

STATE OF MINNESOTA

Office of the State Auditor



Rebecca Otto
State Auditor

CITY OF MINNEAPOLIS
GENERAL AGENCY RESERVE FUND SYSTEM
MINNEAPOLIS, MINNESOTA

YEARS ENDED DECEMBER 31, 2014 AND 2013

Description of the Office of the State Auditor

The mission of the Office of the State Auditor is to oversee local government finances for Minnesota taxpayers by helping to ensure financial integrity and accountability in local governmental financial activities.

Through financial, compliance, and special audits, the State Auditor oversees and ensures that local government funds are used for the purposes intended by law and that local governments hold themselves to the highest standards of financial accountability.

The State Auditor performs approximately 150 financial and compliance audits per year and has oversight responsibilities for over 3,300 local units of government throughout the state. The office currently maintains five divisions:

Audit Practice - conducts financial and legal compliance audits of local governments;

Government Information - collects and analyzes financial information for cities, towns, counties, and special districts;

Legal/Special Investigations - provides legal analysis and counsel to the Office and responds to outside inquiries about Minnesota local government law; as well as investigates allegations of misfeasance, malfeasance, and nonfeasance in local government;

Pension - monitors investment, financial, and actuarial reporting for approximately 700 public pension funds; and

Tax Increment Financing - promotes compliance and accountability in local governments' use of tax increment financing through financial and compliance audits.

The State Auditor serves on the State Executive Council, State Board of Investment, Land Exchange Board, Public Employees Retirement Association Board, Minnesota Housing Finance Agency, and the Rural Finance Authority Board.

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**CITY OF MINNEAPOLIS
GENERAL AGENCY RESERVE FUND SYSTEM
MINNEAPOLIS, MINNESOTA**

Years Ended December 31, 2014 and 2013



**Audit Practice Division
Office of the State Auditor
State of Minnesota**

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**CITY OF MINNEAPOLIS
GENERAL AGENCY RESERVE FUND SYSTEM
MINNEAPOLIS, MINNESOTA**

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**CITY OF MINNEAPOLIS
GENERAL AGENCY RESERVE FUND SYSTEM
MINNEAPOLIS, MINNESOTA**

ORGANIZATION

Mayor Betsy Hodges

CITY COUNCIL

Ward 1	Kevin Reich
Ward 2	Cam Gordon
Ward 3	Jacob Frey
Ward 4	Barbara Johnson
Ward 5	Blong Yang
Ward 6	Abdi Warsame
Ward 7	Lisa Goodman
Ward 8	Elizabeth Glidden
Ward 9	Alondra Cano
Ward 10	Lisa Bender
Ward 11	John Quincy
Ward 12	Andrew Johnson
Ward 13	Linea Palmisano

City Coordinator Spencer Cronk

Finance Officer Kevin Carpenter

City Council terms all expire December 31, 2017.

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REBECCA OTTO
STATE AUDITOR

STATE OF MINNESOTA

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INDEPENDENT AUDITOR'S REPORT

The Honorable Betsy Hodges, Mayor
and Members of the City Council
City of Minneapolis, Minnesota

Report on the Financial Statements

We have audited the accompanying financial statements of the City of Minneapolis General Agency Reserve Fund System as of and for the years ended December 31, 2014 and 2013, and the related notes to the financial statements, which collectively comprise the System's basic financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City of Minneapolis' preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose

of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the City of Minneapolis General Agency Reserve Fund System as of December 31, 2014 and 2013, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 2, the financial statements present only the General Agency Reserve Fund System and do not purport to, and do not, present fairly the financial position of the City of Minneapolis as of December 31, 2014 and 2013, or the results of its operations and cash flows of the City's proprietary funds for the years then ended in conformity with accounting principles generally accepted in the United States of America.

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

April 29, 2015

BASIC FINANCIAL STATEMENTS

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**CITY OF MINNEAPOLIS
GENERAL AGENCY RESERVE FUND SYSTEM
MINNEAPOLIS, MINNESOTA**

