

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, 2011 AND 2010

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, 2011 and 2010



**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 ended December 31, 2011*

*Charles Lutz has been named interim director as of December 31, 2011.

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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, 2011 and 2010, 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, 2011 and 2010, 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, 2011 and 2010, 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, 2012

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, 2011 AND 2010**

	2011	2010
<u>Assets</u>		
Current assets		
Cash and cash equivalents		
Common reserve account	\$ 4,599,793	\$ 4,826,425
Industrial development account	28,832,237	28,164,162
Debt service account	1,718,956	1,545,418
Construction funds	1,494,215	12,787,237
Other	245,023	79,703
Total cash and cash equivalents	\$ 36,890,224	\$ 47,402,945
Investments		
Common reserve account	\$ -	\$ 841,740
Industrial development account	4,568,828	4,845,847
General agency reserve fund	1,208,570	1,298,583
Total investments	\$ 5,777,398	\$ 6,986,170
Receivables		
Accrued interest	\$ 40,535	\$ 50,138
Capitalized leases receivable from developers	3,800,000	3,535,000
Capitalized notes receivable from developers	-	405,000
Total receivables	\$ 3,840,535	\$ 3,990,138
Total current assets	\$ 46,508,157	\$ 58,379,253
Noncurrent assets		
Receivables		
Capitalized leases	\$ 86,690,785	\$ 79,197,763
Total Assets	\$ 133,198,942	\$ 137,577,016

**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, 2011 AND 2010**

	2011	2010
<u>Liabilities</u>		
Current liabilities		
Bonds payable	\$ 3,800,000	\$ 3,940,000
Accounts payable	17,331	9,909
Accrued interest payable	433,472	439,215
Developer reserve deposits	4,599,793	5,668,165
Unearned revenue	1,196,743	860,495
Total current liabilities	\$ 10,047,339	\$ 10,917,784
Noncurrent liabilities		
Bonds payable	88,185,000	91,985,000
Total Liabilities	\$ 98,232,339	\$ 102,902,784
<u>Net Assets</u>		
Restricted for debt service	\$ 34,966,603	\$ 34,674,232

**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, 2011 AND 2010**

	<u>2011</u>	<u>2010</u>
Operating Revenues		
Interest on capitalized leases and developer fees	\$ 5,242,887	\$ 3,949,899
Interest income	75,006	7,220,104
Increase (decrease) in fair value of investments	219,458	(6,933,446)
Administrative fees	431,808	317,324
Other revenues	30	235
	<u>5,969,189</u>	<u>4,554,116</u>
Total Operating Revenues	\$ 5,969,189	\$ 4,554,116
Operating Expenses		
Interest	\$ 5,252,457	\$ 3,937,677
Professional services and other expenses	424,361	276,357
	<u>5,676,818</u>	<u>4,214,034</u>
Total Operating Expenses	\$ 5,676,818	\$ 4,214,034
Operating Income (Loss)	\$ 292,371	\$ 340,082
Transfers out	-	(129,768)
	<u>292,371</u>	<u>210,314</u>
Change in Net Assets	\$ 292,371	\$ 210,314
Net Assets - January 1	34,674,232	34,463,918
Net Assets - December 31	<u>34,966,603</u>	<u>34,674,232</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, 2011 AND 2010**

	2011	2010
Cash Flows from Operating Activities		
Receipts from customers and users	\$ 8,882,601	\$ 10,770,456
Interest received from investments	84,609	7,278,479
Capitalized leases issued	(11,293,022)	(30,217,678)
Payments to suppliers	(416,939)	(280,687)
	\$ (2,742,751)	\$ (12,449,430)
Cash Flows from Noncapital Financing Activities		
Proceeds from bond and note issued	\$ -	\$ 43,000,000
Transfers to other funds	-	(129,768)
Principal paid on bonds and notes	(3,940,000)	(4,440,000)
Interest paid on bonds and notes	(5,258,200)	(3,769,149)
	\$ (9,198,200)	\$ 34,661,083
Cash Flows from Investing Activities		
Purchase of investments	\$ (1,169,400)	\$ (1,544,630)
Sale of investments	2,597,630	16,115,527
	\$ 1,428,230	\$ 14,570,897
Net Increase (Decrease) in Cash and Cash Equivalents	\$ (10,512,721)	\$ 36,782,550
Cash and Cash Equivalents - January 1	47,402,945	10,620,395
Cash and Cash Equivalents - December 31	\$ 36,890,224	\$ 47,402,945
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities		
Operating Income (Loss)	\$ 292,371	\$ 340,082
Adjustments to reconcile operating income (loss) before operating transfers to net cash provided by (used in) operating activities		
Interest expense	5,252,457	3,937,677
(Increase) in fair value of investments	(219,458)	6,933,446
(Increase) decrease in accrued interest receivable	9,603	58,375
(Increase) decrease in notes receivable	405,000	780,000
(Increase) decrease in capital leases receivable	(7,758,022)	(26,557,678)
Increase (decrease) in accounts payable	7,422	(4,330)
Increase (decrease) in developer reserve deposits	(1,068,372)	1,963,342
Increase (decrease) in unearned revenue	336,248	99,656
	\$ (2,742,751)	\$ (12,449,430)

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, 2011 AND 2010**

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.

