

## 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, 2003. 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 3-11 of this report.

### Financial Highlights

- The assets of the City of Cedar Rapids exceeded its liabilities at the close of June 30, 2003, by \$532.9 million (net assets). Of this amount, \$196.1 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 \$24.7 million.
- At the close of the current fiscal year, the City of Cedar Rapids' governmental funds reported combined ending fund balances of \$97.5 million, an increase of 1.6 percent as compared to the prior fiscal year.
- At the end of the current fiscal year, unreserved fund balance for the general fund was \$24.2 million, or 35.2 percent of the total general fund expenditures.
- Total debt increased by \$6.3 million (2.7 percent) during the current fiscal year. The City issued \$80.3 million of new bonds and retired \$74.0 million of existing bonds.

### Overview of the Financial Statements

This discussion and analysis is 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.

The report consists of government-wide statements, fund financial statements, notes to the financial statements, required budgetary schedules, 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.

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 28-30 of this report.

**Statement of Net Assets for the Fiscal Years Ended June 30, 2003 and 2002:**

A condensed version of the Statement of Net Assets as of June 30, 2003 and 2002 follows:

**Table 1**  
**City of Cedar Rapids Net Assets**  
(in millions)

	Governmental		Business-type		Total	
	Activities		Activities			
	2003	2002	2003	2002	2003	2002
Cash and investments	\$ 209.6	\$ 193.7	\$ 27.3	\$ 31.2	\$ 236.9	\$ 224.9
Other assets	11.6	17.7	77.7	71.2	89.3	88.9
Capital assets	267.4	252.8	300.0	287.8	567.4	540.6
Total assets	<u>488.6</u>	<u>464.2</u>	<u>405.0</u>	<u>390.2</u>	<u>893.6</u>	<u>854.4</u>
Other liabilities	95.9	90.0	23.6	24.8	119.5	114.8
Noncurrent liabilities	102.3	103.3	138.9	128.0	241.2	231.3
Total liabilities	<u>198.2</u>	<u>193.3</u>	<u>162.5</u>	<u>152.8</u>	<u>360.7</u>	<u>346.1</u>
Net assets:						
Invested in capital assets, net of debt	170.3	153.7	155.1	153.0	325.4	306.7
Restricted	-	11.1	18.7	26.6	18.7	37.7
Unrestricted	120.1	106.1	68.7	57.8	188.8	163.9
Total net assets	<u>\$ 290.4</u>	<u>\$ 270.9</u>	<u>\$ 242.5</u>	<u>\$ 237.4</u>	<u>\$ 532.9</u>	<u>\$ 508.3</u>

**Governmental Activities**

Net assets increased mainly due to improvements other than buildings increasing \$16.9 million for fiscal year 2003. The majority of the increase is a result of street construction, swimming pool construction, and trail construction.

**Business-Type Activities**

Total net assets increased by two percent for fiscal year 2003. Water and Water Pollution Control both had large capital additions for the fiscal year ended June 30, 2003. The Water additions consisted primarily of the west wells construction, the aerator rehabilitation and the dam seal replacement, while a majority of the Water pollution control capital additions consisted of replacing the roughing filtering media and the thickener renovation and addition.

**Statement of Activities for the Fiscal Years Ended June 30, 2003 and 2002:**

A condensed version of the Statement of Activities as of June 30, 2003 and 2002 follows:

**Table 2**  
**Governmental and Business-type Activities**  
**For Fiscal Years Ending June 30, 2003 and 2002**  
(in millions)

