

Management's Discussion and Analysis

As management of the City of Cedar Rapids, Iowa, we offer readers of the City of Cedar Rapids' financial statements this narrative overview and analysis of the financial statements of the City of Cedar Rapids for the fiscal year ended June 30, 2002. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, which can be found on pages 3-12 of this report. Professional standards require the inclusion of certain comparative information in the Management's Discussion and Analysis (MD&A). However, in the year of implementation, certain omissions are allowed. Subsequent MD&A's will include all required information.

Financial Highlights

- The assets of the City of Cedar Rapids exceeded its liabilities at the close of June 30, 2002, by \$508.2 million (net assets). Of this amount, \$163.9 million (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.
- The government's total assets increased by \$22.5 million.
- At the close of the current fiscal year, the City of Cedar Rapids' governmental funds reported combined ending fund balances of \$95.8 million, an increase of 1.9 percent as compared to the prior fiscal year.
- At the end of the current fiscal year, unreserved fund balance for the general fund was \$25.3 million, or 39.3 percent of the total general fund expenditures.
- Total debt increased by \$25.4 million (12 percent) during the current fiscal year. The City issued \$40.8 million of new bonds and retired \$15.4 million of existing bonds.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the City of Cedar Rapids' basic financial statements. The City of Cedar Rapids' 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 is significantly different than previous fiscal years due to the City's reporting compliance with Governmental Accounting Standards Board Statement No. 34. Besides the Management's Discussion and Analysis, the report consists of government-wide statements, fund financial statements, notes to the financial statements, combining schedules of non-major funds and supplementary information. The first several statements are highly condensed and present a government-wide view of the City's finances. The governmental activities of the City of Cedar Rapids include general government, police and fire protection, streets and public buildings operation and maintenance, and parks and recreation oriented activities. The major business-type activities of the City include a parking system, water and wastewater treatment facilities, and a sanitary sewer system. Included within others are a ground transportation system, solid waste management collection, golf courses, an ice arena, a theatre and an entertainment and convention facility. The City's two component units, The Eastern Iowa Airport and Bluestem, a solid waste agency, are also included. Financial information for these component units is reported separately from the financial information presented for the primary government itself.

Government-wide Financial Statements

The government-wide financial statements include the Statement of Net Assets. The Statement of Net Assets presents information on all of the City of Cedar Rapids' 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 of whether the financial position of the City is improving or deteriorating. For the first time, government activities reflect capital assets including infrastructure and long-term liabilities. Business activities have long reported capital assets and long term liabilities.

The Statement of Activities is also included in the government-wide financial statements. The focus of the Statement of Activities is to show how the government's assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave). The government-wide statements include the Statement of Net Assets and the Statement of Activities and can be found on pages 26-27 of this report.

Statement of Net Assets for the Fiscal Year Ended June 30, 2002

Because this is the first year to report governmental activities on the new standard, comparison to the prior fiscal year is not possible. In subsequent years, this section will discuss and analyze significant differences. A condensed version of the Statement of Net Assets as of June 30, 2002 follows:

Table 1
Net Assets at Year-end
(in millions)

	Governmental Activities	Business-type Activities	Total Government
Cash and investments	\$193.7	\$ 21.2	\$214.9
Other Assets	115.1	81.9	197.0
Capital assets	252.8	287.5	540.3
Total assets	561.6	390.6	952.2
Other liabilities	187.4	25.2	212.6
Noncurrent liabilities	103.3	128.0	231.3
Total liabilities	290.7	153.3	444.0
Net assets:			
Invested in capital assets, net of debt	153.7	153.0	306.7
Restricted	11.1	26.6	37.7
Unrestricted (deficit)	106.1	57.8	163.9
Total net assets	\$270.9	\$237.3	\$508.2

Governmental Activities

Net assets increased mainly due to improvements other than buildings increasing \$25.9 million for fiscal year 2002. The majority of the increase is a result of street construction, swimming pool construction, and stadium construction.

Business-Type Activities

Total assets increased by seven percent for fiscal year 2002. The increase was due to the City's Ice Arena being added during this fiscal year. In addition, Water and Water Pollution Control both had large capital additions for the fiscal year ended June 30, 2002.

Statement of Activities for the Fiscal Year Ended June 30, 2002:

As with the preceding statement, this is the first year to report governmental activities on the new standard and comparison to the prior fiscal year is not possible. In subsequent years, this section will discuss and analyze significant differences. A summary version of the the Statement of Activities follows:

Table 2
Governmental and Proprietary Activities
For Fiscal Year Ending June 30, 2002
(in millions)

