

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, 2010 AND 2009

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, 2010 and 2009



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

ORGANIZATION

City Council

Ward 1	Kevin Reich
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	Meg Tuthill
Ward 11	John Quincy
Ward 12	Sandy Colvin Roy
Ward 13	Betsy Hodges

City Council terms all expire December 31, 2013.

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 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, 2010 and 2009, as listed in the table of contents. These basic financial statements are the responsibility of the City of Minneapolis' management. Our responsibility is to express an opinion on these basic 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 basic 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 basic 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, 2010 and 2009, 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 basic 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, 2010 and 2009, 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 25, 2011

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, 2010 AND 2009**

	2010	2009
<u>Assets</u>		
Current assets		
Cash and cash equivalents		
Common reserve account	\$ 4,826,425	\$ 2,863,083
Industrial development account	28,164,162	6,245,505
Debt service account	1,545,418	1,283,941
Construction funds	12,787,237	4,915
Other	79,703	222,951
Total cash and cash equivalents	\$ 47,402,945	\$ 10,620,395
Investments		
Common reserve account	\$ 841,740	\$ 841,740
Industrial development account	4,845,847	26,437,759
General agency reserve fund	1,298,583	1,211,014
Total investments	\$ 6,986,170	\$ 28,490,513
Receivables		
Accrued interest	\$ 50,138	\$ 108,513
Capitalized leases receivable from developers	3,535,000	2,590,000
Capitalized notes receivable from developers	405,000	780,000
Total receivables	\$ 3,990,138	\$ 3,478,513
Total current assets	\$ 58,379,253	\$ 42,589,421
Noncurrent assets		
Receivables		
Capitalized leases	\$ 79,197,763	\$ 53,585,085
Notes receivable from developer	-	405,000
Total noncurrent assets	\$ 79,197,763	\$ 53,990,085
Total Assets	\$ 137,577,016	\$ 96,579,506

**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, 2010 AND 2009**

	2010	2009
<u>Liabilities</u>		
Current liabilities		
Bonds payable	\$ 3,940,000	\$ 3,370,000
Accounts payable	9,909	14,239
Accrued interest payable	439,215	270,687
Developer reserve deposits	5,668,165	3,704,823
Unearned revenue	860,495	760,839
Total current liabilities	\$ 10,917,784	\$ 8,120,588
Noncurrent liabilities		
Bonds payable	91,985,000	53,995,000
Total Liabilities	\$ 102,902,784	\$ 62,115,588
<u>Net Assets</u>		
Restricted for debt service	\$ 34,674,232	\$ 34,463,918

**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, 2010 AND 2009**

	<u>2010</u>	<u>2009</u>
Operating Revenues		
Interest on capitalized leases and developer fees	\$ 3,949,899	\$ 3,394,208
Interest income	7,220,104	324,420
Increase (decrease) in fair value of investments	(6,933,446)	379,721
Administrative fees	317,324	270,318
Other revenues	235	6,591
	<u> </u>	<u> </u>
Total Operating Revenues	\$ 4,554,116	\$ 4,375,258
Operating Expenses		
Interest	\$ 3,937,677	\$ 3,401,627
Professional services and other expenses	276,357	283,005
	<u> </u>	<u> </u>
Total Operating Expenses	\$ 4,214,034	\$ 3,684,632
Operating Income (Loss)	\$ 340,082	\$ 690,626
Transfers out	(129,768)	(680,042)
	<u> </u>	<u> </u>
Change in Net Assets	\$ 210,314	\$ 10,584
Net Assets - January 1	34,463,918	34,453,334
	<u> </u>	<u> </u>
Net Assets - December 31	\$ 34,674,232	\$ 34,463,918
	<u> </u>	<u> </u>

