

STATE OF MINNESOTA

Office of the State Auditor



Rebecca Otto
State Auditor

CITY OF MINNEAPOLIS
COMMUNITY PLANNING AND ECONOMIC
DEVELOPMENT DEPARTMENT
GENERAL AGENCY RESERVE FUND SYSTEM
MINNEAPOLIS, MINNESOTA

YEARS ENDED DECEMBER 31, 2008 AND 2007

Description of the Office of the State Auditor

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

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

The State Auditor performs approximately 160 financial and compliance audits per year and has oversight responsibilities for over 3,300 local units of government throughout the state. The office currently maintains five divisions:

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

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

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

Pension - monitors investment, financial, and actuarial reporting for approximately 730 public pension funds; and

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

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

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**CITY OF MINNEAPOLIS
COMMUNITY PLANNING AND ECONOMIC
DEVELOPMENT DEPARTMENT
GENERAL AGENCY RESERVE FUND SYSTEM
MINNEAPOLIS, MINNESOTA**

YEARS ENDED DECEMBER 31, 2008 AND 2007



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

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COMMUNITY PLANNING AND ECONOMIC DEVELOPMENT DEPARTMENT
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**CITY OF MINNEAPOLIS
COMMUNITY PLANNING AND ECONOMIC DEVELOPMENT DEPARTMENT
GENERAL AGENCY RESERVE FUND SYSTEM
MINNEAPOLIS, MINNESOTA**

ORGANIZATION

City Council

Ward 1	Paul Ostrow
Ward 2	Cam Gordon
Ward 3	Diane Hofstede
Ward 4	Barbara Johnson
Ward 5	Don Samuels
Ward 6	Robert Lilligren
Ward 7	Lisa Goodman
Ward 8	Elizabeth Glidden
Ward 9	Gary Schiff
Ward 10	Ralph Remington
Ward 11	Scott Benson
Ward 12	Sandy Colvin Roy
Ward 13	Betsy Hodges

City Council terms all expire December 31, 2009.

Director

Mike Christenson - Term is indefinite.

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REBECCA OTTO
STATE AUDITOR

STATE OF MINNESOTA OFFICE OF THE STATE AUDITOR

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INDEPENDENT AUDITOR'S REPORT

Mayor and Members of the City Council
City of Minneapolis, Minnesota
Community Planning and Economic Development Department

We have audited the accompanying basic financial statements of the General Agency Reserve Fund System of the City of Minneapolis Community Planning and Economic Development Department as of and for the years ended December 31, 2008 and 2007, as listed in the table of contents. These financial statements are the responsibility of the City of Minneapolis' management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 2, the financial statements present only the General Agency Reserve Fund System and do not purport to, and do not, present fairly the financial position of the City of Minneapolis or its Community Planning and Economic Development Department as of December 31, 2008 and 2007, and the changes in their financial position and cash flows of their proprietary funds for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the General Agency Reserve Fund System of the City of Minneapolis Community Planning and Economic Development Department as of December 31, 2008 and 2007, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

April 24, 2009

BASIC FINANCIAL STATEMENTS

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**CITY OF MINNEAPOLIS
COMMUNITY PLANNING AND ECONOMIC DEVELOPMENT DEPARTMENT
GENERAL AGENCY RESERVE FUND SYSTEM
MINNEAPOLIS, MINNESOTA**

EXHIBIT 1

**COMPARATIVE STATEMENT OF NET ASSETS
DECEMBER 31, 2008 AND 2007**

	2008	2007
<u>Assets</u>		
Current assets		
Cash and cash equivalents		
Common reserve account	\$ 2,686,868	\$ 2,662,544
Industrial development account	6,928,074	6,321,313
Debt service account	1,544,976	1,293,222
Construction funds	188,596	326,232
Other	128,723	297,117
Total cash and cash equivalents	\$ 11,477,237	\$ 10,900,428
Investments		
Common reserve account	\$ 841,740	\$ 841,740
Industrial development account	25,642,798	24,733,519
General agency reserve fund	1,219,622	1,043,360
Total investments	\$ 27,704,160	\$ 26,618,619
Receivables		
Accrued interest	\$ 111,755	\$ 144,122
Capitalized leases receivable from developers	2,455,000	2,155,000
Capitalized notes receivable from developers	735,000	690,000
Receivables from other funds	20,000	20,000
Total receivables	\$ 3,321,755	\$ 3,009,122
Total current assets	\$ 42,503,152	\$ 40,528,169
Noncurrent assets		
Receivables		
Capitalized leases	\$ 56,286,404	\$ 58,603,768
Notes receivable from developer	1,185,000	1,920,000
Total noncurrent assets	\$ 57,471,404	\$ 60,523,768
Total Assets	\$ 99,974,556	\$ 101,051,937

