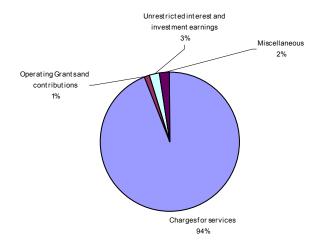
Revenue by source - Business Type Activity



FINANCIAL ANALYSIS OF THE CITY'S FUNDS

As noted earlier, the City of Minneapolis uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds. The general government functions are contained in the General, Special Revenue, Debt Service, and Capital Project Funds. The focus of the City's governmental funds is to provide information on near term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financial requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

At December 31, 2002, the City's governmental funds reported combined ending fund balances of \$462,584, an increase of \$7,417 in comparison with the prior year. Approximately 43 percent of this total amount (\$199,222) constitutes *unreserved fund balance*, which is available for discrete purposes which these funds are collected.

General Fund	\$ 45,582
Special Revenue Funds	79,392
Debt Service Funds	46,119
Capital Projects	28,129
Total	\$199,222

The remainder of the fund balance is *reserved* to indicate that it is not available for new spending because it has already been committed 1) to liquidate contracts and purchase orders of the prior period (\$51,216), 2) to pay for land development and specific projects (\$199,220), or 3) for a variety of other restricted purposes (\$12,925).

The following tables provide an overview of revenues by source and expenditures by function for all governmental funds:

Revenues by Source Governmental Funds

					Increase/
	FY 20	002	FY 2	(Decrease)	
		Percent of		Percent of	
Revenue by Source	Amount	Total	Amount	Total	Amount
Taxes	\$ 225,127	37.06	\$ 236,098	44.45	\$ (10,971)
Licenses and permits	21,395	3.52	21,110	3.98	285
Intergovernmental revenues	269,293	44.34	166,576	31.36	102,717
Charges for services and sales	34,602	5.70	37,442	7.05	(2,840)
Fines and forfeits	7,748	1.27	8,663	1.63	(915)
Special assessments	11,085	1.83	9,996	1.88	1,089
Interest	11,668	1.92	14,654	2.76	(2,986)
Miscellaneous revenue	26,465	4.36	36,577	6.89	(10,112)
Total	\$ 607,383	100.00	\$ 531,116	100.00	\$ 76,267

Expenditures by Function Governmental Funds

Increase/

		1.	iici casc/					
	FY 2002			FY 2001				Decrease)
	Percent of			Percent of				
Expenditure by Source		Amount	Total		Amount	Total		Amount
General government	\$	56,488	8.47	\$	56,601	8.26	\$	(113)
Public safety		164,060	24.58		153,530	22.40		10,530
Highways and streets		35,904	5.38		38,320	5.59		(2,416)
Health and welfare		24,051	3.60		22,359	3.26		1,692
Economic development		109,579	16.42		122,619	17.89		(13,039)
Capital outlay		67,169	10.07		154,616	22.56		(87,447)
Debt service - principal retirement		161,831	24.25		93,265	13.61		68,565
Debt service - interest and fiscal charges		48,246	7.23		44,017	6.43		4,228
Total	\$	667,328	100.00	\$	685,327	100.00	\$	(18,000)

The following sections of this financial analysis provide highlights of each major governmental fund.

General Fund Highlights

The General Fund is the general operating fund of the City. As of December 31, 2002, unreserved fund balance in the General Fund was \$45,582 while total fund balance reached \$46,089. The City's General Fund fund balance increased by \$6,465 during the current fiscal year. As a measure of the General Fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 20% of total fund expenditures, while total fund balance also represents 20% of the same amount. Thus, the year-end fund balance is in compliance with the City's policy of maintaining a minimum fund balance of 10% of current expenditures for the General Fund.

