

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, 2009 AND 2008

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.

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, 2009 and 2008



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

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

ORGANIZATION

City Council

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

City Council terms all expire December 31, 2009.

Director

Mike Christenson - Term is indefinite.

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REBECCA OTTO
STATE AUDITOR

STATE OF MINNESOTA OFFICE OF THE STATE AUDITOR

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)

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying basic financial statements of the General Agency Reserve Fund System of the City of Minneapolis Community Planning and Economic Development Department as of and for the years ended December 31, 2009 and 2008, as listed in the table of contents. These financial statements are the responsibility of the City of Minneapolis' management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

As discussed in Note 2, the financial statements present only the General Agency Reserve Fund System and do not purport to, and do not, present fairly the financial position of the City of Minneapolis or its Community Planning and Economic Development Department as of December 31, 2009 and 2008, 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, 2009 and 2008, 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 29, 2010

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, 2009 AND 2008**

	2009	2008
<u>Assets</u>		
Current assets		
Cash and cash equivalents		
Common reserve account	\$ 2,863,083	\$ 2,686,868
Industrial development account	6,245,505	6,928,074
Debt service account	1,283,941	1,544,976
Construction funds	4,915	188,596
Other	222,951	128,723
	\$ 10,620,395	\$ 11,477,237
Investments		
Common reserve account	\$ 841,740	\$ 841,740
Industrial development account	26,437,759	25,642,798
General agency reserve fund	1,211,014	1,219,622
	\$ 28,490,513	\$ 27,704,160
Receivables		
Accrued interest	\$ 108,513	\$ 111,755
Capitalized leases receivable from developers	2,590,000	2,455,000
Capitalized notes receivable from developers	780,000	735,000
Receivables from other funds	-	20,000
	\$ 3,478,513	\$ 3,321,755
Total current assets	\$ 42,589,421	\$ 42,503,152
Noncurrent assets		
Receivables		
Capitalized leases	\$ 53,585,085	\$ 56,286,404
Notes receivable from developer	405,000	1,185,000
	\$ 53,990,085	\$ 57,471,404
Total Assets	\$ 96,579,506	\$ 99,974,556

**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, 2009 AND 2008**

	2009	2008
<u>Liabilities</u>		
Current liabilities		
Bonds payable	\$ 3,370,000	\$ 3,190,000
Accounts payable	14,239	28,614
Accrued interest payable	270,687	286,497
Developer reserve deposits	3,704,823	3,528,608
Unearned revenue	760,839	827,503
Total current liabilities	\$ 8,120,588	\$ 7,861,222
Noncurrent liabilities		
Bonds payable	53,995,000	57,660,000
Total Liabilities	\$ 62,115,588	\$ 65,521,222
<u>Net Assets</u>		
Restricted for debt service	\$ 34,463,918	\$ 34,453,334

**CITY OF MINNEAPOLIS
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GENERAL AGENCY RESERVE FUND SYSTEM
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EXHIBIT 2

**COMPARATIVE STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008**

	<u>2009</u>	<u>2008</u>
Operating Revenues		
Interest on capitalized leases and developer fees	\$ 3,394,208	\$ 3,508,432
Interest income	324,420	477,832
Increase in fair value of investments	379,721	964,780
Administrative fees	270,318	269,568
Other revenues	6,591	14,555
	<u>4,375,258</u>	<u>5,235,167</u>
Total Operating Revenues	\$ 4,375,258	\$ 5,235,167
Operating Expenses		
Interest	\$ 3,401,627	\$ 3,571,598
Professional services and other expenses	283,005	224,661
	<u>3,684,632</u>	<u>3,796,259</u>
Total Operating Expenses	\$ 3,684,632	\$ 3,796,259
Operating Income (Loss)	\$ 690,626	\$ 1,438,908
Transfers out	(680,042)	-
	<u>10,584</u>	<u>1,438,908</u>
Change in Net Assets	\$ 10,584	\$ 1,438,908
Net Assets - January 1	<u>34,453,334</u>	<u>33,014,426</u>
Net Assets - December 31	<u><u>\$ 34,463,918</u></u>	<u><u>\$ 34,453,334</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, 2009 AND 2008**