**CITY OF MINNEAPOLIS
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GENERAL AGENCY RESERVE FUND SYSTEM
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***EXHIBIT 1
(Continued)***

**COMPARATIVE STATEMENT OF NET ASSETS
DECEMBER 31, 2008 AND 2007**

	2008	2007
<u>Liabilities</u>		
Current liabilities		
Bonds payable	\$ 3,190,000	\$ 2,845,000
Accounts payable	28,614	19,020
Accrued interest payable	286,497	296,181
Developer reserve deposits	3,528,608	3,504,284
Unearned revenue	827,503	523,026
Total current liabilities	\$ 7,861,222	\$ 7,187,511
Noncurrent liabilities		
Bonds payable	57,660,000	60,850,000
Total Liabilities	\$ 65,521,222	\$ 68,037,511
<u>Net Assets</u>		
Restricted for debt service	\$ 34,453,334	\$ 33,014,426

**CITY OF MINNEAPOLIS
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EXHIBIT 2

**COMPARATIVE STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007**

	2008	2007
Operating Revenues		
Interest on capitalized leases and developer fees	\$ 3,508,432	\$ 3,802,328
Interest income	477,832	722,849
Increase in fair value of investments	964,780	912,117
Administrative fees	269,568	310,437
Other revenues	14,555	13,493
	\$ 5,235,167	\$ 5,761,224
Operating Expenses		
Interest	\$ 3,571,598	\$ 3,645,688
Professional services and other expenses	224,661	229,858
	\$ 3,796,259	\$ 3,875,546
Income (Loss) Before Transfers	\$ 1,438,908	\$ 1,885,678
Transfers out	-	(2,093,092)
Change in Net Assets	\$ 1,438,908	\$ (207,414)
Net Assets - January 1	33,014,426	33,221,840
Net Assets - December 31	\$ 34,453,334	\$ 33,014,426

**CITY OF MINNEAPOLIS
COMMUNITY PLANNING AND ECONOMIC DEVELOPMENT DEPARTMENT
GENERAL AGENCY RESERVE FUND SYSTEM
MINNEAPOLIS, MINNESOTA**

EXHIBIT 3

**COMPARATIVE STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007**

	2008	2007
Cash Flows from Operating Activities		
Receipts from customers and users	\$ 7,338,919	\$ 1,056,914
Payments to suppliers	(215,067)	(224,700)
Net cash provided by (used in) operating activities	\$ 7,123,852	\$ 832,214
Cash Flows from Noncapital Financing Activities		
Proceeds from bond and note issued	\$ -	\$ 13,090,000
Transfers to other funds	-	(2,093,092)
Principal paid on bonds and notes	(2,845,000)	(7,380,000)
Interest paid on bonds and notes	(3,581,282)	(3,633,768)
Net cash provided by (used in) noncapital financing activities	\$ (6,426,282)	\$ (16,860)
Cash Flows from Investing Activities		
Purchase of investments	\$ (1,262,044)	\$ (3,383,525)
Sale of investments	1,141,283	2,944,362
Net cash provided by (used in) investing activities	\$ (120,761)	\$ (439,163)
Net Increase (Decrease) in Cash and Cash Equivalents	\$ 576,809	\$ 376,191
Cash and Cash Equivalents - January 1	10,900,428	10,524,237
Cash and Cash Equivalents - December 31	\$ 11,477,237	\$ 10,900,428
Reconciliation of operating income to net cash provided by (used in) operating activities		
Change in net assets	\$ 1,438,908	\$ 1,885,678
Adjustments to reconcile income before operating transfers to net cash provided by (used in) operating activities		
Interest expense	3,571,598	3,645,688
Increase in fair value of investments	(964,780)	(912,117)
(Increase) decrease in accrued interest receivable	32,367	(8,098)
(Increase) decrease in notes receivable	690,000	650,000
(Increase) decrease in capital leases receivable	2,017,364	(6,828,127)
(Increase) decrease in receivables from other agency funds	-	2,777,857
Increase (decrease) in accounts payable	9,594	5,158
Increase (decrease) in deposits held for others	24,324	(326,097)
Increase (decrease) in unearned revenue	304,477	(57,728)
Net Cash Provided by (Used in) Operating Activities	\$ 7,123,852	\$ 832,214