	Governmental Activities	Business-type Activities	Total
Revenues			
Charges for services	\$ 11.2	\$ 52.9	\$ 64.1
Operating grants and contributions	7.4	1.9	9.3
Capital grants and contributions	14.7	2.6	17.3
General revenues:			
Property taxes	57.6	2.8	60.4
Other taxes	5.6	-	5.6
Franchise taxes	1.2	-	1.2
Road use tax	9.7	-	9.7
State replacement tax	2.4	-	2.4
Investment income	7.3	4.7	12.0
Gain on sale of capital assets	0.2	-	0.2
Total revenues	<u>117.3</u>	<u>64.9</u>	<u>182.2</u>
Expenses			
Community protection	30.2	-	30.2
Human development	13.9	-	13.9
Home and community environment	29.7	-	29.7
Policy and administration	16.3	-	16.3
Interest on long-term debt	5.5	-	5.5
Water	-	17.2	17.2
Water pollution control	-	19.2	19.2
Sanitary sewer	-	4.6	4.6
Parking system	-	3.4	3.4
Ground transportation system	-	7.1	7.1
Solid waste management	-	5.7	5.7
Golf	-	2.6	2.6
U.S. cellular center	-	2.8	2.8
Paramount theatre	-	0.9	0.9
Ice arena	-	0.6	0.6
Total expenses	<u>95.6</u>	<u>64.1</u>	<u>159.7</u>
Transfers	<u>(3.6)</u>	<u>3.6</u>	<u>-</u>
Changes in net assets	18.1	4.4	22.5
Beginning net assets	252.8	232.9	485.7
Ending net assets	<u>\$ 270.9</u>	<u>\$ 237.3</u>	<u>\$ 508.2</u>

Governmental Activities

Charges for services make up ten percent of governmental revenues. Operating and capital grants, primarily due to street projects, make up another nineteen percent of governmental revenues. The remaining revenue comes from taxes, primarily property taxes, and interest revenue.

Business-type Activities

As expected, charges for services is the primary revenue source for business-type activities. Water fees, wastewater fees, and sanitary sewer charges are the primary charges for services that make up this eighty-one percent of total revenues. Investment income accounts for an additional seven percent of total revenues.

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 City, like other state and local governments, uses fund accounting to insure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental Funds

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on 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 can better understand the long-term impact of the City'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 of Cedar Rapids maintains fifteen individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balance for the General fund, Infrastructure Construction fund, and Other Construction fund, which are considered to be major funds. Data from the other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements elsewhere in the report. The basic governmental fund financial statements can be found on pages 29-31.

Proprietary Funds

The City of Cedar Rapids 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 its water, waste water pollution control, sanitary sewer, parking system, and others. Internal service funds are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City of Cedar Rapids uses internal service funds to account for its risk management functions, its joint communications, and its public works building

function. Because all of these services predominately benefit governmental rather than business type functions, they have been included within the governmental activities in the government- wide financial statements.

Proprietary funds provide the same type of information as government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Water, Water Pollution Control, Sanitary Sewer, and Parking System as these are considered major funds of the City. Data from the other six enterprise funds are combined into a single aggregate presentation. Individual fund data for each of the non-major enterprise funds is provided in the form of combining statements elsewhere in this report. All Internal Service funds are combined into a single aggregate presentation in the proprietary fund financial statements. Individual fund data for internal service funds is provided in the form of combining statements elsewhere in this report. The basic proprietary financial statements can be found on pages 35-40 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 on the government-wide financial statements because the resources of those funds are not available to support the City of Cedar Rapids' own programs. The accounting used for fiduciary funds is much like that used for proprietary funds. The basic fiduciary funds financial statements can be found on pages 41-42 of this report.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 43-68 of this report.

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 obligation to provide pension benefits to some of its water department employees. Required supplementary information can be found on page 69 of this report.

The combining statements referred to earlier in connection with non-major governmental, non-major enterprise funds, and internal service funds are presented immediately following the required supplementary information on the water pension. Combining and individual fund statements and schedules can be found on pages 71-83 of this report.

Budgetary Highlights – General Fund

The City had one budget amendment during the fiscal year that is our common practice. This amendment increased the overall General Fund budget by \$3.0 million to a total of \$68.5 million. This represented a 4.6 % increase. The major increase in was due to the reallocation of General fund carryover funds both operating and capital from the preceding fiscal year.

Capital Assets and Debt Administration

Capital Assets

As of June 30, 2002, the City had invested \$540.3 million in capital assets as are reflected in the following table. This investment includes land, buildings, improvements, machinery and equipment, roads, highways, and bridges.

Table 3
Capital Assets at Fiscal Year-End
(Net of Depreciation)
(in millions)

	Governmental Activities		Business-type Activities		Totals	
	2002	2001	2002	2001	2002	2001
Land	\$16.1	\$15.4	\$10.7	\$10.5	\$26.8	\$25.9
Building and structures	34.1	35.0	127.9	124.0	162.0	159.0
Improvements other than building	172.1	153.0	131.2	89.1	303.3	242.1
Machinery and equipment	11.6	11.0	13.6	12.3	25.2	23.3
Construction in progress	18.9	15.2	4.1	27.5	23.0	42.7
Total	\$252.8	\$229.6	\$287.5	\$263.5	\$540.3	\$493.1

The following table reconciles the change in capital assets. Included with additions are construction in progress balances. The amount for governmental activities is \$252.8 million that represents a 10.1 percent increase. For business type activities the amount is \$287.5 million that is a 9.1 percent increase. Detail of this summary is presented on pages 54-55 of the notes.

