

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, 2015 AND 2014

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, 2015 and 2014



**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

Interim Finance Officer Sandra Christensen

City Council terms all expire December 31, 2017.

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REBECCA OTTO
STATE AUDITOR

STATE OF MINNESOTA OFFICE OF THE STATE AUDITOR

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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 (GARFS) as of and for the years ended December 31, 2015 and 2014, and the related notes to the financial statements, which collectively comprise GARFS' 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 audit. We conducted our audit 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 from 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, 2015 and 2014, 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, 2015 and 2014, or the results of its operations or 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. Our opinion was not modified with respect to this matter.

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

April 20, 2016

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, 2015 AND 2014**

	2015	2014
<u>Assets</u>		
Current assets		
Cash and cash equivalents		
Common reserve account	\$ 4,220,510	\$ 4,274,836
Industrial development bond account	4,372,422	1,949,842
Debt service account	1,677,879	1,522,226
Construction funds	4,900	2,956,016
Other	85,279	90,952
Total cash and cash equivalents	\$ 10,360,990	\$ 10,793,872
Investments		
Industrial development bond account	\$ 29,195,265	\$ 31,186,363
General agency reserve fund	950,324	919,514
Total investments	\$ 30,145,589	\$ 32,105,877
Receivables		
Accrued interest	\$ 254,335	\$ 287,396
Capitalized leases	4,035,000	3,770,000
Total receivables	\$ 4,289,335	\$ 4,057,396
Total current assets	\$ 44,795,914	\$ 46,957,145
Noncurrent assets		
Receivables		
Capitalized leases	\$ 80,750,100	\$ 86,325,100
Total Assets	\$ 125,546,014	\$ 133,282,245

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

***EXHIBIT 1
(Continued)***

**COMPARATIVE STATEMENT OF NET POSITION
DECEMBER 31, 2015 AND 2014**

	2015	2014
<u>Liabilities</u>		
Current liabilities		
Accounts payable	\$ 16,099	\$ 23,361
Accrued interest payable	396,155	417,813
Unearned revenue	1,267,288	1,058,101
Deposits held for others	-	2,951,116
Developer reserve deposits	4,220,510	4,274,836
Bonds payable	4,035,000	3,770,000
Total current liabilities	\$ 9,935,052	\$ 12,495,227
Noncurrent liabilities		
Bonds payable	80,755,000	86,330,000
Total Liabilities	\$ 90,690,052	\$ 98,825,227
<u>Net Position</u>		
Restricted for debt service	\$ 34,855,962	\$ 34,457,018

**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, 2015 AND 2014**

	<u>2015</u>	<u>2014</u>
Operating Revenues		
Interest on capitalized leases and developer fees	\$ 4,947,613	\$ 5,234,412
Interest income	701,329	991,965
Increase (decrease) in fair value of investments	(392,773)	(199,415)
Administrative fees	389,831	407,597
	<u>389,831</u>	<u>407,597</u>
Total Operating Revenues	\$ 5,646,000	\$ 6,434,559
Operating Expenses		
Interest	\$ 4,980,000	\$ 5,183,930
Professional services and other expenses	267,056	322,136
	<u>267,056</u>	<u>322,136</u>
Total Operating Expenses	\$ 5,247,056	\$ 5,506,066
Change in Net Position	\$ 398,944	\$ 928,493
Net Position - January 1	34,457,018	33,528,525
	<u>34,457,018</u>	<u>33,528,525</u>
Net Position - December 31	\$ 34,855,962	\$ 34,457,018
	<u>34,855,962</u>	<u>34,457,018</u>

