accepted in the United States by a firm of licensed certified public accountants. Pursuant to that requirement, we hereby issue the comprehensive annual financial report of the City of Tampa for the fiscal year ended September 30, 2004.

This report consists of management's representations concerning the finances of the City of Tampa. 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 of Tampa has established a comprehensive internal control framework that is designed both to protect the City's assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of the City of Tampa's financial statements in conformity with GAAP. Because the cost of internal controls should not outweigh their benefits, the City of Tampa'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.

The City of Tampa's basic financial statements have been audited by KPMG LLP, a firm of licensed certified public accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements of the City of Tampa for the fiscal year ended September 30, 2004, 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, based upon the audit, that there was reasonable basis for rendering an unqualified opinion that the City of Tampa's financial statements for the fiscal year ended September 30, 2004, are fairly presented in conformity with GAAP. The independent auditor's report is presented as the first component of the financial section of this report.

The independent audit of the financial statements of the City of Tampa was part of a broader, 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 included in the Single Audit section of this report.

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

Profile of the Government

The City of Tampa, initially incorporated in 1855 with a second incorporation in 1887, is the largest city in Hillsborough County, is the county seat, and is the third most populous city in Florida. It is located on the west coast of Florida, approximately 200 miles northwest of Miami, 180 miles southwest of Jacksonville, and 20 miles northeast of St. Petersburg. The City of Tampa currently occupies 116 square miles and serves a population of 321,490. The City of Tampa is empowered to levy a property tax on real property located within its boundaries. It is empowered by state statute to extend its corporate limits by annexation, which occurs periodically when deemed appropriate by the city council.

The City of Tampa has operated under a mayor-council form of government since 1945. Legislative authority is vested in an elected city council consisting of seven members. The city council is responsible, among other things, for passing ordinances, adopting the budget, appointing committees, and approving the hiring of department head nominees submitted by the mayor. The mayor is responsible for carrying out the policies and ordinances of the city council, for overseeing the day-to-day operations of the City, for drafting the budget and submitting it to city council for approval, and for nominating department heads for hiring approval by the city council. The mayor and all seven city council members are elected every four years with a two term limit. The mayor and three city council members are elected at large and four city council members are elected from individual districts within the city.

The City of Tampa provides a full range of services, including police and fire protection; the construction of highways, streets, and other infrastructure; recreation and park facilities; convention facilities; and water, wastewater, solid waste, and parking operations. The City of Tampa is also financially responsible for the legally separate The Florida Aquarium, Inc. and The Tampa Historic Streetcar, Inc., which are reported separately in the City of Tampa's basic financial statements. The city is also financially responsible for the Community Redevelopment Agency whose operations are considered part of the city's so their data is combined with data of the city. More information on these entities can be found in Note I.A. in the notes to the financial statements.

The annual budget serves as the foundation for the City of Tampa's financial planning and control. All departments of the City of Tampa are required to submit requests for appropriation to the mayor. The mayor uses these requests as the starting point for developing the proposed budget. The mayor then presents the proposed budget to the city council for review prior to September 1. The city council is required to hold two public hearings on the proposed budget and to adopt a final budget no later than September 30, the close of the City of Tampa's fiscal year. The appropriated budget is prepared by fund and department (e.g., police). Department heads may make transfers within a department. Transfers of appropriations between departments, however, require the special approval of the city council. Budget-to-actual comparisons are provided in this report for each individual governmental fund for which an appropriated annual budget has been adopted. For the general fund and the utility tax special revenue fund, this comparison is presented on pages 30-33 as part of the basic financial statements for the governmental funds. For governmental funds, other than the general fund and utility tax special revenue fund, with appropriated annual budgets, this comparison is presented in the governmental fund subsection of this report, which starts on page 74.

Factors Affecting Financial Condition

The information presented in the financial statements is perhaps best understood when it is considered from the broader perspective of the specific environment within which the City of Tampa operates.

Local economy. The City of Tampa currently enjoys a favorable economic environment and local indicators point to continued stability. The region has a diverse economic base that includes tourism, construction, finance, education, health care, technology, and the Port of Tampa. Major industries with headquarters or divisions located within the city's boundaries or in close proximity include telephone and electric service companies, computer hardware and electrical controls manufacturers, tourist attractions, fertilizer manufacturers, MacDill Air Force Base, and the Port of Tampa. Institutions of higher learning located in the city include the University of South Florida, the University of Tampa, Hillsborough Community College, and the Stetson University College of Law.

Property tax valuation and revenue increases over the previous year were partially offset by a reduction in communications services tax revenue. The area's unemployment rate is currently 3.5%, significantly better than the national rate of 5.4% and the statewide rate of 4.9%. The region's growth and economic diversity are expected to be the basis for continued health of the local economy in coming years.