**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, 2010 AND 2009**

	2010	2009
Cash Flows from Operating Activities		
Receipts from customers and users	\$ 10,770,456	\$ 7,429,649
Interest received from investments	7,278,479	-
Capitalized leases issued	(30,217,678)	-
Payments to suppliers	(280,687)	(297,380)
Net cash provided by (used in) operating activities	\$ (12,449,430)	\$ 7,132,269
Cash Flows from Noncapital Financing Activities		
Proceeds from bond and note issued	\$ 43,000,000	\$ -
Transfers to other funds	(129,768)	(680,042)
Principal paid on bonds and notes	(4,440,000)	(3,485,000)
Interest paid on bonds and notes	(3,769,149)	(3,417,437)
Net cash provided by (used in) noncapital financing activities	\$ 34,661,083	\$ (7,582,479)
Cash Flows from Investing Activities		
Purchase of investments	\$ (1,544,630)	\$ (2,040,515)
Sale of investments	16,115,527	1,633,883
Net cash provided by (used in) investing activities	\$ 14,570,897	\$ (406,632)
Net Increase (Decrease) in Cash and Cash Equivalents	\$ 36,782,550	\$ (856,842)
Cash and Cash Equivalents - January 1	10,620,395	11,477,237
Cash and Cash Equivalents - December 31	\$ 47,402,945	\$ 10,620,395
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities		
Operating Income (Loss)	\$ 340,082	\$ 690,626
Adjustments to reconcile operating income (loss) before operating transfers to net cash provided by (used in) operating activities		
Interest expense	3,937,677	3,401,627
Decrease in fair value of investments	6,933,446	(379,721)
(Increase) decrease in accrued interest receivable	58,375	3,242
(Increase) decrease in notes receivable	780,000	735,000
(Increase) decrease in capital leases receivable	(26,557,678)	2,566,319
(Increase) decrease in receivables from other funds	-	20,000
Increase (decrease) in accounts payable	(4,330)	(14,375)
Increase (decrease) in developer reserve deposits	1,963,342	176,215
Increase (decrease) in unearned revenue	99,656	(66,664)
Net Cash Provided by (Used in) Operating Activities	\$ (12,449,430)	\$ 7,132,269

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

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

**NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009**

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

1. Organization and Purpose (Continued)

Initial Funding - In order to provide initial funding for GARFS, an advance of \$5,000,000 was made from the MCDA's development account in 1984. The advance of \$5,000,000, along with the accrued interest thereon of \$2,698,116, was permanently transferred from the MCDA's development account to GARFS 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 8). Each lease agreement includes a bargain purchase option exercisable at the end of the lease term. In addition, the leased property may be purchased at various anniversaries during the lease terms at amounts at least equal to the outstanding principal amount of the underlying bonds.

Developer Reserve Deposits - Certain developers have made reserve deposits upon commencement of the lease 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
COMMUNITY PLANNING AND ECONOMIC DEVELOPMENT DEPARTMENT
GENERAL AGENCY RESERVE FUND SYSTEM
MINNEAPOLIS, MINNESOTA**

2. Summary of Significant Accounting Policies (Continued)

Unearned Revenue - Unearned revenue represents interest payments received from developers prior to the due date. Amounts are 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, 2010 and 2009, GARFS' deposits were not exposed to custodial credit risk.

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

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, 2010 and 2009, that represent five percent or more of the GARFS' investments are as follows:

Issuer	Reported Amount	
	2010	2009
City of Minneapolis investment pool	\$ 1,298,583	<5%
Guaranteed investment contract	841,740	<5%
U.S. Department of Treasury	4,755,290	\$ 4,300,680
Municipal bonds		
Chicago (IL) Board of Education	-	5,931,300
Houston (TX) Independent School District	-	3,454,627
Grand Prairie (TX) Independent School District	-	2,798,656
Jacksonville (FL) Electric Authority	-	2,546,432
Shelby County (TN)	-	2,251,992
Florida State Board of Education	-	2,039,520
Cook County (IL) School District #170	-	1,781,010

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

3. Cash and Investments (Continued)

The following table presents the GARFS investment balances at December 31, 2010 and 2009, and information relating to interest and credit quality investment risks:

2010

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%	-	-	4.4	\$ 5,057
Federal Home Loan Mortgage Corporation	100%	-	-	3.3	85,500
U.S. Treasury securities	100%	-	-	4.5	4,755,290
Investment pools/mutual funds					
City of Minneapolis	-	-	100%	N/A	1,298,583
Guaranteed investment contract	N/A	N/A	N/A	0.4	841,740
 Total investments					 \$ 6,986,170
Cash and cash equivalents					47,402,945
 Total Cash and Investments					 \$ 54,389,115

2009

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%	-	-	5.7	\$ 7,016
Federal Home Loan Mortgage Corporation	100%	-	-	4.3	84,774
U.S. Treasury securities	100%	-	-	4.3	4,300,680
Investment pools/mutual funds					
City of Minneapolis	-	-	100%	N/A	1,211,014
Municipal bonds	100%	-	-	0.7	22,045,289
Guaranteed investment contract	N/A	N/A	N/A	1.4	841,740
 Total investments					 \$ 28,490,513
Cash and cash equivalents					10,620,395
 Total Cash and Investments					 \$ 39,110,908

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:

