

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, 2004. 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 3-9 of this report.

Financial Highlights

- The assets of the City of Cedar Rapids exceeded its liabilities at the close of June 30, 2004, by \$527.3 million (net assets). Of this amount, \$183.2 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 \$1.3 million.
- At the close of the current fiscal year, the City of Cedar Rapids' governmental funds reported combined ending fund balances of \$89.9 million, a decrease of 7.7 percent as compared to the prior fiscal year.
- At the end of the current fiscal year, unreserved fund balance and targeted fund balance for the general fund was \$24.9 million, or 36.7 percent of the total general fund expenditures.
- Total debt increased by \$1 million during the current fiscal year. The City issued \$20 million of new bonds and retired \$19.9 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 water and wastewater treatment facilities, and a sanitary sewer system. Included within others are a ground transportation system, parking system, solid waste management collection, golf courses, an ice arena, a theatre and an entertainment and convention facility. The City's three component units, The Eastern Iowa Airport and Bluestem, a solid waste agency, and Cedar Rapids Library Foundation 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).

Statement of Net Assets for the Fiscal Years Ended June 30, 2004 and 2003:

A condensed version of the Statement of Net Assets as of June 30, 2004 and 2003 follows:

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

	Governmental		Business-type		Total	
	Activities		Activities			
	2004	2003	2004	2003	2004	2003
Cash and investments	\$ 200.2	\$ 209.6	\$ 16.0	\$ 27.3	\$ 216.2	\$ 236.9
Other assets	20.0	11.6	73.6	77.7	93.6	89.3
Capital assets	277.8	267.4	307.4	300.0	585.2	567.4
Total assets	498.0	488.6	397.0	405.0	895.0	893.6
Other liabilities	104.1	95.9	23.1	23.6	127.2	119.5
Noncurrent liabilities	103.0	102.3	137.5	138.9	240.5	241.2
Total liabilities	207.1	198.2	160.6	162.5	367.7	360.7
Net assets:						
Invested in capital assets, net of debt	180.2	170.3	163.9	155.1	344.1	325.4
Restricted	-	-	-	18.7	-	18.7
Unrestricted (deficit)	110.7	120.1	72.5	68.7	183.2	188.8
Total net assets	\$ 290.9	\$ 290.4	\$ 236.4	\$ 242.5	\$ 527.3	\$ 532.9

Governmental Activities

Net assets did not significantly increase. However, the change is mainly due to improvements other than buildings increasing \$10.4 million for fiscal year 2004 with an increase in other liabilities for additional accruals in amounts due to component units, other governments, claims and judgments, and deferred revenue. The majority of the increase in improvements other than buildings is a result of street construction, swimming pool construction, storm sewer construction, and bridge construction.

Business-Type Activities

Total net assets decreased by two percent for fiscal year 2004. The significant decrease is in cash and investments. Most of the decrease went to capital improvements; however approximately \$4 million was for payments to the state retirement program and interest.

Statement of Activities for the Fiscal Years Ended June 30, 2004 and 2003:

A condensed version of the Statement of Activities as of June 30, 2004 and 2003 follows:

Table 2
Governmental and Business-type Activities
For Fiscal Years Ending June 30, 2004 and 2003
(in millions)

