

For the fiscal year ended December 31, 2003

(Dollar Amounts Expressed in Thousands)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the City of Minneapolis (City) have been prepared in conformity with Generally Accepted Accounting Principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the City's accounting policies are described below.

A - REPORTING ENTITY

The City is a municipal corporation governed by a Mayor-Council form of government. It was incorporated in 1867, and it adopted a Charter on November 2, 1920. The Mayor and 13 City Council Members from individual wards are elected for terms of four years without limit on the number of terms that may be served. The Mayor and City Council are jointly responsible for the annual preparation of a budget and a five-year capital improvement program. The Mayor has veto power, which the Council may override with a vote of nine members. The City employs a Finance Officer who is charged with maintaining and supervising the various accounts and funds of the City as well as several boards and commissions.

As required by GAAP, the basic financial statements present the reporting entity which consists of the primary government, organizations for which the primary government is financially accountable and other organizations for which the nature and significance of their relationship with the primary government are such that exclusion could cause the City's basic financial statements to be misleading or incomplete.

BLENDED COMPONENT UNIT

The following component unit has been presented as a blended component unit because the component unit's governing body is substantially the same as the governing body of the City, or the component unit provides services almost entirely to the primary government. The Minneapolis Community Development Agency (MCDA) was previously presented as a blended component unit and was merged by ordinance with the City as of August 24, 2003 as the Department of Community Planning and Economic Development (CPED).

▪ Board of Estimate and Taxation

The Board of Estimate and Taxation (BET) is established under Chapter 15 of the City Charter. It is composed of seven members, two of whom are elected by voters of the City. The Mayor, or the Mayor's appointee, the President of the City Council, and the Chair of the City Council's Ways and Means/Budget Committee are ex-officio members of the board. The Minneapolis Park and Recreation Board and Minneapolis Library Board annually select one of its members to serve on the Board of Estimate and Taxation. By action of the City Council, or such other governing board of a department requesting the sale of bonds, the Board of Estimate and Taxation may vote to incur indebtedness and issue and sell bonds and pledge the full faith and credit of the City for payment of principal and interest. The Board of Estimate and Taxation also establishes the maximum property tax levies for most City funds and maintains responsibility for the City's internal audit function, which includes component units of the City.

DISCRETELY PRESENTED COMPONENT UNITS

The component unit column in the government-wide financial statements includes the financial data of the City's other component units. The units are reported in a separate column to emphasize that they are legally separate from the City but are included because the primary government is financially accountable and is able to impose its will on the organizations. These units subscribe to the accounting policies and procedures of the primary government.

▪ Minneapolis Library Board

The Minneapolis Library Board (Library Board) was established according to Chapter 17 of the City Charter. It is an eight-member board, six of whom are elected for four-year terms by voters of the City. The Mayor and the City Council each appoint one member. The Library Board is responsible for operating and maintaining libraries located throughout the City. The Mayor recommends the tax levies and budget for the Library Board and the City Council and Mayor approve the allocations of the state's local government aid for Library Board operations. The Board of Estimate and Taxation approves the property tax levy for the Library Board, and the full faith and credit of the City

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NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**▪ Minneapolis Library Board (continued)**

secure debt issued for projects benefiting the Library Board. The City Finance Officer serves as Treasurer of the Library Board. Complete financial statements for the Library Board can be obtained from the Minneapolis Public Library at 250 Marquette Avenue, Minneapolis, Minnesota, 55401-2188.

▪ Minneapolis Park and Recreation Board

The Minneapolis Park and Recreation Board (Park Board) was established according to Chapter 16 of the City Charter. The nine-member board is elected by the voters of the City and is responsible for developing and maintaining parkland and parkways as well as planting and maintaining the City's boulevard trees. The Mayor recommends the tax levies and budget for the Park Board, and the City Council and Mayor approve the allocation of the state's local government aid for Park Board operations. All Park Board actions are submitted to the Mayor and a mayoral veto may be overridden by a vote of two thirds of the members of the Park Board. The Board of Estimate and Taxation approves the maximum property tax levy for the Park Board, and the full faith and credit of the City secure debt issued for Park Board projects. The City Finance Officer acts as Treasurer of the Park Board. Complete financial statements for the Park Board can be obtained from the Minneapolis Park and Recreation Board at 2117 West River Road, Minneapolis, Minnesota, 55411.

▪ Municipal Building Commission

The Municipal Building Commission (MBC) is an organization established January 4, 1904, by the State of Minnesota, to operate and maintain the City Hall/County Court House Building, which was erected pursuant to Chapter 395 of the Special Laws of 1887. The four commissioners are, the Chairman of the Hennepin County Board of Commissioners, the Mayor of the City of Minneapolis, an appointee of the Hennepin County Board, and an appointee of the Minneapolis City Council. The Mayor recommends the tax levy and budget for the City's share of the MBC's operations and the City Council and Mayor approve the allocation of the state's local governmental aid to the MBC.

RELATED ORGANIZATIONS

The City's officials are also responsible for appointing members of the boards of other organizations, but the City's accountability for these organizations does not extend beyond making the appointments. The following organizations are related organizations, which have not been included in the reporting entity:

▪ Metropolitan Sports Facilities Commission

The Metropolitan Sports Facilities Commission (Commission) is an appointed commission established under 1977 Minnesota laws. Of the seven members of the Commission, the City of Minneapolis appoints six. The Commissioners serve four-year terms and removal is for cause only. The primary responsibility of the Commission is to serve as owners, operators, and landlords of the Hubert H. Humphrey Metrodome Sports Facility in Minneapolis. Major tenants of the Metrodome Sports Facility are the Minnesota Twins and the Minnesota Vikings. Complete financial statements for the Commission can be obtained from the Metropolitan Sports Facilities Commission at 900 South Fifth Street, Minneapolis, Minnesota, 55415-1903.

▪ Minneapolis Public Housing Authority

The Minneapolis Public Housing Authority (MPHA) is the public agency responsible for administering public housing and Section 8 rental assistance programs for eligible individuals and families in Minneapolis. A nine-

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NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**RELATED ORGANIZATIONS****▪ Minneapolis Public Housing Authority (continued)**

member Board of Commissioners governs MPHA. The Mayor of Minneapolis appoints the Board Chairperson and four Commissioners; four Commissioners (one of whom must be a public housing family development resident) are appointed by the City Council. The mission of the MPHA is to provide well-managed high-quality housing for eligible families and individuals; to increase the supply of affordable rental housing; and to assist public housing residents in realizing goals of economic independence and self-sufficiency. Complete financial statements for the MPHA can be obtained from the Minneapolis Public Housing Authority at 1001 Washington Avenue North, Minneapolis, Minnesota, 55401-1043.

JOINT VENTURES

The City is a participant in several joint ventures in which it retains an ongoing financial interest or an ongoing financial responsibility.

▪ Minneapolis/Saint Paul Housing Finance Board

The Minneapolis/Saint Paul Housing Finance Board was established in accordance with a Joint Powers Agreement entered into between the Housing and Redevelopment Authority of the City of Saint Paul and the City of Minneapolis and accepted by both cities under State of Minnesota laws. The City of Minneapolis oversight responsibility of the Board is limited to its governing body's ability to appoint only three of the six members of the Board. The territorial jurisdiction of the Board extends beyond the corporate limits of the City of Minneapolis. The percentage share of the City in the Board's assets, liabilities and equity cannot be determined at fiscal year-end. Complete financial statements for the Minneapolis/Saint Paul Housing Finance Board can be obtained from the City of Minneapolis CPED office at Suite 700, Crown Roller Mill, 105 Fifth Avenue South, Minneapolis, Minnesota 55401-2534.

▪ Minneapolis Neighborhood Revitalization Policy Board

The Minneapolis Neighborhood Revitalization Policy Board (NRPB) was established in accordance with a Joint Powers Agreement entered into between the Hennepin County Board of Commissioners, the Board of Directors of Special School District No. 1, the Library Board, the Park Board, and the Mayor and City Council under authority of State of Minnesota laws. The NRPB is composed of 20 members and includes public officials as well as representatives of neighborhood and community interest organizations.

The majority of members are persons other than the representatives of the jurisdictions, which entered into the Joint Powers Agreement. The percentage of each jurisdiction's share in the NRPB's assets, liabilities, and equity cannot be determined at fiscal year-end. Complete financial statements for the NRPB can be obtained from the Minneapolis Neighborhood Revitalization Policy Board at Suite 425, Crown Roller Mill, 105 Fifth Avenue South, Minneapolis, Minnesota, 55401-2585.

▪ Minneapolis Youth Coordinating Board

The Minneapolis Youth Coordinating Board (YCB) was established in accordance with a Joint Powers Agreement entered into between the Hennepin County Board of Commissioners, the Board of Directors of Special School District No. 1, the Library Board, the Park Board, the Mayor and the City Council under authority of State of Minnesota laws. The YCB, which numbers 12 in size, includes the Mayor, two members each from the Hennepin County Board of Commissioners and the Board of Directors of Special School District No. 1, two representatives from the City Council, one member each from the Park Board and Library Board, one member each from the Minneapolis State Legislature House and Senate delegations, and a Judge assigned by the Chief Judge of the District Court. The percentage of each jurisdiction's share in the YCB's assets, liabilities, and equity cannot be determined at fiscal year-end. Complete financial statements for the YCB can be obtained from the Minneapolis Youth Coordinating Board at the Towle Building, 330 2nd Avenue South, Room 540, Minneapolis, Minnesota 55401.

For the fiscal year ended December 31, 2003

(Dollar Amounts Expressed in Thousands)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**B – CHANGES IN ACCOUNTING PRINCIPLE***GASB Statement No. 39*

In May 2002, the GASB issued Statement No. 39, *Determining Whether Certain Organizations Are Component Units*. This statement is effective for the City for the year ending December 31, 2004. Generally, this statement requires reporting, as a component unit, an organization that raises and holds economic resources for the direct benefit of a governmental unit. The effect of GASB Statement No. 39 on the City's fiscal year 2004 financial statements has not been determined.

C – BASIS OF PRESENTATION**GOVERNMENT-WIDE FINANCIAL STATEMENTS**

The *statement of net assets* and *statement of activities* display information about the primary government (the City) and its component units using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider, if any, have been met. These statements include the financial activities of the overall government, except for fiduciary activities. Eliminations have been made to minimize the double counting of internal activities. These statements distinguish between *governmental* and *business-type activities* of the City and between the City and its discretely presented component units. *Governmental* activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type* activities, which rely, to a significant extent on fees charged to external parties.

The *statement of activities* presents a comparison between direct expenses and program revenues for each segment of the *business-type* activities of the City and for each function of the City's *governmental* activities. Direct expenses are those that are specifically associated with a program or function, and therefore, are clearly identifiable to a particular function. Program revenues include 1) charges paid by the recipients of goods and services offered by the programs and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues not classified as program revenues, including all taxes, are presented as general revenues.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

FUND FINANCIAL STATEMENTS

The accounts of the City are organized and operated on the basis of funds. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds is maintained consistent with legal and managerial requirements.

The fund financial statements provide information about the City's funds. Funds are classified into three categories: *Governmental*, *Proprietary*, and *Fiduciary*, each category is divided into separate fund types. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are separately aggregated and reported as non-major funds.