	2009	2008
Cash Flows from Operating Activities		
Receipts from customers and users	\$ 7,429,649	\$ 7,338,919
Payments to suppliers	(297,380)	(215,067)
Net cash provided by (used in) operating activities	\$ 7,132,269	\$ 7,123,852
Cash Flows from Noncapital Financing Activities		
Transfers to other funds	\$ (680,042)	\$ -
Principal paid on bonds and notes	(3,485,000)	(2,845,000)
Interest paid on bonds and notes	(3,417,437)	(3,581,282)
Net cash provided by (used in) noncapital financing activities	\$ (7,582,479)	\$ (6,426,282)
Cash Flows from Investing Activities		
Purchase of investments	\$ (2,040,515)	\$ (1,262,044)
Sale of investments	1,633,883	1,141,283
Net cash provided by (used in) investing activities	\$ (406,632)	\$ (120,761)
Net Increase (Decrease) in Cash and Cash Equivalents	\$ (856,842)	\$ 576,809
Cash and Cash Equivalents - January 1	11,477,237	10,900,428
Cash and Cash Equivalents - December 31	\$ 10,620,395	\$ 11,477,237
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities		
Operating Income (Loss)	\$ 690,626	\$ 1,438,908
Adjustments to reconcile operating income (loss) before operating transfers to net cash provided by (used in) operating activities		
Interest expense	3,401,627	3,571,598
Increase in fair value of investments	(379,721)	(964,780)
(Increase) decrease in accrued interest receivable	3,242	32,367
(Increase) decrease in notes receivable	735,000	690,000
(Increase) decrease in capital leases receivable	2,566,319	2,017,364
(Increase) decrease in receivables from other funds	20,000	-
Increase (decrease) in accounts payable	(14,375)	9,594
Increase (decrease) in developer reserve deposits	176,215	24,324
Increase (decrease) in unearned revenue	(66,664)	304,477
Net Cash Provided by (Used in) Operating Activities	\$ 7,132,269	\$ 7,123,852

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

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**CITY OF MINNEAPOLIS
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GENERAL AGENCY RESERVE FUND SYSTEM
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**NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008**

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
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1. Organization and Purpose (Continued)

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

2. Summary of Significant Accounting Policies

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

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

Lease Agreements - The City of Minneapolis has entered into lease agreements with, and made loans to, developers. The annual lease and loan payments approximate the principal and interest requirements on the outstanding bonds. The leases are capitalized in an amount equal to the principal of the related bonds, net of any unexpended construction fund proceeds (see Note 9). Each lease agreement includes a bargain purchase option exercisable at the end of the lease term. In addition, the leased property may be purchased at various anniversaries during the lease terms at amounts at least equal to the outstanding principal amount of the underlying bonds.

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

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

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

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

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

3. Cash and Investments

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

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

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a financial institution failure, GARFS' deposits may not be returned to it. There is no policy for GARFS' custodial credit risk. Deposits of GARFS are predominantly held in money market accounts, which do not require collateral. The remaining GARFS' deposits are held by the City of Minneapolis, where deposits have adequate collateral levels. At December 31, 2009 and 2008, GARFS' deposits were not exposed to custodial credit risk.

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3. Cash and Investments (Continued)

Interest Rate Risk

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

Credit Risk

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

Concentration of Credit Risk

The concentration of credit risk is the risk of loss that may be caused by investing in a single issuer. Investments in any one issuer at December 31, 2009 and 2008, that represent five percent or more of the GARFS' investments are as follows:

Issuer	Reported Amount	
	2009	2008
Municipal bonds		
Chicago (IL) Board of Education	\$ 5,931,300	\$ 5,634,420
U.S. Department of Treasury	4,300,680	4,132,910
Houston (TX) Independent School District	3,454,627	3,306,146
Grand Prairie (TX) Independent School District	2,798,656	2,736,188
Jacksonville (FL) Electric Authority	2,546,432	2,441,370
Shelby County (TN)	2,251,992	2,313,391
Florida State Board of Education	2,039,520	2,094,160
Cook County (IL) School District #170	1,781,010	1,693,512

**CITY OF MINNEAPOLIS
COMMUNITY PLANNING AND ECONOMIC DEVELOPMENT DEPARTMENT
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3. Cash and Investments (Continued)

The following table presents GARFS' investment balances at December 31, 2009 and 2008, and information relating to interest and credit quality investment risks:

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

2008

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

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
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3. Cash and Investments (Continued)

Investments as of December 31 are as follows:

	2009		2008	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Pooled investments	\$ 1,208,360	\$ 1,211,014	\$ 1,217,009	\$ 1,219,622
Municipal bonds	15,062,219	22,045,289	15,062,219	21,414,661
Federal agency obligations	86,632	91,790	88,752	95,227
Other federal obligations	4,222,805	4,300,680	3,805,403	4,132,910
Guaranteed investment contracts	841,740	841,740	841,740	841,740
Total	\$ 21,421,756	\$ 28,490,513	\$ 21,015,123	\$ 27,704,160

