

# STATE OF MINNESOTA

## Office of the State Auditor



**Patricia Anderson**  
**State Auditor**

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

**YEARS ENDED DECEMBER 31, 2005 AND 2004**

## **Description of the Office of the State Auditor**

The Office of the State Auditor serves as a watchdog for Minnesota taxpayers by helping to ensure financial integrity, accountability, and cost-effectiveness in local governments throughout the state.

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 250 financial and compliance audits per year and has oversight responsibilities for over 4,300 local units of government throughout the state. The office currently maintains five divisions:

**Audit Practice** - conducts financial and legal compliance audits for 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 over 700 public pension funds; and

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

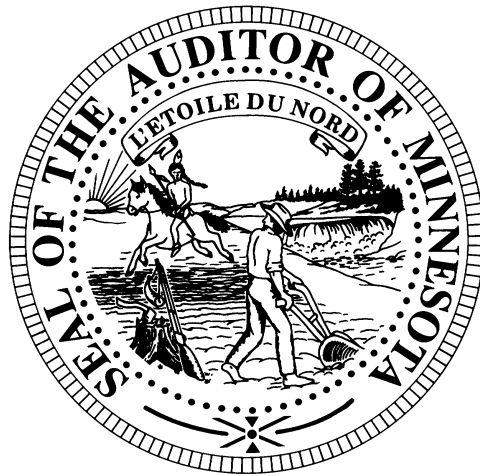
The State Auditor serves on the State Executive Council, State Board of Investment, Land Exchange Board, Public Employee's Retirement Association Board, Minnesota Housing Finance Agency, and the Rural Finance Authority Board.

Office of the State Auditor  
525 Park Street, Suite 500  
Saint Paul, Minnesota 55103  
(651) 296-2551  
state.auditor@state.mn.us  
www.auditor.state.mn.us

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

**YEARS ENDED DECEMBER 31, 2005 AND 2004**



**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

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Ward 1	Paul Ostrow
Ward 2	Paul Zerby
Ward 3	Don Samuels
Ward 4	Barbara Johnson
Ward 5	Natalie Johnson Lee
Ward 6	Dean Zimmermann
Ward 7	Lisa Goodman
Ward 8	Robert Lilligren
Ward 9	Gary Schiff
Ward 10	Dan Niziolek
Ward 11	Scott Benson
Ward 12	Sandy Colvin Roy
Ward 13	Barret Lane

City Council terms all expire December 31, 2005.

Director

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Lee Sheehy - Term is indefinite.

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**STATE OF MINNESOTA**  
**OFFICE OF THE STATE AUDITOR**

SUITE 500  
525 PARK STREET  
SAINT PAUL, MN 55103-2139

(651) 296-2551 (Voice)  
(651) 296-4755 (Fax)  
state.auditor@state.mn.us (E-mail)  
1-800-627-3529 (Relay Service)

PATRICIA ANDERSON  
STATE AUDITOR

**INDEPENDENT AUDITOR'S REPORT**

City Council  
City of Minneapolis  
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, 2005 and 2004, 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, 2005 and 2004, 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, 2005 and 2004, 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 March 6, 2006, 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/Pat Anderson*