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

EXHIBIT 3

**COMPARATIVE STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014**

	2015	2014
Cash Flows from Operating Activities		
Receipts from customers and users	\$ 10,409,532	\$ 9,398,089
Interest received from investments	734,390	790,029
Developer construction funds used	-	(13,562,059)
Contribution (withdrawal) from developer funds	(2,951,116)	(1,609,654)
Payments to suppliers	(274,318)	(329,294)
Net cash provided by (used in) operating activities	\$ 7,918,488	\$ (5,312,889)
Cash Flows from Noncapital Financing Activities		
Principal paid on bonds	\$ (5,310,000)	\$ (4,000,000)
Interest paid on bonds	(5,001,658)	(5,182,312)
Net cash provided by (used in) noncapital financing activities	\$ (10,311,658)	\$ (9,182,312)
Cash Flows from Investing Activities		
Purchase of investments	\$ (18,869,085)	\$ (16,640,572)
Sale of investments	20,829,373	12,998,639
Net cash provided by (used in) investing activities	\$ 1,960,288	\$ (3,641,933)
Net Increase (Decrease) in Cash and Cash Equivalents	\$ (432,882)	\$ (18,137,134)
Cash and Cash Equivalents - January 1	10,793,872	28,931,006
Cash and Cash Equivalents - December 31	\$ 10,360,990	\$ 10,793,872
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities		
Operating Income (Loss)	\$ 398,944	\$ 928,493
Adjustments to reconcile operating income (loss) before operating transfers to net cash provided by (used in) operating activities		
Interest expense	4,980,000	5,183,930
(Increase) decrease in accounts receivable	-	46,047
(Increase) decrease in accrued interest receivable	33,061	(2,521)
(Increase) decrease in capitalized leases receivable	5,310,000	(9,562,059)
Increase (decrease) in accounts payable	(7,262)	(7,158)
Increase (decrease) in unearned revenue	209,187	(91,244)
Increase (decrease) in deposits held for others	(2,951,116)	(1,609,654)
Increase (decrease) in developer reserve deposits	(54,326)	(198,723)
Net Cash Provided by (Used in) Operating Activities	\$ 7,918,488	\$ (5,312,889)
Noncash investing, capital, and financing activities		
Increase/decrease in the value of investments reported at fair value	\$ 392,773	\$ 199,415

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, 2015 AND 2014

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 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).

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

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

2. Summary of Significant Accounting Policies (Continued)

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, 2015 and 2014, 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, 2015 and 2014, that represent five percent or more of the GARFS' investments subject to concentration of credit risk are as follows:

Issuer	Reported Amount	
	2015	2014
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, 2015 and 2014, and information relating to interest and credit quality investment risks:

2015

Investment Type	Standard & Poor's Credit Risk Rating			Interest Rate Risk	Carrying (Fair) Value
	Low Credit Risk (a)	Medium or Higher Credit Risk (b)	Not Rated (c)	Weighted Average Maturity (Years)	
U.S. Federal agency obligations	100.0%	-	-	1.2	\$ 365,096
U.S. Mortgage obligations	100.0	-	-	2.6	905,880
U.S. Treasury securities	100.0	-	-	2.0	8,713,368
Municipal bonds	90.8	-	9.2%	1.3	19,210,921
Investment pools					
City of Minneapolis	-	-	100.0	N/A	950,324
Total investments					\$ 30,145,589
Cash and cash equivalents					10,360,990
Total Cash and Investments					<u>\$ 40,506,579</u>

2014

Investment Type	Standard & Poor's Credit Risk Rating			Interest Rate Risk	Carrying (Fair) Value
	Low Credit Risk (a)	Medium or Higher Credit Risk (b)	Not Rated (c)	Weighted Average Maturity (Years)	
U.S. Federal agency obligations	100.0%	-	-	1.7	\$ 1,066,316
U.S. Mortgage obligations	100.0	-	-	3.4	967,161
U.S. Treasury securities	100.0	-	-	2.0	7,591,889
Municipal bonds	100.0	-	-	4.1	21,560,997
Investment pools					
City of Minneapolis	-	-	100.0%	N/A	919,514
Total investments					\$ 32,105,877
Cash and cash equivalents					10,793,872
Total Cash and Investments					<u>\$ 42,899,749</u>

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.

(c) Obligations not rated on Standard and Poor's rating scale were rated in the top categories with other rating agencies.

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

3. Cash and Investments (Continued)

Investments as of December 31, 2015 and 2014, are as follows:

	2015		2014	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Pooled investments	\$ 952,000	\$ 950,324	\$ 923,721	\$ 919,514
Municipal bonds	19,846,498	19,210,921	21,848,872	21,560,997
U.S. Federal agency obligations	353,425	365,096	1,063,137	1,066,316
U.S. Mortgage obligations	928,310	905,880	972,234	967,161
U.S. Treasury securities	8,750,922	8,713,368	7,590,215	7,591,889
 Total Investments	 <u>\$ 30,831,155</u>	 <u>\$ 30,145,589</u>	 <u>\$ 32,398,179</u>	 <u>\$ 32,105,877</u>

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, 2015:

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	 <u>\$ 5,150,047</u>

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, 2015 and 2014, is as follows:

	2015	2014
Development Revenue Bonds		
Payable - January 1	\$ 90,100,000	\$ 94,100,000
Retired	(5,310,000)	(4,000,000)
Payable - December 31	\$ 84,790,000	\$ 90,100,000
Due Within One Year	\$ 4,035,000	\$ 3,770,000

The Laurel Village Alden Limited Partnership II capital lease receivable of \$1,540,000 was paid off during 2015, ahead of the planned repayment schedule, increasing the 2015 retired amount from what was previously scheduled as the due within one year amount from 2014.