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

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**CITY OF MINNEAPOLIS
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**NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007**

1. Organization and Purpose

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

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

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

**CITY OF MINNEAPOLIS
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1. Organization and Purpose (Continued)

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

2. Summary of Significant Accounting Policies

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

Basis of Accounting - The GARFS' enterprise fund is accounted for using the accrual basis of accounting. Revenues are recognized when they are earned, and expenses are recognized when they are incurred. GARFS has elected to apply Financial Accounting Standards Board pronouncements and interpretations issued on or before November 30, 1989, unless they contradict Governmental Accounting Standards Board pronouncements.

Lease Agreements - The City of Minneapolis has entered into lease agreements with, and made loans to, developers. 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 (see Note 9). Each lease agreement includes a bargain purchase option exercisable at the end of the lease term. In addition, the leased property may be purchased at various anniversaries during the lease terms at amounts at least equal to the outstanding principal amount of the underlying bonds.

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

**CITY OF MINNEAPOLIS
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2. Summary of Significant Accounting Policies (Continued)

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

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

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

3. Cash and Investments

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

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

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a financial institution failure, GARFS' deposits may not be returned to it. There is no policy for GARFS' custodial credit risk. Deposits of GARFS are predominantly held in money market accounts, which do not require collateral. The remaining GARFS' deposits are held by the City of Minneapolis, where deposits have adequate collateral levels. At December 31, 2008 and 2007, GARFS' deposits were not exposed to custodial credit risk.

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3. Cash and Investments (Continued)

Interest Rate Risk

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

Credit Risk

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

Concentration of Credit Risk

The concentration of credit risk is the risk of loss that may be caused by investing in a single issuer. Investments in any one issuer at December 31, 2008 and 2007, that represent five percent or more of GARFS' investments are as follows:

Issuer	Reported Amount	
	2008	2007
Municipal bonds		
Chicago (IL) Board of Education	\$ 5,634,420	\$ 5,428,260
U.S. Department of Treasury	4,132,910	3,672,886
Houston (TX) Independent School District	3,306,146	3,164,952
Grand Prairie (TX) Independent School District	2,736,188	2,609,936
Jacksonville (FL) Electric Authority	2,441,370	2,337,101
Florida State Board of Education	2,094,160	2,086,440
Cook County (IL) School District #170	1,693,512	1,632,366
Shelby County (TN)	2,313,391	2,316,952

**CITY OF MINNEAPOLIS
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3. Cash and Investments (Continued)

The following table presents GARFS' investment balances at December 31, 2008 and 2007, and information relating to interest and credit quality investment risks:

2008

Investment Type	Standard & Poor's Credit Risk Rating			Interest Rate Risk	Carrying (Fair) Value
	Low Credit Risk (a)	Medium or Higher Credit Risk (b)	Not Rated	Weighted Average Maturity (Years)	
U.S. government agency securities					
Federal National Mortgage Association	100%	-	-	6.9	\$ 8,488
Federal Home Loan Mortgage Corporation	100%	-	-	5.4	86,739
U.S. Treasury securities	N/A	N/A	N/A	4.2	4,132,910
Investment pools/mutual funds					
City of Minneapolis	-	-	100%	N/A	1,219,622
Municipal bonds	100%	-	-	1.7	21,414,661
Guaranteed investment contract	N/A	N/A	N/A	2.4	841,740
Total investments					\$ 27,704,160
Cash and cash equivalents					11,477,237
Total Cash and Investments					\$ 39,181,397