EXHIBIT 1

**COMPARATIVE STATEMENT OF NET POSITION
DECEMBER 31, 2014 AND 2013**

	2014	2013
<u>Assets</u>		
Current assets		
Cash and cash equivalents		
Common reserve account	\$ 4,274,836	\$ 4,473,559
Industrial development bond account	1,949,842	4,684,182
Debt service account	1,522,226	1,561,024
Construction funds	2,956,016	18,127,729
Other	90,952	84,512
Total cash and cash equivalents	\$ 10,793,872	\$ 28,931,006
Investments		
Industrial development bond account	\$ 31,186,363	\$ 27,570,388
General agency reserve fund	919,514	893,556
Total investments	\$ 32,105,877	\$ 28,463,944
Receivables		
Accounts	\$ -	\$ 46,047
Accrued interest	287,396	284,875
Capitalized leases	3,770,000	3,805,000
Total receivables	\$ 4,057,396	\$ 4,135,922
Total current assets	\$ 46,957,145	\$ 61,530,872
Noncurrent assets		
Receivables		
Capitalized leases	\$ 86,325,100	\$ 76,728,041
Total Assets	\$ 133,282,245	\$ 138,258,913

**CITY OF MINNEAPOLIS
GENERAL AGENCY RESERVE FUND SYSTEM
MINNEAPOLIS, MINNESOTA**

***EXHIBIT 1
(Continued)***

**COMPARATIVE STATEMENT OF NET POSITION
DECEMBER 31, 2014 AND 2013**

	2014	2013
<u>Liabilities</u>		
Current liabilities		
Accounts payable	\$ 23,361	\$ 30,519
Accrued interest payable	417,813	416,195
Unearned revenue	1,058,101	1,149,345
Deposits held for others	2,951,116	4,560,770
Developer reserve deposits	4,274,836	4,473,559
Bonds payable	3,770,000	3,805,000
Total current liabilities	\$ 12,495,227	\$ 14,435,388
Noncurrent liabilities		
Bonds payable	86,330,000	90,295,000
Total Liabilities	\$ 98,825,227	\$ 104,730,388
<u>Net Position</u>		
Restricted for debt service	\$ 34,457,018	\$ 33,528,525

**CITY OF MINNEAPOLIS
GENERAL AGENCY RESERVE FUND SYSTEM
MINNEAPOLIS, MINNESOTA**

EXHIBIT 2

**COMPARATIVE STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013**

	<u>2014</u>	<u>2013</u>
Operating Revenues		
Interest on capitalized leases and developer fees	\$ 5,234,412	\$ 4,899,033
Interest income	991,965	576,202
Increase (decrease) in fair value of investments	(199,415)	(416,627)
Administrative fees	407,597	362,806
	<u>6,434,559</u>	<u>5,421,414</u>
Total Operating Revenues	\$ 6,434,559	\$ 5,421,414
Operating Expenses		
Interest	\$ 5,183,930	\$ 4,903,874
Professional services and other expenses	322,136	605,608
	<u>5,506,066</u>	<u>5,509,482</u>
Total Operating Expenses	\$ 5,506,066	\$ 5,509,482
Change in Net Position	\$ 928,493	\$ (88,068)
Net Position - January 1	<u>33,528,525</u>	<u>33,616,593</u>
Net Position - December 31	<u><u>34,457,018</u></u>	<u><u>33,528,525</u></u>

**CITY OF MINNEAPOLIS
GENERAL AGENCY RESERVE FUND SYSTEM
MINNEAPOLIS, MINNESOTA**

EXHIBIT 3

**COMPARATIVE STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013**

	2014	2013
Cash Flows from Operating Activities		
Receipts from customers and users	\$ 9,398,089	\$ 9,034,806
Interest received from investments	790,029	(84,180)
Developer construction funds used	(13,562,059)	-
Contribution (withdrawal) from developer funds	(1,609,654)	4,560,770
Payments to suppliers	(329,294)	(602,202)
	\$ (5,312,889)	\$ 12,909,194
Cash Flows from Noncapital Financing Activities		
Proceeds from bonds issued	\$ -	\$ 12,595,000
Principal paid on bonds	(4,000,000)	(3,750,000)
Interest paid on bonds	(5,182,312)	(4,890,525)
	\$ (9,182,312)	\$ 3,954,475
Cash Flows from Investing Activities		
Purchase of investments	\$ (16,640,572)	\$ (31,108,144)
Sale of investments	12,998,639	9,260,027
	\$ (3,641,933)	\$ (21,848,117)
Net Increase (Decrease) in Cash and Cash Equivalents	\$ (18,137,134)	\$ (4,984,448)
Cash and Cash Equivalents - January 1	28,931,006	33,915,454
Cash and Cash Equivalents - December 31	\$ 10,793,872	\$ 28,931,006
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities		
Operating Income (Loss)	\$ 928,493	\$ (88,068)
Adjustments to reconcile operating income (loss) before operating transfers to net cash provided by (used in) operating activities		
Interest expense	5,183,930	4,903,874
(Increase) decrease in accounts receivable	46,047	(46,047)
(Increase) decrease in accrued interest receivable	(2,521)	(243,755)
(Increase) decrease in capitalized leases receivable	(9,562,059)	3,750,096
Increase (decrease) in accounts payable	(7,158)	3,406
Increase (decrease) in unearned revenue	(91,244)	65,045
Increase (decrease) in deposits held for others	(1,609,654)	4,560,770
Increase (decrease) in developer reserve deposits	(198,723)	3,873
	\$ (5,312,889)	\$ 12,909,194
Noncash investing, capital, and financing activities:		
Increase/decrease in the value of investments reported at fair value	\$ 199,415	\$ 416,627