Equity Classifications - Equity is classified as net assets. Unrestricted net assets are net assets that do not meet the definition of “restricted.” When both restricted and unrestricted resources are available for use, it is GARFS’ policy to use restricted resources first and then unrestricted resources as needed.

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.

**CITY OF MINNEAPOLIS
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GENERAL AGENCY RESERVE FUND SYSTEM
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3. Cash and Investments (Continued)

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, 2011 and 2010, GARFS' deposits were not exposed to custodial credit risk.

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, 2011 and 2010, that represent five percent or more of the GARFS' investments are as follows:

Issuer	Reported Amount	
	2011	2010
City of Minneapolis investment pool	\$ 1,208,570	\$ 1,298,583
Guaranteed investment contract	-	841,740
U.S. Department of Treasury	4,482,517	4,755,290

**CITY OF MINNEAPOLIS
COMMUNITY PLANNING AND ECONOMIC DEVELOPMENT DEPARTMENT
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MINNEAPOLIS, MINNESOTA**

3. Cash and Investments (Continued)

The following table presents the GARFS investment balances at December 31, 2011 and 2010, and information relating to interest and credit quality investment risks:

2011

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%	-	-	3.2	\$ 3,113
Federal Home Loan Mortgage Corporation	100%	-	-	2.2	83,198
U.S. Treasury securities	100%	-	-	4.4	4,482,517
Investment pools/mutual funds					
City of Minneapolis	-	-	100%	N/A	1,208,570
 Total investments					 \$ 5,777,398
Cash and cash equivalents					36,890,224
 Total Cash and Investments					 \$ 42,667,622

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

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
MINNEAPOLIS, MINNESOTA**

3. Cash and Investments (Continued)

Investments as of December 31, 2011 and 2010, are as follows:

	2011		2010	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Pooled investments	\$ 1,204,946	\$ 1,208,570	\$ 1,295,448	\$ 1,298,583
Federal agency obligations	81,885	86,311	84,300	90,557
Other federal obligations	4,136,707	4,482,517	4,629,370	4,755,290
Guaranteed investment contracts	-	-	841,740	841,740
Total	<u>\$ 5,423,538</u>	<u>\$ 5,777,398</u>	<u>\$ 6,850,858</u>	<u>\$ 6,986,170</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, 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, 2011:

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
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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 16 through 19)

A summary of long-term debt activity for the years ended December 31, 2011 and 2010, is as follows:

	2011	2010
Development Revenue Bonds		
Payable - January 1	\$ 95,925,000	\$ 57,365,000
Issued	-	43,000,000
Retired	(3,940,000)	(4,440,000)
Payable - December 31	\$ 91,985,000	\$ 95,925,000
Due Within One Year	\$ 3,800,000	\$ 3,940,000

6. Related-Party Transactions

GARFS contributed \$129,768 in 2010 to the City of Minneapolis in support of industrial development activities. This amount is shown as transfers out in the Comparative Statement of Revenues, Expenses, and Changes in Net Assets. During 2011, GARFS did not contribute any funds to the City of Minneapolis in support of these activities.

Laurel Village - In 1995, the CPED entered into an agreement with the developer of Laurel Village in which the CPED committed to use \$2,656,318 of tax increment revenues, or other available funds, through the year 2016 to stabilize funding for the John Alden Apartments. These funds were repledged to pay debt service on the Laurel Village Series 1997 Development Revenue Bonds. The total paid by the CPED pursuant to this commitment was \$110,425 and \$111,627 in 2011 and 2010, respectively.

**CITY OF MINNEAPOLIS
COMMUNITY PLANNING AND ECONOMIC DEVELOPMENT DEPARTMENT
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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 \$32,877,832 and \$33,010,009 as of December 31, 2011 and 2010, respectively. The 2010 contribution of \$129,768 fulfilled management's intention to transfer a total of \$5,000,000 to the City of Minneapolis for industrial development activities.

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 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

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.