Long-term financial planning. Currently under way in the South Tampa area, the STAR (South Tampa Area Reclaimed) will distribute highly treated wastewater from the Advanced Wastewater Treatment Plant to residents and businesses in parts of South Tampa where it can be used to irrigate lawns and landscaping. Phase one of this \$28 million project began in 2002. During 2004 approximately 90% of the project became operational and the city anticipates completion in 2005. Funded by the United States Environmental Protection Agency, the Southwest Florida Water Management District, and by rate charges based on usage, phase one will serve more than 5,000 customers and is expected to save 3.2 million gallons of potable water each day. Future projects will expand STAR to additional areas of Tampa and could save an additional 21 million gallons per day.

As an incentive for private development in four areas of the City, four new Community Redevelopment Areas (CRA's) were established in 2004 (East Tampa, Ybor II, Drew Park, and the Channel District). Each of these areas was established as a Tax Increment Finance (TIF) district. These designations will remain in place for up to 30 years.

At the beginning of 2004 the City instituted its "Strategic Planning Process". The City is confident this process will be the cornerstone for the City's delivery of services and operations. Before we can allocate our available resources, we must first understand the needs of our community and develop a vision for our future. By looking ahead and determining our needs, we will establish a vision for what level of service we will provide, along with an understanding of what resources will be necessary to provide them.

Cash management policies and practices. Cash temporarily idle during the year was invested in certificates of deposit, obligations of the U.S. Treasury, repurchase agreements, the State of Florida Board of Administration investment pool, and in the case of the two pension funds, corporate equity and debt securities, municipal bonds, money market funds, and real estate. The average maturity of pooled cash ranges from 149 days to 4.9 years with an average maturity of 2 years. The average yield on investments was 3.2% for pooled cash, 14.1% for the General Employees Retirement Fund, and 15.9% for the Firefighters and Police Officers Pension Fund. The pension fund results are largely due to the performance of the equity markets during the past year. Investment income includes appreciation in the fair value of investments. Increases and decreases in fair value during the current year, however, do not necessarily represent trends that will continue; nor is it always possible to realize such amounts, especially in the case of temporary changes in the fair value of investments that the government intends to hold to maturity.

Risk management. Commercial insurance is carried for damage to buildings with a deductible that varies with the cause of loss. The city is self-insured for workers compensation, general liability, vehicular damage and property damage claims. Additional information regarding the City of Tampa's risk management activity can be found in Note V.A. of the notes to the financial statements.

Pension and other postemployment benefits. The city sponsors two single-employer defined benefit pension plans for its employees, the Police Officers and Firefighters Pension Fund for police officers and firefighters, and the General Employees Retirement Fund for all other full-time employees. Each year an actuary engaged by each pension plan calculates the amount of the annual contribution that the City of Tampa must make to the pension plans to ensure that the plans will be able to fully meet their obligations to retired employees on a timely basis. The City of Tampa fully funds each year's annual required contribution to the pension plans as determined by the actuaries. As a result, the two plans are funded at levels of 85 percent and 100 percent respectively, of the present value of the projected benefits liability as of September 30, 2004.

The City of Tampa also provides postretirement healthcare benefits for retirees and their dependents. As of the end of the current fiscal year there were 955 retired employees receiving these benefits, which are financed on a pay-as-you-go basis. GAAP currently does not require governments to report a liability in the financial statements in connection with the employer's obligation to provide these benefits. The

Governmental Accounting Standards Board (GASB) issued statement number 45 that requires the City of Tampa to report a liability for these benefits beginning in fiscal year 2008.

Additional information on the City of Tampa's pension arrangements and postemployment benefits can be found in Notes V.C-D in the notes to the financial statements.

Awards and Acknowledgements

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Tampa for its comprehensive annual financial report for the fiscal year ended September 30, 2003. This was the sixteenth consecutive year that the City of Tampa has received this prestigious award. In order to be awarded a Certificate of Achievement, the city published an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principals and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe our current comprehensive annual financial report 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 also received the GFOA's Award for Distinguished Budget Presentation for its annual budget for the fiscal year beginning October 1, 2003. In order to qualify for the Distinguished Budget Presentation Award, 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.

Included in the City's Comprehensive Annual Financial Report is a Schedule of Revenues, Expenditures and Changes in Fund Balance for the Community Redevelopment Agency of Tampa.

Preparation of this report would not have been possible without the dedicated and efficient service of the entire staff of the Revenue and Finance Department. We would like to express our appreciation to all members of the department who assisted and contributed to the preparation of this report. Credit must also be given to the mayor and city council for their unfailing support for maintaining the highest standards of professionalism in the management of the City of Tampa's finances.

Respectfully submitted,



Bonnie M. Wise
Director of Finance