The notes to the financial statements are an integral part of this statement.

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**CITY OF MINNEAPOLIS
GENERAL AGENCY RESERVE FUND SYSTEM
MINNEAPOLIS, MINNESOTA**

NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

1. Organization and Purpose

Establishment of the Department - In 1981, the Housing and Redevelopment Authority in and for the City of Minneapolis, Minnesota, was renamed the Minneapolis Community Development Agency (the MCDA) by an ordinance of the Minneapolis City Council under authority granted by Minnesota Laws 1980, Chapter 595. In 1986, the MCDA was reorganized by Minneapolis City Ordinance 86-Or-035 under the above authority. By such ordinance, the MCDA was reorganized to encourage, among other things, commercial and industrial growth and redevelopment and to process applications for industrial revenue bond financing. In addition, the public housing activities formerly carried on were organized separately. In 2003, the Minneapolis City Council adopted resolutions transferring MCDA activities to the City. These activities are organized under the City of Minneapolis.

Creation of Common Bond Fund Program - The City has adopted a Basic Resolution, a General Agency Reserve Resolution, and a Supplemental General Agency Reserve Resolution, which enabled the City to issue and sell obligations to finance the construction, reconstruction, acquisition, improvement, betterment, and extension of authorized facilities. This is generally known as the Common Bond Fund program and consists of two separate common bond funds (A and B) for governmental and nongovernmental issuers. The bonds are payable from and secured by the following: discretionary contributions from the City, lease payments, deficiency accounts, administrative fee account, common reserve account, Industrial Development Bond (IDB) account, general agency reserve fund, and a pledge of up to one-half percent of tax capacity of the City of Minneapolis. The City has also pledged to maintain certain reserve ratios as defined in the Basic Resolution. In addition, certain developers have issued letters of credit for the benefit of the General Agency Reserve Fund System (GARFS) to back the common reserve requirement in lieu of cash deposits.

Appropriation of GARFS Funds - The Basic and Supplemental Resolutions noted above direct GARFS to obtain lease agreements to meet the debt service requirements of the financing. Substantially all receipts of GARFS are pledged and appropriated for debt service on outstanding bonds. GARFS funds are maintained in separate accounts by an independent trustee and by the City.

**CITY OF MINNEAPOLIS
GENERAL AGENCY RESERVE FUND SYSTEM
MINNEAPOLIS, MINNESOTA**

1. Organization and Purpose (Continued)

Initial Funding - In order to provide initial funding for GARFS, an advance of \$5,000,000 was made from the MCDA's development account in 1984. The advance of \$5,000,000, along with the accrued interest thereon of \$2,698,116, was permanently transferred from the MCDA's development account to GARFS in 1988.

2. Summary of Significant Accounting Policies

Financial Statements - The financial statements of GARFS are combined into a single enterprise fund and are intended to present only the financial activity of the General Agency Reserve Fund System. The statements do not include various other funds of the City of Minneapolis, Minnesota.

Basis of Accounting - The GARFS' enterprise fund is accounted for using the accrual basis of accounting. Revenues are recognized when they are earned, and expenses are recognized when they are incurred.

Lease Agreements - The City of Minneapolis has entered into lease agreements with developers. The annual lease payments approximate the principal and interest requirements on the outstanding bonds. The leases are capitalized in an amount equal to the principal of the related bonds, net of any unexpended construction fund proceeds (see Note 8). Each lease agreement includes a bargain purchase option exercisable at the end of the lease term. In addition, the leased property may be purchased at various anniversaries during the lease terms at amounts at least equal to the outstanding principal amount of the underlying bonds.

