INTRODUCTORY SECTION

This section contains the following subsections

- **Letter of Transmittal**
- **Certificate of Achievement for Excellence in Financial Reporting**
- **Organizational Chart**
- **Principal City Officials**

MISSION STATEMENT

"COMMITTED TO PUTTING CITIZENS FIRST WITH SERVICE EXCELLENCE"

March 15, 2004

Honorable Mayor and
Members of the City Commission, and
Citizens of the City of Leesburg, Florida

The Comprehensive Annual Financial Report (CAFR) of the City of Leesburg, Florida for the fiscal year ended September 30, 2003 is respectfully submitted. In addition to meeting legal requirements of the City Charter, Florida Statutes, and the Rules of the Auditor General of the State of Florida, the report continues the City's tradition of full financial disclosure.

Responsibility for the accuracy of the data and the completeness and fairness of presentation, including all disclosures, rests with the City. This report was compiled by the Accounting Division of the Finance Department, and represents the official report of the City's financial position and operations to the citizens, City Commission, management, rating agencies and other interested parties. We believe the data as presented is accurate in all material respects; that it is presented in a manner designed to fairly set forth the financial activity of the various funds; and that all disclosures necessary to enable the reader to gain a complete understanding of the City's financial activities have been included.

With the presentation of the CAFR for the fiscal year ended September 30, 2003, the City is implementing *Government Accounting Standards Board (GASB) Statement No. 34, Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments* which represents a dramatic change in governmental financial reporting. The format and purpose of these changes are addressed in the Management Discussion and Analysis (See page 3). Additionally, the notes to the financial statements discuss the changes (See Note 1) and explain the effects of these changes.

To provide a reasonable basis for making these representations, the City has established an internal control structure 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 generally accepted accounting principles (GAAP). This internal control framework has been designed to provide reasonable, but not absolute, assurance that the financial statements will be free from material misstatement. The concept of reasonable assurance recognizes that: (1) the cost of a control should not exceed the benefits likely to be derived; and (2) the valuation of costs and benefits requires estimates and judgments by management. We believe that the City's internal accounting controls adequately safeguard assets and provide reasonable assurance that this financial report is complete and reliable in all material respects.

Pursuant to Florida Statutes, Chapter 11.45 and Chapter 10.550 of the Rules of the Auditor General of the State of Florida, an audit of the annual financial statements of the City of Leesburg has been completed by Purvis Gray and Company, a firm of independent certified public accountants, whose opinion is included as the first component of the financial section of this report. The goal of the independent audit was to provide reasonable assurance that the financial statements 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 a reasonable basis for rendering an unqualified opinion that the City of Leesburg's financial statements for the fiscal year ended September 30, 2003, are fairly presented in conformity with GAAP.

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 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 awards. These reports are available in the City's separately issued Single Audit Report.

GAAP require 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 Leesburg's MD&A can be found immediately following the report of the independent auditors.

Profile of the Government

Leesburg was founded and first settled in 1857 by Evander H. Lee, a native of Sumter, South Carolina. The City received its name as a result of shipping directions given by Calvin Lee, Evander's brother, during a merchandising trip to New York City in 1866. By a citizen vote of 23 to 2, the City of Leesburg was incorporated on July 12, 1875. The City was originally a part of Sumter County and served as the County seat until 1882 when the Florida Legislature created Lake County. The City has been a part of Lake County since then and is the oldest and highest populated of the fourteen (14) incorporated municipalities in Lake County, which include Astatula, Clermont, Eustis, Fruitland Park, Groveland, Howey-in-the-Hills, Lady Lake, Mascotte, Minneola, Montverde, Mount Dora, Tavares and Umatilla.

The City of Leesburg is situated between Lake Harris and Lake Griffin and continues south on US Highway 27 to the intersection of County Road 48. The City occupies a land area of 29.5 square miles and has a population of 16,290. The City of Leesburg is located in north central Florida midway between the Gulf of Mexico and the Atlantic Ocean, approximately 200 miles southeast of the State Capitol, Tallahassee, 80 miles northeast of Tampa, 40 miles northwest of Orlando and 70 miles southwest of Daytona Beach. The City is bisected by State Road 44, US Highway 27, and US Highway 441.