	Governmental		Business-type		Total	
	Activities		Activities			
	2004	2003	2004	2003	2004	2003
Revenues						
Charges for services	\$ 13.0	\$ 12.4	\$ 58.0	\$ 57.2	\$ 71.0	\$ 69.6
Operating grants and contributions	12.2	10.6	2.6	3.1	14.8	13.7
Capital grants and contributions	9.9	7.7	2.9	3.6	12.8	11.3
General revenues:						
Property taxes	63.0	61.9	3.0	2.9	66.0	64.8
Other taxes	2.0	13.8	-	-	2.0	13.8
Franchise taxes	1.1	1.1	-	-	1.1	1.1
Road use tax	10.2	9.8	-	-	10.2	9.8
State replacement tax	-	2.3	-	-	-	2.3
Investment income	1.1	4.6	0.8	2.8	1.9	7.4
Gain on sale of capital assets	0.2	0.3	-	0.1	0.2	0.4
Total revenues	112.7	124.5	67.3	69.7	180.0	194.2
Expenses						
Public safety	40.5	42.5	-	-	40.5	42.5
Public works	24.5	22.5	-	-	24.5	22.5
Culture and recreation	15.3	11.9	-	-	15.3	11.9
Community and economic development	17.7	15.4	-	-	17.7	15.4
General government	7.8	7.8	-	-	7.8	7.8
Debt service	5.6	5.3	-	-	5.6	5.3
Water	-	-	20.1	18.3	20.1	18.3
Water pollution control	-	-	21.4	20.8	21.4	20.8
Sanitary sewer	-	-	5.6	4.8	5.6	4.8
Ground transportation system	-	-	7.7	7.6	7.7	7.6
Parking system	-	-	3.6	3.6	3.6	3.6
Solid waste management	-	-	5.1	5.1	5.1	5.1
Golf	-	-	2.9	2.6	2.9	2.6
U.S. cellular center	-	-	2.8	3.2	2.8	3.2
Paramount theatre	-	-	0.8	0.9	0.8	0.9
Ice arena	-	-	2.0	2.1	2.0	2.1
Total expenses	111.4	105.4	72.0	69.0	183.4	174.4
Special items	-	-	(2.2)	4.9	(2.2)	4.9
Transfers	(0.8)	0.4	0.8	(0.4)	-	-
Changes in net assets	0.5	19.5	(6.1)	5.2	(5.6)	24.7
Beginning net assets	290.4	270.9	242.5	237.3	532.9	508.2
Ending net assets	\$ 290.9	\$ 290.4	\$ 236.4	\$ 242.5	\$ 527.3	\$ 532.9

Governmental Activities

Charges for services make up 11.5 percent of governmental revenues. Operating and capital grants, primarily due to street projects, make up another 19.6 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 70 percent of charges for services. Operating and capital grants make up 8 percent of overall revenue, grants for ground transportation system make up 46 percent of this amount and private developers donations for for water lines and sanitary sewers make up the remaining amount.

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 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 General Fund revenues decreased 4.1 percent over FY 2003, while expenditures decreased .8 percent over the prior year thus resulting in an increase in the change in fund balance of \$.1 million compared to a decrease in FY 2003 of \$1.9 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 36.7 percent. Infrastructure construction fund expenditures decreased by 11.4 percent and issuance of general obligation bonds decreased 23.1 percent primarily in street construction, resulting in a decrease in fund balance of \$.4 million as compared to an increase of \$3.5 million in the prior year. The Debt Service Fund had a decrease its fund balance of \$.3 million primarily due to the interest revenue declining in FY04.

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, 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, and Sanitary Sewer as these are considered major funds of the City. Data from the other seven 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.

Water revenues increased 4.2 percent over the prior year while expenses increased 5.4 percent thus reducing the operating income from \$3.1 million in FY 2003 to \$3.0 million in FY 2004. The change in net assets decreased 1.7 million due to water retirement payouts to employees. Water Pollution Control's change in net assets increased by \$.7 million as compared to a decrease of \$4.0 million in FY 2003, due to a transfer of \$6.1 million from Sanitary Sewer for future construction projects. Sanitary Sewer's net assets decreased by \$4.6 million in FY 2004 as compared to an increase of \$3.1 million in FY 2003, mainly due to the \$6.1 million transfer to Water Pollution Control for future construction.

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.

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 37-60 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 65-77 of this report.

Budgetary Highlights

The City presents budgetary information as allowed by GASB Statement No. 41. Budgets are based on ten functional areas as required by state statute, not by fund or fund type.

The City had one budget amendment during the fiscal year that is our common practice. This amendment increased the expenditure budget by \$1.7 million to a total of \$282.8 million. This represented a 0.5 percent increase. The major increase was due to the Fire department replacement of equipment and repairs to buildings in the general fund and capital improvements in business-type funds. Actual expenditures were \$231.6 million.