Developer Reserve Deposits - Certain developers have made reserve deposits upon commencement of the lease agreement as security for payments due under the agreement. Reserve deposits will be applied against the final lease payments due or outstanding balance in the event of default by the developer. In addition, letters of credit have been issued by corporations and financial institutions for the benefit of GARFS to back the common reserve requirement of certain developers in lieu of cash deposits (see Note 4).

**CITY OF MINNEAPOLIS
GENERAL AGENCY RESERVE FUND SYSTEM
MINNEAPOLIS, MINNESOTA**

2. Summary of Significant Accounting Policies (Continued)

Unearned Revenue - Unearned revenue represents interest payments received from developers prior to the due date. Amounts are reported as revenue during the period earned.

Equity Classifications - Equity is classified as net position. The unrestricted component of net position is the net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position. The restricted portion of net position consists of net position with constraints placed on its use by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation. When both restricted and unrestricted resources are available for use, it is GARFS' policy to use restricted resources first and then unrestricted resources as needed.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Commitments and Contingencies - The City is involved in litigation encountered in the normal course of business. In the opinion of management, the resolution of these matters will not have a material effect on the financial position or results of operations of GARFS.

3. Cash and Investments

Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with original maturities of less than 90 days from the date of acquisition.

Except for pooled investments in the custody of the City of Minneapolis Treasurer, all other cash and cash equivalents and investments of GARFS are held and invested by an independent trustee bank, which is a member of the Federal Reserve System. All such cash and investments, except those in the custody of the City Treasurer, are held by the bank's trust department in the name of GARFS or the City. All cash deposits not invested are federally insured.

**CITY OF MINNEAPOLIS
GENERAL AGENCY RESERVE FUND SYSTEM
MINNEAPOLIS, MINNESOTA**

3. Cash and Investments (Continued)

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a financial institution failure, GARFS' deposits or investment payments may be delayed or not be returned. GARFS' custodial credit risk for funds held by the trustee is covered by the trust agreement. Deposits of GARFS are predominantly held in money market funds, which do not require collateral. The remaining GARFS' deposits are held in depository accounts of the City of Minneapolis, where deposits have adequate collateral levels and are subject to the City's custodial credit risk policy. At December 31, 2014 and 2013, GARFS' deposits and investments were not exposed to custodial credit risk.

Interest Rate Risk

Interest rate risk is the risk that changes in the market interest rates will adversely affect the fair value of an investment. For investments of GARFS, exposure to interest rate risk is minimized by investing in both short-term and long-term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. For both investments held by the trustee and those held by the City, it is the policy for GARFS to invest only in securities that meet the ratings requirements set by state statute.

Concentration of Credit Risk

The concentration of credit risk is the risk of loss that may be caused by investing in a single issuer. Investments in any one issuer at December 31, 2014 and 2013, that represent five percent or more of the GARFS' investments subject to concentration of credit risk are as follows:

<u>Issuer</u>	<u>Reported Amount</u>	
	<u>2014</u>	<u>2013</u>
Texas State Municipal Bonds	\$ 1,816,255	\$ -

**CITY OF MINNEAPOLIS
GENERAL AGENCY RESERVE FUND SYSTEM
MINNEAPOLIS, MINNESOTA**

3. Cash and Investments (Continued)

The following table presents the GARFS' investment balances at December 31, 2014 and 2013, and information relating to interest and credit quality investment risks:

2014

Investment Type	Standard & Poor's Credit Risk Rating			Interest Rate Risk Weighted Average Maturity (Years)	Carrying (Fair) Value
	Low Credit Risk (a)	Medium or Higher Credit Risk (b)	Not Rated		
U.S. Federal Agency obligations	100%	-	-	1.7	\$ 1,066,316
U.S. Mortgage obligations	100	-	-	3.4	967,161
U.S. Treasury securities	100	-	-	2.0	7,591,889
Municipal bonds	100	-	-	4.1	21,560,997
Investment pools					
City of Minneapolis	-	-	100%	N/A	919,514
Total investments					\$ 32,105,877
Cash and cash equivalents					10,793,872
Total Cash and Investments					\$ 42,899,749

2013

Investment Type	Standard & Poor's Credit Risk Rating			Interest Rate Risk Weighted Average Maturity (Years)	Carrying (Fair) Value
	Low Credit Risk (a)	Medium or Higher Credit Risk (b)	Not Rated		
U.S. government agency securities					
Federal National Mortgage Association	100%	-	-	9.0	\$ 1,515,189
Federal Home Loan Mortgage Corporation	100	-	-	12.3	1,034,536
Government National Mortgage Association					
Pool	100	-	-	45.8	421,745
Other	100	-	-	2.7	146,653
U.S. Treasury securities	100	-	-	2.0	4,250,084
Municipal bonds	100	-	-	4.8	20,202,181
Investment pools					
City of Minneapolis	-	-	100%	N/A	893,556
Total investments					\$ 28,463,944
Cash and cash equivalents					28,931,006
Total Cash and Investments					\$ 57,394,950

N/A Not Applicable

(a) Low credit risk is considered a rating of A or better for long-term securities.