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 \$15,062,219 at December 31, 2009 and 2008, with fair values of \$22,045,289 and \$21,414,661 at December 31, 2009 and 2008, 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 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, 2009:

Pajor & Associates	\$ 126,562
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	\$ 3,298,493

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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 through 20)

A summary of long-term debt activity for the years ended December 31, 2009 and 2008, is as follows:

	2009	2008
Development Revenue Bonds		
Payable - January 1	\$ 60,850,000	\$ 63,695,000
Issued	-	-
Retired	(3,485,000)	(2,845,000)
Payable - December 31	\$ 57,365,000	\$ 60,850,000
Due Within One Year	\$ 3,370,000	\$ 3,190,000

6. Related-Party Transactions

GARFS contributed \$680,042 in 2009 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.

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 \$112,805 and \$113,961 in 2009 and 2008, respectively.

**CITY OF MINNEAPOLIS
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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 City has pledged not to reduce the IDB account to a balance less than \$20,000,000. The balance in the IDB account was \$32,683,264 and \$32,570,872 as of December 31, 2009 and 2008, respectively. Management intends to transfer \$5,000,000 to the City of Minneapolis for industrial development activities; \$4,870,231 of this amount has been transferred.

8. Receivables From Other City Funds

	2009	2008
Stimson Building		
Residual receivable	\$ -	\$ 20,000

Stimson Building - On October 1, 2001, the CPED issued \$6,000,000 Development Revenue Bonds, Stimson Building, Series 2001-4. The proceeds of Series 2001-4 are to be primarily used in the redevelopment of the Stimson Building. The CPED transferred 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
Elmer Enterprises Refunding	July 1, 2007	June 1, 2011

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MINNEAPOLIS, MINNESOTA**

11. Other Commitments and Contingencies

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

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

**NOTES TO THE FINANCIAL STATEMENTS
OUTSTANDING DEVELOPMENT REVENUE BONDS
DECEMBER 31, 2009**

	<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
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**

2008 Amounts

Note 5

Bonds and Notes			Principal	Interest
Issued	Retired	Outstanding	Due	Due
			in 2010	in 2010
\$ 8,370,000	\$ 7,185,000	\$ 1,185,000	\$ 780,000	\$ 59,550
2,400,000	1,155,000	1,245,000	130,000	72,472
2,900,000	1,575,000	1,325,000	160,000	77,030
2,515,000	535,000	1,980,000	65,000	111,895
2,820,000	2,135,000	685,000	265,000	34,100
1,500,000	635,000	865,000	80,000	45,375
1,900,000	55,000	1,845,000	150,000	91,025
1,000,000	1,000,000	-	-	-
1,505,000	310,000	1,195,000	45,000	79,663
1,650,000	535,000	1,115,000	75,000	65,175
2,750,000	645,000	2,105,000	110,000	138,125
3,300,000	1,270,000	2,030,000	145,000	96,290
2,475,000	560,000	1,915,000	125,000	100,888
21,055,000	1,190,000	19,865,000	335,000	1,226,105
8,400,000	995,000	7,405,000	495,000	392,849
3,100,000	185,000	2,915,000	100,000	164,348
9,990,000	300,000	9,690,000	310,000	493,356
<u>\$ 77,630,000</u>	<u>\$ 20,265,000</u>	<u>\$ 57,365,000</u>	<u>\$ 3,370,000</u>	<u>\$ 3,248,246</u>
<u>\$ 77,630,000</u>	<u>\$ 16,780,000</u>	<u>\$ 60,850,000</u>		

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

**NOTES TO THE FINANCIAL STATEMENTS
MATURITIES ON OUTSTANDING PRINCIPAL BALANCES
OF BOND ISSUES AND INTEREST PAYMENTS
DECEMBER 31, 2009**