The City of Leesburg is known for its scenic beauty, relaxed lifestyle, recreational facilities, temperate climate, extensive waterways, and affordable housing. Waterfront living is a way of life with 1,400 beautiful lakes located in Lake County. Leesburg's beautiful 110-acre Venetian Gardens Park, boasts amenities such as a public swimming pool with bath house, community building, baseball field, volleyball courts, picnic tables, park benches, Kid's Korner playground, and the Venetian Cove Marina.

Leesburg Regional Airport is a 750-acre general aviation airport that houses fixed wing aircraft and helicopters. The airport is experiencing significant growth in corporate jet type aircraft. Businesses on airport property employ over 350 people. The airport features a 5,000 foot main runway and a 4,950 foot secondary runway, 3 non-precision instrument approaches for landing, tie downs, hangar facilities, flight schools, maintenance shops, restaurants, and a motel within ½ mile. The Fixed Base Operator offers fuel sales, both Jet A and 100LL AVGAS, car rental, and a courtesy vehicle. The City has

committed to an aggressive improvement program and has obtained grant funding for a tower, fire station and line service building.

The City of Leesburg is a political subdivision of the State of Florida. As such, it is governed by and derives its operating authority from the constitution and laws of the State of Florida. The City is empowered to levy a property tax on both real and personal properties located within its boundaries. It also is empowered by state statute to extend its corporate limits by annexation, which occurs periodically when deemed appropriate by the governing body.

The City operates under a commission/manager form of government, with a governing body consisting of five City Commissioners, elected to staggered four-year terms. Three of the commission members must meet district residency requirements. The remaining two commissioners are elected at-large without a district residency requirement. One of the Commissioners is selected by the other four as Mayor on an annual basis. The City Commission is responsible for, among other things, passing ordinances and resolutions, adopting the budget, appointing committees, and hiring both the City Manager and City Attorney. The City Manager is responsible for carrying out the policies and ordinances adopted by the City Commission for overseeing day-to-day operations of the City, appointing the department heads and approving hiring of all employees.

The City provides a traditional mix of governmental services including police and fire protection, storm water drainage, the construction and maintenance of streets and infrastructure, library, recreational activities, cultural events, planning, zoning, housing, and administrative services. In addition to general government activities, the City also provides a full range of utility services, including electric, natural gas, solid waste, communication services (which includes internet and fiber optic cable services), water and wastewater treatment.

The annual budget serves as the foundation for the City's financial planning and control. Department heads are required to submit requests for appropriations to the City Manager, who uses these requests as the starting point for developing a proposed budget. The City Manager is required by the City Charter to keep the City Commission fully advised as to the financial condition and needs of the City and to submit an annual budget for its consideration. The City Commission is required to hold public hearings on the proposed budget and to adopt a final budget by September 30, the close of the City's fiscal year. The appropriated budget is prepared by fund, function and department.

The City's adopted budget policy establishes budgetary control (i.e. the level at which expenditures cannot exceed the appropriated amount) at the fund level. Budgets for all governmental fund types are adopted on a basis consistent with GAAP. Department heads may make transfers of appropriations within a category from one division to another in their respective department, and transfers of appropriation between departments can be approved by the City Manager. The objective of these budgetary controls is to ensure compliance with legal provisions embodied in the annual budget adopted by the City Commission. 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, this comparison is presented on page 63 as part of the basic financial statements for the governmental funds. For other governmental funds with appropriated annual budgets, this comparison is presented in the governmental fund subsection of this report, which starts on page 70.

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 Leesburg operates.