Proprietary fund *operating* revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. *Nonoperating* revenues, such as subsidies and investment earnings, result from nonexchange transactions or ancillary activities.

For the fiscal year ended December 31, 2003

(Dollar Amounts Expressed in Thousands)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**C – BASIS OF PRESENTATION (continued)****GOVERNMENTAL FUNDS**

All governmental funds are reported using the current financial resources measurement focus and are accounted for using the modified accrual basis of accounting. Their revenues are recognized when they become measurable and available as net current assets. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Tax revenues are recognized in the year for which the taxes are levied. Property tax levies are approved and certified to the County in December prior to the year collectible. The County acts as a collection agency. Such tax levies constitute a lien on the property on January 1st of the year collectible. Taxes are payable to the County in two installments by the fifteenth day of May and the fifteenth day of October. City property taxes are recognized as revenues when they become measurable and available to finance expenditures of the current period.

Major revenues that are determined to be susceptible to accrual include property taxes, special assessments, grants-in-aid, intergovernmental revenues, rentals, and Intra-city charges. Interest on investments, short-term notes and loans receivable are accrued; interest on special assessments receivable is not accrued. Major revenues that are determined not to be susceptible to accrual because they are not available soon enough to pay liabilities of the current period or are not objectively measurable include delinquent property taxes and assessments, licenses, permits, fines and forfeitures.

Governmental fund expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred, except for principal and interest on general long-term debt which is recognized when due. Compensated absences, which include accumulated unpaid vacation, compensatory time and severance pay, are not payable from expendable available financial resources, except to the extent there are available resources in the Self-Insurance Internal Service Fund for vested severance pay. Compensated absences are considered expenditures when paid to employees.

The accounting and reporting treatment applied to the assets and liabilities associated with a fund are determined by its measurement focus. All governmental funds are accounted for on a spending, or "financial flow," measurement focus. This means that only current assets and current liabilities, as defined by GAAP, are generally included on the balance sheets. Reported fund balance (net current assets) is considered a measure of "available spendable resources." Governmental fund operating statements present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Accordingly, governmental funds are said to present a summary of sources and uses of "available spendable resources" during a period.

Special reporting treatments are also applied to governmental fund inventories to indicate that the inventories do not represent "available spendable resources," even though they are a component of net current assets.

Because of their spending measurement focus, expenditure recognition for governmental fund types is limited to exclude amounts represented by non-current liabilities. Since they do not affect net current assets, long-term amounts are not recognized as governmental fund type expenditures or fund liabilities. They are instead reported as liabilities in the government-wide statement of net assets and statement of activities.

The City reports the following major governmental funds:

- **General Fund**

The General Fund is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund. For the City, the General Fund includes such activities as public safety, public works, health and welfare, and general government administration.

- **Special Revenue Fund - Community Planning and Economic Development**

This fund is used to account for the activities of the Department of Community Planning and Economic Development (CPED). CPED is responsible for promoting the City's planning and community development goals in the areas of housing development, economic development, community planning, development services, workforce development and strategic partnerships.

For the fiscal year ended December 31, 2003

(Dollar Amounts Expressed in Thousands)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**C – BASIS OF PRESENTATION****GOVERNMENTAL FUNDS (continued)**

- **Special Revenue Fund - Convention Center**
This fund is used to account for the ownership, maintenance and operations of the Minneapolis Convention Center, along with the proceeds of local sales and use taxes.
- **Special Revenue Fund - Employee Retirement Fund**
This fund is used to account for the activities of the three closed retirement funds of the City including the Minneapolis Employees Retirement Fund, the Minneapolis Firefighter's Relief Association and the Minneapolis Police Relief Association.
- **Capital Project Fund - Permanent Improvement**
This fund is used to account for capital acquisition, construction and improvement projects including bridge construction, sidewalk construction, street construction, completion of the Minneapolis Convention Center, energy conversion projects, infrastructure projects, and many information and technology system projects.
- **Debt Service Fund - Development**
This fund is used primarily to account for debt of projects supported by property tax increments, transfers of sales tax revenues from the Convention Center Special Revenue Fund for related debt, and a state grant relating to completion of the Convention Center.

PROPRIETARY FUNDS

Proprietary funds are accounted for using the accrual basis of accounting. Revenues are recognized when they are earned. Unbilled utility service receivables are recorded at year-end. Expenses are recognized when they are incurred. Compensated absences are considered expenses when they are incurred.

In accordance with GASB Statement No. 20-Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that use Proprietary Fund Accounting, the City has chosen not to apply accounting standards issued by the Financial Accounting Standards Board after November 30, 1989, to its proprietary funds.

All proprietary funds are accounted for on a cost of services or "capital maintenance" measurement focus. This means that all assets and all liabilities (whether current or non-current) associated with their activity are included on the balance sheets. Their reported net assets are categorized as invested in capital assets net of related debt, restricted, and unrestricted. Proprietary fund type operating statements present increases (revenues) and decreases (expenses) in net total assets.

Depreciation of all exhaustible capital assets used by proprietary funds is charged as an expense against their operations. Accumulated depreciation is reported on proprietary fund balance sheets.

Interest is capitalized on proprietary fund assets acquired with tax-exempt debt. The amount of interest to be capitalized is calculated by offsetting interest expense incurred from the date of the borrowing until completion of the project against interest earned on invested proceeds over the same period.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. *Operating* revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing business operations. The principal operating revenues of the City's enterprise and internal service funds are charges to customers for sales and services. *Operating* expenses for the City's enterprise funds and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

For the fiscal year ended December 31, 2003

(Dollar Amounts Expressed in Thousands)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**C – BASIS OF PRESENTATION****PROPRIETARY FUNDS (continued)****Enterprise Funds**

Enterprise funds are used to account for operations: (a) that are financed and operated in a manner similar to private business enterprises--where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

The City reports the following major enterprise funds:

- **Sewer Rental Fund**
This fund is used to account for sewage fees collected from customers connected to the City's sewer system and for all expenses of operating this system. This fund also accounts for storm water management activities.
- **Solid Waste and Recycling Fund**
This fund is used to account for the revenues and expenses for solid waste collection, disposal and recycling activities.
- **Water Works Fund**
This fund is used to account for the operation, maintenance, and construction projects related to the water delivery system. This fund also accounts for the operations related to the billings for water, sewage, and solid waste fees.
- **Community Planning and Economic Development Fund**
This fund is used to account for the enterprise fund activities of the Department of Community Planning and Economic Development.
- **Municipal Parking Fund**
This fund is used to account for the operation, maintenance, and construction of the City's parking facilities as well as on-street parking and the Municipal Impound Lot.

Additionally, the City reports the following fund types:

- **Internal Service Funds**
Internal service funds are used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the City, or to other governments, on a cost-reimbursement basis. The internal service funds used by the City include:
 - **PublicWorks Stores** – This fund is used to account for centralized procurement, warehousing, and distribution of stocked inventory items, as well as the purchase of special goods and services.
 - **Engineering Materials and Testing** – This fund is used to account for operations of the City's paving products laboratory.
 - **Intergovernmental Services** – This fund is used to account for information technology service, central mailing and printing services, and the City's telecommunication operations.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

C – BASIS OF PRESENTATION (continued)

Permanent Improvement Equipment – This fund is used to account for the ownership and operation of various equipment and vehicles. The fund operates as a rental agent to various departments to support the construction and maintenance of city infrastructure, fire protection services, and police services.

Property Services – This fund is used to account for the physical management and maintenance of various City buildings, except for the City/Hall/County Court House building.

Self-Insurance – This fund is used to account for employee benefit programs and administrative costs, occupational health services and severance payments to employees who have retired or resigned, a tort liability program and a workers’ compensation program.

▪ **Agency Funds**

Financial statements of agency funds, which are used to account for assets held by the City as an agent for individuals, private organizations, other governments, and/or other funds, are reported using the economic resources measurement focus and the accrual basis of accounting. Agency funds assets, liabilities, and net assets are included in the fiduciary statement of net assets and the related results of operations are included in the statement of changes in fiduciary net assets.

- **The Minneapolis Agency** - Used to account for collection and remittance of funds to other governments and agencies.
- **The Skyway Debt Service Agency** - Used to account for the collection and payment of funds related to the debt service for the skyway system.

D – BUDGETS

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the general and special revenue funds. Capital projects funds adopt project-length budgets and budgetary control for debt service funds is achieved through general obligation bond indenture provisions.

The 2002 process for the 2003 budget involved the following:

January - March	City department heads presented annual work plans and accomplishments to Executive Committee; referred then to relevant Policy Committee for review and file. Finance Department presented preliminary year-end budget status report to Ways and Means/Budget Committee.
March - April	Capital Improvement Budget Development – Capital improvement proposals were reviewed by the Budget Coordination Unit, the City Planning Commission and the Capital Long-Range Improvement Committee (CLIC).
April	Preliminary Strategic Plan – The City Council and Mayor met to concentrate on financial and community development.
April - June	Operating Budget Development – Departments prepared department operating budget requests; “Current Service Level Budgets” reflected current year costs of providing the same level of service as provided in the prior year, and proposals which describe policy and organizational changes with financial implications.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

D – BUDGETS (continued)

June - August	The Mayor held departmental hearings to review operating budgets and met with representatives from CLIC in preparation of finalizing the capital budget recommendation. The Mayor prepared and submitted a budget framework to the City Council no later than August 15, including a recommendation on annual property tax levy amounts.
September – October	The Board of Estimate and Taxation set the maximum property tax levy for the City, Municipal Building Commission, Public Housing Authority, Library Board and Park Board by September 15, as required by state law. The City Council met on strategic planning and addressed mission, goals, and key business decisions.
October – November	The City Council held public hearings on the budget. Departments presented their Mayor-Recommended Department Budgets to the Ways and Means/Budget Committee with all Council Members present, and the Committee approved and moved forward a final recommended budget to the City Council.
November - December	“Truth in Taxation” property tax statements mailed by the County to property owners indicating the maximum amount of property taxes that the owner will be required to pay.
December	“Truth in Taxation” public hearings held. The City Council adopted a final budget and tax levy.

The legal level of budgetary control is at the department level within a fund. The City Coordinator’s Office and the Public Works Department are considered to be legal levels of budgetary control within a fund even though budgetary data is presented at the level of the Departments within the Coordinator’s Office and the Divisions within the Public Works Department. Budgetary amendments at the department/fund level must be approved by the City Council. Appropriations lapse at year-end.

Purchase orders, contracts, and other commitments are recorded as encumbrances, which reserve appropriation authority. This accounting practice is an extension of formal budgetary integration in the general and special revenue funds. Encumbrances outstanding at year-end are reported as reservations of fund balance and do not represent GAAP expenditures.

Supplemental budget revisions were made during the course of the year and the effects of these revisions are summarized below:

	Expenditure Budget at beginning of year	Changes during year	Expenditure Budget at end of year
General Fund	\$265,539	(\$10,758)	\$254,781
Grants – Federal	12,771	21,705	34,476
CDBG	21,584	4,420	26,004
Grants - Other	7,490	8,862	16,352
Convention Center	65,427	925	66,352
Employee Retirement	28,119	68,010	96,129
Municipal Building Comm.	7,261	34	7,295
Police Special Revenue	1,156	336	1,492
Arena Reserve	-	2,016	2,016
CPED Special Revenue	102,622	238,677	341,299
TOTAL	\$511,969	\$334,227	\$846,196

For the fiscal year ended December 31, 2003

(Dollar Amounts Expressed in Thousands)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**E - DEPOSITS AND INVESTMENTS**

The City's cash and cash equivalents are considered to be cash on hand, demand deposits and investments with original maturities of three months or less from the date of purchase. The City maintains a general portfolio which is a pool of investments covering pooled cash and cash equivalents for the primary government as well as the discretely presented component units of the Park Board and the Library Board. The City has contracted with three investment management firms for management of some of these investments. The City also, from time to time, invests non-pooled cash within individual funds. All investments are reported at fair value.