	Governmental Activities		Business-type Activities		Total	
	2003	2002	2003	2002	2003	2002
<b>Revenues</b>						
Charges for services	\$ 12.4	\$ 11.2	\$ 57.2	\$ 52.9	\$ 69.6	\$ 64.1
Operating grants and contributions	10.6	7.4	3.1	1.9	13.7	9.3
Capital grants and contributions	7.7	14.7	3.6	2.6	11.3	17.3
General revenues:						
Property taxes	61.9	57.6	2.9	2.8	64.8	60.4
Other taxes	13.8	5.6	-	-	13.8	5.6
Franchise taxes	1.1	1.2	-	-	1.1	1.2
Road use tax	9.8	9.7	-	-	9.8	9.7
State replacement tax	2.3	2.4	-	-	2.3	2.4
Investment income	4.6	7.3	2.8	4.7	7.4	12.0
Gain on sale of capital assets	0.3	0.2	0.1	-	0.4	0.2
Total revenues	<u>124.5</u>	<u>117.3</u>	<u>69.7</u>	<u>64.9</u>	<u>194.2</u>	<u>182.2</u>
<b>Expenses</b>						
Public safety	42.5	37.2	-	-	42.5	37.2
Public works	22.5	19.7	-	-	22.5	19.7
Culture and recreation	11.9	10.1	-	-	11.9	10.1
Community and economic development	15.4	15.2	-	-	15.4	15.2
General government	7.8	7.9	-	-	7.8	7.9
Debt service	5.3	5.5	-	-	5.3	5.5
Water	-	-	18.3	17.2	18.3	17.2
Water pollution control	-	-	20.8	19.2	20.8	19.2
Sanitary sewer	-	-	4.8	4.6	4.8	4.6
Parking system	-	-	3.6	3.4	3.6	3.4
Ground transportation system	-	-	7.6	7.1	7.6	7.1
Solid waste management	-	-	5.1	5.7	5.1	5.7
Golf	-	-	2.6	2.6	2.6	2.6
U.S. cellular center	-	-	3.2	2.8	3.2	2.8
Paramount theatre	-	-	0.9	0.9	0.9	0.9
Ice arena	-	-	2.1	0.6	2.1	0.6
Total expenses	<u>105.4</u>	<u>95.6</u>	<u>69.0</u>	<u>64.1</u>	<u>174.4</u>	<u>159.7</u>
Extraordinary items	-	-	4.9	-	4.9	-
Transfers	0.4	(3.6)	(0.4)	3.6	-	-
Changes in net assets	<u>19.5</u>	<u>18.1</u>	<u>5.2</u>	<u>4.4</u>	<u>24.7</u>	<u>22.5</u>
Beginning net assets	270.9	252.8	237.3	232.9	508.2	485.7
Ending net assets	<u>\$ 290.4</u>	<u>\$ 270.9</u>	<u>\$ 242.5</u>	<u>\$ 237.3</u>	<u>\$ 532.9</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 eight and one-half 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 82 percent of total revenues. Investment income accounts for an additional 4 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 sixteen 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 Debt Service 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 31-34.

The General Fund revenues increased 3.3 percent over FY 2002, while expenditures increased 6.7 percent over the prior year thus resulting in a decrease in the change in fund balance of \$2.0 million compared to a decrease in FY 2002 of \$.4 million. The City has continued however to maintain its targeted unreserved fund balance policy of 25 percent of the next years expenditure budget in the General Fund as it was at 35.2 percent. Infrastructure construction fund expenditures decreased by 17.6 percent primarily in street construction, resulting in a change in fund balance of \$3.5 million as compared to a decrease of \$.6 million in the prior year. The Debt Service Fund had a decrease its fund balance of \$6.4 million primarily due to the payment of a refunded bond principal paid by funds that were held in escrow.

## **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 37-42 of this report.

Water revenues increased 2.8 percent over the prior year while expenses increased 6.3 percent thus reducing the operating income from \$3.9 million in FY 2002 to \$3.1 million in FY 2003. The change in net assets increased substantially due to the transfer of the Water pension assets to this fund. Water Pollution Control's change in net assets decreased by \$4.0 million as compared to a decrease of \$4.6 million in FY 2002, even though investment income reduced substantially because of the lower interest rate trend. Sewer Maintenance continued its trend of increasing net assets showing an increase of \$3.1 million in FY 2003 as compared to \$2.1 million in FY 2002. The Parking System continued its reduction in change of net assets due to lower operating revenues and lower interest income. This reduction should be eliminated when the outstanding revenue bonds are paid with their last principal payment due in FY 2005.

### **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 43-44 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 45-68 of this report.

### **Other Information**

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. Combining and individual fund statements and schedules can be found on pages 73-85 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 \$3.9 million to a total of \$71.8 million. This represented a 5.8 percent increase. The major increase was due to the reallocation of General fund carryover funds both operating and capital from the preceding fiscal year. Actual expenditures were \$68.6 million .

The following table presented on a budgetary basis demonstrates the statutory compliance with the annual fiscal year 2003 budget:

	Original Certified Budget	FY 2003 Budget Amendment	Final Certified Budget	FY 2003 Actual Expenditures
Primary government:				
Public safety	\$ 31,927,780	\$ 1,303,991	\$ 33,231,771	\$ 32,383,510
Public works	16,026,885	481,513	16,508,398	15,843,286
Culture and recreation	11,023,979	848,586	11,872,565	11,475,609
Community and economic development	13,855,939	2,804,430	16,660,369	15,788,755
General government	7,545,023	1,272,191	8,817,214	7,590,413
Debt service	24,824,794	(4,608,918)	20,215,876	19,717,590
Capital projects	38,707,006	(3,493,034)	35,213,972	24,608,057
Business type / enterprise	109,802,891	(1,030,646)	108,772,245	106,043,487
Total primary government	\$ 253,714,297	\$ (2,421,887)	\$ 251,292,410	\$ 233,450,707
Component units:				
Airport	\$ 19,041,462	\$ (4,263,846)	\$ 14,777,616	\$ 13,499,654
Bluestem	9,712,096	(1,339,995)	8,372,101	6,282,088
Total component units	\$ 28,753,558	\$ (5,603,841)	\$ 23,149,717	\$ 19,781,742
Total budget	\$ 282,467,855	\$ (8,025,728)	\$ 274,442,127	\$ 253,232,449

The fiscal year 2003 budget amendment resulted in an overall decrease in the appropriation. The timing of improvements in the capital projects and enterprise funds decrease fiscal year 2003 expenditure needs significantly.