	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
Carlson Companies	\$ 780,000	\$ 405,000	\$ -	\$ -
Halper Box	130,000	140,000	145,000	155,000
Baker Bearing	160,000	165,000	175,000	190,000
Laurel Village Alden Limited Partnership II	65,000	65,000	70,000	75,000
100 East 22nd Associates - A	265,000	275,000	145,000	-
Cord Sets	80,000	80,000	85,000	90,000
Discount Steel - A	150,000	160,000	165,000	175,000
Pajor & Associates	45,000	45,000	50,000	55,000
Resource, Inc.	75,000	80,000	85,000	90,000
Bridgerail Properties	110,000	115,000	125,000	130,000
Kristol Properties	145,000	155,000	160,000	160,000
Infinite Graphics	125,000	130,000	135,000	140,000
Historic Theatre Trust	335,000	355,000	375,000	395,000
Ambassador Press	495,000	520,000	540,000	565,000
Quality Resource Group	100,000	105,000	110,000	115,000
New French Bakery	310,000	330,000	350,000	365,000
Total principal payments	\$ 3,370,000	\$ 3,125,000	\$ 2,715,000	\$ 2,700,000
Total interest payments	3,248,246	3,066,643	2,908,787	2,767,750
Total Maturities	<u>\$ 6,618,246</u>	<u>\$ 6,191,643</u>	<u>\$ 5,623,787</u>	<u>\$ 5,467,750</u>

Note 5
(Continued)

2014	2015-2019	2020-2024	2025-2029	2030-2034	2035	Total
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,185,000
165,000	510,000	-	-	-	-	1,245,000
200,000	435,000	-	-	-	-	1,325,000
80,000	480,000	645,000	500,000	-	-	1,980,000
-	-	-	-	-	-	685,000
95,000	435,000	-	-	-	-	865,000
185,000	1,010,000	-	-	-	-	1,845,000
55,000	350,000	480,000	115,000	-	-	1,195,000
95,000	560,000	130,000	-	-	-	1,115,000
135,000	835,000	655,000	-	-	-	2,105,000
170,000	615,000	625,000	-	-	-	2,030,000
145,000	535,000	705,000	-	-	-	1,915,000
420,000	2,485,000	3,355,000	4,530,000	6,145,000	1,470,000	19,865,000
600,000	2,980,000	1,140,000	565,000	-	-	7,405,000
120,000	715,000	945,000	705,000	-	-	2,915,000
385,000	2,235,000	2,860,000	2,855,000	-	-	9,690,000
\$ 2,850,000	\$ 14,180,000	\$ 11,540,000	\$ 9,270,000	\$ 6,145,000	\$ 1,470,000	\$ 57,365,000
2,622,809	10,745,849	7,115,765	3,859,453	1,671,705	92,610	38,099,617
<u>\$ 5,472,809</u>	<u>\$ 24,925,849</u>	<u>\$ 18,655,765</u>	<u>\$ 13,129,453</u>	<u>\$ 7,816,705</u>	<u>\$ 1,562,610</u>	<u>\$ 95,464,617</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, 2009**

	Total Lease/Note Payments	Total Interest
Capitalized Leases		
Halper Box	\$ 1,565,472	\$ 320,472
Baker Bearing	1,631,585	306,585
Laurel Village Alden Limited Partnership II	3,230,325	1,250,325
100 East 22nd Associates - A	742,475	57,475
Cord Sets	1,095,588	230,588
Discount Steel - A	2,351,575	506,575
Pajor & Associates	1,986,400	791,400
Resource, Inc.	1,547,775	432,775
Bridgerail Properties	3,238,000	1,133,000
Kristol Properties	2,792,166	762,166
Infinite Graphics	2,764,863	849,863
Historic Theatre Trust	40,641,612	20,776,612
Ambassador Press	10,588,900	3,183,900
Quality Resource Group	4,742,012	1,827,012
New French Bakery	15,289,169	5,599,169
Total capitalized leases	\$ 94,207,917	\$ 38,027,917
Notes Receivable		
Carlson Companies	1,256,700	71,700
Total Capitalized Leases and Notes Receivable	\$ 95,464,617	\$ 38,099,617