Minnesota Statutes Chapter 118A and the City Charter require the city to collateralize deposits at designated depositories. The City Finance Officer has arranged for the Federal Reserve Bank of Minneapolis to act as the City's agent in the safekeeping of securities as collateral.

In accordance with Minnesota Statutes Chapter 118A, and with the City Charter, the City invested in (1) direct, guaranteed or insured obligations of the U.S. Treasury, (2) shares of an investment company (with restrictions), (3) general obligations of government jurisdictions (with restrictions), (4) bankers acceptances, (5) commercial paper, (6) guaranteed investment contracts (with restrictions), (7) repurchase agreements (with restrictions) and (8) common stock (restricted to Library Board and as authorized by 1967 Minnesota laws).

The City and its investment management firms will exercise extreme caution in the use of derivative instruments, keeping abreast of future information on risk management issues and will consider derivatives only when a sufficient understanding of the products and expertise to manage them has been developed and analyzed. Any derivatives will also be required to pass the stress testing requirements of Minnesota Statutes Chapter 118A.

Interest income in the investment pool, net of daily amortization of premiums and discounts, is calculated monthly and allocated to participating funds based on each fund's share of equity (positive or negative) in the investment pool. Some funds, such as debt service funds, retain their monthly allocation of interest income while other funds, which are not required to retain their allocated interest, pass the interest on to either the City General Fund or to the Community Planning and Economic Development Special Revenue Fund. The proprietary funds of the City may, from time to time, have negative equity in the investment pool and as a result may be required to pay a Capital Use Charge as Interest on Interfund Loans based on Council policy. Also, periodically the City distributes interest income from its General Fund to various projects below the fund level, as may be required, on the basis of the calculated average daily cash balance of the project and the average yield of the City's general portfolio.

F - INVENTORIES OF MATERIALS AND SUPPLIES

Depending on the nature of the item, inventories are valued using the moving average valuation method or using the last price of the item purchased. Also, and depending on the nature of the item or the fund in which the inventory is recorded, the costs of inventories are recorded as expenses/expenditures when purchased, or when consumed rather than when purchased. Governmental fund inventories are recorded as expenditures at the time the inventory is consumed. Reported inventories of governmental funds are equally offset by a fund balance reservation to indicate that portion of fund balance not available for future appropriation. Inventory recorded in the proprietary funds is expensed as the supplies and materials are consumed.

G - LOANS RECEIVABLE

Loans receivable recorded in the governmental funds consist of business loans using funds provided through state and federal grants and loan recaptures. The loans have been collateralized and call for periodic payments of principal and interest.

Loans receivable recorded in the enterprise funds consist primarily of low interest home improvement and home mortgage loans, which are secured by either a first or second mortgage. Interest on loans is recorded where applicable.

Several developers under various financial arrangements have agreed to pay back development loans only if certain events occur. Because the likelihood of these events occurring is unknown, these loans are not presented in the accompanying financial statements. These loans include redevelopment agreements, neighborhood economic, commercial, and housing

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

G – LOANS RECEIVABLE (continued)

development loans, and second mortgages on rehabilitated homes. Some of these loans may be forgiven for continued owner occupancy, the attainment of certain employment goals, or the continuation of specified services.

H – CAPITAL ASSETS

Capital assets (including infrastructure) are recorded at historical cost or at estimated historical cost if actual historical cost is not available. Contributed capital assets are valued at their estimated fair market value on the date contributed. Capital assets include infrastructure (e.g. roads, bridges, water/sewer, and lighting systems), land, buildings, improvements, and equipment. The City defines capital assets as assets with an individual cost of more than \$5,000; or \$35,000 per group of assets by year for bike paths, street signage, street lighting and traffic signals; and \$100,000 per group of assets for parking meters. Capital assets used in operations are depreciated or amortized (assets under capital leases) using the straight-line method over the lesser of the capital lease period or their estimated useful lives in the government-wide statements and proprietary funds.

The estimated useful lives are as follows:

Infrastructure	15 to 100 years
Structures and Improvements	25 to 50 years
Equipment	5 to 15 years
Public Improvements	20 to 40 years

Maintenance and repairs are charged to operations when incurred. Betterments and major improvements, which significantly increase values, change capacities or extend useful lives, are capitalized. Upon sale or retirement of fixed assets, the cost and related accumulated depreciation are removed from the respective accounts and any resulting gain or loss is included in the results of operations.

I – COMPENSATED ABSENCES

The City accrues compensated absences (annual and sick leave benefits) when vested. The current portions of the governmental funds’ compensated absences liabilities are recorded as other liabilities in the Self-Insurance Internal Service Fund. The non-current portions are recorded in the government-wide financial statements and represent a reconciling item between the fund and government-wide presentation. The City typically liquidates the liability for compensated absences to the fund where employees’ salaries were originally charged.

J – INTERFUND TRANSACTIONS

Interfund transactions are reflected as either loans, services provided, reimbursements or transfers. Loans are reported as receivables or payables where appropriate, are subject to elimination upon consolidation and are referred to as either “due to/from other funds” (i.e., current portion of interfund loans) or “advances to/from other funds” (i.e. non current portion of interfund loans). Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as “internal balances.” Advances to other funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate they are not available for appropriation and are not available financial resources.

Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures/expenses. Reimbursements occur when a fund incurs costs that are eventually repaid through charges to the benefiting fund. All other interfund transactions are treated as transfers. Transfers between governmental or proprietary funds are netted as part of the reconciliation to the government-wide presentation.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

K - PROPERTIES HELD FOR RESALE - ENTERPRISE FUNDS

Properties held for resale in the Community Planning and Economic Development Enterprise Fund have been obtained as a result of repossessions in default situations. Repossessed properties are held solely to be re-marketed as part of the ongoing operations of the programs. They are valued at the outstanding principal balance of the related bonds, which is not in excess of the realizable value; or are valued at the amount of the related loan balance at the time of default plus subsequent improvement costs.

L - DEBT SERVICE AND REQUIREMENTS

The debt service funds service all long-term obligations with the exception of bonds payable recorded within the proprietary funds. Some general long-term debt obligations are serviced in part by Council approved transfers from enterprise funds. Minnesota State Law requires agencies issuing general obligation bonds to certify an irrevocable tax levy to the County Auditor covering annual principal and interest requirements plus 5% (deducting, in certain cases, estimated tax increments and certain other revenue) at the time bonds are issued. The annual tax levy can be reduced by an amount equal to the issuing agency's annual certification of funds on hand.

M – RECLASSIFICATIONS

Certain reclassifications have been made to prior year’s data to conform to the December 31, 2003 financial statement presentation. These reclassifications had no effect on income or fund equity as previously reported.

N – ESTIMATES

The preparation of basic financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

NOTE 2 – PRIOR PERIOD ADJUSTMENTS

Net assets at January 1, 2003 have been adjusted to reflect corrections made to accurately present fixed assets, accumulated depreciation and related liability amounts in the Intergovernmental Services Internal Service Fund as follows:

Depreciation adjustment to reflect change in service dates and betterment correction	\$ 9,786
Public Works liability not transferred with assets in 2002	<u>(1,920)</u>
Change in Net Assets	\$ 7,866
Net Assets, December 31, 2002	<u>(40,850)</u>
Adjusted Net Assets, January 1, 2003	<u>(\$ 32,984)</u>

NOTE 3 – DEPOSITS AND INVESTMENTS

The City’s and its discretely presented component units’ bank balances of deposits at December 31, 2002, were entirely insured or collateralized with securities held and segregated by the Federal Reserve in the name of the City or the MCDA. The City does not maintain a separate record of investments for discretely presented component units. As a result, the investment amounts reported by Credit Risk Category include the primary government and discretely presented component units.

Investments are categorized into three categories of custodial credit risk as follows:

For the fiscal year ended December 31, 2003

(Dollar Amounts Expressed in Thousands)

NOTE 3 – DEPOSITS AND INVESTMENTS (continued)

- Insured or registered, or securities held by the City or its agent in the City’s name.
- Uninsured and unregistered, with securities held by the counterparty’s trust department or agent in the City’s name.
- Uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent but not in the City’s name.

Investments at December 31, 2003:

Security Type	Custodian Credit Risk Category			Fair Value
	1	2	3	
U.S. Treasury Obligations	\$ 53,116	\$ -	\$ -	\$ 53,116
U.S. Federal Agency Obligations	246,774	-	-	246,774
Municipal Bonds	33,157	-	1,050	34,207
Corporate Bonds	-	-	572	572
Common Stock	-	-	3,815	3,815
	<u>\$ 333,047</u>	<u>\$ -</u>	<u>\$ 5,437</u>	
Mutual Fund				235,115
Insurance Annuities - Trustee				396
Guaranteed Investment Contracts				11,189
Total				<u>\$ 585,184</u>

Deposits and investments as described above appear in the financial statements consistent with the following analysis:

Deposits	\$ 8,491
Investments	585,184
Imprest cash held by City	235
Total	<u>\$ 593,910</u>
Primary Government:	
Cash and cash equivalents	\$ 465,630
Fund investments	33,789
Deposits with fiscal agents	396
Investment with trustees	58,876
Total primary government	<u>558,691</u>
Discretely Presented Component Units:	
Park and Recreation Board:	
Cash and cash equivalents	<u>21,616</u>
Library Board:	
Cash and cash equivalents	7,076
Fund investments	5,663
Total Library Board	<u>12,739</u>
Municipal Building Commission:	
Cash and cash equivalents	<u>864</u>
Total	<u>\$ 593,910</u>

NOTE 4 - RECEIVABLES

Receivables at year-end for the City’s major individual governmental and enterprise funds and non-major and internal service funds in the aggregate, including applicable allowances for uncollectable amounts are as follows:

	General Fund	CPED	Convention Center	Employee Retirement	Permanent Improvement	Non-major Governmental Funds	Internal Service Funds	Total Governmental Activities
Governmental Activities								
Accounts	\$ 5,603	\$ 1,183	\$ 5,795	\$ -	\$ 1,742	\$ 265	\$ 713	\$ 15,301
Taxes	1,846	7	-	184	73	769	-	2,879
Special assessments	1,053	-	-	-	3,004	21,289	-	25,346
Loans	-	4,491	-	-	-	1,225	-	5,716
Interest	-	-	-	-	-	-	-	-
Gross receivables	8,502	5,681	5,795	184	4,819	23,548	713	49,242
Add: Interest receivable on loans	-	-	-	-	-	365	-	365
Less: Allowance for uncollectibles	(493)	-	(213)	-	(41)	-	(111)	(858)
Total receivables (due within one year)	\$ 8,009	\$ 5,681	\$ 5,582	\$ 184	\$ 4,778	\$ 23,913	\$ 602	\$ 48,749
Long-term portion of loans and notes receivable	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 8,792	\$ -	\$ 8,792
Business-type Activities			Sewer Rental	Solid Waste and Recycling	Water Works	CPED	Municipal Parking	Total Business-type Activities
Accounts			\$ 4,964	\$ 2,567	\$ 6,527	\$ 1,601	\$ 1,020	\$ 16,679
Special assessments			58	32	1,163	-	6	1,259
Loans			-	-	-	3,605	-	3,605
Notes			-	-	-	655	-	655
Interest			-	-	-	207	-	207
Gross receivables			5,022	2,599	7,690	6,068	1,026	22,405
Less: Allowance for uncollectibles			(12)	-	(240)	-	(14)	(266)
Total receivables (due within one year)			\$ 5,010	\$ 2,599	\$ 7,450	\$ 6,068	\$ 1,012	\$ 22,139
Long-term portion of loans and notes receivable			\$ -	\$ -	\$ -	\$ 9,449	\$ -	\$ 9,449

According to the Basic Resolution and Indenture of the General Agency Reserve Fund System (GARFS) within the CPED Enterprise Fund, agreements are to be formed with developers receiving funds for construction. Such agreements are in the form of capitalized leases or notes receivable.