	2010		2009	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Pooled investments	\$ 1,295,448	\$ 1,298,583	\$ 1,208,360	\$ 1,211,014
Municipal bonds	-	-	15,062,219	22,045,289
Federal agency obligations	84,300	90,557	86,632	91,790
Other federal obligations	4,629,370	4,755,290	4,222,805	4,300,680
Guaranteed investment contracts	841,740	841,740	841,740	841,740
Total	<u>\$ 6,850,858</u>	<u>\$ 6,986,170</u>	<u>\$ 21,421,756</u>	<u>\$ 28,490,513</u>

GARFS purchased a Put Agreement effective October 24, 2000, administered by its trustee bank. The Put Agreement provided a minimum portfolio value to manage the exposure GARFS had to changes in the fair market value of certain debt securities. At December 31, 2009, GARFS held securities with a cost of \$15,062,219 and a fair value of \$22,045,289. At December 31, 2010, GARFS no longer held a Put Agreement as the related securities were sold.

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, 2010:

Pajor & Associates	\$ 126,562
Discount Steel	246,162
Bridgerail Properties	249,313
Hennepin Theatre Trust	1,600,000
Quality Resource Group	266,000
New French Bakery	810,456
Open Systems International	<u>1,371,429</u>
Total	<u>\$ 4,669,922</u>

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

4. Bonded Debt Security (Continued)

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 16 through 19)

A summary of long-term debt activity for the years ended December 31, 2010 and 2009, is as follows:

	2010	2009
Development Revenue Bonds		
Payable - January 1	\$ 57,365,000	\$ 60,850,000
Issued	43,000,000	-
Retired	(4,440,000)	(3,485,000)
Payable - December 31	\$ 95,925,000	\$ 57,365,000
Due Within One Year	\$ 3,940,000	\$ 3,370,000

6. Related-Party Transactions

GARFS contributed \$129,768 in 2010 and \$680,042 in 2009 to the City of Minneapolis in support of industrial development activities. These amounts are shown as transfers out in the Comparative Statement of Revenues, Expenses, and Changes in Net Assets.

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 replighted to pay debt service on the Laurel Village Series 1997 Development Revenue Bonds. The total paid by the CPED pursuant to this commitment was \$111,627 and \$112,805 in 2010 and 2009, respectively.

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

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 \$33,010,009 and \$32,683,264 as of December 31, 2010 and 2009, respectively. The 2010 contribution of \$129,768 fulfilled management's intention to transfer \$5,000,000 to the City of Minneapolis for industrial development activities; amounts totaling \$4,870,232 had been transferred during previous years.

8. 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 20 through 23.

9. 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>
Stevens Square Refunding	September 22, 2004	June 1, 2011
Theatres Project	December 20, 2005	December 1, 2011
Elmer Enterprises Refunding	July 1, 2007	June 1, 2011

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

10. 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, 2010**

	<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	12-01-16
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
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
Open Systems International	2.29% to 6.60%	06-16-10	06-01-40
Open Access Technology International, Inc.	1.25% to 6.25%	12-29-10	12-01-40
Total Outstanding Development Revenue Bonds			

2009 Amounts

Note 5

Bonds and Notes			Principal	Interest
Issued	Retired	Outstanding	Due	Due
			in 2011	in 2011
\$ 8,370,000	\$ 7,965,000	\$ 405,000	\$ 405,000	\$ 12,150
2,400,000	1,285,000	1,115,000	140,000	64,268
2,900,000	1,735,000	1,165,000	165,000	67,115
2,515,000	600,000	1,915,000	65,000	108,450
2,820,000	2,400,000	420,000	275,000	19,388
1,500,000	745,000	755,000	80,000	39,325
1,900,000	205,000	1,695,000	160,000	83,275
1,505,000	355,000	1,150,000	45,000	76,962
1,650,000	1,650,000	-	-	-
2,750,000	755,000	1,995,000	115,000	132,075
3,300,000	1,415,000	1,885,000	155,000	90,998
2,475,000	685,000	1,790,000	130,000	95,700
21,055,000	1,525,000	19,530,000	355,000	1,208,584
8,400,000	1,490,000	6,910,000	520,000	370,674
3,100,000	285,000	2,815,000	105,000	159,068
9,990,000	610,000	9,380,000	330,000	475,686
18,000,000	-	18,000,000	-	1,096,984
25,000,000	-	25,000,000	895,000	1,169,879
\$ 119,630,000	\$ 23,705,000	\$ 95,925,000	\$ 3,940,000	\$ 5,270,581
\$ 77,630,000	\$ 20,265,000	\$ 57,365,000		