The following provides an explanation of revenues by source that changed significantly from the prior year:

Revenues Classified by Source General Fund - Revenues By Source

	 FY 200	2	FY 2001			crease)		
		Percent			Percent			Percent
Revenues by Source	 Amount	of Total		Amount	of Total		Amount	of Change
Taxes	\$ 76,469	30.19	\$	88,842	35.53	\$	(12,373)	(13.93)
Licenses and permits	20,684	8.17		20,697	8.28		(13)	(0.06)
Intergovernmental revenues	106,106	41.89		91,731	36.69		14,375	15.67
Charges for services and sales	17,198	6.79		16,289	6.52		909	5.58
Fines and forfeits	7,125	2.81		7,974	3.19		(849)	(10.64)
Special assessments	2,820	1.11		2,637	1.05		183	6.93
Interest	2,722	1.07		2,322	0.93		400	17.22
Miscellaneous revenues	 775	0.31		808	0.32		(33)	(4.08)
Total revenues	\$ 233,899	92.34	\$	231,300	92.51	\$	2,599	1.12
Transfers in	 19,400	7.66		18,733	7.49		667	3.56
Total revenues and other financing sources	\$ 253,299	100.00	\$	250,033	100.00	\$	3,266	1.31

- Taxes decreased by \$12,373 or 14%. This decrease was primarily due to a new homestead credit for property taxes payable, which became effective for taxes payable in 2002. Also, franchise fees for natural gas received by the City decreased by \$3,389 or 34%.
- Intergovernmental revenues increased by \$14,375 or 16%. The majority of this increase was accounted for as follows:
 - Over the year, local government aid increased by \$27,597 or 44%. Offsetting this increase was a reduction in Homestead and Agricultural Credit Aid by \$18,164.
 - Offsetting the reduction in tax revenues resulting from the homestead credit for property taxes payable, other state aid increased by \$3,245 or 57%.
 - Municipal state aid for streets, bridges, traffic and street lighting increased by \$1,190 or 33%.

The following provides an explanation of expenditures by function that changed significantly from the prior year:

Expenditures by Function General Fund - Expenditures by Function

	FY 2002		FY 200	1	Increase/(Decrease)				
			Percent			Percent			Percent
Expenditures by Function		Amount	of Total		Amount	of Total		Amount	of Change
General government	\$	37,692	15.27	\$	36,905	14.86	\$	787	2.13
Public safety		149,877	60.72		143,479	57.75		6,398	4.46
Public works		35,186	14.25		38,812	15.62		(3,626)	(9.34)
Health and family support		3,815	1.55		3,885	1.56		(70)	(1.80)
Total expenditures	\$	226,570	91.79	\$	223,081	89.79	\$	3,489	1.56
Transfers out		20,264	8.21		25,369	10.21		(5,105)	(20.12)
Total expenditures and other financing uses	\$	246,834	100.00	\$	248,450	100.00	\$	(1,616)	(0.65)

- General government expenditures increased by \$787 or 2%. Most of this increase was due to increases in spending for personal services in the Contingency and Information Technology agencies, and for contractual services in the Assessor and Finance agencies, in order to improve operational efficiency and meet higher demand for services.
- Public safety expenditures increased by \$6,398 or 4%. Key factors accounting for this increase were as follows:
 - Fire Department expenditures increased by \$2,599 or 7%. Departmental expenditures for personal services increased by \$1,269 or 4%. Departmental contractual services expenditures, primarily for mobile equipment rental, increased by \$974 or 24%, and capital outlay expenditures, primarily for equipment, increased by \$366.
 - Police Department expenditures increased by \$3,777 or 4%. Departmental expenditures for personal services increased by \$1,893 or 2%. Departmental contractual services expenditures, primarily for mobile equipment rental, increased by \$1,042 or 12%, and other miscellaneous expenditures increased by \$869 or 18%.

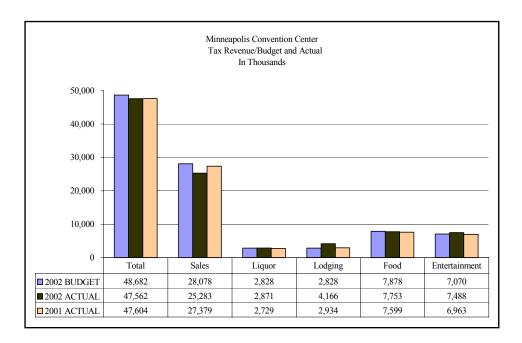
Overall, expenditures for the General Fund are consistent with inflationary measures.

Minneapolis Convention Center Fund Highlights

The operations of the Minneapolis Convention Center are reported as a Special Revenue Fund in the fund statements. The Convention Center activity is funded from local tax receipts and Convention Center operating revenue. Tax receipts for convention center activities include:

- .5% citywide sales tax;
- 3% food and liquor tax applied to core downtown establishments;
- 3% citywide entertainment tax; and
- 3% citywide lodging tax for motels and hotels with 50 units or more.