The annual lease and loan 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. 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 term at amounts at least equal to the outstanding principal amount of the underlying bonds. In the event developers are unable to continue with lease and loan payments, the City takes possession of the developed property.

The future payment requirements for these agreements are as follows:

	Capitalized Leases	Notes Receivable
Scheduled Lease Payments:		
2004	\$ 4,818	\$ 1,072
2005	4,615	1,072
2006	4,413	1,073
2007	4,404	1,066
2008	4,223	1,067
2009 and thereafter	36,647	4,653
Subtotal	59,120	10,003
Less: Interest over lease term	(20,860)	(2,568)
Total Principal	38,260	7,435
Less: Unexpended construction funds	(1,416)	-
Net Capitalized Leases and Notes receivable	36,844	7,435
Less: Current Portion	(2,475)	(655)
Noncurrent Portion	\$ 34,369	\$ 6,780

NOTE 5 – CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2003 was as follows:

	Balance January 1, 2003	Additions	Retirements	Transfers & Adjustments	Balance December 31, 2003
Governmental activities					
<i>Capital assets, not being depreciated</i>					
Land and easements	\$ 111,456	\$ -	\$ -	\$ (165)	\$ 111,291
Construction in progress	62,136	34,406	(8,302)	-	88,240
Total capital assets, not being depreciated	<u>173,592</u>	<u>34,406</u>	<u>(8,302)</u>	<u>(165)</u>	<u>199,531</u>
<i>Capital assets, being depreciated</i>					
Infrastructure	386,886	-	-	2,342	389,228
Structures and improvements	528,487	263	(3,348)	-	525,402
Equipment	125,214	14,753	(17,784)	(15)	122,168
Total capital assets, being depreciated	<u>1,040,587</u>	<u>15,016</u>	<u>(21,132)</u>	<u>2,327</u>	<u>1,036,798</u>
Less accumulated depreciation for:					
Infrastructure	(242,971)	(11,599)	-	(406)	(254,976)
Structures and improvements	(98,501)	(9,949)	2,572	4,487	(101,391)
Equipment	(79,002)	(14,161)	15,061	11,854	(66,248)
Total accumulated depreciation	<u>(420,474)</u>	<u>(35,709)</u>	<u>17,633</u>	<u>15,935</u>	<u>(422,615)</u>
Total capital assets, being depreciated, net	<u>620,113</u>	<u>(20,693)</u>	<u>(3,499)</u>	<u>18,262</u>	<u>614,183</u>
Governmental activities capital assets, net	<u>\$ 793,705</u>	<u>\$ 13,713</u>	<u>\$ (11,801)</u>	<u>\$ 18,097</u>	<u>\$ 813,714</u>
Business-type Activities					
<i>Capital assets, not being depreciated</i>					
Land and easements	\$ 131,855	\$ -	\$ (1,032)	\$ 5,601	\$ 136,424
Construction in progress	95,943	56,446	(42,196)	-	110,193
Total capital assets, not being depreciated	<u>227,798</u>	<u>56,446</u>	<u>(43,228)</u>	<u>5,601</u>	<u>246,618</u>
<i>Capital assets, being depreciated</i>					
Infrastructure	382,547	-	-	-	382,547
Structures and improvements	508,610	27,054	-	9,189	544,853
Equipment	23,135	1,012	(674)	(7)	23,466
Total capital assets, being depreciated	<u>914,292</u>	<u>28,066</u>	<u>(674)</u>	<u>9,182</u>	<u>950,866</u>
Less accumulated depreciation for:					
Infrastructure	(104,764)	(12,170)	-	-	(116,934)
Structures and improvements	(168,972)	(9,984)	-	-	(178,956)
Equipment	(12,484)	(2,921)	669	-	(14,736)
Total accumulated depreciation	<u>(286,220)</u>	<u>(25,075)</u>	<u>669</u>	<u>-</u>	<u>(310,626)</u>
Total capital assets, being depreciated, net	<u>628,072</u>	<u>2,991</u>	<u>(5)</u>	<u>9,182</u>	<u>640,240</u>
Business-type activities capital assets, net	<u>\$ 855,870</u>	<u>\$ 59,437</u>	<u>\$ (43,233)</u>	<u>\$ 14,783</u>	<u>\$ 886,858</u>

The transfers and adjustments represent changes related to capital asset betterments based on a subsequent evaluation of the capital asset betterment policy.

Depreciation expense was charged to governmental functions as follows:

General government	\$ 6,934
Public Safety	1,059
Public Works	11,765
Health and Welfare	11
Community Development	2,123
Depreciation on capital assets held in the City's internal service fund is charged to the various functions based on their usage of assets.	<u>13,817</u>
Total depreciation expense – governmental functions	<u>\$ 35,709</u>

NOTE 5 – CAPITAL ASSETS (continued)

Depreciation expense was charged to the business-type functions as follows:

Sewer	\$ 13,360
Solid Waste and Recycling	960
Water Works	4,595
Economic Development	1,328
Municipal Parking	<u>4,832</u>

Total depreciation expense – business-type functions	<u>\$25,075</u>
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Construction in Progress

Construction in progress for the governmental activities represents work in the following areas:

Property Services	\$22,542
Convention Center	4,055
Street Lighting	847
Street Signage	122
Traffic Signals	1,609
Bicycle Trail	770
Street Construction	50,480
Bridge Construction	6,550
Paving Lab	9
Equipment	119
Business Information Services	<u>1,137</u>
Total CIP for Governmental Activities	<u>\$88,240</u>

Construction in progress for the business-type activities represents work in the following areas:

Sewers	\$46,826
Water	59,874
Parking	<u>3,493</u>
Total CIP for Business-type Activities	<u>\$110,193</u>

Capital Project Commitments

For the year 2004, the City of Minneapolis made Capital Project Commitments for the following:

Property Services	\$3,725
Street Construction	\$17,226
Bridge Construction	\$3,444
Street Lighting	\$488
Traffic Signals	\$2,850
Bicycle Trails	\$9,926
Equipment	\$5,450
Information Technology	\$2,950
Water	\$37,340
Parking	\$180

For the fiscal year ended December 31, 2003

(Dollar Amounts Expressed in Thousands)

NOTE 6 - LONG-TERM DEBT

The City's full faith, credit and taxing power has been pledged to the payment of general obligation debt principal and interest.

General Obligation Bonds (Property Tax Supported)

Various issues of general obligation (GO) bonds are recorded in the Governmental Funds and are backed by the full faith and credit of the City.

General Obligation Bonds (self-supporting)

General obligation self-supporting bonds issued by the City are recorded in the Enterprise Funds, Internal Service Funds or Governmental Funds. While these bonds are backed by the full faith and credit of the City, they are payable from revenue derived from the function for which they were issued.

General Obligation Special Assessment Bonds

General obligation special assessment bonds are recorded in the Governmental Funds and are payable from special assessments levied and collected for local improvements and are backed by the full faith and credit of the City. The general credit of the City is obligated only to the extent that liens foreclosed against properties involved in special assessment districts are insufficient to retire outstanding bonds.

General Obligation Tax Increment Bonds

General obligation tax increment bonds are payable primarily from the increase in property taxes resulting from replacing older improvements with new or remodeled improvements. These bonds are recorded in the Governmental Funds and are also backed by the full faith and credit of the City.

Revenue Bonds and Notes

Revenue bonds and notes are recorded in the Enterprise Funds or Governmental Funds. These bonds and notes are payable solely from revenues of the respective Enterprise Funds or tax increment districts. In addition, the City has pledged one-half percent of tax capacity to secure payment of bond principal and interest on all bonds issued after May 22, 1987, for the General Agency Reserve Fund System (GARFS) bonds within the Community Planning and Economic Development Agency Enterprise Fund.

Sinking Fund Provisions

Sinking fund provisions on certain general obligation bonds require sufficient deposits on or before October 1st of each year to pay all principal and interest amounts coming due on such bonds for the remainder of the current year, and during all of the following year. If this provision is not met, a general tax levy will be made for the balance required.

Minnesota State Laws generally require initial tax levies for general obligation bonds to be at least five percent in excess of the bond and interest maturities less estimated pledged assessments and revenues. The initial tax levies cannot be repealed and can only be modified as they relate to current levies and then only upon certification to the Director of Property Taxation that funds are available to pay current maturities in whole or in part.

For Tax Increment Revenue Refunding Bonds, a separate sinking fund has been provided. These bonds are special limited obligations of the City payable from tax increments and investment earnings in the sinking fund. The City is required to have a reserve in the sinking fund equal to the lesser of maximum principal and interest due on the bonds in any succeeding bond year or 125 percent of average principal and interest due on the bonds in the succeeding bond years. In addition, the Municipal Bond Insurance Association insures payment of principal and interest on the bonds.

2003 Bond Sales

In June 2003, the City issued \$1,725 of General Obligation Tax Increment Bonds, Series 2003A (West Side Milling) and \$6,900 of General Obligation Tax Increment Bonds, Series 2003B (Heritage Park) to fund two ongoing redevelopment projects. The West Side Milling series had interest rates ranging from 2.00% to 3.50% and a final maturity date of March 1, 2015. The Heritage Park series had interest rates ranging from 2.15% to 4.25% and a final maturity date of March 1, 2025. Also issued were \$36,000 of Taxable General Obligation Pension Bonds (MERF)

For the fiscal year ended December 31, 2003

(Dollar Amounts Expressed in Thousands)

NOTE 6 - LONG-TERM DEBT (continued)

to fund pension obligations for the Municipal Employees Retirement Fund. The MERF series had interest rates ranging from 4.75% to 5.00% and a final maturity date of December 1, 2026. Finally, there was \$68,615 of General Obligation Various Purpose Bonds, Series 2003 issued to support the five-year capital plan. These bonds were issued for a variety of public works infrastructure improvements, water, storm drains, park, library, municipal building commission, public safety initiative projects and equipment and technology improvements. The Various Purpose series had interest rates ranging from 2.00% to 4.25% and a final maturity date of December 1, 2025.