2007

Investment Type	Standard & Poor's Credit Risk Rating			Interest Rate Risk	Carrying (Fair) Value
	Low Credit Risk (a)	Medium or Higher Credit Risk (b)	Not Rated	Weighted Average Maturity (Years)	
U.S. government agency securities					
Federal National Mortgage Association	100%	-	-	0.6	\$ 261,539
Federal Home Loan Mortgage Corporation	100%	-	-	6.4	81,658
U.S. Treasury securities	N/A	N/A	N/A	4.0	3,672,886
Investment pools/mutual funds					
City of Minneapolis	-	-	100%	N/A	1,043,360
Municipal bonds	100%	-	-	2.7	20,717,436
Guaranteed investment contract	N/A	N/A	N/A	3.4	841,740
Total investments					\$ 26,618,619
Cash and cash equivalents					10,900,428
Total Cash and Investments					\$ 37,519,047

N/A Not Applicable

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

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

**CITY OF MINNEAPOLIS
COMMUNITY PLANNING AND ECONOMIC DEVELOPMENT DEPARTMENT
GENERAL AGENCY RESERVE FUND SYSTEM
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3. Cash and Investments (Continued)

Investments as of December 31 are as follows:

	2008		2007	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Pooled investments	\$ 1,217,009	\$ 1,219,622	\$ 1,028,804	\$ 1,043,360
Municipal bonds	15,062,219	21,414,661	15,062,219	20,717,436
Federal agency obligations	88,752	95,227	340,473	343,197
Other federal obligations	3,805,403	4,132,910	3,621,126	3,672,886
Guaranteed investment contracts	841,740	841,740	841,740	841,740
Total	<u>\$ 21,015,123</u>	<u>\$ 27,704,160</u>	<u>\$ 20,894,362</u>	<u>\$ 26,618,619</u>

GARFS purchased a Put Agreement effective October 24, 2000, administered by its trustee bank. The Put Agreement provides a minimum portfolio value to manage the exposure GARFS has to changes in the fair market value of certain debt securities defined as follows: those securities that, in the aggregate, cost \$15,062,220 at December 31, 2008 and 2007, with fair values of \$21,414,661 and \$20,717,436 at December 31, 2008 and 2007, respectively, with maturities of seven years. The fair value of the securities subject to the Put Agreement exceeded the minimum portfolio value stipulated by the Put Agreement.

The Put Agreement contains certain restrictive covenants which require, among other things, that the investments encompassed by the Put Agreement maintain a minimum rating of BBB as determined by an independent rating agency.

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4. Bonded Debt Security

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

Letters of credit have been issued by corporations and financial institutions for the benefit of GARFS to back the common reserve requirements of certain developers in lieu of cash deposits as follows at December 31, 2008:

Pajor & Associates	\$	126,562
Resources, Inc.		142,500
Discount Steel		246,162
Bridgerail Properties		249,313
Historic Theatre Trust		1,600,000
Quality Resource Group		266,000
New French Bakery		810,456
Total	\$	3,440,993

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

5. Long-Term Debt Bond Issues (see pages 17 through 20)

A summary of long-term debt activity for the years ended December 31, 2008 and 2007, is as follows:

	2008	2007
Development Revenue Bonds		
Payable - January 1	\$ 63,695,000	\$ 57,985,000
Issued	-	13,090,000
Retired	(2,845,000)	(7,380,000)
Payable - December 31	\$ 60,850,000	\$ 63,695,000
Due Within One Year	\$ 3,190,000	\$ 2,845,000

**CITY OF MINNEAPOLIS
COMMUNITY PLANNING AND ECONOMIC DEVELOPMENT DEPARTMENT
GENERAL AGENCY RESERVE FUND SYSTEM
MINNEAPOLIS, MINNESOTA**

6. Related-Party Transactions

GARFS contributed \$2,093,092 in 2007 to the City of Minneapolis in support of industrial development activities. This amount is shown as a transfer out in the Comparative Statement of Revenues, Expenses, and Changes in Net Assets.

City Projects - The Stimson Building, 2001-4, is a project of the City of Minneapolis. The City pledged to pay the debt service and administrative costs of the issues. The City contributed \$2,777,857 in 2007 to GARFS for the City Project.

Laurel Village - In 1995, the CPED entered into an agreement with the developer of Laurel Village in which the CPED committed to use \$2,656,318 of tax increment revenues, or other available funds, through the year 2016 to stabilize funding for the John Alden Apartments. These funds were repledged to pay debt service on the Laurel Village Series 1997 Development Revenue Bonds. The total paid by the CPED pursuant to this commitment was \$113,961 and \$115,093 in 2008 and 2007, respectively.