Table 4
Change in Capital Assets
(in millions)

	Governmental Activities	Business-type Activities	Total
Beginning Balance	\$229.6	\$263.5	\$493.1
Additions	48.4	64.9	113.3
Retirement	(14.6)	(25.5)	(40.1)
Depreciation	(10.6)	(15.4)	(26.0)
Ending Balance	\$252.8	\$287.5	\$540.3

Governmental Activities

Major capital assets events during the current fiscal year included the following additions:

- Street Improvements, \$14.2 million, 29%
- Veterans Memorial Stadium, \$14.8 million, 31%
- Trails, \$2.9 million, 6%
- Parks, \$3 million, 6%

The major retirement was in the amount of \$9.4 million which represented moving the Ice Arena from construction in progress from governmental activities to business-type activities. The reason for the reclassification is due to a change in the operations from a lease of the entire facility to the City now operating the facility.

Business-type Activities

Water Pollution Control and Water had additions of \$28 million (43%) and \$13 million (20%) respectively. The major retirement also occurred in Water Pollution Control due to construction in progress of \$19.7 million that was completed in FY2002 and thus moved to improvements other than buildings.

Additional information on the City of Cedar Rapids' capital assets can be found in note 8 on pages 54-56 of this report.

Debt Administration

The amount of debt outstanding at fiscal year end was \$ 234.4 million as compared to \$209.0 million last fiscal year. The change is a result of the new issue of \$40.8 million offset by the retirement of \$15.4 million. Of the \$40.8 million issue, \$8 million of taxable bonds were issued for the construction of the new Veteran's Memorial Stadium. Of the total debt outstanding, \$110.2 million is backed by the full faith and credit of the City. The remainder is either general obligation debt abated by enterprise revenues or revenue bonds secured solely by specified revenue sources, namely, parking revenues.

Table 5
Outstanding Debt at Year End
(in millions)

	Totals	
	2002	2001
Governmental		
General obligation		
Abated by:		
Property taxes	\$67.8	\$62.7
Tax Increment and SSMID	19.4	17.8
Area Ambulance	.3	.3
Special revenue	10.8	9.0
Risk management	.6	.7
Sub-totals	98.9	90.6
Business-type		
General Obligation		
Abated by:		
Water	55.0	52.6
Water Pollution Control	45.6	40.6
Sanitary Sewer	22.4	20.5
Others	11.3	3.1
Parking Revenue	1.2	1.6
Sub-totals	135.5	118.5
Totals	\$234.4	\$209.1

Moody's Investor Services continues to rate the City's general obligation bonds Aaa. Moody's has rated the 1993 issue of parking revenue bonds A3.

For more detailed information on the City's debt and amortization terms, please refer to page 58 of the Notes to the Financial Statements.

Economic Factors

The unemployment rate for the City's MSA is currently a low 2.9 percent although it is up from the previous year's 1.8 percent. This rate still compares favorably to state's average rate of 3.0 percent and the national average rate of 4.8% percent. Although the rate has risen, it is not necessarily a bad sign due to the fact the labor force was so tight previously it was sometimes difficult to find qualified workers.

The average hourly rate in manufacturing was \$19.53 in 2002 as compared to \$19.19 in 2001. The average hourly workweek also increased from 42.9 hours in 2001 to 43.3 in 2002.

Retail sales in the metro reached an all time high of \$2.623 billion for calendar 2001 compared to \$2.619 billion in calendar 2000. Of this total, \$2.230 billion was generated in Cedar Rapids.

The total value of building permits was approximately \$176.8 million. This compares with an amount of \$156.1 for FY2001. This amount represents an increase of 13.2 percent over the previous fiscal year.

During the current fiscal year, the unreserved fund balance in the general fund increased to \$25.3 million. This is an increase of \$1 million over the prior fiscal years.

Next Year's Budget and Rates

In an effort to keep the change in property taxes for the residential taxpayer at an increase of less than 3 percent, the Council found it necessary to make some changes within the General Fund for FY2003 as compared to FY2002. Approximately 77 percent of our operating costs in the General fund are for Personal Services. Changes in Personal Services can be due to changes in the pay rates, changes in benefits, changes in number of employees, or any combination of these. The Personal Services within the General Fund increased by \$2.3 million or an increase of 4.7 percent. Non-Personal Services were increased by \$.8 million or 6.38 percent.

Water, Sewer, and Solid Waste fees combined are expected to increase approximately 4.7 percent in FY2003 for the average residential customer. The amount of dollar increase on the average residential user (usage of 10 units of water per month) will be \$3.80 bimonthly. Even with these increases in rates, our combined water and sewer rates are still far below other large cities in Iowa that provide similar services.

The tax levy for bus operations and capital will be reduced slightly to 64.5633 cents/\$1000 that will result in an increase of approximately \$77,900 in revenues. State law provides the City could levy up to \$.95/1000 as a part of the transit levy

Financial Information Contact

The City's financial statements are designed to present users (citizens, taxpayers, customers, investors, and creditors) with a general overview of the City's finances and to demonstrate the City's accountability. If you have questions about the report or need additional financial information, please contact the Office of the City Controller-auditor at 51 First Avenue Bridge, 3rd Floor, City Hall, Cedar Rapids, Iowa, 52401-1113.