PATRICIA ANDERSON  
STATE AUDITOR

*/s/Greg Hierlinger*

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR

End of Fieldwork: March 6, 2006

## **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, 2005 AND 2004**

	<b>2005</b>	<b>2004</b>
<b><u>Assets</u></b>		
<b>Current assets</b>		
<b>Cash and cash equivalents</b>		
Common reserve account	\$ 3,072,086	\$ 5,839,492
Industrial development account	9,740,813	9,448,897
Debt service account	752,481	476,326
Construction funds	1,344,386	4,521,196
Other	191,911	156,450
	<b>\$ 15,101,677</b>	<b>\$ 20,442,361</b>
<b>Total cash and cash equivalents</b>		
<b>Investments</b>		
Common reserve account	\$ 1,296,565	\$ 1,295,130
Industrial development account	23,215,733	22,966,672
General agency reserve fund	959,933	1,199,636
	<b>\$ 25,472,231</b>	<b>\$ 25,461,438</b>
<b>Total investments</b>		
<b>Receivables</b>		
Accrued interest	\$ 150,340	\$ 134,243
Capitalized leases receivable from developers	2,230,000	2,400,000
Capitalized notes receivable from developers	620,000	585,000
Receivables from other funds	4,333,905	95,000
	<b>\$ 7,334,245</b>	<b>\$ 3,214,243</b>
<b>Total receivables</b>		
<b>Total current assets</b>	<b>\$ 47,908,153</b>	<b>\$ 49,118,042</b>
<b>Noncurrent assets</b>		
Receivables		
Capitalized leases	\$ 48,545,045	\$ 31,110,875
Notes receivable from developer	3,260,000	3,880,000
Receivables from other funds	-	21,626,877
	<b>\$ 51,805,045</b>	<b>\$ 56,617,752</b>
<b>Total noncurrent assets</b>		
<b>Total Assets</b>	<b>\$ 99,713,198</b>	<b>\$ 105,735,794</b>

**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, 2005 AND 2004**

	<b>2005</b>	<b>2004</b>
<b><u>Liabilities</u></b>		
<b>Current liabilities</b>		
Bonds payable	\$ 8,505,000	\$ 3,080,000
Accounts payable	29,940	11,726
Accrued interest payable	298,882	326,208
Developer reserve deposits	3,467,162	3,565,180
Unearned revenue	661,039	689,052
<b>Total current liabilities</b>	<b>\$ 12,962,023</b>	<b>\$ 7,672,166</b>
<b>Noncurrent liabilities</b>		
Bonds payable	52,735,000	64,715,000
<b>Total Liabilities</b>	<b>\$ 65,697,023</b>	<b>\$ 72,387,166</b>
<b><u>Net Assets</u></b>		
Restricted for debt service	<b>\$ 34,016,175</b>	<b>\$ 33,348,628</b>

**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, 2005 AND 2004**

	<u>2005</u>	<u>2004</u>
<b>Operating Revenues</b>		
Interest on capitalized leases and developer fees	\$ 4,236,731	\$ 3,832,760
Interest income	551,091	424,890
Increase in fair value of investments	111,922	205,875
Administrative fees	390,309	428,393
Other revenues	10,205	83,333
	<u>5,300,258</u>	<u>4,975,251</u>
<b>Total Operating Revenues</b>	<b>\$ 5,300,258</b>	<b>\$ 4,975,251</b>
<b>Operating Expenses</b>		
Interest	\$ 4,283,180	\$ 4,312,092
Professional services and other expenses	349,531	356,297
	<u>4,632,711</u>	<u>4,668,389</u>
<b>Total Operating Expenses</b>	<b>\$ 4,632,711</b>	<b>\$ 4,668,389</b>
<b>Change in Net Assets</b>	<b>\$ 667,547</b>	<b>\$ 306,862</b>
<b>Net Assets - January 1</b>	<b><u>33,348,628</u></b>	<b><u>33,041,766</u></b>
<b>Net Assets - December 31</b>	<b><u>\$ 34,016,175</u></b>	<b><u>\$ 33,348,628</u></b>