7. Industrial Development Bond Account

Within GARFS, there is an IDB account. Funds are remitted to this account as specified in the Common Bond Fund Resolutions. The City has pledged not to reduce the IDB account to a balance less than \$20,000,000. The balance in the IDB account was \$32,570,872 and \$31,054,832 as of December 31, 2008 and 2007, respectively. Management intends to transfer \$5,000,000 to the City of Minneapolis for industrial development activities; \$4,190,189 of this amount has been transferred.

8. Receivables From Other City Funds

	2008	2007
Stimson Building Residual Receivable	\$ 20,000	\$ 20,000

Stimson Building - On October 1, 2001, the CPED issued \$6,000,000 Development Revenue Bonds, Stimson Building, Series 2001-4. The proceeds of Series 2001-4 are to be primarily used in the redevelopment of the Stimson Building. The CPED will transfer funds to GARFS for the required debt service payments.

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9. Capitalized Leases and Notes Receivable

According to the Basic Resolution and Indenture, GARFS is to enter into a Revenue Agreement with developers receiving funds. Such agreements are in the form of capitalized leases or notes receivable (see also Note 2). The agreements outstanding are detailed on the schedules on pages 21 through 24.

10. Bonds Called and Refunded

The CPED has discharged certain bond series by irrevocably depositing in escrow a sum of cash and securities bearing interest and maturing such that all principal or redemption price of and interest due on the bonds were paid or could be paid in full.

<u>Bond Issue/Series</u>	<u>Escrow Date</u>	<u>Redemption Date</u>
Northern Cap Mfg. Co. (12/1/98)	July 30, 2004	June 1, 2008
Stevens Square Refunding	September 22, 2004	June 1, 2011
Theatres Project	December 20, 2005	December 1, 2011
Ambassador Press	June 28, 2006	June 1, 2007
Elmer Enterprises Refunding	July 1, 2007	June 1, 2011

11. Other Commitments and Contingencies

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

**CITY OF MINNEAPOLIS
COMMUNITY PLANNING AND ECONOMIC DEVELOPMENT DEPARTMENT
GENERAL AGENCY RESERVE FUND SYSTEM
MINNEAPOLIS, MINNESOTA**

**NOTES TO THE FINANCIAL STATEMENTS
OUTSTANDING DEVELOPMENT REVENUE BONDS
DECEMBER 31, 2008**

	<u>Interest Rate</u>	<u>Issue Date</u>	<u>Final Maturity Date</u>
General Agency Reserve Fund System			
Carlson Companies	4.85% to 6.00%	03-01-96	02-01-11
Halper Box	5.10% to 6.15%	04-01-97	06-01-17
Baker Bearing	5.10% to 6.20%	05-01-97	12-01-17
Laurel Village Alden Limited Partnership II	4.30% to 5.75%	10-01-97	06-01-27
100 East 22nd Associates - A	4.00% to 5.50%	10-01-97	06-01-12
Cord Sets	4.10% to 5.50%	07-01-98	06-01-18
Discount Steel - A	5.00% to 5.25%	12-01-99	06-01-19
Discount Steel - B	6.75%	12-01-99	06-01-09
Pajor & Associates	4.75% to 6.75%	03-01-00	12-01-25
Resource, Inc.	4.65% to 6.00%	08-01-00	12-01-20
Bridgerail Properties	4.31% to 7.00%	09-01-02	06-01-22
Kristol Properties	2.45% to 5.12%	11-20-03	12-01-23
Infinite Graphics	2.25% to 5.50%	07-14-04	12-01-24
Hennepin Theatre Trust	5.23% to 6.30%	12-20-05	12-01-35
Ambassador Press	4.27% to 6.50%	06-26-06	12-01-26
Quality Resource Group	5.28% to 5.84%	03-04-07	12-01-27
New French Bakery	4.62% to 5.70%	07-26-07	06-01-28
Total Outstanding Development Revenue Bonds			