In October 2003, the City issued \$6,130 of General Obligation Improvement Bonds, Series 2003 for various special assessment projects. The Improvement Bond series had interest rates ranging from 2.50% to 4.50% and a final maturity date of December 1, 2023. Also issued were \$57,000 of General Obligation Library Bonds, Series 2003 for construction of the new Central Library and improvements to other community libraries. The Library Bonds were issued in variable rate mode with a starting interest rate of .95% and a final maturity date of December 1, 2032. Also issued were \$17,900 of Taxable General Obligation Pension Bonds (MPRA), Series 2003 for pension obligations of the Minneapolis Police Relief Association. The MPRA series were issued in taxable variable rate mode with a starting interest rate of 1.15% and a final maturity date of December 1, 2013.

In December 2003, the City issued \$16,100 of General Obligation Guthrie Parking Ramp Bonds, Series 2003 for design and construction of a portion of a new parking ramp to serve the new Guthrie Theater. The Guthrie Ramp Bonds were issued in variable rate mode with a starting interest rate of .90% and a final maturity date of December 1, 2028. Additional bonds of a similar amount will be sold to complete the balance of this project in 2004 or early 2005.

In 2003, the Community Planning & Economic Development Department, through the GARFS enterprise fund, issued revenue bonds in the amount of \$3,300. The bonds were issued to finance economic development within the city. The bonds have interest rates ranging from 2.45% to 5.12% and a final maturity date of December 1, 2023.

In 2003, the Community Planning & Economic Development Department capitalized accrued interest of \$1,857 for the 1995 Residual Interest Mortgage Revenue Refunding Bonds. The bonds mature on April 1, 2012. A lump-sum payment of \$4,562 is due on that date. Interest payments of \$319 are due annually.

2003 Notes Issued

In December 2002, the City issued a \$27,400 General Obligation Water Revenue Note to the Minnesota Public Facilities Authority. The note is part of the State of Minnesota's Drinking Water Revolving Fund, a federally sponsored below market financing program related to the Safe Drinking Water Act. For this note, the subsidized interest rate is at 2.82% or 1.5% below the market rate on bonds sold by the State of Minnesota to fund the revolving fund. During 2003, the City received additional proceeds of \$12,573 from the State of Minnesota on this note. This note is being used for the construction of the Columbia Heights Water Ultrafiltration Plant and has a final maturity date of August 20, 2022. This program will continue for several years to finance two facilities.

Current Refunding Transactions

In January 2003, the City issued \$26,350 of General Obligation Tax Increment Refunding Bonds, Series 2003 (Laurel Village). These bonds refunded \$26,165 of General Obligation Laurel Village Refunding Bonds, Series 1992 dated September 1, 1992 on the optional call date of March 1, 2003. The refunding bonds have interest rates ranging from 2.00% to 4.20% and a final maturity date of March 1, 2016, the same as the refunded bonds. The refunding resulted in debt service savings of approximately \$3,853 on a present value basis.

In October 2003, the City issued \$15,985 of General Obligation Various Purpose Refunding Bonds, Series 2003. These bonds were used to call for optional redemption on December 1, 2003 \$10,500 Parking Bonds, Series 1993 and \$5,460 Various Purpose Bonds, Series 1993. The Various Purpose Refunding Bonds were issued in variable rate mode with a starting interest rate of .95% and a final maturity date of December 1, 2018. Because these refunding bonds were issued in variable rate mode, there is no practical way to calculate the potential present value interest savings from this refunding transaction.

For the fiscal year ended December 31, 2003

(Dollar Amounts Expressed in Thousands)

NOTE 6 - LONG-TERM DEBT (continued)Discrete Component Unit Debt

Due to current debt issuance policies, the City issues debt on behalf of the Park & Recreation Board, the Library Board and the Municipal Building Commission. As of December 31, 2003, \$93,661 of the outstanding governmental debt is related to activities of these discretely presented component units and is reported within the debt balances of the primary government. The capital assets purchased with the funds obtained from this debt issuance are held by the respective discrete component units and are reported with their capital assets on the Statement of Net Assets.

Subsequent Events

On February 21, 2004, the City issued a \$25,000 General Obligation Water Revenue Note to the Minnesota Public Facilities Authority as part of the State of Minnesota's Drinking Water Revolving Fund, a federally sponsored below market financing program related to the Safe Drinking Water Act. For this note, the subsidized interest rate is at 2.80% or 1.5% below the market rate on bonds sold by the State of Minnesota to fund the revolving fund. This is the second note related to the construction of the Columbia Heights Water Ultrafiltration Plant. The final maturity of this note is August 20, 2023.

Long-term liabilities at December 31, 2003 consisted of the following:

	Balance			Amounts	
	1/1/2003	Additions	Retirements	Balance 12/31/2003	Due Within One Year
Governmental activities:					
<u>Bonds and Notes</u>					
Property Tax Supported GO Bonds	\$ 103,245	\$ 150,699	\$ 31,554	\$ 222,390	\$ 24,585
Self Supporting GO Bonds	283,535	-	9,305	274,230	7,800
Special Assessment GO Bonds	42,319	8,090	6,726	43,683	4,626
Tax Increment GO Bonds	216,625	34,975	37,160	214,440	8,130
Revenue Bonds	90,643	-	13,541	77,102	13,890
Revenue Notes	49,091	-	669	48,422	2,872
Internal Service Fund Related GO Bonds	92,655	15,190	5,230	102,615	9,310
Total Bonds and Notes	878,113	208,954	104,185	982,882	71,213
<u>Other Long-term Liabilities</u>					
Operating Lease Payable	558	11	219	350	247
Capital Lease Payable	8	-	8	-	-
Contracts Payable	249	-	26	223	30
Unamortized Premium (Discount)	7,332	2,236	1,311	8,257	-
Compensated Absences	22,072	14,322	14,382	22,012	11,283
Total Other Long-Term Liabilities	30,219	16,569	15,946	30,842	11,560
Total Long-term Liabilities Governmental	\$ 908,332	\$ 225,523	\$ 120,131	\$1,013,724	\$ 82,773
Business-type activities:					
<u>Bonds and Notes</u>					
Sewer Fund GO Bonds	\$ 43,021	\$ 8,776	\$ 9,026	\$ 42,771	\$ 8,770
Water Fund GO Bonds	48,174	8,350	12,359	44,165	8,305
Water Fund GO Note	3,719	12,573	400	15,892	500
Municipal Parking Fund GO Bonds	279,341	26,625	20,629	285,337	11,434
CPED GO Bonds	6,390	-	4,420	1,970	45
CPED Fund					
General Agency Reserve Fund System Bonds	76,360	3,300	5,905	73,755	3,215
Mortgage Revenue Bonds	15,525	1,857	9,020	8,362	-
Revenue Notes	3,502	-	2,254	1,248	93
Total Bonds and Notes	476,032	61,481	64,013	473,500	32,362

For the fiscal year ended December 31, 2003

(Dollar Amounts Expressed in Thousands)

NOTE 6 – LONG-TERM DEBT (continued)

Unamortized Premium (Discount)	(4,912)	791	(495)	(3,626)	-
Compensated Absences	1,914	2,735	2,534	2,115	-
Total Other Long-term Liabilities	(2,998)	3,526	2,039	(1,511)	-
Total Long-term Liabilities Business-type	473,034	65,007	66,052	471,989	32,362
Total Long-term Liabilities	\$1,381,366	\$ 290,530	\$ 186,183	\$1,485,713	\$ 115,135

For governmental activities, debt service is generally paid from the Debt Service Funds, claims and judgments are generally liquidated by the General Fund or the Self-insurance Internal Service Fund, compensated absences are generally liquidated by the General Fund or the Convention Center Special Revenue Fund.

As of December 31, 2003, annual debt service requirements for Governmental and Business-type activities to maturity are as follows:

Year ending Dec 31:	Governmental Activities – Non-Proprietary			
	Bonds		Notes	
	Principal	Interest	Principal	Interest
2004	\$ 59,031	\$ 61,543	\$ 2,872	\$ 2,417
2005	54,498	59,477	837	2,104
2006	44,915	58,086	10,803	1,938
2007	40,866	57,301	12,127	1,236
2008	41,035	56,547	1,362	390
2009 - 2013	174,140	154,719	5,249	1,298
2014 - 2018	164,245	88,618	2,142	608
2019 - 2023	146,595	45,956	1,465	315
2024 - 2028	83,420	16,691	1,360	187
2029 - 2032	23,100	2,435	10,205	42
	<u>\$ 831,845</u>	<u>\$ 601,373</u>	<u>\$ 48,422</u>	<u>\$ 10,535</u>

Year ending Dec 31:	Total Governmental Activity Bonds & Notes			
	Internal Service Fund Bonds		Activity Bonds & Notes	
	Principal	Interest	Principal	Interest
2004	\$ 9,310	\$ 4,753	\$ 71,213	\$ 68,713
2005	11,280	4,344	66,615	65,925
2006	12,010	3,791	67,728	63,815
2007	5,895	3,254	58,888	61,791
2008	3,015	3,019	45,412	59,956
2009 - 2013	40,520	9,910	219,909	165,927
2014 - 2018	13,200	3,731	179,587	92,957
2019 - 2023	7,385	743	155,445	47,014
2024 - 2028			84,780	16,878
2029 - 2032			33,305	2,477
	<u>\$ 102,615</u>	<u>\$ 33,545</u>	<u>\$ 982,882</u>	<u>\$ 645,453</u>

NOTE 6 – LONG-TERM DEBT (continued)

Year ending Dec 31:	Business-type Activities					
	Bonds		Notes		Total	Total
	Principal	Interest	Principal	Interest	Principal	Interest
2004	\$ 31,769	\$ 24,246	\$ 593	\$ 545	\$ 32,362	\$ 24,791
2005	29,284	23,151	599	816	29,883	23,967
2006	35,935	22,319	606	796	36,541	23,115
2007	28,302	20,968	613	775	28,915	21,743
2008	26,154	19,694	620	783	26,774	20,477
2009 - 2013	119,960	72,372	5,177	3,348	125,137	75,720
2014 - 2018	76,312	39,717	8,932	2,354	85,244	42,071
2019 - 2023	46,420	20,349			46,420	20,349
2024 - 2028	55,455	7,840			55,455	7,840
2029 - 2032	6,769	764			6,769	764
Total	\$ 456,360	\$ 251,420	\$ 17,140	\$ 9,417	\$ 473,500	\$ 260,837

NOTE 7 – INDUSTRIAL, COMMERCIAL, AND HOUSING REVENUE BONDS AND NOTES

As of December 31, 2003, outstanding industrial, commercial, and housing revenue bonds and notes approximated \$1,017 million. The bonds are payable solely from revenues of the respective enterprises and do not constitute an indebtedness of the City, and therefore, are not a charge against the City’s general credit or taxing power.

NOTE 8 – PRIOR YEAR DEFEASANCE

In prior years, the City defeased certain general obligation bonds and self supporting revenue bonds by placing the proceeds of the refunding issues in special escrow accounts and investing in securities of the U.S. Government and its Agencies. The maturities of these investments coincide with the principal and interest payment dates of the refunded bonds and have been certified to be sufficient to pay all principal and interest on the bonds when due as required by applicable laws. Accordingly, the original refunded bonds have been eliminated and the new advance refunding bonds added to the appropriate financial statements. The City remains contingently liable to pay the refunded bonds. The balance outstanding of the extinguished debt as of December 31, 2003 is \$17,247.