Local Economy. The City of Leesburg currently enjoys a favorable economic environment and local indicators point to continued stability. The City and Lake County as a whole has transitioned from its agricultural roots to a growth driven economy that is heavily centered in real estate, retail, personal services, and healthcare. Leesburg's top private sector employer is Leesburg Regional Medical Center, boasting a labor force of 1,800. Other companies such as Sprint, Dura Stress, Inc., and

Cutrale Citrus Juice, Inc., account for 5 percent of all employment in Lake County. Employment across virtually all industry sectors has risen significantly since 1990, with the notable exception of the manufacturing sector, which has fallen slightly over the past twelve years.

Many higher wage industries such as finance, insurance, and real estate, construction and wholesale trade are growing at higher rates than the lower wages retail sector, which provides a positive indicator that the wage structure of Leesburg and Lake County will continue to improve over time. Lake County's December 2003 unemployment rate stands at 3.7 percent. This rate is lower than the state average (4.4 percent) or any of the other three counties within the Orlando Metropolitan Statistical area. While the economy is slightly "soft" across Florida at present, Lake's and Leesburg increasingly diversified economic base positions it well in terms of its long-range strength relative to its neighbors and history.

Leesburg presently has an aggregate commercial/retail inventory of 1,382,267 square feet of department store, shopping center, convenience store, gas station, and restaurant space. Many of these shopping venues serve the increasing convenience and general merchandise shopping demands of Lake County residents as well as Leesburg. Leesburg's retail shopping center inventory is largely concentrated in three geographic nodes. These include the US Highway 27/County Road 48, the US Highway 441 Lake Square Mall area, and the US Highway 27/468 area.

The City is home to the largest distributor of GE appliances to contractors in the State of Florida. The City's central business district is expected to maintain its current 85% occupancy rate with a variety of stores, specialty shops, and commercial businesses. Meanwhile, the community has experienced an increase in residential development for seniors.

The Leesburg area is positioned at a crossroads of geographic expansion as the retirement market continues to push from the north while family households sustain the dominant market segment to the south. The factors that will influence future growth in this area are not dissimilar to the factors that are currently influencing growth in the central east of Florida. This area has embraced both market segments, and as a result, has become one of the emerging economic submarkets in all of Central Florida. Recognizing these factors, and tempering them with the reality that Leesburg faces a geographic challenge when compared to other adjacent areas in attracting employees; it is projected that the Leesburg submarket will capture the following shares of County Growth to 2025:

- Population and Housing: 1/3 of County growth
- Agriculture: 10%
- Mining: 43%
- Construction: 31%
- Manufacturing: 44%
- Transportation & Commuting: 39%
- Wholesale Trade: 42%
- Retail Trade: 30%
- Finance, Insurance etc: 39%
- Services: 45%
- Government: Wholesale Trade: 12%
- **Total: 36 % of County Growth**

Long-term financial planning. One of the 10 goals established by the City Commission shows their commitment to financial planning. The goal is stated as: "Financial Stability - Develop and implement policies which ensure the City's long term financial stability." The City Commission adopted several policies to demonstrated their commitment.

The utility departments are working on a 20-year business plan, and the 10-year Capital Improvement Plan which was adopted March 10, 2003 was the first step to a city-wide work plan. Utility improvements and replacements will be scheduled and completed based on the street paving work

plan. The City typically extends services beyond the current available infrastructure based on a calculation to recoup the initial investment over a 5-7 year period. Additional long range planning for the following utilities is listed below:

- **Electric** - The department consistently evaluates the costs of outsourcing specific activities. There is a plan to convert all overhead utility lines within the City to underground in 30 years to avoid future safety code compliance issues associated with poles and provide other savings.

- **Gas** – With the volatility of gas prices being a local concern, the City initiated pre-purchases of its winter natural gas supply to hedge price spikes that were seen the previous two winters.

- **Water reuse** – Plans to construct reuse transmission lines to position the facilities for delivery of public access reuse water to existing customers will be used with the new reuse system plant.

- **Wastewater** - Improvements to the Canal Street Treatment plant will rehabilitate and modernize equipment and processes to allow for production of public access reuse water from this facility.