Capital Assets and Debt Administration

Capital Assets

As of June 30, 2004, the City had invested \$585.2 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		Business-type		Totals	
	Activities		Activities			
	2004	2003	2004	2003	2004	2003
Land	\$ 19.9	\$ 17.1	\$ 10.8	\$ 10.8	\$ 30.7	\$ 27.9
Building and structures	45.2	33.4	115.7	121.4	160.9	154.8
Improvements other than buildings	191.0	181.3	159.3	152.2	350.3	333.5
Machinery and equipment	11.9	12.1	12.7	13.0	24.6	25.1
Construction in progress	9.8	23.5	8.9	2.6	18.7	26.1
Total	<u>\$ 277.8</u>	<u>\$ 267.4</u>	<u>\$ 307.4</u>	<u>\$ 300.0</u>	<u>\$ 585.2</u>	<u>\$ 567.4</u>

The following table reconciles the change in capital assets. Included with additions are construction in progress balances. The amount for governmental activities is \$277.8 million that represents a 3.9 percent increase. For business type activities the amount is \$307.4 million that is a 2.5 percent increase. Detail of this summary is presented on pages 47-48 of the notes.

Table 4
Change in Capital Assets
(in millions)

	Governmental		Business-type		Totals	
	Activities		Activities			
	2004	2003	2004	2003	2004	2003
Beginning Balance	\$ 267.4	\$ 252.8	\$ 300.0	\$ 287.5	\$ 567.4	\$ 540.3
Additions	25.0	26.3	24.9	28.9	49.9	55.2
Retirement	-	(0.1)	(0.1)	(0.1)	(0.1)	(0.2)
Depreciation	(14.6)	(11.6)	(17.4)	(16.3)	(32.0)	(27.9)
Ending Balance	<u>\$ 277.8</u>	<u>\$ 267.4</u>	<u>\$ 307.4</u>	<u>\$ 300.0</u>	<u>\$ 585.2</u>	<u>\$ 567.4</u>

Governmental Activities

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

- Street Improvements, \$10.4 million, 42%
- Pool Improvements, \$4.4 million, 18%
- Storm Sewer Improvements, \$1.0 million, 4%
- Bridge Improvements, \$1.0 million, 4%

Business-type Activities

Water Pollution Control and Water had additions of \$6.5 million (26%) and \$7.1 million (29%) respectively. In addition, Paramount Theatre had additions of \$5.0 million (20%)

Additional information on the City of Cedar Rapids' capital assets can be found in note 7 on pages 47-49 of this report.

Debt Administration

The amount of debt outstanding at fiscal year end was \$ \$240.8 million as compared to \$240.7 million last fiscal year. Of the total debt outstanding, \$97.6 million is backed by the full faith and credit of the City. The remainder is general obligation debt abated by enterprise revenues or discretely presented component unit revenues.

Table 5
Outstanding Debt at Year End
(in millions)

	Totals	
	2004	2003
Governmental		
General obligation	\$ 97.6	\$ 96.7
Business-type		
General obligation		
Abated by:		
Water	62.1	58.7
Water Pollution Control	46.2	48.8
Sanitary Sewer	22.1	24.1
Others	12.8	11.6
Parking Revenue	-	0.8
Sub-totals	143.2	144.0
Totals	\$ 240.8	\$ 240.7

Moody's Investor Services continues to rate the City's general obligation bonds Aaa.

For more detailed information on the City's debt and amortization terms, please refer to page 52 of the Notes to the Financial Statements.

Economic Factors

The unemployment rate for the City's MSA is currently 4.2 percent same as the previous year. Although the rate has remained the same, over 1,200 new jobs and more than \$164 million in capital investment was created in Cedar Rapids during the last fiscal year.

The Cedar Rapids MSA mean household income in 2004 was \$70,567 as compared to \$70,115 in 2003. 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 \$2.75 billion for calendar 2003 compared to \$2.72 billion in calendar 2002. Of this total, \$2.33 billion was generated in Cedar Rapids.

The total value of building permits was approximately \$153.8 million. This compares with an amount of \$130.5 for FY2003. This amount represents an increase of 17.9 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 1 percent, the Council found it necessary to make some changes within the General Fund for FY2005 as compared to FY2004. Approximately 78 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 \$.1 million or an increase of .2 percent. Non-Personal Services were increased by \$.4 million or 2.7 percent.

Water, Sewer, and Solid Waste fees combined are expected to increase approximately 5.2 percent in FY2005 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 \$4.60 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 decreased slightly to 63.634 cents/\$1000 that will result in a decrease of approximately \$79,884 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.