2007 Amounts

Note 5

Bonds and Notes			Principal	Interest
Issued	Retired	Outstanding	Due	Due
			in 2009	in 2009
\$ 8,370,000	\$ 6,450,000	\$ 1,920,000	\$ 735,000	\$ 104,400
2,400,000	1,035,000	1,365,000	120,000	79,972
2,900,000	1,185,000	1,715,000	150,000	101,210
2,515,000	475,000	2,040,000	60,000	115,015
2,820,000	1,890,000	930,000	245,000	47,850
1,500,000	560,000	940,000	75,000	49,394
1,900,000	-	1,900,000	-	48,831
1,000,000	865,000	135,000	135,000	53,388
1,505,000	270,000	1,235,000	40,000	82,022
1,650,000	465,000	1,185,000	70,000	68,780
2,750,000	540,000	2,210,000	105,000	143,900
3,300,000	1,130,000	2,170,000	140,000	100,980
2,475,000	440,000	2,035,000	120,000	105,688
21,055,000	870,000	20,185,000	320,000	1,242,841
8,400,000	515,000	7,885,000	480,000	413,874
3,100,000	90,000	3,010,000	95,000	169,364
9,990,000	-	9,990,000	300,000	510,456
<u>\$ 77,630,000</u>	<u>\$ 16,780,000</u>	<u>\$ 60,850,000</u>	<u>\$ 3,190,000</u>	<u>\$ 3,437,965</u>
<u>\$ 77,630,000</u>	<u>\$ 13,935,000</u>	<u>\$ 63,695,000</u>		

**CITY OF MINNEAPOLIS
COMMUNITY PLANNING AND ECONOMIC DEVELOPMENT DEPARTMENT
GENERAL AGENCY RESERVE FUND SYSTEM
MINNEAPOLIS, MINNESOTA**

**NOTES TO THE FINANCIAL STATEMENTS
MATURITIES ON OUTSTANDING PRINCIPAL BALANCES
OF BOND ISSUES AND INTEREST PAYMENTS
DECEMBER 31, 2008**

	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
Carlson Companies	\$ 735,000	\$ 780,000	\$ 405,000	\$ -
Halper Box	120,000	130,000	140,000	145,000
Baker Bearing	150,000	160,000	165,000	175,000
Laurel Village Alden Limited Partnership II	60,000	65,000	65,000	70,000
100 East 22nd Associates - A	245,000	265,000	275,000	145,000
Cord Sets	75,000	80,000	80,000	85,000
Discount Steel - A	-	150,000	160,000	165,000
Discount Steel - B	135,000	-	-	-
Pajor & Associates	40,000	45,000	45,000	50,000
Resource, Inc.	70,000	75,000	80,000	85,000
Bridgerail Properties	105,000	110,000	115,000	125,000
Kristol Properties	140,000	145,000	155,000	160,000
Infinite Graphics	120,000	125,000	130,000	135,000
Historic Theatre Trust	320,000	335,000	355,000	375,000
Ambassador Press	480,000	495,000	520,000	540,000
Quality Resource Group	95,000	100,000	105,000	110,000
New French Bakery	300,000	310,000	330,000	350,000
Total principal payments	\$ 3,190,000	\$ 3,370,000	\$ 3,125,000	\$ 2,715,000
Total interest payments	3,437,965	3,266,014	3,084,410	2,926,555
Total Maturities	<u>\$ 6,627,965</u>	<u>\$ 6,636,014</u>	<u>\$ 6,209,410</u>	<u>\$ 5,641,555</u>

Note 5
(Continued)