Sales tax proceeds were 8% lower than 2001 levels with the reduction attributed to the lingering affects of the national tragedy and the recession. However, overall 2002 tax proceeds approximated their 2001 totals, in part due to the increase in the lodging tax rate from 2.0% to 3.0% that went into effect in April 2002.



In April 2002, the Convention Center expansion area opened to the public resulting in a \$2,057 or 22% increase in operating revenue for the fund, although this increase was lower than budgeted by approximately 24%. Again, the lower than expected increase was due to event booking shortfalls caused by the recession and national tragedy. The revenue shortfall was partially offset by expenditure savings resulting from the lower than anticipated bookings.

The Convention Center also benefited from a \$10,300 savings in debt service payments for the year due to the low interest rate on variable debt and converting the Convention Center's variable rate bonds to fixed rate bonds. The net effect of the revenue shortfall and expenditure savings was a \$229 reduction in the Convention Center fund balance.

Community Development Special Revenue Fund Highlights

The Community Development Special Revenue Fund accounts for governmental fund proceeds that are legally restricted to expenditures for specific purposes in a series of housing and economic development programs at the Minneapolis Community Development Agency, a blended component unit of the City of Minneapolis. The range of programs operated within this fund are created to increase the City's economic competitiveness, to ensure an array of attractive housing choices, to support strong and diverse neighborhoods, and to preserve the City's historic structures. These programs are financed primarily through federal, state, and local grants, tax increment financing, and administrative fees collected for the issuance of housing and economic revenue bonds. The development account program provides loans and grants to outside organizations within the City to assist commercial and housing development. The program is capitalized with residual equities from development projects and City UDAG repayments.

The total revenues of the fund in 2002 were \$101,959. Sixty percent of the fund's revenues were derived from property tax increment. An additional 12% of the revenue was from intergovernmental grants. The remaining revenue was derived from a variety of sources. The fund's revenue declined 8.7% in 2002. The primary reason for the change is recent changes in State law that have resulted in a reduction in property tax increment collections. The expenditures for the fund in 2002 were \$83,354; a decline of 17%. The fund's expenditures are primarily for contractual service for the housing and economic programs operated within the fund and for the staff costs to monitor and deliver these programs.

In 2002, notes payable in the amount of \$13,915 were issued to support the tax increment financing activities of the fund. Operating transfers into the fund during 2002 equaled \$14,056. Nearly all the transfers were pass-through grant proceeds from the City of Minneapolis. The fund's transfers-out of \$67,252 were to the City of Minneapolis to provide resources for the debt service of obligations issued by the City for Community Development programs, and to transfer funds to pay for neighborhood revitalization projects.

At year-end, the fund balance was \$280,901, a decline of 6.8% from the prior year. The unreserved portion of the fund balance at December 31, 2002 was \$60,104. The remaining fund balance was reserved primarily for property held for development, encumbrances, or for specific development projects.

In restating January 1, 2002 balances, the Community Development Special Revenue Fund was adjusted to include reclassified balances from the previously reported Capital Project fund.

Permanent Improvement Capital Project Fund Highlights

The revenue for the Permanent Improvement Fund is primarily from two revenue sources.
The first source of revenue includes bonds that are sold by the City of Minneapolis for capital
projects. The second source of revenue is from the State. State grant revenues are primarily
used for capital assets including bridges, streets, street lighting, traffic signals and specific
projects.

The Permanent Improvement Fund is used to build infrastructure for the City including bridges, streets, traffic signals, street lights, and fund other capital projects. During 2002, \$67,169 of capital outlays occurred. The key assets constructed with these funds included:

- Bridges \$3,404
- Streets \$13,751
- Street lighting \$1,572
- Traffic signals \$565
- Convention Center expansion \$22,003
- Heritage Park (Near North) project \$8,569

Development Debt Service Fund Highlights:

The Development Debt Service Fund is used to record principal and interest payments made on behalf of long-term liabilities incurred for self-supporting City development project initiatives such as the Minneapolis Convention Center, the Target Center Sports Arena, Orchestra Hall and many tax increment related improvement projects. Revenues used for debt service included sales tax, entertainment tax, property tax, event parking, users' fees, tax increment revenues, state grants, rents, and private and non-profit contributions. For the year ended December 31, 2002, this fund attained major fund status for reporting purposes due to an \$81,527 grant payment received from the State of Minnesota related to the Minneapolis Convention Center. The grant proceeds were used as stipulated in the grant agreement to redeem approximately \$80,000 of the outstanding 1992 Sales Tax Refunding Bonds, Series 1992 with a 2% call premium at the earliest optional call date. This grant released sales tax capacity previously committed to the 1992 bonds and allowed the City to issue additional debt to complete the facility.

