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, 2007 AND 2006

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, 2007 AND 2006

Audit Practice Division
Office of the State Auditor
State of Minnesota

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

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Introductory Section

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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

Lee Sheehy - Term ended June 2007.
Mike Christenson – Term is indefinite.

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Financial Section

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STATE OF MINNESOTA
OFFICE OF THE STATE AUDITOR

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STATE AUDITOR

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INDEPENDENT AUDITOR'S REPORT

Mayor and Members of the Minneapolis City Council
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, 2007 and 2006, 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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, 2007 and 2006, and the changes in their financial position or 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, 2007 and 2006, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 25, 2008, on our consideration of the General Agency Reserve Fund System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

April 25, 2008

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, 2007 AND 2006

	2007	2006
Assets		
Current assets		
Cash and cash equivalents		
Common reserve account	$ 2,662,544	$ 2,988,641
Industrial development account	6,321,313	5,549,716
Debt service account	1,293,222	1,069,813
Construction funds	326,232	794,359
Other	297,117	121,708
Total cash and cash equivalents	**$ 10,900,428**	**$ 10,524,237**
Investments		
Common reserve account	$ 841,740	$ 841,740
Industrial development account	24,733,519	23,649,164
General agency reserve fund	1,043,360	776,435
Total investments	**$ 26,618,619**	**$ 25,267,339**
Receivables		
Accrued interest	$ 144,122	$ 136,024
Capitalized leases receivable from developers	2,155,000	2,015,000
Capitalized notes receivable from developers	690,000	650,000
Receivables from other funds	20,000	2,797,857
Total receivables	**$ 3,009,122**	**$ 5,598,881**
Total current assets	**$ 40,528,169**	**$ 41,390,457**
Noncurrent assets		
Receivables		
Capitalized leases	$ 58,603,768	$ 51,915,641
Notes receivable from developer	1,920,000	2,610,000
Total noncurrent assets	**$ 60,523,768**	**$ 54,525,641**
Total Assets	**$ 101,051,937**	**$ 95,916,098**

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

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

EXHIBIT 1
(Continued)

COMPARATIVE STATEMENT OF NET ASSETS
DECEMBER 31, 2007 AND 2006

	2007	2006
Liabilities		
Current liabilities		
Bonds payable	$ 2,845,000	$ 2,665,000
Accounts payable	19,020	13,862
Accrued interest payable	296,181	284,261
Developer reserve deposits	3,504,284	3,830,381
Unearned revenue	523,026	580,754
Total current liabilities	**$ 7,187,511**	**$ 7,374,258**
Noncurrent liabilities		
Bonds payable	60,850,000	55,320,000
Total Liabilities	**$ 68,037,511**	**$ 62,694,258**
Net Assets		
Restricted for debt service	**$ 33,014,426**	**$ 33,221,840**

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

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

EXHIBIT 2

COMPARATIVE STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006

	2007	2006
Operating Revenues		
Interest on capitalized leases and developer fees	$ 3,802,328	$ 3,674,160
Interest income	722,849	731,805
Increase in fair value of investments	912,117	490,478
Administrative fees	310,437	295,677
Other revenues	13,493	-
Total Operating Revenues	**$ 5,761,224**	**$ 5,192,120**
Operating Expenses		
Interest	$ 3,645,688	$ 3,663,317
Professional services and other expenses	229,858	226,041
Total Operating Expenses	**$ 3,875,546**	**$ 3,889,358**
Income (Loss) Before Transfers	**$ 1,885,678**	**$ 1,302,762**
Transfers out	(2,093,092)	(2,097,097)
Change in Net Assets	**$ (207,414)**	**$ (794,335)**
Net Assets - January 1	**33,221,840**	**34,016,175**
Net Assets - December 31	**$ 33,014,426**	**$ 33,221,840**