NOTE 9 – DEMAND BONDS

General Obligation Demand Bonds

The City has issued General Obligation demand bonds maturing serially through December 1, 2032, in the original amounts of \$23,230, \$26,845, \$28,200, \$24,000, \$38,000, \$88,400, \$29,000, \$88,800, \$17,900, \$57,000, \$15,985, and \$16,100. The bonds were issued pursuant to resolutions adopted by the City Council and the proceeds were used to finance a portion of the cost of constructing certain local improvements.

The remaining redemption schedule for these bonds is as follows:

Year	Amount
2004	\$ 12,935
2005	11,465
2006	7,685
2007	4,780
2008	4,130
2009	4,570
2010	5,555

NOTE 9 – DEMAND BONDS

General Obligation Demand Bonds (continued)

2011	4,490
2012	5,000
2013	4,820
2014	2,450
2015	22,075
2016	22,450
2017	22,875
2018	22,835
2019	2,280
2020	2,095
2021	2,490
2022	2,935
2023	2,790
2024	3,350
2025	5,995
2026	12,795
2027	13,630
2028	11,860
2029	8,300
2030	6,725
2031	5,350
2032	2,725
Total	<u>\$ 241,435</u>

The bonds are subject to purchase on the demand of the holder at a price equal to principal plus accrued interest on delivery to the City's Remarketing agents. The Remarketing agents are authorized to use their best efforts to sell the repurchased bonds at a price equal to 100 percent of the principal amount by adjusting the interest rate. These demand bonds are backed by the full faith, credit and taxing power of the City and are included in long-term debt. Under irrevocable Standby Bond Purchase Agreements issued by Dexia Credit Local, acting through its New York branch, the trustee is entitled to draw an amount sufficient to pay the purchase price of bonds delivered to it. The letters of credit are for the original sale amount, but are subject to extension with the agreement of the Bank and carry a rate equal to the Federal Funds rate plus one-half of one percent per annum with respect to amounts advanced. The expiration dates for the Standby Bond Purchase Agreements are July 21, 2006. The City is required to pay to Dexia Credit Local an annual commitment fee of 16 basis points on the outstanding principal amount of the bonds and the same rate on the maximum interest payments of these issues.

The City has the option to convert all of the bonds from a variable interest rate to a fixed interest rate by giving written notice to Dexia, the Tender Agent, the Remarketing Agent and the Trustee. The conversion date shall be on a business day not less than 15 days from the date of the written notice.

The Remarketing Agent receives an annual fee equal to one-tenth of one percent of the principal amount of bonds held by the public.

NOTE 10 – LEASES

Operating Leases

The City of Minneapolis leases office space and equipment for its operations. The lease for office space expires in the year 2019, and the office space lease payments were \$1,709 in 2003. The equipment lease periods vary from one to three years,

NOTE 10 – LEASES (continued)

and the equipment lease payments were \$406 in 2003. In addition, the City leases equipment, uniforms, and office space for its theatre operations. These lease periods vary from one to four years, and the lease payments were \$84 in 2003.

The future minimum lease payments for operating leases are as follows:

Year ending December 31	Government	Business Type
	Activity	Activity
	<u>Amount</u>	<u>Amount</u>
2004	\$ 813	\$ 357
2005	656	356
2006	559	355
2007	518	
2008	518	
2009 - 2013	3,193	
2014 - 2018	2,075	
2019	1	
Total minimum lease payments	\$ <u>8,333</u>	\$ <u>1,068</u>

Operating leases with scheduled rent increases

The City leases office space for various operations. The leases contain scheduled rent increases with terms varying from three to twelve years. The operating lease transactions are measured on a straight-line basis over the lease term per GASB Statement No. 13-Accounting for Operating Leases with Scheduled Rent Increases. Application of the straight-line basis to the total lease expenditures of \$8,420 over the lease terms results in a total annual lease amount of \$785.

For 2003 the amount of lease expenditures is as follows:

	<u>Amount</u>
Operating leases	\$ 785
Additional Straight Line Basis	<u>(192)</u>
Total expenditures	<u>\$ 593</u>

The future minimum lease expenditures for operating leases with scheduled rent increases are as follows:

<u>Year</u>	Government	Business Type
	Activity	Activity
	<u>Amount</u>	<u>Amount</u>
2004	\$ 692	\$ 62
2005	241	64
2006	49	67
2007	26	69
2008	2	70
2009 - 2013		359
2014 - 2018		380
2019		79
Total minimum lease payments	\$ <u>1,010</u>	\$ <u>1,150</u>

NOTE 11 – INTERFUND TRANSACTIONS

Interfund Receivables/Payables

The composition of interfund balances as of December 31, 2003 are as follows:

Due to/from other funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Internal Service Funds	\$ 4,600
	Employee Retirement Fund	470
	Nonmajor Governmental Funds	3,422
Employee Retirement	General Fund	3
Permanent Improvement Fund	General Fund	102
CPED Special Revenue Fund	Nonmajor Governmental Funds	4,213
Internal Service Funds	General Fund	11
	Internal Service Funds	3,405
Sewer Enterprise Fund	General Fund	8
Water Enterprise Fund	General Fund	27
Solid Waste Enterprise Fund	General Fund	39
Nonmajor Governmental Funds	General Fund	168
	Nonmajor Governmental Funds	5
	Community Development Enterprise	1,602
	Internal Service Funds	9
	CPED Special Revenue Fund	4
	Total	<u>\$ 18,088</u>

Interfund balances are either due to timing differences or to the elimination of negative cash balances within the various funds. All interfund balances are expected to be repaid within one year.

Advances to/from other funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
CPED Special Revenue Fund	CPED Enterprise Fund	\$ 10
Convention Center Special Revenue Fund	Internal Service Funds	<u>12,800</u>
	Total	<u>\$ 12,810</u>

Advances to other funds are to provide working capital for general operations of the other fund.

For the fiscal year ended December 31, 2003

(Dollar Amounts Expressed in Thousands)

NOTE 11 – INTERFUND TRANSACTIONS (continued)

Transfers

Transfers are indicative of funding for capital projects, lease payments or debt service, subsidies of various City operations and re-allocations of special revenues. The following schedule briefly summarizes the City’s transfer activity:

(a) Between Governmental and Business-type Activities:

<u>Transfer Out</u>	<u>Transfer In</u>	<u>Amount</u>
General Fund	Internal Service Funds	\$ 24,165
CPED Special Revenue Fund	CPED Enterprise Fund	1,695
	Municipal Parking Fund	5,741
	Internal Service Funds	4,039
		<u>11,475</u>
Convention Center Fund	Municipal Parking Fund	8,599
	Internal Service Funds	84
		<u>8,683</u>
Permanent Improvement Fund	Sewer Rental	593
	Water Works	606
	Internal Service Funds	172
		<u>1,371</u>
Nonmajor Governmental Funds	Municipal Parking Fund	34
	Water Works Fund	9
	Internal Service Funds	374
		<u>417</u>
Internal Service Funds	Nonmajor Governmental Funds	<u>664</u>
Enterprise Funds:		
Municipal Parking Fund	General Fund	10,890
	Nonmajor Governmental Funds	1,757
		<u>12,647</u>
Sewer Rental	General Fund	63
	Permanent Improvement	186
	Nonmajor Governmental Funds	541
		<u>790</u>
Solid Waste & Recycling Fund	General Fund	<u>762</u>
Water Works Funds	General Fund	63
	Nonmajor Governmental Funds	423
		<u>486</u>
CPED Enterprise Fund	CPED Special Revenue Fund	<u>46</u>
Total		<u>\$ 61,506</u>

NOTE 11 – INTERFUND TRANSACTIONS

Transfers (continued)

(b) Between Funds within the Governmental or Business-type Activities:

General Fund	CPED Special Revenue Fund	\$ 605
	Nonmajor Governmental Funds	219
		<u>824</u>
CPED Special Revenue Fund	General Fund	540
	Permanent Improvement Fund	2,035
	Development Debt Fund	18,848
	Nonmajor Governmental Funds	35,901
		<u>57,324</u>
Convention Center Fund	General Fund	6,480
	Permanent Improvement Fund	60
	Development Debt Fund	16,876
	Nonmajor Governmental Funds	2,449
		<u>25,865</u>
Employee Retirement Fund	General Fund	1,653
	Nonmajor Governmental Funds	23
		<u>1,676</u>
Permanent Improvement Fund	General Fund	200
	CPED Special Revenue Fund	319
	Development Debt Fund	774
	Nonmajor Governmental Funds	3,054
		<u>4,347</u>
Nonmajor Governmental Funds	General Fund	62
	CPED Special Revenue Fund	11,149
	Permanent Improvement Fund	7
	Development Debt Fund	2,016
		<u>13,234</u>
Internal Service Funds	Internal Service Funds	<u>130</u>
Enterprise Funds:		
Municipal Parking Fund	Municipal Parking	66
	Solid Waste and Recycling Fund	146
	Internal Service Funds	77
		<u>289</u>
Sewer Rental	Internal Service Funds	<u>76</u>
Solid Waste & Recycling Fund	Internal Service Funds	<u>81</u>
Water Works Funds	Internal Service Funds	<u>2,455</u>
Total		<u>\$ 106,301</u>

NOTE 11 – INTERFUND TRANSACTIONS

Transfers (continued)

Transfers are made throughout the year between various funds. The majority of the transfers are funding the repayment of debt in the Development Debt and the General Debt Service Funds, transfers to Internal Service Funds for intergovernmental services and transfers to pass through grant resources between funds. Other significant transfers are to support economic development projects and capital projects.

NOTE 12 – NET ASSETS/FUND BALANCES

The government-wide and business-type activities fund financial statements use a net asset presentation. Net assets are categorized as invested in capital assets (net of related debt), restricted and unrestricted.

- Invested in capital assets, net of related debt – This category groups all capital assets, including infrastructure, into one component of net assets. Accumulated depreciation and the outstanding balances of debt that are attributable to the acquisition, construction or improvement of these assets reduce the balance in this category.
- Restricted net assets – This category presents external restrictions imposed by creditors, grantors, contributors or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation.
- Unrestricted net assets – This category represents net assets of the City, not restricted for any project or other purpose.

In the fund financial statements, reserves and designations segregate portions of fund balance that are either not available or have been earmarked for specific purposes. The various reserves and designations are established by actions of the City Council and management and can be increased, reduced, or eliminated by similar actions.

As of December 31, 2003, reservations and designations of fund balance are described below:

Reservations

- Loans and Advances – to reflect the amount due from other funds that are long-term in nature. Such amounts do not represent available spendable resources.
- Land held for development – a segregation of fund balance to indicate that land held for development does not represent available spendable resources.
- Specific development projects – to indicate that a portion of fund balance is reserved for specific development projects that are restricted by state law.
- Encumbrances – to reflect the outstanding contractual obligations for which goods and services have not been received.
- Prepaid items – to reflect the portion of assets, which do not represent available spendable resources.
- Pension Liability – to reflect that a portion of fund balance is reserved for pension liabilities.

Designations

- Designated for Future Expenditures – amounts approved by the City Council to reappropriate unspent 2003 ending fund balances meeting specific criteria to 2004.