**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, 2005 AND 2004**

	<b>2005</b>	<b>2004</b>
<b>Cash flows from operating activities</b>		
Receipts from customers and users	\$ 5,755,010	\$ 10,963,200
Payments to suppliers	(331,317)	(353,557)
<b>Net cash provided by (used in) operating activities</b>	<b>\$ 5,423,693</b>	<b>\$ 10,609,643</b>
<b>Cash flows from noncapital financing activities</b>		
Proceeds from bond and note issued	\$ 21,055,000	\$ 2,475,000
Principal paid on bonds and notes	(27,610,000)	(8,435,000)
Interest paid on bonds and notes	(4,310,506)	(4,344,618)
<b>Net cash provided by (used in) noncapital financing activities</b>	<b>\$ (10,865,506)</b>	<b>\$ (10,304,618)</b>
<b>Cash flows from investing activities</b>		
Purchase of investments	\$ (1,194,264)	\$ (2,044,082)
Sale of investments	1,295,393	1,921,082
<b>Net cash provided by (used in) investing activities</b>	<b>\$ 101,129</b>	<b>\$ (123,000)</b>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	<b>\$ (5,340,684)</b>	<b>\$ 182,025</b>
<b>Cash and Cash Equivalents - January 1</b>	<b>20,442,361</b>	<b>20,260,336</b>
<b>Cash and Cash Equivalents - December 31</b>	<b>\$ 15,101,677</b>	<b>\$ 20,442,361</b>
<b>Reconciliation of operating income to net cash provided by (used in) operating activities</b>		
<b>Change in net assets</b>	<b>\$ 667,547</b>	<b>\$ 306,862</b>
Adjustments to reconcile income before operating transfers to net cash provided by (used in) operating activities		
Interest expense	4,283,180	4,312,092
Increase in fair value of investments	(111,922)	(205,875)
(Increase) decrease in accrued interest receivable	(16,097)	(14,469)
(Increase) decrease in notes receivable	585,000	2,970,000
(Increase) decrease in capital leases receivable	(17,264,170)	3,333,618
(Increase) decrease in receivables from other agency funds	17,387,972	34,580
Increase (decrease) in accounts payable	18,214	2,740
Increase (decrease) in deposits held for others	(98,018)	(472,093)
Increase (decrease) in unearned revenue	(28,013)	342,188
<b>Net Cash Provided by (Used in) Operating Activities</b>	<b>\$ 5,423,693</b>	<b>\$ 10,609,643</b>

**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, 2005 AND 2004**

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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. 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 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.

*Reclassifications* - For comparability, certain 2004 amounts have been reclassified to conform to the 2005 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, 2005, 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 shorter and longer-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, 2005, that represent five percent or more of the GARFS investments are as follows:

<u>Issuer</u>	<u>Reported Amount</u>
Municipal bonds	
Chicago (IL) Board of Education	\$ 4,980,180
Houston (TX) Independent School District	2,902,794
Grand Prairie (TX) Independent School District	2,401,560
Jacksonville (FL) Electric Authority	2,147,635
Florida State Board of Education	1,941,143
Cook County (IL) School District #170	1,494,054
Shelby County (TN)	1,440,143

(Above information for the year ended December 31, 2004, was not obtainable.)

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

The following table presents the GARFS investment balances at December 31, 2005, and information relating to interest and credit quality investment risks:

Investment Type	Standard & Poors 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%	-	-	2.8	\$ 331,826
Federal Home Loan Mortgage Corporation	100%	-	-	9.3	84,380
Federal Home Loan Bank	100%	-	-	0.5	454,825
U.S. Treasury securities	N/A	N/A	N/A	3.9	3,324,140
Investment pools/mutual funds					
City of Minneapolis	-	-	100%	N/A	959,933
Municipal bonds	100%	-	-	4.7	19,475,387
Guaranteed investment contract	N/A	N/A	N/A	5.4	841,740
 Total investments					 \$ 25,472,231
Cash and cash equivalents					15,101,677
 Total cash and investments					 \$ 40,573,908

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.

(Above information for the year ended December 31, 2004, was not obtainable.)

Investments as of December 31 are as follows:

	2005		2004	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Pooled investments	\$ 959,933	\$ 959,933	\$ 1,199,636	\$ 1,199,636
Municipal bonds	15,062,219	19,475,387	15,062,219	19,319,533
Federal agency obligations	871,344	871,031	1,592,100	1,567,017
Other federal obligations	3,415,333	3,324,140	2,556,003	2,533,512
Guaranteed investment contracts	841,740	841,740	841,740	841,740
 Total	 \$ 21,150,569	 \$ 25,472,231	 \$ 21,251,698	 \$ 25,461,438

**CITY OF MINNEAPOLIS  
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MINNEAPOLIS, MINNESOTA**

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3. Cash and Investments (Continued)

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, 2005 and 2004, with fair values of \$19,475,387 and \$19,319,533 at December 31, 2005 and 2004, respectfully, with maturities of five 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* - U.S. 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.