<u>2013</u>	<u>2014-2018</u>	<u>2019-2023</u>	<u>2024-2028</u>	<u>2029-2033</u>	<u>2034-2035</u>	<u>Total</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,920,000
155,000	675,000	-	-	-	-	1,365,000
190,000	875,000	-	-	-	-	1,715,000
75,000	450,000	610,000	645,000	-	-	2,040,000
-	-	-	-	-	-	930,000
90,000	530,000	-	-	-	-	940,000
175,000	1,015,000	235,000	-	-	-	1,900,000
-	-	-	-	-	-	135,000
55,000	325,000	450,000	225,000	-	-	1,235,000
90,000	530,000	255,000	-	-	-	1,185,000
130,000	780,000	845,000	-	-	-	2,210,000
160,000	645,000	765,000	-	-	-	2,170,000
140,000	560,000	670,000	155,000	-	-	2,035,000
395,000	2,345,000	3,165,000	4,260,000	5,780,000	2,855,000	20,185,000
565,000	3,380,000	1,080,000	825,000	-	-	7,885,000
115,000	675,000	895,000	915,000	-	-	3,010,000
365,000	2,130,000	2,720,000	3,485,000	-	-	9,990,000
\$ 2,700,000	\$ 14,915,000	\$ 11,690,000	\$ 10,510,000	\$ 5,780,000	\$ 2,855,000	\$ 60,850,000
2,785,517	11,608,773	7,791,762	4,467,297	2,035,845	272,475	41,676,613
<u>\$ 5,485,517</u>	<u>\$ 26,523,773</u>	<u>\$ 19,481,762</u>	<u>\$ 14,977,297</u>	<u>\$ 7,815,845</u>	<u>\$ 3,127,475</u>	<u>\$ 102,526,613</u>

**CITY OF MINNEAPOLIS
COMMUNITY PLANNING AND ECONOMIC DEVELOPMENT DEPARTMENT
GENERAL AGENCY RESERVE FUND SYSTEM
MINNEAPOLIS, MINNESOTA**

**NOTES TO THE FINANCIAL STATEMENTS
SCHEDULE OF CAPITALIZED LEASES AND NOTES RECEIVABLE
DECEMBER 31, 2008**

	Total Lease/Note Payments	Total Interest
Capitalized Leases		
Halper Box	\$ 1,765,444	\$ 400,444
Baker Bearing	2,234,395	519,395
Laurel Village Alden Limited Partnership II	3,405,340	1,365,340
100 East 22nd Associates - A	1,035,325	105,325
Cord Sets	1,219,982	279,982
Discount Steel - A	2,482,837	582,837
Discount Steel - B	188,388	53,388
Pajor & Associates	2,108,422	873,422
Resource, Inc.	1,686,555	501,555
Bridgerail Properties	3,486,900	1,276,900
Kristol Properties	3,033,146	863,146
Infinite Graphics	2,990,551	955,551
Historic Theatre Trust	42,204,453	22,019,453
Ambassador Press	11,482,774	3,597,774
Quality Resource Group	5,006,376	1,996,376
New French Bakery	16,099,625	6,109,625
Total capitalized leases	\$ 100,430,513	\$ 41,500,513
Notes Receivable		
Carlson Companies	2,096,100	176,100
Total Capitalized Leases and Notes Receivable	\$ 102,526,613	\$ 41,676,613

2007 Amounts

Note 9

<u>Total Principal</u>	<u>Unexpended Construction Funds</u>	<u>Capitalized Lease/Note Receivable</u>	<u>Current Portion</u>	<u>Noncurrent Portion</u>
\$ 1,365,000	\$ 4,896	\$ 1,360,104	\$ 120,000	\$ 1,240,104
1,715,000	-	1,715,000	150,000	1,565,000
2,040,000	-	2,040,000	60,000	1,980,000
930,000	-	930,000	245,000	685,000
940,000	-	940,000	75,000	865,000
1,900,000	-	1,900,000	-	1,900,000
135,000	-	135,000	135,000	-
1,235,000	-	1,235,000	40,000	1,195,000
1,185,000	-	1,185,000	70,000	1,115,000
2,210,000	-	2,210,000	105,000	2,105,000
2,170,000	-	2,170,000	140,000	2,030,000
2,035,000	-	2,035,000	120,000	1,915,000
20,185,000	-	20,185,000	320,000	19,865,000
7,885,000	5	7,884,995	480,000	7,404,995
3,010,000	-	3,010,000	95,000	2,915,000
9,990,000	183,695	9,806,305	300,000	9,506,305
\$ 58,930,000	\$ 188,596	\$ 58,741,404	\$ 2,455,000	\$ 56,286,404
<u>1,920,000</u>	<u>-</u>	<u>1,920,000</u>	<u>735,000</u>	<u>1,185,000</u>
<u>\$ 60,850,000</u>	<u>\$ 188,596</u>	<u>\$ 60,661,404</u>	<u>\$ 3,190,000</u>	<u>\$ 57,471,404</u>
		<u>\$ 63,368,768</u>	<u>\$ 2,845,000</u>	<u>\$ 60,523,768</u>