- **Communications -** The City has expanded the business by marketing customers for fiber optic cable and internet services. Because of lower internet rates, and the offering of broadband telecommunications services, the City continued to extend fiber optic connections to customers.

- **Solid Waste** - The department will place a city owned dumpster at all commercial accounts within two (2) years. In addition, the department created roll-off service and franchise fee for all roll-off containers and compactors serviced by private haulers.

Information and technology is an important part of the City's operations, thus long term financial planning includes preparing to replace computers as they become obsolete. The MIS department owns or leases all computer equipment, and departments are charged for equipment based on a 3-year payback period. The fleet maintenance division is responsible for all vehicle repairs and purchases, and will do more planning for future vehicle purchases.

Cash management policies and practices. The City administers a cash management and investment program that seeks to maximize the amount of cash available to meet daily cash requirements and to obtain the highest possible yields consistent with restraints imposed by Florida Statutes. The Finance Director invests and disburses funds on behalf of the City Commission as required by law and applicable management directives. During fiscal year 1994-95, the City Commission adopted the City's first comprehensive investment policy. These policies were amended during fiscal year 1998-99 to incorporate basic internal controls over the investment function.

Cash temporarily idle during the year was invested in demand deposits, in overnight repurchase agreements, in the Local Government Surplus Funds Trust Fund administered by the State Board of Administration, in government securities authorized by the investment policy, money market funds and U.S. Treasury Obligations. Funds deposited in local banks and savings and loan associations were secured by pledges of approved collateral securities by the participating institutions. To ensure the most competitive rates on investments, the cash resources of the individual funds are combined to form a pool of cash and investments. For the cash and investment pool, the average monthly investment portfolio was $58,774,089 in 2003. The average yield on investments was 2.48 percent. The City's investment performance compares favorably to an average rate of 1.53 percent for the State Investment Pool for the same period. The maturity of securities held at September 30, 2003 range from 3 ½ to 5 years, with an average maturity of 4.46 years. Investment income includes appreciation in the fair value of investments during the current year, which may not represent trends that will continue. The City earned interest revenue of $1,448,833 on all of its investments for the year ended September 30, 2003. The average yield on investments was 12.4% for the pension trust funds.

Risk management. Risk management is the process of managing the City's activities in order to minimize the potential adverse effects of certain types of losses. During the ordinary course of its

operations, the City is exposed to various risks of losses. The City maintains commercial insurance coverage in amounts management feels is adequate to protect and safeguard the assets of the City. In the opinion of the City's management and legal counsel, legal claims and litigation are not anticipated to have a material impact on the financial position of the City.

The City maintains a self insurance risk management program for workers' compensation and healthcare coverage for employees and retirees. The City accumulates resources in the internal service funds to meet potential losses associated with this risk. Various techniques have been implemented to minimize accident related losses. Additional information on the City's risk management can be found in Note 13 of the notes to the financial statements. The healthcare self-insurance program was established October 1, 1984 for the payment of employee health and medical claims. The program provides for the payment of City and employee contributions into a self-insurance fund, which is managed by the City and a third party administrator, and a local insurance agent. The City's specific stop loss coverage provides that claims in excess of $75,000, up to a maximum of $925,000 per covered individual per year, are paid by the reinsurer. The aggregate stop loss reinsurance policy indemnifies the City if total claims paid during the year exceed the aggregate attachment point. The workers' compensation program provides for City contributions into a self-insurance fund, which is managed by the City and an independent third party administrator. Employee claims up to $500,000 per occurrence are paid from the assets of the self-insurance fund, and excess amounts are paid from a reinsurance policy purchased by the City.

Pension and other postemployment benefits. The City utilizes three pension trust funds to account for three defined benefit pension plans operated by the City: the General Employees' Pension Fund, the Municipal Police Officers' Retirement Trust Fund and the Municipal Firemen's Retirement Trust Fund. All investments are managed by outside fund managers.