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, 2005:

NICO Properties	\$ 416,262
Pajor & Associates	126,562
Resources, Inc.	142,500
Discount Steel	246,162
Bridgerail Properties	249,313
Hennepin Theatre Trust	<u>1,600,000</u>
Total	<u>\$ 2,780,799</u>

**CITY OF MINNEAPOLIS  
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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 17 and 18)

A summary of long-term activity for the years ended December 31, 2005 and 2004, is as follows:

	2005	2004
Development Revenue Bonds		
Payable - January 1	\$ 67,795,000	\$ 73,755,000
Issued	21,055,000	2,475,000
Retired	(27,610,000)	(8,435,000)
Payable - December 31	\$ 61,240,000	\$ 67,795,000
Due Within One Year	\$ 8,505,000	\$ 3,080,000

6. Related-Party Transactions

*City Projects* - The Theatre Project, 2001G-3, and the Stimson Building, 2001-4 are projects of the City of Minneapolis. The City has pledged to pay the debt service and administrative costs of the issues. The City contributed \$1,763,360 in 2005 and \$1,854,376 in 2004 to GARFS for city projects.

*Laurel Village* - In 1995, the Department entered into an agreement with the developer of Laurel Village in which the Department 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 \$117,292 and \$118,360 in 2005 and 2004, respectively.

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

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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 CPED has pledged all monies held in the IDB account to the payment of the Common Fund Bonds. The Department may withdraw funds from the IDB account at its discretion when the balance exceeds \$10,000,000 (\$20,000,000 if the letter of credit has not been extended as discussed in Note 4). The balance in the IDB account was \$32,956,546 and \$32,415,569 as of December 31, 2005 and 2004, respectively. Management intends to transfer \$5,000,000 to the City of Minneapolis in 2006 for economic development activity.

8. Receivables From Other City Funds

	2005	2004
Theatre Project		
Principal payments due	\$ -	\$ 22,225,000
Unexpended construction funds	-	(1,514,799)
Reserve deposit	-	(2,673,992)
	-	(2,673,992)
Total Theatre Project	\$ -	\$ 18,036,209
Stimson Building		
Principal payments due	\$ 5,655,000	\$ 5,750,000
Unexpended construction funds	(414,431)	(1,162,272)
Reserve deposit	(906,664)	(902,060)
	(1,321,095)	(2,064,332)
Total Stimson Building	\$ 4,333,905	\$ 3,685,668
Less: current maturities	\$ (4,333,905)	\$ (95,000)
Total	\$ -	\$ 21,626,877

*Theatre Project* - In October 1992, GARFS issued bonds of \$8,600,000 for the Theatre project. The CPED transferred funds to GARFS for the required debt services payments from 1992 through 2001. On October 1, 2001, the CPED issued \$22,225,000 Development Revenue Bonds, Theatre Project Series 2001G-3. From the proceeds of this new debt issuance, the CPED paid funds to create a sinking fund sufficient to call all remaining bonds on the Theatre Project Series 1992-3 on December 1, 2001. Subsequently, Theatre Project Series 1992-3 were redeemed in full on December 1, 2001. In 2005, the CPED paid funds to create a sinking fund sufficient to call all remaining bonds on the Theatre Project Series 2001G-3 on December 1, 2011.

**CITY OF MINNEAPOLIS  
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GENERAL AGENCY RESERVE FUND SYSTEM  
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8. Receivables From Other City Funds (Continued)

*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 19 and 20.

10. Bonds Called and Defeased

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. In 2005, the Theatres Project debt was defeased with funds received from the City of Minneapolis. In 2004, debt related to the Northern Cap Manufacturing Company and Stevens Square Refunding were defeased with payments received from the developers.

<u>Bond Issue/Series</u>	<u>Escrow Date</u>	<u>Redemption Date</u>
Bob Keith Enterprises, Inc. - Microtron III, Series 1995-1	November 22, 2000	December 1, 2005
Engineering Unlimited, Inc.	October 19, 2004	December 1, 2004
Northern Cap Manufacturing Company (10/1/1993)	July 30, 2004	December 1, 2004
Northern Cap Manufacturing Company (12/1/1998)	July 30, 2004	June 1, 2008
Stevens Square Refunding	September 22, 2004	June 1, 2011
Theatres Project	December 20, 2005	December 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**