(b) Medium or higher credit risk is any rating below low credit risk.

**CITY OF MINNEAPOLIS
GENERAL AGENCY RESERVE FUND SYSTEM
MINNEAPOLIS, MINNESOTA**

3. Cash and Investments (Continued)

Investments as of December 31, 2014 and 2013, are as follows:

	2014		2013	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Pooled investments	\$ 923,721	\$ 919,514	\$ 897,018	\$ 893,556
Municipal bonds	21,848,872	21,560,997	20,367,392	20,202,181
U.S. Federal agency obligations	1,063,137	1,066,316	3,121,813	3,118,123
U.S. Mortgage obligations	972,234	967,161	-	-
U.S. Treasury securities	7,590,215	7,591,889	4,172,000	4,250,084
 Total investments	 \$ 32,398,179	 \$ 32,105,877	 \$ 28,558,223	 \$ 28,463,944

4. Bonded Debt Security

In addition to funds maintained by GARFS, the bond obligations issued are secured by the following:

Letters of credit have been issued by corporations and financial institutions for the benefit of GARFS to back the common reserve requirements of certain developers in lieu of cash deposits as follows at December 31, 2014:

Discount Steel	\$ 246,162
Hennepin Theatre Trust	1,600,000
Quality Resource Group	266,000
New French Acquisition Holdco, Inc.	810,456
Open Systems International	1,371,429
LifeSource Project	856,000
 Total	 \$ 5,150,047

Tax Pledge and Reserve Ordinance - The Minneapolis City Council passed an ordinance, as amended, which pledges up to one-half percent of tax capacity to secure payment of bond principal and interest on all bonds issued after May 22, 1987, the effective date of the resolution.

**CITY OF MINNEAPOLIS
GENERAL AGENCY RESERVE FUND SYSTEM
MINNEAPOLIS, MINNESOTA**

5. Long-Term Debt Bond Issues (see pages 16 through 19)

A summary of long-term debt activity for the years ended December 31, 2014 and 2013, is as follows:

	2014	2013
Development Revenue Bonds		
Payable – January 1	\$ 94,100,000	\$ 85,255,000
Issued	-	12,595,000
Retired	(4,000,000)	(3,750,000)
Payable – December 31	\$ 90,100,000	\$ 94,100,000
Due Within One Year	\$ 3,770,000	\$ 3,805,000

The Baker Bearing capital lease receivable of \$195,000 was paid off during 2014, ahead of the planned repayment schedule, increasing the 2014 retired amount from what was previously scheduled as the due within one year amount from 2013.

6. Related-Party Transactions

Laurel Village - In 1995, the MCDA entered into an agreement with the developer of Laurel Village in which the City committed to use \$2,656,318 of tax increment revenues, or other available funds, through the year 2016 to stabilize funding for the John Alden Apartments. These funds were repledged to pay debt service on the Laurel Village Series 1997 Development Revenue Bonds. The total paid by the City pursuant to this commitment was \$106,673 and \$107,949 in 2014 and 2013, respectively.

7. Industrial Development Bond (IDB) Account

Within GARFS, there is an IDB account. Funds are remitted to this account as specified in the Common Bond Fund Resolutions. The City has pledged not to reduce the IDB account to a balance less than \$20,000,000. The balance in the IDB account was \$33,136,205 and \$32,254,570 as of December 31, 2014 and 2013, respectively.

**CITY OF MINNEAPOLIS
GENERAL AGENCY RESERVE FUND SYSTEM
MINNEAPOLIS, MINNESOTA**

8. Capitalized Leases Receivable

According to the Basic Resolution and Indenture, GARFS is to enter into a Revenue Agreement with developers receiving funds. Such agreements are in the form of capitalized leases (see also Note 2). The agreements outstanding are detailed on pages 20 through 23.

9. Other Commitments and Contingencies

In connection with the normal conduct of its affairs, the City is involved in various claims, litigation, and judgments. None of these cases directly involve GARFS. It is management's intent that GARFS' resources would not be used to settle any of these claims. Consequently, it is expected that the final settlement of these matters will not materially affect the financial statements of GARFS.