**CITY OF MINNEAPOLIS
COMMUNITY PLANNING AND ECONOMIC DEVELOPMENT DEPARTMENT
GENERAL AGENCY RESERVE SYSTEM
MINNEAPOLIS, MINNESOTA**

**NOTES TO THE FINANCIAL STATEMENTS
CAPITALIZED LEASES AND NOTES RECEIVABLE MATURITIES, INCLUDING INTEREST
DECEMBER 31, 2008**

	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
Capitalized Leases				
Halper Box	\$ 199,972	\$ 202,472	\$ 204,268	\$ 200,504
Baker Bearing	251,210	251,910	246,995	246,455
Laurel Village Alden Limited Partnership II	175,015	176,895	173,450	174,940
100 East 22nd Associates - A	292,850	299,100	294,388	148,987
Cord Sets	124,394	125,375	120,975	121,438
Discount Steel - A	48,831	243,913	246,162	243,038
Discount Steel - B	188,388	-	-	-
Pajor & Associates	122,022	124,663	121,962	124,038
Resource, Inc.	138,780	140,175	141,275	141,675
Bridgerail Properties	248,900	248,125	247,075	250,750
Kristol Properties	240,980	241,290	245,998	244,875
Infinite Graphics	225,688	225,888	225,700	224,200
Historic Theatre Trust	1,562,841	1,561,105	1,563,584	1,563,456
Ambassador Press	893,874	887,849	890,674	886,799
Quality Resource Group	264,364	264,348	264,068	263,524
New French Bakery	810,456	803,356	805,686	806,876
Total capitalized lease maturities	\$ 5,788,565	\$ 5,796,464	\$ 5,792,260	\$ 5,641,555
Notes Receivable				
Carlson Companies	839,400	839,550	417,150	-
Total Maturities	\$ 6,627,965	\$ 6,636,014	\$ 6,209,410	\$ 5,641,555

Note 9
(Continued)

<u>2013</u>	<u>2014-2018</u>	<u>2019-2023</u>	<u>2024-2028</u>	<u>2029-2033</u>	<u>2034-2035</u>	<u>Total</u>
\$ 201,279	\$ 756,949	\$ -	\$ -	\$ -	\$ -	\$ 1,765,444
250,140	987,685	-	-	-	-	2,234,395
176,090	886,920	901,840	740,190	-	-	3,405,340
-	-	-	-	-	-	1,035,325
121,625	606,175	-	-	-	-	1,219,982
244,537	1,215,187	241,169	-	-	-	2,482,837
-	-	-	-	-	-	188,388
125,787	621,563	620,437	247,950	-	-	2,108,422
141,787	704,763	278,100	-	-	-	1,686,555
248,875	1,245,225	997,950	-	-	-	3,486,900
238,075	935,465	886,463	-	-	-	3,033,146
222,450	875,800	827,300	163,525	-	-	2,990,551
1,562,194	7,811,248	7,822,305	7,814,400	7,815,845	3,127,475	42,204,453
886,369	4,538,394	1,564,615	934,200	-	-	11,482,774
262,715	1,313,036	1,321,789	1,052,532	-	-	5,006,376
803,594	4,025,363	4,019,794	4,024,500	-	-	16,099,625
\$ 5,485,517	\$ 26,523,773	\$ 19,481,762	\$ 14,977,297	\$ 7,815,845	\$ 3,127,475	\$ 100,430,513
-	-	-	-	-	-	2,096,100
<u>\$ 5,485,517</u>	<u>\$ 26,523,773</u>	<u>\$ 19,481,762</u>	<u>\$ 14,977,297</u>	<u>\$ 7,815,845</u>	<u>\$ 3,127,475</u>	<u>\$ 102,526,613</u>

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REBECCA OTTO
STATE AUDITOR

STATE OF MINNESOTA OFFICE OF THE STATE AUDITOR

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH ENABLING RESOLUTIONS

Mayor and Members of the City Council
City of Minneapolis, Minnesota
Community Planning and Economic Development Department

We have audited the basic financial statements of the General Agency Reserve Fund System, a part of the City of Minneapolis Community Planning and Economic Development Department (CPED), as of and for the year ended December 31, 2008, and have issued our report thereon dated April 24, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America.

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

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

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

April 24, 2009

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