Every three years, an independent actuary engaged by the pension plan calculates the amount of the annual contribution the City must make to the pension plan to ensure that the plan will be able to fully meet its obligations to retired employees on a timely basis. As a matter of policy, the City funds the Fire and General pension plans each year in an amount equal to the percentage of covered payroll as determined by the actuary for the General Employees Pension Plan. Sworn police officers and firefighters are covered by a defined benefit plan established pursuant to Chapters 175 and 185, Florida Statutes. The fire employees make a 6.5% contribution and the police officers contribute 7.65% to their respective plans, and the State contributes funds collected from insurance premium excise taxes. Therefore, the firefighters received pension payments from one plan, while the police officers are part of two pension plans.

The City of Leesburg also provides postretirement health care benefits for retirees and their dependents. At of the end of the current fiscal year, there were 64 retired employees receiving these benefits, which are financed on a pay-as-you-go basis. GAAP do not require governments to report a liability in the financial statements in connection with an employer's obligation to provide these benefits.

Additional information on the City of Leesburg's pension arrangements and post employment benefits can be found in Notes 12 and 17 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 Leesburg for its comprehensive annual financial report for the fiscal year ended September 30, 2002. This was the thirteenth consecutive year (fiscal years ended 1990-2002) that the City has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a governmental unit must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles 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 of Leesburg also received the GFOA's Distinguished Budget Presentation Award for its annual budget document for fiscal year 2002-03. This was the fifth consecutive year the City received this award. 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, as a financial document, as an operations guide, and as a communications device.

The preparation of this report on a timely basis was made possible through the efficient, dedicated and professional efforts of the entire staff of the Finance Department. Deputy Finance Director Diane Reichard deserves special recognition for the guidance, expertise, and diligence she provided throughout the report preparation process. The significant amount of year-end closing procedures required prior to the audit could not have been accomplished without members of the department who made personal sacrifices. Other City departments, although not extensively involved in year –

end audit activities, contributed significantly by ensuring the accuracy and integrity of accounting information compiled throughout the year. Credit must also be given to the mayor and the governing body for their unfailing support for maintaining the highest standards of professionalism in the management of the City of Leesburg's finances.

We believe that this report clearly illustrates the financial position of the City of Leesburg and wish to thank you for your support and commitment to maintaining the financial integrity of the City.