2008 Amounts

Note 9

<u>Total Principal</u>	<u>Unexpended Construction Funds</u>	<u>Capitalized Lease/Note Receivable</u>	<u>Current Portion</u>	<u>Noncurrent Portion</u>
\$ 1,245,000	\$ 4,899	\$ 1,240,101	\$ 130,000	\$ 1,110,101
1,325,000	-	1,325,000	160,000	1,165,000
1,980,000	-	1,980,000	65,000	1,915,000
685,000	-	685,000	265,000	420,000
865,000	-	865,000	80,000	785,000
1,845,000	-	1,845,000	150,000	1,695,000
1,195,000	-	1,195,000	45,000	1,150,000
1,115,000	-	1,115,000	75,000	1,040,000
2,105,000	-	2,105,000	110,000	1,995,000
2,030,000	-	2,030,000	145,000	1,885,000
1,915,000	-	1,915,000	125,000	1,790,000
19,865,000	-	19,865,000	335,000	19,530,000
7,405,000	5	7,404,995	495,000	6,909,995
2,915,000	-	2,915,000	100,000	2,815,000
9,690,000	11	9,689,989	310,000	9,379,989
<u>\$ 56,180,000</u>	<u>\$ 4,915</u>	<u>\$ 56,175,085</u>	<u>\$ 2,590,000</u>	<u>\$ 53,585,085</u>
<u>1,185,000</u>	<u>-</u>	<u>1,185,000</u>	<u>780,000</u>	<u>405,000</u>
<u><u>\$ 57,365,000</u></u>	<u><u>\$ 4,915</u></u>	<u><u>\$ 57,360,085</u></u>	<u><u>\$ 3,370,000</u></u>	<u><u>\$ 53,990,085</u></u>
		<u><u>\$ 60,661,404</u></u>	<u><u>\$ 3,190,000</u></u>	<u><u>\$ 57,471,404</u></u>

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

**NOTES TO THE FINANCIAL STATEMENTS
CAPITALIZED LEASES AND NOTES RECEIVABLE MATURITIES, INCLUDING INTEREST
DECEMBER 31, 2009**

	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
Capitalized Leases				
Halper Box	\$ 202,472	\$ 204,268	\$ 200,504	\$ 201,279
Baker Bearing	237,030	232,115	231,575	235,260
Laurel Village Alden Limited Partnership II	176,895	173,450	174,940	176,090
100 East 22nd Associates - A	299,100	294,388	148,987	-
Cord Sets	125,375	120,975	121,438	121,625
Discount Steel - A	241,025	243,275	240,150	241,650
Pajor & Associates	124,663	121,962	124,038	125,787
Resource, Inc.	140,175	141,275	141,675	141,787
Bridgerail Properties	248,125	247,075	250,750	248,875
Kristol Properties	241,290	245,998	244,875	238,075
Infinite Graphics	225,888	225,700	224,200	222,450
Historic Theatre Trust	1,561,105	1,563,584	1,563,456	1,562,194
Ambassador Press	887,849	890,674	886,799	886,369
Quality Resource Group	264,348	264,068	263,524	262,715
New French Bakery	803,356	805,686	806,876	803,594
Total capitalized lease maturities	\$ 5,778,696	\$ 5,774,493	\$ 5,623,787	\$ 5,467,750
Notes Receivable				
Carlson Companies	839,550	417,150	-	-
Total Maturities	\$ 6,618,246	\$ 6,191,643	\$ 5,623,787	\$ 5,467,750

Note 9
(Continued)

	<u>2014</u>	<u>2015-2019</u>	<u>2020-2024</u>	<u>2025-2029</u>	<u>2030-2034</u>	<u>2035</u>	<u>Total</u>
\$	201,439	\$ 555,510	\$ -	\$ -	\$ -	\$ -	\$ 1,565,472
	233,170	462,435	-	-	-	-	1,631,585
	176,928	891,527	902,070	558,425	-	-	3,230,325
	-	-	-	-	-	-	742,475
	121,538	484,637	-	-	-	-	1,095,588
	242,650	1,142,825	-	-	-	-	2,351,575
	122,212	624,913	620,063	122,762	-	-	1,986,400
	141,613	703,450	137,800	-	-	-	1,547,775
	246,725	1,247,650	748,800	-	-	-	3,238,000
	241,115	873,556	707,257	-	-	-	2,792,166
	220,450	820,725	825,450	-	-	-	2,764,863
	1,564,797	7,811,158	7,817,658	7,818,345	7,816,705	1,562,610	40,641,612
	894,259	3,967,555	1,554,820	620,575	-	-	10,588,900
	261,482	1,316,076	1,320,703	789,096	-	-	4,742,012
	804,431	4,023,832	4,021,144	3,220,250	-	-	15,289,169
	\$ 5,472,809	\$ 24,925,849	\$ 18,655,765	\$ 13,129,453	\$ 7,816,705	\$ 1,562,610	\$ 94,207,917
	-	-	-	-	-	-	1,256,700
	\$ 5,472,809	\$ 24,925,849	\$ 18,655,765	\$ 13,129,453	\$ 7,816,705	\$ 1,562,610	\$ 95,464,617

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REBECCA OTTO
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)

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, 2009, and have issued our report thereon dated April 29, 2010. 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 29, 2010