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**CITY OF MINNEAPOLIS
GENERAL AGENCY RESERVE FUND SYSTEM
MINNEAPOLIS, MINNESOTA**

**NOTES TO THE FINANCIAL STATEMENTS
OUTSTANDING DEVELOPMENT REVENUE BONDS
DECEMBER 31, 2014**

	<u>Interest Rate</u>	<u>Issue Date</u>	<u>Final Maturity Date</u>
General Agency Reserve Fund System			
Halper Box	5.10% to 6.15%	04-01-97	06-01-17
Baker Bearing	5.10% to 6.20%	05-01-97	12-01-16
Laurel Village Alden Limited Partnership II	4.30% to 5.75%	10-01-97	06-01-27
Cord Sets	4.10% to 5.50%	07-01-98	06-01-18
Discount Steel - A	5.00% to 5.25%	12-01-99	06-01-19
Kristol Properties	2.45% to 5.12%	11-20-03	12-01-23
Infinite Graphics	2.25% to 5.50%	07-14-04	12-01-24
Hennepin Theatre Trust	5.23% to 6.30%	12-20-05	12-01-35
Ambassador Press	4.27% to 6.50%	06-26-06	12-01-26
Quality Resource Group	5.28% to 5.84%	03-04-07	12-01-27
New French Acquisition Holdco, Inc.	4.62% to 5.70%	07-26-07	06-01-28
Open Systems International	2.29% to 6.60%	06-16-10	06-01-40
Open Access Technology International, Inc.	1.25% to 6.25%	12-29-10	12-01-40
LifeSource Project	3.00% to 4.00%	10-17-13	06-01-39

Total Outstanding Development Revenue Bonds

2013 Amounts

NOTE 5

	Bonds			Principal Due in 2015	Interest Due in 2015
Issued	Retired	Outstanding			
\$ 2,400,000	\$ 1,890,000	\$ 510,000	\$ 175,000	\$ 25,984	
2,900,000	2,900,000	-	-	-	
2,515,000	890,000	1,625,000	85,000	92,467	
1,500,000	1,095,000	405,000	100,000	19,525	
1,900,000	890,000	1,010,000	190,000	48,038	
3,300,000	2,060,000	1,240,000	110,000	63,550	
2,475,000	1,235,000	1,240,000	95,000	68,200	
21,055,000	3,070,000	17,985,000	440,000	1,120,983	
8,400,000	3,715,000	4,685,000	630,000	265,012	
3,100,000	735,000	2,365,000	130,000	134,978	
9,990,000	2,040,000	7,950,000	405,000	399,700	
18,000,000	850,000	17,150,000	300,000	1,065,559	
25,000,000	3,660,000	21,340,000	980,000	1,170,081	
12,595,000	-	12,595,000	130,000	539,675	
\$ 115,130,000	\$ 25,030,000	\$ 90,100,000	\$ 3,770,000	\$ 5,013,752	
\$ 115,130,000	\$ 21,030,000	\$ 94,100,000			

**CITY OF MINNEAPOLIS
GENERAL AGENCY RESERVE FUND SYSTEM
MINNEAPOLIS, MINNESOTA**

**NOTES TO THE FINANCIAL STATEMENTS
CURRENT ANNUAL OBLIGATIONS ON OUTSTANDING PRINCIPAL BALANCES
OF BOND ISSUES AND INTEREST PAYMENTS
DECEMBER 31, 2014**

	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
Halper Box	\$ 175,000	\$ 185,000	\$ 150,000	\$ -
Laurel Village Alden Limited Partnership II	85,000	90,000	95,000	100,000
Cord Sets	100,000	105,000	110,000	90,000
Discount Steel - A	190,000	200,000	215,000	225,000
Kristol Properties	110,000	115,000	120,000	130,000
Infinite Graphics	95,000	100,000	105,000	115,000
Hennepin Theatre Trust	440,000	465,000	495,000	525,000
Ambassador Press	630,000	660,000	695,000	795,000
Quality Resource Group	130,000	135,000	140,000	150,000
New French Acquisition Holdco, Inc.	405,000	425,000	445,000	470,000
Open Systems International	300,000	315,000	325,000	340,000
Open Access Technology International, Inc.	980,000	1,005,000	1,045,000	1,085,000
LifeSource Project	130,000	325,000	335,000	340,000
Total principal payments	\$ 3,770,000	\$ 4,125,000	\$ 4,275,000	\$ 4,365,000
Total interest payments	<u>5,013,752</u>	<u>4,841,545</u>	<u>4,651,399</u>	<u>4,448,197</u>
Total Current Annual Obligations of Principal and Interest to Maturity	<u>\$ 8,783,752</u>	<u>\$ 8,966,545</u>	<u>\$ 8,926,399</u>	<u>\$ 8,813,197</u>