**OUTSTANDING DEVELOPMENT REVENUE BONDS  
DECEMBER 31, 2005**

	Interest Rate	Issue Date	Final Maturity Date	Bonds and Notes			Principal Due in 2006	Interest Due in 2006
				Issued	Retired	Outstanding		
General Agency Reserve Fund System								
Shaw Acquisition Corporation II	10.40%	07-01-87	02-01-07	\$ 945,000	\$ 745,000	\$ 200,000	\$ 100,000	\$ 20,800
Precision Tapes, Inc.	4.70% to 6.50%	11-01-93	06-01-13	2,100,000	1,340,000	760,000	75,000	46,821
NICO Properties	5.60% to 6.80%	07-01-95	02-01-24	4,650,000	1,385,000	3,265,000	195,000	219,307
Carlson Companies	4.85% to 6.00%	03-01-96	02-01-11	8,370,000	4,490,000	3,880,000	620,000	221,740
Halper Box	5.10% to 6.15%	04-01-97	06-01-17	2,400,000	655,000	1,745,000	105,000	103,135
Ambassador Press	5.10% to 6.20%	05-01-97	06-01-17	4,600,000	1,845,000	2,755,000	290,000	161,820
Baker Bearing	5.10% to 6.20%	05-01-97	12-01-17	2,900,000	790,000	2,110,000	125,000	125,660
Laurel Village Alden Limited Partnership II	4.30% to 5.75%	10-01-97	06-01-27	2,515,000	315,000	2,200,000	50,000	123,020
100 East 22nd Associates - A	4.00% to 5.50%	10-01-97	06-01-12	2,820,000	1,220,000	1,600,000	210,000	83,618
Cord Sets	4.10% to 5.50%	07-01-98	06-01-18	1,500,000	360,000	1,140,000	65,000	59,171
Discount Steel - A	5.00% to 5.25%	12-01-99	06-01-19	1,900,000	-	1,900,000	-	-
Discount Steel - B	6.75%	12-01-99	06-01-09	1,000,000	510,000	490,000	110,000	127,025
Pajor and Associates	4.75% to 6.75%	03-01-00	12-01-25	1,505,000	155,000	1,350,000	35,000	88,488
Resource, Inc.	4.65% to 6.00%	08-01-00	12-01-20	1,650,000	270,000	1,380,000	60,000	78,632
Elmer Enterprises Refunding	3.90% to 5.875%	04-01-01	06-01-19	2,395,000	380,000	2,015,000	105,000	113,240
Stimson Building	5.80%	10-01-01	12-01-06	6,000,000	345,000	5,655,000	5,655,000	327,990
Bridgerail Properties	4.31 to 7.00%	09-01-02	06-01-22	2,750,000	255,000	2,495,000	90,000	157,374
Kristol Properties	2.45% to 5.12%	11-20-03	12-01-23	3,300,000	425,000	2,875,000	230,000	125,885
Infinite Graphics	2.25% to 5.50%	07-14-04	12-01-24	2,475,000	105,000	2,370,000	110,000	116,456
Hennepin Theatre Trust	5.23% to 6.30%	12-20-05	12-01-35	21,055,000	-	21,055,000	275,000	1,288,342
<b>Total Outstanding Development Revenue Bonds</b>				<b>\$ 76,830,000</b>	<b>\$ 15,590,000</b>	<b>\$ 61,240,000</b>	<b>\$ 8,505,000</b>	<b>\$ 3,588,524</b>
<b>2004 Amounts</b>				<b>\$ 84,850,000</b>	<b>\$ 17,055,000</b>	<b>\$ 67,795,000</b>		