### Capital Assets and Debt Administration

#### Capital Assets

As of June 30, 2003, the City had invested \$567.4 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	
	2003	2002	2003	2002	2003	2002
Land	\$ 17.1	\$ 16.1	\$ 10.8	\$ 10.7	\$ 27.9	\$ 26.8
Building and structures	33.4	34.1	121.4	127.9	154.8	162.0
Improvements other than buildings	181.3	172.1	152.2	131.2	333.5	303.3
Machinery and equipment	12.1	11.6	13.0	13.6	25.1	25.2
Construction in progress	23.5	18.9	2.6	4.1	26.1	23.0
Total	\$ 267.4	\$ 252.8	\$ 300.0	\$ 287.5	\$ 567.4	\$ 540.3

The following table reconciles the change in capital assets. Included with additions are construction in progress balances. The amount for governmental activities is \$267.4 million that represents a 5.8 percent increase. For business type activities the amount is \$300 million that is a 4.3 percent increase. Detail of this summary is presented on pages 55-56 of the notes.

**Table 4**  
**Change in Capital Assets**  
(in millions)

	Governmental Activities		Business-type Activities		Totals	
	2003	2002	2003	2002	2003	2002
Beginning Balance	\$ 252.8	\$ 229.6	\$ 287.5	\$ 263.5	\$ 540.3	\$ 493.1
Additions	26.3	48.4	28.9	64.9	55.2	113.3
Retirement	(0.1)	(14.6)	(0.1)	(25.5)	(0.2)	(40.1)
Depreciation	(11.6)	(10.6)	(16.3)	(15.4)	(27.9)	(26.0)
Ending Balance	\$ 267.4	\$ 252.8	\$ 300.0	\$ 287.5	\$ 567.4	\$ 540.3

#### **Governmental Activities**

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

- Street Improvements, \$10.3 million, 39%
- Pool Improvements, \$5 million, 19%
- Trails Improvements, \$1.5 million, 6%
- Bridge Improvements, \$1.5 million, 6%

#### **Business-type Activities**

Water Pollution Control and Water had additions of \$5.2 million (18%) and \$14.8 million (51%) respectively.

Additional information on the City of Cedar Rapids' capital assets can be found in note 8 on pages 56-57 of this report.

#### **Debt Administration**

The amount of debt outstanding at fiscal year end was \$ 240.7 million as compared to \$234.4 million last fiscal year. The change is a result of the new issue of \$80.3 million offset by the retirement of \$74.0 million. Of the total debt outstanding, \$96.7 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	
	2003	2002
Governmental		
General obligation		
Abated by:		
Property taxes	\$ 67.0	\$ 67.8
Tax Increment and SSMID	19.8	19.4
Area Ambulance	0.2	0.3
Special revenue	9.2	10.8
Risk management	0.5	0.6
Sub-totals	96.7	98.9
Business-type		
General obligation		
Abated by:		
Water	58.7	55.0
Water Pollution Control	48.8	45.6
Sanitary Sewer	24.1	22.4
Others	11.6	11.3
Parking Revenue	0.8	1.2
Sub-totals	144.0	135.5
Totals	\$ 240.7	\$ 234.4

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 59 of the Notes to the Financial Statements.

**Economic Factors**

The unemployment rate for the City's MSA is currently 4.2 percent up from the previous year's 2.9 percent. Although the rate has risen, over 1,000 new jobs and more than \$111 million in capital investment was created in Cedar Rapids during the last fiscal year.

The Cedar Rapids MSA mean household income in 2003 was \$73,612 as compared to \$73,187 in 2002. These amounts are presented in 1996 constant dollar.

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 \$2.72 billion for calendar 2002 compared to \$2.62 billion in calendar 2001. Of this total, \$2.29 billion was generated in Cedar Rapids.

The total value of building permits was approximately \$130.5 million. This compares with an amount of \$176.8 for FY2002. This amount represents a decrease of 26.2 percent from the previous fiscal year.

**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 FY2004 as compared to FY2003. Approximately 80 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 and cost of benefits, changes in number of employees, or any combination of these. The Personal Services within the General Fund increased by \$3.0 million or an increase of 5.7 percent. Non-Personal Services were decreased by \$.1 million or .9 percent.

Water, Sewer, and Solid Waste fees combined are expected to increase approximately 5.5 percent in FY2004 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 \$4.62 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 increased slightly to 66.414 cents/\$1000 that will result in an increase of approximately \$169,684 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, 3<sup>rd</sup> Floor, City Hall, Cedar Rapids, Iowa, 52401-1113.