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

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, 2007 AND 2006

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	2007	2006
Cash Flows from Operating Activities		
Receipts from customers and users	$ 1,056,914	$ 3,999,344
Payments to suppliers	(224,700)	(242,119)
Net cash provided by (used in) operating activities	**$ 832,214**	**$ 3,757,225**
Cash Flows from Noncapital Financing Activities		
Proceeds from bond and note issued	$ 13,090,000	$ 8,400,000
Transfers to other funds	(2,093,092)	(2,097,097)
Principal paid on bonds and notes	(7,380,000)	(11,655,000)
Interest paid on bonds and notes	(3,633,768)	(3,677,938)
Net cash provided by (used in) noncapital financing activities	**$ (16,860)**	**$ (9,030,035)**
Cash Flows from Investing Activities		
Purchase of investments	$ (3,383,525)	$ (1,585,878)
Sale of investments	2,944,362	2,281,248
Net cash provided by (used in) investing activities	**$ (439,163)**	**$ 695,370**
Net Increase (Decrease) in Cash and Cash Equivalents	**$ 376,191**	**$ (4,577,440)**
Cash and Cash Equivalents - January 1	**10,524,237**	**15,101,677**
Cash and Cash Equivalents - December 31	**$ 10,900,428**	**$ 10,524,237**
Reconciliation of operating income to net cash provided by (used in) operating activities		
Change in net assets	**$ 1,885,678**	**$ 1,302,762**
Adjustments to reconcile income before operating transfers to net cash provided by (used in) operating activities		
Interest expense	3,645,688	3,663,317
Increase in fair value of investments	(912,117)	(490,478)
(Increase) decrease in accrued interest receivable	(8,098)	14,316
(Increase) decrease in notes receivable	650,000	620,000
(Increase) decrease in capital leases receivable	(6,828,127)	(3,155,596)
(Increase) decrease in receivables from other agency funds	2,777,857	1,536,048
Increase (decrease) in accounts payable	5,158	(16,078)
Increase (decrease) in deposits held for others	(326,097)	363,219
Increase (decrease) in unearned revenue	(57,728)	(80,285)
Net Cash Provided by (Used in) Operating Activities	**$ 832,214**	**$ 3,757,225**

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

NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006

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.

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).

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.

Reclassifications - For comparability, certain 2006 amounts have been reclassified to conform to the 2007 presentation. These reclassifications had no effect on change in net assets or net assets as previously reported.

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, 2007 and 2006, GARFS' deposits were not exposed to custodial credit risk.

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, 2007 and 2006, that represent five percent or more of the GARFS' investments are as follows:

Issuer	Reported Amount 2007	Reported Amount 2006
Municipal bonds		
Chicago (IL) Board of Education	$ 5,428,260	$ 5,190,360
U.S. Department of Treasury	3,672,886	3,337,441
Houston (TX) Independent School District	3,164,952	3,016,471
Grand Prairie (TX) Independent School District	2,609,936	2,489,004
Jacksonville (FL) Electric Authority	2,337,101	2,223,334
Florida State Board of Education	2,086,440	2,086,860
Cook County (IL) School District #170	1,632,366	1,552,320
Shelby County (TN)	2,316,952	2,322,021

3. Cash and Investments (Continued)

The following table presents the GARFS investment balances at December 31, 2007 and 2006, and information relating to interest and credit quality investment risks:

2007

Investment Type	Standard & Poor's Credit Risk Rating: Low Credit Risk (a)	Standard & Poor's Credit Risk Rating: Medium or Higher Credit Risk (b)	Standard & Poor's Credit Risk Rating: Not Rated	Interest Rate Risk: Weighted Average Maturity (Years)	Carrying (Fair) Value
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	100%	-	-	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