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

**MATURITIES ON OUTSTANDING PRINCIPAL BALANCES OF BOND ISSUES AND INTEREST PAYMENTS  
DECEMBER 31, 2005**

	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011-2015</u>	<u>2016-2020</u>	<u>2021-2025</u>	<u>2026-2030</u>	<u>2031-2035</u>	<u>Total</u>
Shaw Acquisition Corporation II	\$ 100,000	\$ 100,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 200,000
Precision Tapes, Inc.	75,000	80,000	85,000	90,000	95,000	335,000	-	-	-	-	760,000
NICO Properties	195,000	205,000	220,000	235,000	100,000	595,000	825,000	890,000	-	-	3,265,000
Carlson Companies	620,000	650,000	690,000	735,000	780,000	405,000	-	-	-	-	3,880,000
Halper Box	105,000	110,000	115,000	120,000	130,000	780,000	385,000	-	-	-	1,745,000
Ambassador	290,000	310,000	325,000	345,000	365,000	750,000	370,000	-	-	-	2,755,000
Baker Bearing	125,000	130,000	140,000	150,000	160,000	940,000	465,000	-	-	-	2,110,000
Laurel Village Alden Limited Partnership II	50,000	55,000	55,000	60,000	65,000	375,000	510,000	685,000	345,000	-	2,200,000
100 East 22nd Associates - A	210,000	225,000	235,000	245,000	265,000	420,000	-	-	-	-	1,600,000
Cord Sets	65,000	65,000	70,000	75,000	80,000	450,000	335,000	-	-	-	1,140,000
Discount Steel (A)	-	-	-	-	150,000	875,000	875,000	-	-	-	1,900,000
Discount Steel (B)	110,000	120,000	125,000	135,000	-	-	-	-	-	-	490,000
Pajor & Associates	35,000	40,000	40,000	40,000	45,000	265,000	375,000	510,000	-	-	1,350,000
Resource, Inc.	60,000	65,000	70,000	70,000	75,000	450,000	590,000	-	-	-	1,380,000
Elmer Enterprises Refunding	105,000	110,000	115,000	120,000	125,000	715,000	725,000	-	-	-	2,015,000
Stimson Building	5,655,000	-	-	-	-	-	-	-	-	-	5,655,000
Bridgerail Properties	90,000	95,000	100,000	105,000	110,000	650,000	895,000	450,000	-	-	2,495,000
Kristol Properties	230,000	235,000	240,000	140,000	145,000	755,000	650,000	480,000	-	-	2,875,000
Infinite Graphics	110,000	110,000	115,000	120,000	125,000	645,000	565,000	580,000	-	-	2,370,000
Hennepin Theatre Trust	275,000	290,000	305,000	320,000	335,000	1,985,000	2,640,000	3,560,000	4,815,000	6,530,000	21,055,000
<b>Total principal payments</b>	<b>\$ 8,505,000</b>	<b>\$ 2,995,000</b>	<b>\$ 3,045,000</b>	<b>\$ 3,105,000</b>	<b>\$ 3,150,000</b>	<b>\$ 11,390,000</b>	<b>\$ 10,205,000</b>	<b>\$ 7,155,000</b>	<b>\$ 5,160,000</b>	<b>\$ 6,530,000</b>	<b>\$ 61,240,000</b>
<b>Total interest payments</b>	<b>3,588,524</b>	<b>3,099,457</b>	<b>2,927,802</b>	<b>2,756,439</b>	<b>2,577,918</b>	<b>10,734,584</b>	<b>7,546,445</b>	<b>4,920,544</b>	<b>3,034,080</b>	<b>1,284,570</b>	<b>42,470,363</b>
<b>Total Maturities</b>	<b><u>\$ 12,093,524</u></b>	<b><u>\$ 6,094,457</u></b>	<b><u>\$ 5,972,802</u></b>	<b><u>\$ 5,861,439</u></b>	<b><u>\$ 5,727,918</u></b>	<b><u>\$ 22,124,584</u></b>	<b><u>\$ 17,751,445</u></b>	<b><u>\$ 12,075,544</u></b>	<b><u>\$ 8,194,080</u></b>	<b><u>\$ 7,814,570</u></b>	<b><u>\$ 103,710,363</u></b>