NOTE 5
(Continued)

<u>2019</u>	<u>2020-2024</u>	<u>2025-2029</u>	<u>2030-2034</u>	<u>2035-2039</u>	<u>2040</u>	<u>Total</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 510,000
110,000	645,000	500,000	-	-	-	1,625,000
-	-	-	-	-	-	405,000
180,000	-	-	-	-	-	1,010,000
140,000	625,000	-	-	-	-	1,240,000
120,000	705,000	-	-	-	-	1,240,000
560,000	3,355,000	4,530,000	6,145,000	1,470,000	-	17,985,000
200,000	1,140,000	565,000	-	-	-	4,685,000
160,000	945,000	705,000	-	-	-	2,365,000
490,000	2,860,000	2,855,000	-	-	-	7,950,000
360,000	2,115,000	2,845,000	3,910,000	5,350,000	1,290,000	17,150,000
1,135,000	2,935,000	2,870,000	3,870,000	5,185,000	1,230,000	21,340,000
355,000	1,980,000	2,410,000	2,980,000	3,740,000	-	12,595,000
\$ 3,810,000	\$ 17,305,000	\$ 17,280,000	\$ 16,905,000	\$ 15,745,000	\$ 2,520,000	\$ 90,100,000
4,231,691	18,302,308	13,306,419	8,458,110	3,312,748	115,725	66,681,894
<u>\$ 8,041,691</u>	<u>\$ 35,607,308</u>	<u>\$ 30,586,419</u>	<u>\$ 25,363,110</u>	<u>\$ 19,057,748</u>	<u>\$ 2,635,725</u>	<u>\$ 156,781,894</u>

**CITY OF MINNEAPOLIS
GENERAL AGENCY RESERVE FUND SYSTEM
MINNEAPOLIS, MINNESOTA**

**NOTES TO THE FINANCIAL STATEMENTS
SCHEDULE OF CAPITALIZED LEASES
DECEMBER 31, 2014**

	<u>Total Lease Payments</u>	<u>Total Interest</u>	<u>Total Principal</u>
Capitalized Leases			
Halper Box	\$ 555,510	\$ 45,510	\$ 510,000
Laurel Village Alden Limited Partnership II	2,352,022	727,022	1,625,000
Cord Sets	448,863	43,863	405,000
Discount Steel - A	1,142,825	132,825	1,010,000
Kristol Properties	1,580,813	340,813	1,240,000
Infinite Graphics	1,646,175	406,175	1,240,000
Hennepin Theatre Trust	32,826,477	14,841,477	17,985,000
Ambassador Press	6,142,950	1,457,950	4,685,000
Quality Resource Group	3,425,876	1,060,876	2,365,000
New French Acquisition Holdco, Inc.	11,265,226	3,315,226	7,950,000
Open Systems International	35,145,649	17,995,649	17,150,000
Open Access Technology International, Inc.	38,989,220	17,649,220	21,340,000
LifeSource Project	21,260,288	8,665,288	12,595,000
Total capitalized leases	<u>\$ 156,781,894</u>	<u>\$ 66,681,894</u>	<u>\$ 90,100,000</u>

2013 Amounts

NOTE 8

Unexpended Construction Funds			Capitalized Leases Receivable	Current Portion	Noncurrent Portion
Developer Contributions	Principal	Total			
\$ -	\$ 4,900	\$ 4,900	\$ 505,100	\$ 175,000	\$ 330,100
-	-	-	1,625,000	85,000	1,540,000
-	-	-	405,000	100,000	305,000
-	-	-	1,010,000	190,000	820,000
-	-	-	1,240,000	110,000	1,130,000
-	-	-	1,240,000	95,000	1,145,000
-	-	-	17,985,000	440,000	17,545,000
-	-	-	4,685,000	630,000	4,055,000
-	-	-	2,365,000	130,000	2,235,000
-	-	-	7,950,000	405,000	7,545,000
-	-	-	17,150,000	300,000	16,850,000
-	-	-	21,340,000	980,000	20,360,000
2,951,116	-	2,951,116	12,595,000	130,000	12,465,000
\$ 2,951,116	\$ 4,900	\$ 2,956,016	\$ 90,095,100	\$ 3,770,000	\$ 86,325,100
			\$ 80,533,041	\$ 3,805,000	\$ 76,728,041