2006

Investment Type	Standard & Poor's Credit Risk Rating: Low Credit Risk (a)	Standard & Poor's Credit Risk Rating: Medium or Higher Credit Risk (b)	Standard & Poor's Credit Risk Rating: Not Rated	Interest Rate Risk: Weighted Average Maturity (Years)	Carrying (Fair) Value
U.S. government agency securities					
Federal National Mortgage Association	100%	-	-	1.7	$ 265,748
Federal Home Loan Mortgage Corporation	100%	-	-	7.7	79,528
U.S. Treasury securities	N/A	-	N/A	4.0	3,337,441
Investment pools/mutual funds					
City of Minneapolis	-	-	100%	N/A	776,435
Municipal bonds	100%	-	-	3.7	19,966,447
Guaranteed investment contract	N/A	N/A	N/A	4.4	841,740
Total investments					$ 25,267,339
Cash and cash equivalents					10,524,237
Total Cash and Investments					$ 35,791,576

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.

3. Cash and Investments (Continued)

Investments as of December 31 are as follows:

	2007		2006	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Pooled investments	$ 1,028,804	$ 1,043,360	$ 774,754	$ 776,435
Municipal bonds	15,062,219	20,717,436	15,062,219	19,966,447
Federal agency obligations	340,473	343,197	344,644	345,276
Other federal obligations	3,621,126	3,672,886	3,431,843	3,337,441
Guaranteed investment contracts	841,740	841,740	841,740	841,740
Total	$ 20,894,362	$ 26,618,619	$ 20,455,200	$ 25,267,339

The 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, 2007 and 2006, with fair values of $20,717,436 and $19,966,447 at December 31, 2007 and 2006, 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.

4. Bonded Debt Security

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

Letters of Credit - US Bank has issued an irrevocable letter of credit dated July 19, 1993, for $10,000,000 to provide an additional reserve for debt service in the event funds are not available within GARFS' reserves. The letter of credit expired on January 19, 2006, and was not renewed.

4. Bonded Debt Security (Continued)

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, 2007:

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, 2007 and 2006, is as follows:

	2007	2006
Development Revenue Bonds		
Payable - January 1	$ 57,985,000	$ 61,240,000
Issued	13,090,000	8,400,000
Retired	(7,380,000)	(11,655,000)
Payable - December 31	$ 63,695,000	$ 57,985,000
Due Within One Year	$ 2,845,000	$ 2,665,000

6. Related-Party Transactions

GARFS contributed $2,093,092 and $2,097,097 in 2007 and 2006, respectively, 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 Stimpson 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 and $3,180,925 in 2006 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 $115,093 and $116,204 in 2007 and 2006, 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 $31,054,832 and $29,198,880 as of December 31, 2007 and 2006, respectively. Management intends to transfer $5,000,000 to the City of Minneapolis for industrial development activities; $2,093,092 and $2,097,097 of this amount was transferred in 2007 and 2006, respectively.

8. Receivables From Other City Funds

	2007	2006
Stimson Building Residual Receivable	$ 20,000	$ 2,797,857

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.

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.

Bond Issue/Series	Escrow Date	Redemption Date
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

OUTSTANDING DEVELOPMENT REVENUE BONDS
DECEMBER 31, 2007

	Interest Rate	**Issue Date**	**Final Maturity Date**
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			
2006 Amounts			

	Bonds and Notes		Principal	Interest
			Due	Due
Issued	**Retired**	**Outstanding**	**in 2008**	**in 2008**
$ 8,370,000	$ 5,760,000	$ 2,610,000	$ 690,000	$ 146,400
2,400,000	920,000	1,480,000	115,000	87,022
2,900,000	1,045,000	1,855,000	140,000	109,910
2,515,000	420,000	2,095,000	55,000	117,820
2,820,000	1,655,000	1,165,000	235,000	60,912
1,500,000	490,000	1,010,000	70,000	52,892
1,900,000	-	1,900,000	-	-
1,000,000	740,000	260,000	125,000	110,994
1,505,000	230,000	1,275,000	40,000	84,323
1,650,000	395,000	1,255,000	70,000	72,350
2,750,000	440,000	2,310,000	100,000	149,400
3,300,000	890,000	2,410,000	240,000	108,180
2,475,000	325,000	2,150,000	115,000	109,856
21,055,000	565,000	20,490,000	305,000	1,258,792
8,400,000	60,000	8,340,000	455,000	433,292
3,100,000	-	3,100,000	90,000	174,115
9,990,000	-	9,990,000	-	467,918
$ 77,630,000	**$ 13,935,000**	**$ 63,695,000**	**$ 2,845,000**	**$ 3,544,176**
$ 72,530,000	**$ 14,545,000**	**$ 57,985,000**		