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 \$105,372 and \$106,673 in 2015 and 2014, 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 \$33,567,687 and \$33,136,205 as of December 31, 2015 and 2014, 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, 2015**

	<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
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. (Taxable and Tax Exempt)	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. (Taxable and Tax Exempt)	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			

2014 Amounts

NOTE 5

	Bonds			Principal Due in 2016	Interest Due in 2016
<u>Issued</u>	<u>Retired</u>	<u>Outstanding</u>			
\$ 2,400,000	\$ 2,065,000	\$ 335,000	\$ 185,000	\$ 14,914	
2,515,000	2,515,000	-	-	-	
1,500,000	1,195,000	305,000	105,000	13,888	
1,900,000	1,080,000	820,000	200,000	37,800	
3,300,000	2,170,000	1,130,000	115,000	57,912	
2,475,000	1,330,000	1,145,000	100,000	62,975	
21,055,000	3,510,000	17,545,000	465,000	1,096,035	
8,400,000	4,345,000	4,055,000	660,000	233,637	
3,100,000	865,000	2,235,000	135,000	127,932	
9,990,000	2,445,000	7,545,000	425,000	379,450	
18,000,000	1,150,000	16,850,000	315,000	1,052,858	
25,000,000	4,640,000	20,360,000	1,005,000	1,140,681	
12,595,000	130,000	12,465,000	325,000	535,775	
<u>\$ 112,230,000</u>	<u>\$ 27,440,000</u>	<u>\$ 84,790,000</u>	<u>\$ 4,035,000</u>	<u>\$ 4,753,857</u>	
<u>\$ 115,130,000</u>	<u>\$ 25,030,000</u>	<u>\$ 90,100,000</u>			

**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, 2015**

	<u>2016</u>	<u>2017</u>	<u>2018</u>
Halper Box	\$ 185,000	\$ 150,000	\$ -
Cord Sets	105,000	110,000	90,000
Discount Steel - A	200,000	215,000	225,000
Kristol Properties	115,000	120,000	130,000
Infinite Graphics	100,000	105,000	115,000
Hennepin Theatre Trust	465,000	495,000	525,000
Ambassador Press	660,000	695,000	795,000
Quality Resource Group	135,000	140,000	150,000
New French Acquisition Holdco, Inc. (Taxable and Tax Exempt)	425,000	445,000	470,000
Open Systems International	315,000	325,000	340,000
Open Access Technology International, Inc. (Taxable and Tax Exempt)	1,005,000	1,045,000	1,085,000
LifeSource Project	<u>325,000</u>	<u>335,000</u>	<u>340,000</u>
Total principal payments	\$ 4,035,000	\$ 4,180,000	\$ 4,265,000
Total interest payments	<u>4,753,857</u>	<u>4,568,797</u>	<u>4,370,962</u>
Total Current Annual Obligations of Principal and Interest to Maturity	<u>\$ 8,788,857</u>	<u>\$ 8,748,797</u>	<u>\$ 8,635,962</u>

NOTE 5
(Continued)

2019	2020	2021-2025	2026-2030	2031-2035	2036-2040	Total
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 335,000
-	-	-	-	-	-	305,000
180,000	-	-	-	-	-	820,000
140,000	145,000	480,000	-	-	-	1,130,000
120,000	125,000	580,000	-	-	-	1,145,000
560,000	595,000	3,560,000	4,815,000	6,530,000	-	17,545,000
200,000	205,000	1,210,000	290,000	-	-	4,055,000
160,000	170,000	995,000	485,000	-	-	2,235,000
490,000	515,000	3,010,000	2,190,000	-	-	7,545,000
360,000	380,000	2,235,000	3,030,000	4,165,000	5,700,000	16,850,000
1,135,000	1,190,000	2,250,000	3,050,000	4,105,000	5,495,000	20,360,000
355,000	365,000	2,060,000	2,510,000	3,115,000	3,060,000	12,465,000
\$ 3,700,000	\$ 3,690,000	\$ 16,380,000	\$ 16,370,000	\$ 17,915,000	\$ 14,255,000	\$ 84,790,000
4,160,156	3,974,180	17,122,408	12,272,406	7,438,558	2,372,263	61,033,587
\$ 7,860,156	\$ 7,664,180	\$ 33,502,408	\$ 28,642,406	\$ 25,353,558	\$ 16,627,263	\$ 145,823,587