Respectfully submitted,

Ron Stock
City Manager

William Pfeilsticker
Finance Director

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Leesburg, Florida

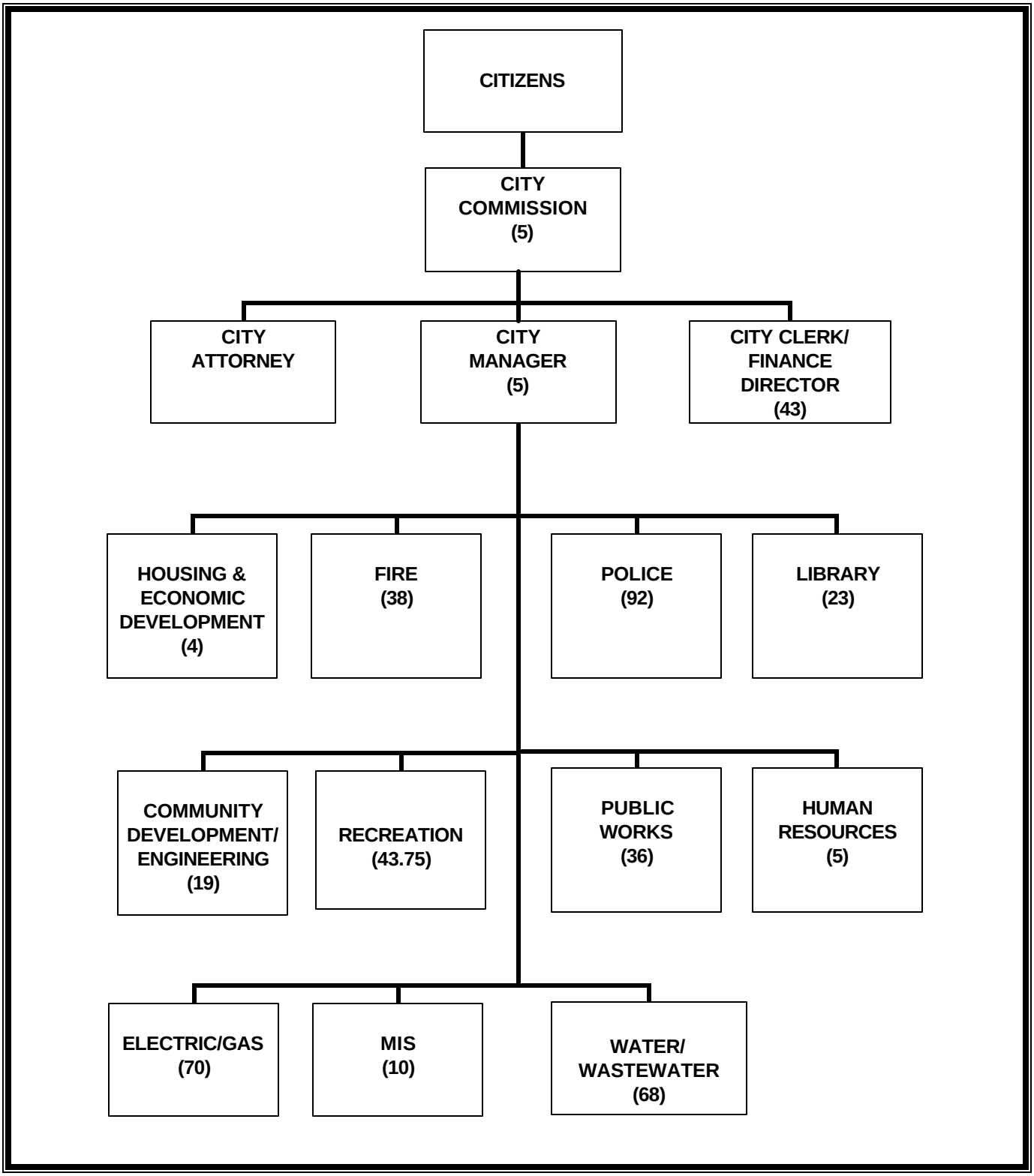
For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
September 30, 2002

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.

President

Executive Director

City of Leesburg, Florida
Organizational Chart



- **NUMBERS REFLECT FULL TIME EQUIVALENT EMPLOYEES IN RESPECTIVE DEPARTMENTS**

CITY OF LEESBURG, FLORIDA
PRINCIPAL CITY OFFICIALS
SEPTEMBER 30, 2003

CITY COMMISSION

David L. Connelly	Seat Two, District Two	Mayor
David Knowles	Seat Five, At-Large	Mayor, Pro-Tem
C. Robert Lovell	Seat Four, At-Large	Commissioner
Ben Perry	Seat One, District One	Commissioner
Lewis Puckett	Seat Three, District Three	Commissioner

Ron Stock	Fred A. Morrison
City Manager	McLin & Burnsed P.A.
	City Attorney
William Pfeilsticker	Purvis Gray and Company
Finance Director	City Auditors

Robert Johnson	Deputy City Manager
Jakki Cunningham Perry	Human Resources/Safety Director
Stan Carter	Management Information Systems Director
H. Charles Idell, Jr.	Police Chief
Dennis M. Sargent	Fire Chief
Jim Richards	Director of Public Works
Laura McElhanon	Community Development Director
Ken Thomas	Housing & Economic Development Director
Barbara J. Morse	Library Director
Yvette E. Hartsfield	Recreation & Parks Director
Lloyd Shank	Director of Electric and Gas
Ray Sharp	Director of Environmental Services
Diane Reichard, CPA, CGFO	Deputy Finance Director