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

MATURITIES ON OUTSTANDING PRINCIPAL BALANCES
OF BOND ISSUES AND INTEREST PAYMENTS
DECEMBER 31, 2007

	2008	2009	2010	2011
Carlson Companies	$ 690,000	$ 735,000	$ 780,000	$ 405,000
Halper Box	115,000	120,000	130,000	140,000
Baker Bearing	140,000	150,000	160,000	165,000
Laurel Village Alden Limited Partnership II	55,000	60,000	65,000	65,000
100 East 22nd Associates - A	235,000	245,000	265,000	275,000
Cord Sets	70,000	75,000	80,000	80,000
Discount Steel - A	-	-	150,000	160,000
Discount Steel - B	125,000	135,000	-	-
Pajor & Associates	40,000	40,000	45,000	45,000
Resource, Inc.	70,000	70,000	75,000	80,000
Bridgerail Properties	100,000	105,000	110,000	115,000
Kristol Properties	240,000	140,000	145,000	155,000
Infinite Graphics	115,000	120,000	125,000	130,000
Historic Theatre Trust	305,000	320,000	335,000	355,000
Ambassador Press	455,000	480,000	495,000	520,000
Quality Resource Group	90,000	95,000	100,000	105,000
New French Bakery	-	300,000	310,000	330,000
Total principal payments	**$ 2,845,000**	**$ 3,190,000**	**$ 3,370,000**	**$ 3,125,000**
Total interest payments	**3,544,176**	**3,437,965**	**3,266,014**	**3,084,410**
Total Maturities	**$ 6,389,176**	**$ 6,627,965**	**$ 6,636,014**	**$ 6,209,410**

2012	2013-2017	2018-2022	2023-2027	2028-2032	2033-2035	Total
$ -	$ -	$ -	$ -	$ -	$ -	$ 2,610,000
145,000	830,000	-	-	-	-	1,480,000
175,000	1,065,000	-	-	-	-	1,855,000
70,000	425,000	575,000	780,000	-	-	2,095,000
145,000	-	-	-	-	-	1,165,000
85,000	500,000	120,000	-	-	-	1,010,000
165,000	965,000	460,000	-	-	-	1,900,000
-	-	-	-	-	-	260,000
50,000	305,000	425,000	325,000	-	-	1,275,000
85,000	500,000	375,000	-	-	-	1,255,000
125,000	730,000	1,025,000	-	-	-	2,310,000
160,000	675,000	725,000	170,000	-	-	2,410,000
135,000	585,000	635,000	305,000	-	-	2,150,000
375,000	2,215,000	2,980,000	4,010,000	5,440,000	4,155,000	20,490,000
540,000	3,150,000	1,635,000	1,065,000	-	-	8,340,000
110,000	640,000	845,000	1,115,000	-	-	3,100,000
350,000	2,025,000	2,590,000	3,320,000	765,000	-	9,990,000
$ 2,715,000	**$ 14,610,000**	**$ 12,390,000**	**$ 11,090,000**	**$ 6,205,000**	**$ 4,155,000**	**$ 63,695,000**
2,926,555	**12,401,058**	**8,500,792**	**5,108,764**	**2,416,815**	**534,240**	**45,220,789**
$ 5,641,555	**$ 27,011,058**	**$ 20,890,792**	**$ 16,198,764**	**$ 8,621,815**	**$ 4,689,240**	**$ 108,915,789**