Proprietary Funds. The City's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

As discussed previously, the City reports two different types of proprietary funds, enterprise funds and internal service funds. The following sections describe the key balances and transaction for the different fund types.

Enterprise Funds

The enterprise funds had a positive unrestricted net asset balance of \$58,359 as of December 31, 2002. An increase of total net assets for all proprietary funds during the year equaled \$31,530 resulting from current year operations. The following table shows actual revenues, expenses and results from operations for the current fiscal year:

		Solid waste		Community		
	Sewer	and	Water	Development	Municipal	
	Rental	Recycling	Works	Agency	Parking	Total
Operating revenues	\$ 64,755	\$ 26,733	\$ 55,446	\$ 18,637	\$ 54,117	\$ 219,688
Operating expenses	(50,790)	(24,545)	(44,147)	(12,113)	(40,714)	(172,309)
Operating income (loss)	13,965	2,188	11,299	6,524	13,403	47,379
Non-operating revenues (expenses), net	(989)	88	(1,097)	(1,799)	(12,727)	(16,524)
Net income (loss) before contributions and transfers	12,976	2,276	10,202	4,725	676	30,855
Contributions and transfers	(484)	(47)	(2,551)	1,993	1,764	675
Net income (loss)	\$ 12,492	\$ 2,229	\$ 7,651	\$ 6,718	\$ 2,440	\$ 31,530

The *Sewer Rental* fund accounts for contractual payments to the Metropolitan Council Environmental Services (MCES) for sewage interceptor and treatment services. This fund also accounts for storm water management activities including the Combined Sewer Overflow (CSO) program, which separates the remaining storm sewer lines that are connected to sanitary sewer lines. The sewer fund had a net income of \$12,492 for 2002. The sewer operating revenue increased by \$6,013 due to a rate increase of 12 cents. Operating expenses increased by \$7,303 due to an increase in operating materials of \$1,267, contractual services of \$1,377 and depreciation for \$3,947 for the sewer fund. The net assets as of December 31, 2002 for the sewer fund is \$293,665.

The *Solid Waste and Recycling* fund accounts for solid waste collection, disposal and recycling operations. The solid waste fund also includes "clean city" activities such as neighborhood clean sweeps, litter and graffiti removal and litter control in business districts. City crews provide approximately one-half of the solid waste collection services and the other half of the services are provided through a contract with a consortium of companies specializing in waste collection. The fund reported net income of \$2,229 for 2002. The operating revenue increased by \$944 for the year 2002 due to a 75 cent rate increase for the year. Operating expenses for the fund were unchanged between 2001 and 2002, and the fund has net assets of \$13,212 as of December 31, 2002.

The *Water Works* fund accounts for the operation and maintenance of a water delivery system for the City and several suburban city customers. The City sells water directly to seven cities including Bloomington, Columbia Heights, Hilltop, Golden Valley, New Hope, Crystal, and Edina. The fund's operating revenue increased by \$3,489 due to a rate increase of 18 cents. The fund's expenditures increased by \$2,464 over 2001, personal services increased by \$1,450 and contractual services increased by \$1,770. The water fund had a net income of \$7,651 for 2002. The net assets for the Water Works fund as of December 31, 2002 is \$111,612.

The *Community Development Agency* operates a series of business-type activities designed to enhance housing options and economic development within the City. Within this fund there are programs that provide low interest home mortgages financed through the sale of bonds. There is also a program in which revenue bonds are issued to finance economic development. The program obtains lease or loan agreements from developers to meet the debt service requirements of the financing. This fund also operates a river terminal facility and three downtown theatres. Substantially all operating revenues are derived from fees charged to the users of the services

provided. The river terminal and the theatres account for the investment in capital assets of the fund.