**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, 2010**

	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
Carlson Companies	\$ 405,000	\$ -	\$ -	\$ -
Halper Box	140,000	145,000	155,000	165,000
Baker Bearing	165,000	175,000	190,000	200,000
Laurel Village Alden Limited Partnership II	65,000	70,000	75,000	80,000
100 East 22nd Associates - A	275,000	145,000	-	-
Cord Sets	80,000	85,000	90,000	95,000
Discount Steel - A	160,000	165,000	175,000	185,000
Pajor & Associates	45,000	50,000	55,000	55,000
Bridgerail Properties	115,000	125,000	130,000	135,000
Kristol Properties	155,000	160,000	160,000	170,000
Infinite Graphics	130,000	135,000	140,000	145,000
Hennepin Theatre Trust	355,000	375,000	395,000	420,000
Ambassador Press	520,000	540,000	565,000	600,000
Quality Resource Group	105,000	110,000	115,000	120,000
New French Bakery	330,000	350,000	365,000	385,000
Open Systems International	-	275,000	285,000	290,000
Open Access Technology International, Inc.	895,000	895,000	920,000	950,000
Total principal payments	\$ 3,940,000	\$ 3,800,000	\$ 3,815,000	\$ 3,995,000
Total interest payments	5,270,581	5,201,659	5,031,248	4,852,364
Total Maturities	<u>\$ 9,210,581</u>	<u>\$ 9,001,659</u>	<u>\$ 8,846,248</u>	<u>\$ 8,847,364</u>

Note 5
(Continued)

<u>2015</u>	<u>2016-2020</u>	<u>2021-2025</u>	<u>2026-2030</u>	<u>2031-2035</u>	<u>2036-2040</u>	<u>Total</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 405,000
175,000	335,000	-	-	-	-	1,115,000
210,000	225,000	-	-	-	-	1,165,000
85,000	510,000	685,000	345,000	-	-	1,915,000
-	-	-	-	-	-	420,000
100,000	305,000	-	-	-	-	755,000
190,000	820,000	-	-	-	-	1,695,000
60,000	375,000	510,000	-	-	-	1,150,000
145,000	895,000	450,000	-	-	-	1,995,000
110,000	650,000	480,000	-	-	-	1,885,000
95,000	565,000	580,000	-	-	-	1,790,000
440,000	2,640,000	3,560,000	4,815,000	6,530,000	-	19,530,000
630,000	2,555,000	1,210,000	290,000	-	-	6,910,000
130,000	755,000	995,000	485,000	-	-	2,815,000
405,000	2,345,000	3,010,000	2,190,000	-	-	9,380,000
300,000	1,720,000	2,235,000	3,030,000	4,165,000	5,700,000	18,000,000
980,000	5,460,000	2,250,000	3,050,000	4,105,000	5,495,000	25,000,000
\$ 4,055,000	\$ 20,155,000	\$ 15,965,000	\$ 14,205,000	\$ 14,800,000	\$ 11,195,000	\$ 95,925,000
4,662,475	20,249,762	15,271,651	10,524,856	6,263,907	2,000,574	79,329,077
<u>\$ 8,717,475</u>	<u>\$ 40,404,762</u>	<u>\$ 31,236,651</u>	<u>\$ 24,729,856</u>	<u>\$ 21,063,907</u>	<u>\$ 13,195,574</u>	<u>\$ 175,254,077</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, 2010**

	Total Lease/Note Payments	Total Interest
Capitalized Leases		
Halper Box	\$ 1,363,000	\$ 248,000
Baker Bearing	1,394,555	229,555
Laurel Village Alden Limited Partnership II	3,053,430	1,138,430
100 East 22nd Associates - A	443,375	23,375
Cord Sets	927,838	172,838
Discount Steel - A	2,110,550	415,550
Pajor & Associates	1,861,737	711,737
Bridgerail Properties	2,989,875	994,875
Kristol Properties	2,550,876	665,876
Infinite Graphics	2,538,975	748,975
Hennepin Theatre Trust	39,080,507	19,550,507
Ambassador Press	9,701,051	2,791,051
Quality Resource Group	4,477,664	1,662,664
New French Bakery	14,485,813	5,105,813
Open Systems International	40,349,764	22,349,764
Open Access Technology International, Inc.	47,507,917	22,507,917
	\$ 174,836,927	\$ 79,316,927
Notes Receivable		
Carlson Companies	417,150	12,150
	\$ 175,254,077	\$ 79,329,077