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

SCHEDULE OF CAPITALIZED LEASES AND NOTES RECEIVABLE
DECEMBER 31, 2007

	Total Lease/Note Payments	Total Interest
Capitalized Leases		
Halper Box	$ 1,967,466	$ 487,466
Baker Bearing	2,484,305	629,305
Laurel Village Alden Limited Partnership II	3,578,160	1,483,160
100 East 22nd Associates - A	1,331,237	166,237
Cord Sets	1,342,874	332,874
Discount Steel - A	2,482,837	582,837
Discount Steel - B	424,382	164,382
Pajor & Associates	2,232,745	957,745
Resource, Inc.	1,828,905	573,905
Bridgerail Properties	3,736,300	1,426,300
Kristol Properties	3,381,326	971,326
Infinite Graphics	3,215,407	1,065,407
Historic Theatre Trust	43,768,245	23,278,245
Ambassador Press	12,371,066	4,031,066
Quality Resource Group	5,270,491	2,170,491
New French Bakery	16,567,543	6,577,543
Total capitalized leases	**$ 105,983,289**	**$ 44,898,289**
Notes Receivable		
Carlson Companies	2,932,500	322,500
Total Capitalized Leases and Notes Receivable	**$ 108,915,789**	**$ 45,220,789**

2006 Amounts

Total Principal	Unexpended Construction Funds	Capitalized Lease/Note Receivable	Current Portion	Noncurrent Portion
$ 1,480,000	$ 4,821	$ 1,475,179	$ 115,000	$ 1,360,179
1,855,000	-	1,855,000	140,000	1,715,000
2,095,000	-	2,095,000	55,000	2,040,000
1,165,000	-	1,165,000	235,000	930,000
1,010,000	-	1,010,000	70,000	940,000
1,900,000	-	1,900,000	-	1,900,000
260,000	-	260,000	125,000	135,000
1,275,000	-	1,275,000	40,000	1,235,000
1,255,000	-	1,255,000	70,000	1,185,000
2,310,000	-	2,310,000	100,000	2,210,000
2,410,000	-	2,410,000	240,000	2,170,000
2,150,000	-	2,150,000	115,000	2,035,000
20,490,000	-	20,490,000	305,000	20,185,000
8,340,000	19,014	8,320,986	455,000	7,865,986
3,100,000	-	3,100,000	90,000	3,010,000
9,990,000	302,397	9,687,603	-	9,687,603
$ 61,085,000	**$ 326,232**	**$ 60,758,768**	**$ 2,155,000**	**$ 58,603,768**
2,610,000	-	2,610,000	690,000	1,920,000
$ 63,695,000	**$ 326,232**	**$ 63,368,768**	**$ 2,845,000**	**$ 60,523,768**
		$ 57,190,641	**$ 2,665,000**	**$ 54,525,641**

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

CAPITALIZED LEASES AND NOTES RECEIVABLE MATURITIES, INCLUDING INTEREST
DECEMBER 31, 2007

	2008	2009	2010	2011
Capitalized Leases				
Halper Box	$ 202,022	$ 199,972	$ 202,472	$ 204,268
Baker Bearing	249,910	251,210	251,910	246,995
Laurel Village Alden Limited Partnership II	172,820	175,015	176,895	173,450
100 East 22nd Associates - A	295,912	292,850	299,100	294,388
Cord Sets	122,892	124,394	125,375	120,975
Discount Steel - A	-	48,831	243,913	246,162
Discount Steel - B	235,994	188,388	-	-
Pajor & Associates	124,323	122,022	124,663	121,962
Resource, Inc.	142,350	138,780	140,175	141,275
Bridgerail Properties	249,400	248,900	248,125	247,075
Kristol Properties	348,180	240,980	241,290	245,998
Infinite Graphics	224,856	225,688	225,888	225,700
Historic Theatre Trust	1,563,792	1,562,841	1,561,105	1,563,584
Ambassador Press	888,292	893,874	887,849	890,674
Quality Resource Group	264,115	264,364	264,348	264,068
New French Bakery	467,918	810,456	803,356	805,686
Total capitalized lease maturities	**$ 5,552,776**	**$ 5,788,565**	**$ 5,796,464**	**$ 5,792,260**
Notes Receivable				
Carlson Companies	836,400	839,400	839,550	417,150
Total Maturities	**$ 6,389,176**	**$ 6,627,965**	**$ 6,636,014**	**$ 6,209,410**