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

**NOTES TO THE FINANCIAL STATEMENTS
SCHEDULE OF CAPITALIZED LEASES
DECEMBER 31, 2015**

	<u>Total Lease Payments</u>	<u>Total Interest</u>
Capitalized Leases		
Halper Box	\$ 354,526	\$ 19,526
Cord Sets	329,338	24,338
Discount Steel - A	904,787	84,787
Kristol Properties	1,407,263	277,263
Infinite Graphics	1,482,975	337,975
Hennepin Theatre Trust	31,265,494	13,720,494
Ambassador Press	5,247,938	1,192,938
Quality Resource Group	3,160,898	925,898
New French Acquisition Holdco, Inc. (Taxable and Tax Exempt)	10,460,526	2,915,526
Open Systems International	33,780,090	16,930,090
Open Access Technology International, Inc. (Taxable and Tax Exempt)	36,839,139	16,479,139
LifeSource Project	20,590,613	8,125,613
	<u> </u>	<u> </u>
Total Capitalized Leases	<u>\$ 145,823,587</u>	<u>\$ 61,033,587</u>

2014 Amounts

NOTE 8

<u>Total Principal</u>	<u>Unexpended Construction Funds</u>	<u>Capitalized Leases Receivable</u>	<u>Current Portion</u>	<u>Noncurrent Portion</u>
\$ 335,000	\$ 4,900	\$ 330,100	\$ 185,000	\$ 145,100
305,000	-	305,000	105,000	200,000
820,000	-	820,000	200,000	620,000
1,130,000	-	1,130,000	115,000	1,015,000
1,145,000	-	1,145,000	100,000	1,045,000
17,545,000	-	17,545,000	465,000	17,080,000
4,055,000	-	4,055,000	660,000	3,395,000
2,235,000	-	2,235,000	135,000	2,100,000
7,545,000	-	7,545,000	425,000	7,120,000
16,850,000	-	16,850,000	315,000	16,535,000
20,360,000	-	20,360,000	1,005,000	19,355,000
12,465,000	-	12,465,000	325,000	12,140,000
<u>\$ 84,790,000</u>	<u>\$ 4,900</u>	<u>\$ 84,785,100</u>	<u>\$ 4,035,000</u>	<u>\$ 80,750,100</u>
		<u>\$ 90,095,100</u>	<u>\$ 3,770,000</u>	<u>\$ 86,325,100</u>

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

**NOTES TO THE FINANCIAL STATEMENTS
CAPITALIZED LEASES RECEIVABLE MATURITIES, INCLUDING INTEREST
DECEMBER 31, 2015**

	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>
Capitalized Leases				
Halper Box	\$ 199,914	\$ 154,612	\$ -	\$ -
Cord Sets	118,888	117,975	92,475	-
Discount Steel - A	237,800	241,906	240,356	184,725
Kristol Properties	172,912	172,019	175,869	179,206
Infinite Graphics	162,975	162,475	166,700	165,375
Hennepin Theatre Trust	1,561,035	1,562,438	1,561,995	1,564,708
Ambassador Press	893,637	895,488	959,998	323,420
Quality Resource Group	262,932	260,616	263,028	264,523
New French Acquisition Holdco, Inc. (Taxable and Tax Exempt)	804,450	804,794	806,988	802,900
Open Systems International	1,367,858	1,363,686	1,362,615	1,364,743
Open Access Technology International, Inc. (Taxable and Tax Exempt)	2,145,681	2,151,763	2,149,963	2,149,781
LifeSource Project	860,775	861,025	855,975	860,775
Total Capitalized Lease Maturities	<u><u>\$ 8,788,857</u></u>	<u><u>\$ 8,748,797</u></u>	<u><u>\$ 8,635,962</u></u>	<u><u>\$ 7,860,156</u></u>

NOTE 8
(Continued)

<u>2020</u>	<u>2021-2025</u>	<u>2026-2030</u>	<u>2031-2035</u>	<u>2036-2040</u>	<u>Total</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 354,526
-	-	-	-	-	329,338
-	-	-	-	-	904,787
177,031	530,226	-	-	-	1,407,263
163,775	661,675	-	-	-	1,482,975
1,565,268	7,816,325	7,819,155	7,814,570	-	31,265,494
315,620	1,550,925	308,850	-	-	5,247,938
265,450	1,316,425	527,924	-	-	3,160,898
802,788	4,026,106	2,412,500	-	-	10,460,526
1,365,385	6,792,175	6,761,815	6,728,438	6,673,375	33,780,090
2,152,288	6,521,876	6,524,687	6,520,900	6,522,200	36,839,139
856,575	4,286,675	4,287,475	4,289,650	3,431,688	20,590,613
\$ 7,664,180	\$ 33,502,408	\$ 28,642,406	\$ 25,353,558	\$ 16,627,263	\$ 145,823,587

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REBECCA OTTO
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 (GARFS) as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise GARFS' basic financial statements, and have issued our report thereon dated April 20, 2016.

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) and 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 management of the City of Minneapolis 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 20, 2016

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