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

**SCHEDULE OF CAPITALIZED LEASES AND NOTES RECEIVABLE  
DECEMBER 31, 2005**

	<u>Total Lease/Note Payments</u>	<u>Total Interest</u>	<u>Total Principal</u>	<u>Unexpended Construction Funds</u>	<u>Capitalized Lease/Note Receivable</u>	<u>Current Portion</u>	<u>Noncurrent Portion</u>
<b>Capitalized Leases</b>							
Shaw Acquisition Corporation II	\$ 231,200	\$ 31,200	\$ 200,000	\$ -	\$ 200,000	\$ 100,000	\$ 100,000
Precision Tapes, Inc.	974,684	214,684	760,000	-	760,000	75,000	685,000
NICO Properties	5,564,824	2,299,824	3,265,000	-	3,265,000	195,000	3,070,000
Halper Box	2,461,606	716,606	1,745,000	51,355	1,693,645	105,000	1,588,645
Ambassador Press	3,627,495	872,495	2,755,000	-	2,755,000	290,000	2,465,000
Baker Bearing	2,982,975	872,975	2,110,000	-	2,110,000	125,000	1,985,000
Laurel Village Alden Limited Partnership II	3,926,750	1,726,750	2,200,000	-	2,200,000	50,000	2,150,000
100 East 22nd Associates - A	1,923,005	323,005	1,600,000	-	1,600,000	210,000	1,390,000
Cord Sets	1,588,161	448,161	1,140,000	-	1,140,000	65,000	1,075,000
Discount Steel - A	2,482,837	582,837	1,900,000	-	1,900,000	-	1,900,000
Discount Steel - B	900,669	410,669	490,000	-	490,000	110,000	380,000
Pajor and Associates	2,482,795	1,132,795	1,350,000	-	1,350,000	35,000	1,315,000
Resource, Inc.	2,108,170	728,170	1,380,000	-	1,380,000	60,000	1,320,000
Elmer Enterprises Refunding	2,980,504	965,504	2,015,000	-	2,015,000	105,000	1,910,000
Bridgerail Properties	4,232,169	1,737,169	2,495,000	-	2,495,000	90,000	2,405,000
Kristol Properties	4,089,183	1,214,183	2,875,000	600	2,874,400	230,000	2,644,400
Infinite Graphics	3,665,294	1,295,294	2,370,000	850,017	1,519,983	110,000	1,409,983
Hennepin Theatre Trust	46,895,547	25,840,547	21,055,000	27,983	21,027,017	275,000	20,752,017
<b>Total capitalized leases</b>	<b>\$ 93,117,868</b>	<b>\$ 41,412,868</b>	<b>\$ 51,705,000</b>	<b>\$ 929,955</b>	<b>\$ 50,775,045</b>	<b>\$ 2,230,000</b>	<b>\$ 48,545,045</b>
<b>Notes Receivable</b>							
Carlson Companies	4,609,505	729,505	3,880,000	-	3,880,000	620,000	3,260,000
<b>Total Capitalized Leases and Notes Receivable</b>	<b>\$ 97,727,373</b>	<b>\$ 42,142,373</b>	<b>\$ 55,585,000</b>	<b>\$ 929,955</b>	<b>\$ 54,655,045</b>	<b>\$ 2,850,000</b>	<b>\$ 51,805,045</b>
<b>2004 Amounts</b>					<b>\$ 37,975,875</b>	<b>\$ 2,985,000</b>	<b>\$ 34,990,875</b>