**CITY OF MINNEAPOLIS
GENERAL AGENCY RESERVE FUND SYSTEM
MINNEAPOLIS, MINNESOTA**

**NOTES TO THE FINANCIAL STATEMENTS
CAPITALIZED LEASES RECEIVABLE MATURITIES, INCLUDING INTEREST
DECEMBER 31, 2014**

	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
Capitalized Leases				
Halper Box	\$ 200,984	\$ 199,914	\$ 154,612	\$ -
Laurel Village Alden Limited Partnership II	177,467	177,688	177,602	177,235
Cord Sets	119,525	118,888	117,975	92,475
Discount Steel - A	238,038	237,800	241,906	240,356
Kristol Properties	173,550	172,912	172,019	175,869
Infinite Graphics	163,200	162,975	162,475	166,700
Hennepin Theatre Trust	1,560,983	1,561,035	1,562,438	1,561,995
Ambassador Press	895,012	893,637	895,488	959,998
Quality Resource Group	264,978	262,932	260,616	263,028
New French Acquisition Holdco, Inc.	804,700	804,450	804,794	806,988
Open Systems International	1,365,559	1,367,858	1,363,686	1,362,615
Open Access Technology International, Inc.	2,150,081	2,145,681	2,151,763	2,149,963
LifeSource Project	669,675	860,775	861,025	855,975
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total capitalized lease maturities	<u><u>\$ 8,783,752</u></u>	<u><u>\$ 8,966,545</u></u>	<u><u>\$ 8,926,399</u></u>	<u><u>\$ 8,813,197</u></u>

NOTE 8
(Continued)

<u>2019</u>	<u>2020-2024</u>	<u>2025-2029</u>	<u>2030-2034</u>	<u>2035-2039</u>	<u>2040</u>	<u>Total</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 555,510
181,535	902,070	558,425	-	-	-	2,352,022
-	-	-	-	-	-	448,863
184,725	-	-	-	-	-	1,142,825
179,206	707,257	-	-	-	-	1,580,813
165,375	825,450	-	-	-	-	1,646,175
1,564,708	7,817,658	7,818,345	7,816,705	1,562,610	-	32,826,477
323,420	1,554,820	620,575	-	-	-	6,142,950
264,523	1,320,703	789,096	-	-	-	3,425,876
802,900	4,021,144	3,220,250	-	-	-	11,265,226
1,364,743	6,801,355	6,769,190	6,736,218	6,682,500	1,331,925	35,145,649
2,149,781	7,370,976	6,524,063	6,519,812	6,523,300	1,303,800	38,989,220
860,775	4,285,875	4,286,475	4,290,375	4,289,338	-	21,260,288
<u>\$ 8,041,691</u>	<u>\$ 35,607,308</u>	<u>\$ 30,586,419</u>	<u>\$ 25,363,110</u>	<u>\$ 19,057,748</u>	<u>\$ 2,635,725</u>	<u>\$ 156,781,894</u>

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REBECCA OTTO
STATE AUDITOR

STATE OF MINNESOTA OFFICE OF THE STATE AUDITOR

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH ENABLING RESOLUTIONS

The Honorable Betsy Hodges, Mayor
and Members of the City Council
City of Minneapolis, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America, the accompanying financial statements of the City of Minneapolis General Agency Reserve Fund System as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the System's basic financial statements and have issued our report thereon dated April 29, 2015.

In connection with our audit, nothing came to our attention that caused us to believe that the City of Minneapolis failed to comply with the financial terms, financial covenants, financial provisions, or financial conditions of the Basic Resolution and Indenture (82-512) or the amendments relating to financial matters establishing the General Agency Reserve for Bonds (82-513), establishing an Industrial Development Bond (IDB) account (82-514), providing funding for the IDB account (83-665), clarifying permitted investments of funds relating to the Common Bond Fund (84-765), amending and restating the Basic Resolution of the City of Minneapolis (A and B) (04-256, 04-257), and supplementing the Basic Resolution (04-258), insofar as they relate to financial and accounting matters. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the City of Minneapolis' noncompliance with the above referenced provisions.

This communication is intended solely for the information and use of the Mayor, Members of the Minneapolis City Council, and the City of Minneapolis' management and is not intended to be, and should not be, used by anyone other than those specified parties.

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

April 29, 2015

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