The *Municipal Parking* fund accounts for the operation and maintenance of parking ramps, lots, on-street parking meters, a municipal impound lot, and traffic/parking control. The fund's operating revenues decreased by \$1,206 from 2001 to 2002. The fund had a net income of \$2,440 for 2002. The net assets of the parking fund is \$80,233 as of December 31, 2002 of which \$2,706 is restricted for three ramps the State owns but the City operates. These restricted net assets are reserved for major repair and improvements for the three Third Avenue Distributor Garages that the State of Minnesota owns and the City operates.

Internal Service Funds

The City operates six internal service funds: Engineering Materials and Testing; Intergovernmental Services; Property Services; Permanent Improvement Equipment; Public Works Stores; and the Self-Insurance fund. Internal service funds charge user fees to recover the cost of operations and accumulate equity for purposes of maintaining the on-going operations provided to the government.

While the financial condition of the Internal Service funds continue to represent a major financial challenge for the City, key financial management measures taken in 2001 appear to have marked a turning point for these funds. Over the last seven years, the financial condition of these funds has deteriorated, reaching a low point at year-end 2000 when the combined net asset deficit had declined to (\$54,407). In 2001, the operational loss trends were arrested, and the combined net asset deficit in the Internal Service funds improved to (\$32,215). This improvement resulted primarily from a change in accounting principle / prior period adjustment of \$17,555 in 2001 due to restatements resulting from implementing GASB Statement No. 34. The restatement resulted in recognizing and reporting assets previously unrecorded within the financial statements. Additionally, debt related to the internal service fund assets was reclassified from governmental funds to the internal service funds to improve the asset to debt relationship on the respective balance sheets.

In 2002, the internal service funds lost \$5,837 bringing the net asset balance down to \$38,052. While the combined internal service funds continue to report deficit net assets, three of the six funds reported positive net income in 2002. Losses were recorded in the Engineering, Materials and Testing fund of (\$292) due to its primary customer, Paving Construction, having a slow season. Losses were also recorded in both the Intergovernmental Services and the Permanent Improvement funds of (\$4,598) and (\$4,149), respectively, caused by additional depreciation on assets previously unrecorded on the balance sheet. Comparatively, the Self-Insurance fund, Property Services fund, and Public Works Stores reported combined positive net income during 2002 of \$3,202.

In 2000, the Mayor and City Council adopted a multi-year financial plan for the Intergovernmental Services fund. A similar plan was adopted for the Permanent Improvement Equipment fund in 2001. A plan for the City's Self-Insurance fund will be prepared in 2003.

The City has shown a commitment to address the financial challenges existing within the Internal Service Funds and is confident that the financial plans that have been adopted will resolve the condition within an acceptable time period.

GENERAL FUND BUDGETARY HIGHLIGHTS

The final budget for the City's General Fund represents the original budget plus any previously appropriated funds set aside for the purpose of honoring legally incurred obligations (prior year encumbrances and commitments) plus any additional supplemental appropriations that may occur during the fiscal year. In fiscal year 2002, a total of \$1,138 had been set aside for prior year encumbrances and commitments, and the net amount of supplemental appropriations to the General Fund during the fiscal year was \$2,349. Significant budget actions included:

- \$1,432 Police Department budget increase for shift differential pay, and compensatory time, vacation payouts
- \$600 increase in Police Department budget for Water Plant security
- \$580 increase in general fund budget due to reduced tax revenue due to MCDA property tax abatement
- \$524 increase in Public Works Field Services budget for bridge repair and reconstruction for other departments

Excluding the \$1,138 prior year encumbrance and commitment appropriation, the original General Fund budget for fiscal year 2002 was \$248,822, which includes projected transfers-out of \$20,002. General revenues and other resources were originally estimated at \$248,826, which includes projected transfers-in of \$20,428.

During the year, actual revenues and other resources were greater than final budgetary estimates by \$3,041, and expenditures were less than final budgetary estimates by \$4,871, resulting in a favorable variance of revenues over expenditures of \$7,912.

As indicated above, the General Fund financial performance enabled the City to meet and exceed a fund balance of 10% of current expenditures for the fund, as required by City policy (fund balance equals \$46,089, current expenditures include \$226,570). The variations in the actual amounts from the original and final General Fund revenue and expenditure budgets did not negatively impact services provided from fund resources or the liquidity of fund assets.