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

**CAPITALIZED LEASES AND NOTES RECEIVABLE MATURITIES, INCLUDING INTEREST  
DECEMBER 31, 2005**

	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011-2015</u>	<u>2016-2020</u>	<u>2021-2025</u>	<u>2026-2030</u>	<u>2031-2035</u>	<u>Total</u>
<b>Capitalized Leases</b>											
Shaw Acquisition Corporation II	\$ 120,800	\$ 110,400	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 231,200
Precision Tapes, Inc.	121,821	121,925	121,563	120,875	119,862	368,638	-	-	-	-	974,684
NICO Properties	414,307	411,389	412,807	413,233	262,664	1,301,324	1,302,700	1,046,400	-	-	5,564,824
Halper Box	208,135	206,792	205,098	203,047	205,548	1,023,847	409,139	-	-	-	2,461,606
Ambassador Press	451,820	453,220	448,535	447,765	445,755	987,150	393,250	-	-	-	3,627,495
Baker Bearing	250,660	248,010	249,910	251,210	251,910	1,236,980	494,295	-	-	-	2,982,975
Laurel Village Alden Limited Partnership II	173,020	175,570	172,820	175,015	176,895	878,875	894,325	905,305	374,925	-	3,926,750
100 East 22nd Associates - A	293,618	298,150	295,912	292,850	299,100	443,375	-	-	-	-	1,923,005
Cord Sets	124,171	121,116	122,892	124,394	125,375	606,751	363,462	-	-	-	1,588,161
Discount Steel - A	-	-	-	48,831	243,913	1,220,199	969,894	-	-	-	2,482,837
Discount Steel - B	237,025	239,262	235,994	188,388	-	-	-	-	-	-	900,669
Pajor and Associates	123,488	126,562	124,322	122,023	124,663	617,637	626,437	617,663	-	-	2,482,795
Resource, Inc.	138,632	140,633	142,350	138,780	140,175	707,500	700,100	-	-	-	2,108,170
Elmer Enterprises Refunding	218,240	218,305	217,970	217,220	216,100	1,057,806	834,863	-	-	-	2,980,504
Bridgerail Properties	247,374	248,495	249,400	248,900	248,125	1,242,725	1,249,200	497,950	-	-	4,232,169
Kristol Properties	355,885	351,972	348,180	240,980	241,290	1,143,613	877,037	530,226	-	-	4,089,183
Infinite Graphics	226,456	223,431	224,856	225,688	225,888	1,056,000	821,300	661,675	-	-	3,665,294
Hennepin Theatre Trust	1,563,342	1,563,960	1,563,792	1,562,841	1,561,105	7,815,014	7,815,443	7,816,325	7,819,155	7,814,570	46,895,547
<b>Total capitalized lease maturities</b>	<b>\$ 5,268,794</b>	<b>\$ 5,259,192</b>	<b>\$ 5,136,401</b>	<b>\$ 5,022,040</b>	<b>\$ 4,888,368</b>	<b>\$ 21,707,434</b>	<b>\$ 17,751,445</b>	<b>\$ 12,075,544</b>	<b>\$ 8,194,080</b>	<b>\$ 7,814,570</b>	<b>\$ 93,117,868</b>
<b>Notes Receivable</b>											
Carlson Companies	841,740	835,265	836,400	839,400	839,550	417,150	-	-	-	-	4,609,505
<b>Total Maturities</b>	<b>\$ 6,110,534</b>	<b>\$ 6,094,457</b>	<b>\$ 5,972,801</b>	<b>\$ 5,861,440</b>	<b>\$ 5,727,918</b>	<b>\$ 22,124,584</b>	<b>\$ 17,751,445</b>	<b>\$ 12,075,544</b>	<b>\$ 8,194,080</b>	<b>\$ 7,814,570</b>	<b>\$ 97,727,373</b>

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PATRICIA ANDERSON  
STATE AUDITOR

# STATE OF MINNESOTA OFFICE OF THE STATE AUDITOR

SUITE 500  
525 PARK STREET  
SAINT PAUL, MN 55103-2139

(651) 296-2551 (Voice)  
(651) 296-4755 (Fax)  
state.auditor@state.mn.us (E-mail)  
1-800-627-3529 (Relay Service)

## **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***

City Council  
City of Minneapolis  
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, 2005, and have issued our report thereon dated March 6, 2006. 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 in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

## 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 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/Pat Anderson*

PATRICIA ANDERSON  
STATE AUDITOR

*/s/Greg Hierlinger*

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR

End of Fieldwork: March 6, 2006



**STATE OF MINNESOTA**  
**OFFICE OF THE STATE AUDITOR**

SUITE 500  
525 PARK STREET  
SAINT PAUL, MN 55103-2139

(651) 296-2551 (Voice)  
(651) 296-4755 (Fax)  
state.auditor@state.mn.us (E-mail)  
1-800-627-3529 (Relay Service)

PATRICIA ANDERSON  
STATE AUDITOR

**INDEPENDENT AUDITOR'S REPORT ON  
COMPLIANCE WITH ENABLING RESOLUTIONS**

City Council  
City of Minneapolis  
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, 2005, and have issued our report thereon dated March 6, 2006. 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), and clarifying permitted investments of funds relating to the Common Bond Fund (84-765), and 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/Pat Anderson*

PATRICIA ANDERSON  
STATE AUDITOR

*/s/Greg Hierlinger*

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR

End of Fieldwork: March 6, 2006