NOTE 13 – RESTRICTED NET ASSETS – GOVERNMENTAL ACTIVITIES

Certain net assets are classified on the statement of net assets as restricted because their use is limited. The Governmental activities report restricted net assets for amounts that are not available for operations or are legally restricted by outside parties for use for a specific purpose. As of December 31, 2003, the Governmental activities restricted net assets are as follows:

Unspent bond proceeds	<u>\$ 47,504</u>
Total Restricted Net Assets – Governmental Activities	<u>\$ 47,504</u>

NOTE 14 – RESTRICTED NET ASSETS – BUSINESS TYPE ACTIVITIES

Certain net assets are classified on the balance sheet as restricted because their use is limited. The Business-type activities report restricted net assets for amounts that are not available for operations or are legally restricted by outside parties for use for a specific purpose. As of December 31, 2003, the Business-type restricted net assets are as follows:

Capital improvements	\$ 3,740
Contractual	2,773
Debt service	<u>36,393</u>
 Total Restricted Net Assets-Business-type Activities	 <u>\$ 42,906</u>

The Municipal Parking Fund restricted net assets are for a reserve for major repair and improvements, along with net income due to the State of Minnesota, for the three Third Avenue Distributor Garages that the State of Minnesota owns and the City of Minneapolis operates.

NOTE 15 - DEFICIT NET ASSETS

The following funds had deficit net assets as of December 31, 2003:

	<u>End of Year</u>
Internal Service Funds:	
Intergovernmental Services	\$ (39,794)
Self-Insurance	(40,983)

The City has developed strategies to control costs and increase annual financial resources and eliminate the net asset deficits, over several years, in the Intergovernmental Services Internal Service Fund, Property Services Internal Service Fund, and the Permanent Improvement Equipment Internal Service Fund. In September of 2000, the City adopted a workout plan for the Intergovernmental Services (ITS) fund.

The City does not intend to fully fund the actuarially determined liability and intends to pay annual claims in the Self-Insurance Internal Service Fund as they arise while maintaining a modest cash reserve.

NOTE 16 - DEFINED BENEFIT PENSION PLAN – STATEWIDE PUBLIC EMPLOYEES RETIREMENT ASSOCIATION

Plan Description

All firefighters and police officers hired after June 15, 1980, and other full-time and certain part-time employees of the City hired after June 30, 1978, except employees covered under the CPED Defined Contribution Plan, are covered by defined benefit pension plans administered by the Public Employees Retirement Association of Minnesota (PERA). The PERA administers the Public Employees Retirement Fund and the Public Employees Police and Fire Fund, which are cost sharing, multiple-employer retirement plans. These plans are established and administered in accordance with Minnesota Statutes chapters 353 and 356.

The police officers and firefighters are covered by the PEPFF. All other full-time and certain part-time employees covered by the defined benefit pension plans administered by the PERA are members of the PERF. PERF members of the City belong to the Coordinated Plan and are covered by Social Security.

The PERA provides retirement benefits as well as disability benefits to members and benefits to survivors upon death of eligible members. Benefits are established by state statute and vest after three years of credited service. The defined retirement benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service.

Two methods are used to compute benefits for Coordinated and Basic Plan members. The retiring member receives the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under

NOTE 16 - DEFINED BENEFIT PENSION PLAN – STATEWIDE PUBLIC EMPLOYEES RETIREMENT ASSOCIATION

Plan Description (continued)

Method 1, the annuity accrual rate for a Basic Plan member is 2.2 percent of average salary for each of the first ten years of service and 2.7 percent for each remaining year. For a Coordinated Plan member, the annuity accrual rate is 1.2 percent of average salary for each of the first ten years and 1.7 percent for each remaining year. Using Method 2, the annuity accrual rate is 2.7 percent of average salary for Basic Plan members and 1.7 percent for Coordinated Plan members for each year of service. For the Public Employees Police and Fire Fund members, the annuity accrual rate is 3 percent for each year of service.

For all Public Employees Police and Fire Fund members and Public Employees Retirement Fund members whose annuity is calculated using Method 1, a full annuity is available when age plus years of service equal 90. A reduced retirement annuity is also available to eligible members seeking early retirement.

There are different types of annuities available to members upon retirement. A normal annuity is a lifetime annuity that ceases upon the death of the retiree; no survivor annuity is payable. There are also various types of joint and survivor annuity options available which will reduce the monthly normal annuity amount because the annuity is payable over joint lives. Members may also leave their contributions in the fund upon termination of public service in order to qualify for a deferred annuity at retirement age. Refunds of contributions are available at any time to members who leave public service, but before retirement benefits begin.

The benefit provisions stated in the previous paragraphs of this section are current provisions and apply to active plan participants. Vested, terminated employees who are entitled to benefits but are not yet receiving them are bound by the provisions in effect at the time they last terminated public service.

The PERA issues a publicly available financial report that includes financial statements and required supplementary information for the Public Employees Retirement Fund and the Public Employees Police and Fire Fund. That report may be obtained by writing to PERA, 60 Empire Drive, Suite 200, Saint Paul, Minnesota 55103-1855, or by calling (651) 296-7460 or 1-800-652-9026.

Funding Policy

Minnesota Statutes chapter 353 sets the rates for employer and employee contributions. These statutes are established and amended by the state legislature. The City makes annual contributions to the pension plans equal to the amount required by state statutes. Public Employees Retirement Fund Coordinated Plan members are required to contribute 5.10 percent of their annual covered salary. Public Employees Police and Fire Fund members are required to contribute 6.2 percent of their annual covered salary.

The City is required to contribute the following percentages of annual covered payroll:

Public Employees Retirement Fund	
Coordinated Plan members	5.53 %
Public Employees Police and Fire Fund	9.30 %

Member and employer contribution rates for coordinated Plan members increased by 0.35 percent effective January 2002. The City contributions for the years ending December 31, 2001, 2002, and 2003 for the Public Employees Retirement Fund and the Public Employees Police and Fire Fund were:

	<u>PERF</u>	<u>PEPFF</u>
2001	5,239	5,655
2002	5,837	6,219
2003	6,022	6,403

For the fiscal year ended December 31, 2003

(Dollar Amounts Expressed in Thousands)

NOTE 16 - DEFINED BENEFIT PENSION PLAN – STATEWIDE PUBLIC EMPLOYEES RETIREMENT ASSOCIATION**Funding Policy (continued)**

These contribution amounts are equal to the contractually required contributions for each year as set by state statute.

NOTE 17 - DEFINED BENEFIT PENSION PLAN - MULTIPLE EMPLOYER MINNEAPOLIS EMPLOYEES RETIREMENT FUND**Plan Description**

All full-time City employees hired on or before June 30, 1978, other than firefighters, and police officers, are covered by the Minneapolis Employees Retirement Fund (MERF), a defined benefit pension plan which is a cost-sharing, multiple-employer retirement plan. This plan is administered in accordance with Minnesota Statutes Chapter 422A.

The MERF pension plan provides pension benefits, deferred annuity, and death and disability benefits as set by state statute. Members are eligible for service retirement either:

- 1) With 30 or more years of service at any age; or
- 2) At age 60 with three or more years of service; or
- 3) At age 65 with one year of service; or
- 4) With 20 or more years of service at age 55 under the Two Dollar Bill method of retirement (money purchase plan), if a MERF member prior to June 28, 1973.

The MERF provides a number of retirement options from which the member may choose. The maximum benefit one may receive is a retirement allowance payable throughout life. Participants may receive lesser retirement allowances if they choose payments for a guaranteed number of years, request a certain percent or dollar amount of their retirement allowances to go to a beneficiary or if they chose to provide for a certain amount to be paid out upon death. The benefit amount for all options, except the money purchase plan, is calculated based on the average of the highest five years salary within the last ten years of employment and years of creditable service at the date of retirement. The member will receive a benefit amount equal to 2 percent of that average salary for each of the first ten years of service, and 2.5 percent of that salary for each year over ten years of service.

A monthly retirement benefit is available to employees who have under three years of service in the MERF, but only when these years, combined with service in other Minnesota statewide retirement systems, total three or more years. A monthly retirement benefit is also available to employees who have less than three years of combined allowable service in any of the qualifying funds, provided the employee works until age 65.

Employees who leave public service before retirement and before age 60 may receive a refund of all personal contributions, with interest, except for the survivor benefit contribution, which is the equivalent of a non-refundable term insurance premium. Employees who leave public service after age 60 may not withdraw personal contributions with interest unless they have worked under three years and do not qualify for monthly retirement benefits.

Pension provisions include death benefits for a beneficiary or surviving spouse, and disability benefits for a disabled employee, as defined by the fund.

The MERF issues a publicly available financial report that includes financial statements and required supplementary information for the MERF. This report may be obtained by writing to MERF, 706 – Second Avenue South, #800, Minneapolis, Minnesota 55402, or by calling (612) 335-5950.

Funding Policy

Minnesota Statutes Chapter 422A sets the rates for employer and employee contributions. These statutes are established and amended by the state legislature. Employees contribute 9.25% of salary into the Deposit Accumulation Reserve and .50% of

NOTE 17 - DEFINED BENEFIT PENSION PLAN - MULTIPLE EMPLOYER MINNEAPOLIS EMPLOYEES RETIREMENT FUND

Funding Policy (continued)

salary (subject to annual adjustment) into the Survivor Benefits Reserve. Employers, including the City contribute any excess of normal cost contributions of 9.75% of salary. The unfunded actuarial liability is funded partially by payments each year of 2.68% of salary plus \$3,900 from all employers. MERF has a target date of June 30, 2020 to fully amortize the unfunded liability. The City levies taxes to finance the employer’s share of pension costs for the General Fund.

The City’s contributions for the years ended June 30, 2001, 2002, and 2003 for the MERF were:

2001	\$7,326
2002	\$8,757
2003	\$35,626

These contribution amounts are equal to the contractually required contributions for each year as set by state statute. For 2003, an additional contribution of \$29,064 was paid by the City Minneapolis to fund the cost of new retirements for the year.

**NOTE 18 - DEFINED BENEFIT PENSION PLAN - SINGLE EMPLOYER
MINNEAPOLIS FIREFIGHTER’S RELIEF ASSOCIATION
MINNEAPOLIS POLICE RELIEF ASSOCIATION**

Plan Description

Firefighters and police officers hired prior to June 15, 1980, are members of their respective relief associations. Each Association is the administrator of a single-employer defined benefit pension plan. The Minneapolis Firefighter’s Relief Association (MFRA) was established November 24, 1886. It operates under the provisions its bylaws and Minnesota State Law. The Minneapolis Police Relief Association (MPRA) was established on August 23, 1905, and it operates under the provisions of Minnesota Statutes, sections 423B.01-.18 and 69.80.

Each member who is at least 50 years of age and has five years of service with the Minneapolis Fire Department or the Minneapolis Police Department is eligible to receive a service pension, monthly, for the remainder of the member’s life. All benefits are based on a plan of a number of units. A unit is 1/80th of the maximum current monthly salary of a first grade firefighter (MFRA) or a first grade patrol officer (MPRA). Pensions are based on current Minneapolis Fire Department payroll or Minneapolis Police Department payroll and are fully escalated for all persons receiving a pension benefit. Each vested MFRA member also receives a lump sum amount, at the time of separation, from the MFRA’s General Fund based on the number of years the member has belonged to the MFRA.

A member is entitled to disability benefits in conformity with the provisions applicable to the association and the circumstances of the disability, not to exceed 41 units (MFRA) or 34 units (MPRA). Death benefits for a beneficiary or surviving spouse are also available.