2012	2013-2017	2018-2022	2023-2027	2028-2032	2033-2035	Total
$ 200,504	$ 958,228	$ -	$ -	$ -	$ -	$ 1,967,466
246,455	1,237,825	-	-	-	-	2,484,305
174,940	885,775	899,615	919,650	-	-	3,578,160
148,987	-	-	-	-	-	1,331,237
121,438	604,500	123,300	-	-	-	1,342,874
243,038	1,216,480	484,413	-	-	-	2,482,837
-	-	-	-	-	-	424,382
124,038	621,725	624,124	369,888	-	-	2,232,745
141,675	704,050	420,600	-	-	-	1,828,905
250,750	1,242,350	1,249,700	-	-	-	3,736,300
244,875	997,671	883,619	178,713	-	-	3,381,326
224,200	931,550	827,225	330,300	-	-	3,215,407
1,563,456	7,811,447	7,820,575	7,813,640	7,818,565	4,689,240	43,768,245
886,799	4,464,765	2,215,388	1,243,425	-	-	12,371,066
263,524	1,312,723	1,319,701	1,317,648	-	-	5,270,491
806,876	4,021,969	4,022,532	4,025,500	803,250	-	16,567,543
$ 5,641,555	**$ 27,011,058**	**$ 20,890,792**	**$ 16,198,764**	**$ 8,621,815**	**$ 4,689,240**	**$ 105,983,289**
-	-	-	-	-	-	2,932,500
$ 5,641,555	**$ 27,011,058**	**$ 20,890,792**	**$ 16,198,764**	**$ 8,621,815**	**$ 4,689,240**	**$ 108,915,789**

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

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

We have audited the 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, 2007, and have issued our report thereon dated April 25, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the General Agency Reserve Fund System's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the General Agency Reserve Fund System's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the General Agency Reserve Fund System's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the General Agency Reserve Fund System's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the General Agency Reserve Fund System's financial statements that is more than inconsequential will not be prevented or detected by the General Agency Reserve Fund System's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the General Agency Reserve Fund System's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the General Agency Reserve Fund System's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards.*

Minnesota Legal Compliance

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the provisions of the *Minnesota Legal Compliance Audit Guide for Local Government*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65. Accordingly, the audit included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

The *Minnesota Legal Compliance Audit Guide for Local Government* contains six categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, and miscellaneous provisions. Our study included all of the listed categories.

The results of our tests indicate that, for the items tested, the General Agency Reserve Fund System of the City of Minneapolis CPED was in compliance with the material terms and conditions of applicable legal provisions.

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

/s/Rebecca Otto	*/s/Greg Hierlinger*
REBECCA OTTO STATE AUDITOR	GREG HIERLINGER, CPA DEPUTY STATE AUDITOR

April 25, 2008

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REBECCA OTTO
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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH ENABLING RESOLUTIONS

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

We have audited the 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, 2007, and have issued our report thereon dated April 25, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

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 Minneapolis City Council and CPED's management and is not intended to be, and should not be, used by anyone other than those specified parties.

/s/Rebecca Otto	*/s/Greg Hierlinger*
REBECCA OTTO STATE AUDITOR	GREG HIERLINGER, CPA DEPUTY STATE AUDITOR

April 25, 2008