2009 Amounts

Note 8

<u>Total Principal</u>	<u>Unexpended Construction Funds</u>	<u>Capitalized Lease/Note Receivable</u>	<u>Current Portion</u>	<u>Noncurrent Portion</u>
\$ 1,115,000	\$ 4,899	\$ 1,110,101	\$ 140,000	\$ 970,101
1,165,000	-	1,165,000	165,000	1,000,000
1,915,000	-	1,915,000	65,000	1,850,000
420,000	-	420,000	275,000	145,000
755,000	-	755,000	80,000	675,000
1,695,000	-	1,695,000	160,000	1,535,000
1,150,000	-	1,150,000	45,000	1,105,000
1,995,000	-	1,995,000	115,000	1,880,000
1,885,000	-	1,885,000	155,000	1,730,000
1,790,000	-	1,790,000	130,000	1,660,000
19,530,000	-	19,530,000	355,000	19,175,000
6,910,000	5	6,909,995	520,000	6,389,995
2,815,000	-	2,815,000	105,000	2,710,000
9,380,000	11	9,379,989	330,000	9,049,989
18,000,000	9,276,594	8,723,406	-	8,723,406
25,000,000	3,505,728	21,494,272	895,000	20,599,272
\$ 95,520,000	\$ 12,787,237	\$ 82,732,763	\$ 3,535,000	\$ 79,197,763
405,000	-	405,000	405,000	-
\$ 95,925,000	\$ 12,787,237	\$ 83,137,763	\$ 3,940,000	\$ 79,197,763
		\$ 57,360,085	\$ 3,370,000	\$ 53,990,085

**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, 2010**

	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
Capitalized Leases				
Halper Box	\$ 204,268	\$ 200,504	\$ 201,279	\$ 201,439
Baker Bearing	232,115	231,575	235,260	233,170
Laurel Village Alden Limited Partnership II	173,450	174,940	176,090	176,928
100 East 22nd Associates - A	294,388	148,987	-	-
Cord Sets	119,325	119,788	119,975	119,887
Discount Steel - A	243,275	240,150	241,650	242,650
Pajor & Associates	121,962	124,038	125,787	122,212
Bridgerail Properties	247,075	250,750	248,875	246,725
Kristol Properties	245,998	244,875	238,075	241,115
Infinite Graphics	225,700	224,200	222,450	220,450
Hennepin Theatre Trust	1,563,584	1,563,456	1,562,194	1,564,797
Ambassador Press	890,674	886,799	886,369	894,259
Quality Resource Group	264,068	263,524	262,715	261,482
New French Bakery	805,686	806,876	803,594	804,431
Open Systems International	1,096,984	1,368,841	1,371,429	1,366,863
Open Access Technology International, Inc.	2,064,879	2,152,356	2,150,506	2,150,956
Total capitalized lease maturities	\$ 8,793,431	\$ 9,001,659	\$ 8,846,248	\$ 8,847,364
Notes Receivable				
Carlson Companies	417,150	-	-	-
Total Maturities	\$ 9,210,581	\$ 9,001,659	\$ 8,846,248	\$ 8,847,364

Note 8
(Continued)

<u>2015</u>	<u>2016-2020</u>	<u>2021-2025</u>	<u>2026-2030</u>	<u>2031-2035</u>	<u>2036-2040</u>	<u>Total</u>
\$ 200,984	\$ 354,526	\$ -	\$ -	\$ -	\$ -	\$ 1,363,000
230,460	231,975	-	-	-	-	1,394,555
177,467	894,325	905,305	374,925	-	-	3,053,430
-	-	-	-	-	-	443,375
119,525	329,338	-	-	-	-	927,838
238,038	904,787	-	-	-	-	2,110,550
123,638	626,437	617,663	-	-	-	1,861,737
249,300	1,249,200	497,950	-	-	-	2,989,875
173,550	877,037	530,226	-	-	-	2,550,876
163,200	821,300	661,675	-	-	-	2,538,975
1,560,983	7,815,443	7,816,325	7,819,155	7,814,570	-	39,080,507
895,012	3,388,163	1,550,925	308,850	-	-	9,701,051
264,978	1,316,548	1,316,425	527,924	-	-	4,477,664
804,700	4,021,920	4,026,106	2,412,500	-	-	14,485,813
1,365,559	6,824,287	6,792,175	6,761,815	6,728,437	6,673,374	40,349,764
2,150,081	10,749,476	6,521,876	6,524,687	6,520,900	6,522,200	47,507,917
\$ 8,717,475	\$ 40,404,762	\$ 31,236,651	\$ 24,729,856	\$ 21,063,907	\$ 13,195,574	\$ 174,836,927
-	-	-	-	-	-	417,150
\$ 8,717,475	\$ 40,404,762	\$ 31,236,651	\$ 24,729,856	\$ 21,063,907	\$ 13,195,574	\$ 175,254,077

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REBECCA OTTO
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, 2010, and have issued our report thereon dated April 25, 2011. 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 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 25, 2011

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