The MFRA issues a publicly available financial report that includes financial statements and required supplementary information for the MFRA. The most recent report, dated December 31, 2002, may be obtained by writing to the Minneapolis Firefighter’s Relief Association at 2021 East Hennepin Avenue, Suite 360, Minneapolis, Minnesota 55413. The MPRA issues a publicly available financial report that includes financial statements and required supplementary information for the MPRA. The most recent report, dated December 31, 2002, may be obtained by writing to the Minneapolis Police Relief Association, 10 - Second Street Northeast, Suite 103, Minneapolis, Minnesota, 55413.

Funding Policy

Authority for contributions to the MFRA and the MPRA pension plans is established by Minnesota Statutes, section 69.77

NOTE 18 - DEFINED BENEFIT PENSION PLAN - SINGLE EMPLOYER
MINNEAPOLIS FIREFIGHTER'S RELIEF ASSOCIATION
MINNEAPOLIS POLICE RELIEF ASSOCIATION

Funding Policy (continued)

and may be amended only by the Minnesota State Legislature. The MFRA and the MPRA funding policies provide for contributions from the City, the State of Minnesota, and active plan members. City contributions are actuarially determined which requires full funding of the MFRA's accrued liability and the MPRA's accrued liability by the year 2010. The City contributed \$ 6 to MFRA and \$ 8,326 to MPRA for the fiscal year ended December 31, 2002. Employees under these plans contribute annually an amount equal to eight percent of the maximum first grade firefighter's salary or eight percent of the maximum top grade patrol officer's salary from which pension benefits are determined. The State of Minnesota annually contributes two percent fire premium insurance aid and the amortization state aid to the MFRA and two percent peace officers' state aid to the MPRA.

The City's annual pension cost for the fiscal year ended December 31, 2002, and related information for each plan is as follows:

	<u>MFRA</u>	<u>MPRA</u>
Annual pension cost	\$6	\$8,326
Contributions made	\$6	\$8,326
Actuarial valuation date	12/31/02	12/31/02
Actuarial cost method	Entry Age Normal Cost	Entry Age Normal Cost
Amortization method	Level Percentage of Payroll	Level Percentage of Payroll
Remaining amortization period	7 years, closed	7 years, closed
Asset valuation method	Book value plus the average unrealized gain for the last three years minus excess investment income as defined by state law.	Book value plus the average unrealized gain for the last three years minus excess investment income as defined by state law.
Actuarial assumptions:		
Investment rate of return	6% per annum	6% per annum
Projected salary increases:	4% per annum	4% per annum
Inflation	NA	NA
Cost-of-living adjustments	NA	NA

Three-Year Trend Information:

	<u>Year</u> <u>Ending</u>	<u>Annual</u> <u>Pension</u> <u>Cost (APC)</u>	<u>Percentage</u> <u>of APC</u> <u>Contributed (%)</u>	<u>Net</u> <u>Pension</u> <u>Obligation</u>
MFRA	2000	1,938	100	-
	2001	1,232	100	-
	2002	6	100	-
MPRA	2000	4,563	100	-
	2001	3,459	100	-
	2002	8,326	100	-

For the fiscal year ended December 31, 2003

(Dollar Amounts Expressed in Thousands)

**NOTE 18 - DEFINED BENEFIT PENSION PLAN - SINGLE EMPLOYER
MINNEAPOLIS FIREFIGHTER'S RELIEF ASSOCIATION
MINNEAPOLIS POLICE RELIEF ASSOCIATION (CONTINUED)**

There have been no significant changes to plan provisions and actuarial methods and assumptions in the last six years.

Schedules of Funding Progress:

MFRA:

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Plan Assets (a)</u>	<u>Actuarial Accrued Liability (AAL) --Entry Age (b)</u>	<u>Unfunded AAL (UAAL) (b - a)</u>	<u>Funded Ratio (%) (a/b)</u>	<u>Annual Covered Payroll (Previous Fiscal Year) (c)</u>	<u>UAAL as a Percentage of Covered Payroll (%) ((b - a)/c)</u>
2000	315,900	293,802	(22,098)	107.5	9,653	-228.9
2001	304,887	293,396	(11,491)	103.9	5,888	-195.2
2002	255,194	292,678	37,484	87.2	5,540	676.6

MPRA:

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Plan Assets (a)</u>	<u>Actuarial Accrued Liability (AAL) --Entry Age (b)</u>	<u>Unfunded AAL (UAAL) (b - a)</u>	<u>Funded Ratio (%) (a/b)</u>	<u>Annual Covered Payroll (Previous Fiscal Year) (c)</u>	<u>UAAL as a Percentage of Covered Payroll (%) ((b - a)/c)</u>
2000	391,083	447,086	56,003	87.5	6,583	850.7
2001	349,170	464,649	115,479	75.1	5,238	2204.6
2002	309,667	463,487	153,820	66.8	3,955	3889.3

NOTE 19 - DEFINED CONTRIBUTION PLAN – CPED (FORMERLY MCDA)

Plan Description

Qualified CPED employees belong to a defined contribution pension plan administered by Union Central Life Insurance Company. A permanent employee becomes a participant in the plan on April 1 or October 1, following completion of his or her probationary period and after attaining age 20 1/2.

Benefits and contribution requirements are established and can be amended by the City of Minneapolis City Council. All provisions are within limitations established by Minnesota Statutes.

The payroll for employees covered by the CPED's defined contribution plan for the year ended December 31, 2003, was \$6,625 and the CPED's total payroll was \$7,627.

Contributions Required and Made

The City of Minneapolis and CPED employee participants are each required to contribute five percent of the participants' annual compensation to an investment fund administered by Union Central Life Insurance Company, which will provide retirement benefits under a Money Purchase Plan. Participants are vested at the rate of 20 percent per year, for the employer's share of the contribution, and are 100 percent vested immediately for their individual contribution.

The City and CPED employee participants each contributed \$381 to the plan during the year, which amount represented five percent of the covered payroll.

For the fiscal year ended December 31, 2003

(Dollar Amounts Expressed in Thousands)

NOTE 20 - POST EMPLOYMENT BENEFITS

In addition to the pension benefits described in the Notes to the Financial Statements, the City provides post retirement health care premium offset, in accordance with Council Action, for Police and Fire Relief Association retirees. The City reimburses each pension organization the difference between the full premium and the amount withheld for health care coverage from retiree pension checks. Each year the Council appropriates \$100 for this post employment benefit.

NOTE 21 - VACATION, SEVERANCE, SICK AND COMPENSATORY TIME PAY

Depending on the terms of their collective bargaining contract, or the policies applicable to their classification, employees may accumulate up to 35 days vacation.

Sick leave may be accumulated indefinitely by employees. Also, employees have the option of being paid once a year for current unused sick leave accumulated over a minimum base of 60 days or, under certain circumstances, CPED employees may be allowed to have unused sick leave converted to vacation and added to their vacation balance. Payments are based on a sliding scale ranging from 50 percent to 100 percent depending on the base level attained. In addition, under certain circumstances, employees leaving City employment may qualify to receive payment for 50 percent of their unused sick leave at their current rate of pay.

Employees, depending on their classification, and subject to prior approval of their supervisor, may earn compensatory time in lieu of paid overtime. Policies are in effect which are designed to place constraints on the amount of compensatory time an employee may accumulate.

NOTE 22 - RISK MANAGEMENT & CLAIMS

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City is self-insured for workers' compensation, claims liability under \$25,000, and re-employment. The workers' compensation program included the BET, the MBC, and all City departments, including CPED after August 28th. The Library Board and the Park Board maintained their own workers' compensation programs. The City, including CPED after August 28th, the MBC and the BET are self-insured for tort liability. The Library Board and the Park Board maintained their separate liability programs. The City, including all discrete and blended component units of government, also maintained a self-funded dental plan for covered employees. The claims liability of \$27.8 million reported in the Self-Insurance Internal Service Fund at December 31, 2003, is based on the requirements of GASB Statement No. 10-Accounting and Financial Reporting for Risk Financing and Related Insurance Issues, and covers the exposures of workers' compensation, liability, dental and re-employment.

The City purchased excess insurance for its workers' compensation program from the Workers' Compensation Reinsurance Association (WCRA). The WCRA reimburses members for individual claim losses exceeding the City's retention limit. Workers' compensation coverage is governed by State of Minnesota statutes.

Claims liabilities are reported when it is probable that a loss has occurred and the amount of the loss can reasonably be estimated. Liabilities include an amount for estimated claims administration expenses and an amount for claims that have been incurred but are not reported.

Dental coverage is based on plan design and includes coverage of up to \$750 per person annually. Based on an actuarial review of the dental plan, it has been determined that the premium rates are sufficient.

The only change in coverage during fiscal year 2003 was the addition of CPED employees in August, and settlements did not exceed coverage.

NOTE 22 - RISK MANAGEMENT & CLAIMS (continued)

Changes in the tort claims liabilities during fiscal 2003 and 2002 were:

	2003	2002
Liability balance – January 1	\$ 26,715	\$ 25,543
Current year claims and changes in estimates	13,992	13,428
Claim payments	<u>(12,860)</u>	<u>(12,256)</u>
Liability balance – December 31	\$ <u>27,847</u>	\$ <u>26,715</u>

NOTE 23 – RELATED PARTY TRANSACTIONS

Theatre Live! Inc.

Theatre Live! Inc., is a promotion company affiliated with the Historic Theatre Group, Inc. (HTG). The HTG’s principals have two seats on the 15-member board.

Productions promoted at the Theatres in 2002 by Theatre Live! Inc.	39
Use fees paid to the Theatre Opening Account for these productions	\$145,343
Advances of ticket sales to Theatre Live! Inc. at December 31, 2003	\$-0-

Theatre Live! Inc., use fees paid to the Theatres equal 12 percent of the \$1,141,980 total use fees collected by the Theatres in 2003.

NOTE 24 – OTHER COMMITMENTS AND CONTINGENCIES

Amounts received or receivable from grantors, principally the federal and state governments, are subject to regulatory requirements and adjustments by the grantor agencies. Any disallowed claims, including amounts previously recognized by the City as revenue, would constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantors cannot be determined at this time. City officials expect such amounts, if any, to be immaterial.

Various cases and claims are pending against the City involving claims for monetary damages. Except as follows, these pending cases are not unusual in number and amount.

The City of Minneapolis is a defendant in a case that alleges injuries as a result of police misconduct. A settlement is expected in 2004.

A wrongful death claim was brought against the City, arising from the death of a pedestrian who was struck by a vehicle being pursued by the police. The case is currently in process.

The City and a private party are defendants in a case involving an automobile accident in which the plaintiff sustained extensive injuries. The case is currently in process.

A lawsuit was brought against the City, claiming a violation of constitutional rights in the taking of property. A settlement is expected in 2004.

A lawsuit has been filed by a Minneapolis police officer against the City and fellow officers, as a result of a friendly fire incident in which the plaintiff was shot and permanently injured.

NOTE 24 – OTHER COMMITMENTS AND CONTINGENCIES (continued)

In 2003, the City was served with a complaint from a construction company involved with the Minneapolis Convention Center expansion project. The construction company is claiming damages due to claims of lack of coordination, lack of access, forced out of sequence work and other schedule-related issues. The City has counterclaimed against the construction company for damages incurred by the City due to delays and deficiencies of the construction company. The trial is scheduled for 2005.