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**CITY OF MINNEAPOLIS
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GENERAL AGENCY RESERVE FUND SYSTEM
MINNEAPOLIS, MINNESOTA**

**NOTES TO THE FINANCIAL STATEMENTS
OUTSTANDING DEVELOPMENT REVENUE BONDS
DECEMBER 31, 2011**

	<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
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

2010 Amounts

Note 5

Bonds and Notes			Principal	Interest
Issued	Retired	Outstanding	Due	Due
			in 2012	in 2012
\$ 8,370,000	\$ 8,370,000	\$ -	\$ -	\$ -
2,400,000	1,425,000	975,000	145,000	55,504
2,900,000	1,900,000	1,000,000	175,000	56,575
2,515,000	665,000	1,850,000	70,000	104,940
2,820,000	2,675,000	145,000	145,000	3,987
1,500,000	825,000	675,000	85,000	34,788
1,900,000	365,000	1,535,000	165,000	75,150
1,505,000	400,000	1,105,000	50,000	74,038
2,750,000	870,000	1,880,000	125,000	125,750
3,300,000	1,570,000	1,730,000	160,000	84,875
2,475,000	815,000	1,660,000	135,000	89,200
21,055,000	1,880,000	19,175,000	375,000	1,188,456
8,400,000	2,010,000	6,390,000	540,000	346,799
3,100,000	390,000	2,710,000	110,000	153,524
9,990,000	940,000	9,050,000	350,000	456,876
18,000,000	-	18,000,000	275,000	1,093,841
25,000,000	895,000	24,105,000	895,000	1,257,356
\$ 117,980,000	\$ 25,995,000	\$ 91,985,000	\$ 3,800,000	\$ 5,201,659
\$ 119,630,000	\$ 23,705,000	\$ 95,925,000		

**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, 2011**

	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>
Carlson Companies	\$ -	\$ -	\$ -	\$ -
Halper Box	145,000	155,000	165,000	175,000
Baker Bearing	175,000	190,000	200,000	210,000
Laurel Village Alden Limited Partnership II	70,000	75,000	80,000	85,000
100 East 22nd Associates - A	145,000	-	-	-
Cord Sets	85,000	90,000	95,000	100,000
Discount Steel - A	165,000	175,000	185,000	190,000
Pajor & Associates	50,000	55,000	55,000	60,000
Bridgerail Properties	125,000	130,000	135,000	145,000
Kristol Properties	160,000	160,000	170,000	110,000
Infinite Graphics	135,000	140,000	145,000	95,000
Hennepin Theatre Trust	375,000	395,000	420,000	440,000
Ambassador Press	540,000	565,000	600,000	630,000
Quality Resource Group	110,000	115,000	120,000	130,000
New French Bakery	350,000	365,000	385,000	405,000
Open Systems International	275,000	285,000	290,000	300,000
Open Access Technology International, Inc.	895,000	920,000	950,000	980,000
Total principal payments	\$ 3,800,000	\$ 3,815,000	\$ 3,995,000	\$ 4,055,000
Total interest payments	5,201,659	5,031,248	4,852,364	4,662,475
Total Maturities	<u>\$ 9,001,659</u>	<u>\$ 8,846,248</u>	<u>\$ 8,847,364</u>	<u>\$ 8,717,475</u>

Note 5
(Continued)

<u>2016</u>	<u>2017-2021</u>	<u>2022-2026</u>	<u>2027-2031</u>	<u>2032-2036</u>	<u>2037-2040</u>	<u>Total</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
185,000	150,000	-	-	-	-	975,000
225,000	-	-	-	-	-	1,000,000
90,000	540,000	730,000	180,000	-	-	1,850,000
-	-	-	-	-	-	145,000
105,000	200,000	-	-	-	-	675,000
200,000	620,000	-	-	-	-	1,535,000
65,000	400,000	420,000	-	-	-	1,105,000
155,000	955,000	235,000	-	-	-	1,880,000
115,000	685,000	330,000	-	-	-	1,730,000
100,000	600,000	445,000	-	-	-	1,660,000
465,000	2,805,000	3,780,000	5,115,000	5,380,000	-	19,175,000
660,000	2,105,000	1,290,000	-	-	-	6,390,000
135,000	795,000	1,055,000	250,000	-	-	2,710,000
425,000	2,465,000	3,160,000	1,495,000	-	-	9,050,000
315,000	1,800,000	2,370,000	3,230,000	4,435,000	4,700,000	18,000,000
1,005,000	4,850,000	2,395,000	3,240,000	4,350,000	4,520,000	24,105,000
\$ 4,245,000	\$ 18,970,000	\$ 16,210,000	\$ 13,510,000	\$ 14,165,000	\$ 9,220,000	\$ 91,985,000
4,466,633	19,213,350	14,322,844	9,648,332	5,326,717	1,332,874	74,058,496
<u>\$ 8,711,633</u>	<u>\$ 38,183,350</u>	<u>\$ 30,532,844</u>	<u>\$ 23,158,332</u>	<u>\$ 19,491,717</u>	<u>\$ 10,552,874</u>	<u>\$ 166,043,496</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, 2011**

	Total Lease/Note Payments	Total Interest
Capitalized Leases		
Halper Box	\$ 1,158,732	\$ 183,732
Baker Bearing	1,162,440	162,440
Laurel Village Alden Limited Partnership II	2,879,980	1,029,980
100 East 22nd Associates - A	148,987	3,987
Cord Sets	808,513	133,513
Discount Steel - A	1,867,275	332,275
Pajor & Associates	1,739,775	634,775
Bridgerail Properties	2,742,800	862,800
Kristol Properties	2,304,878	574,878
Infinite Graphics	2,313,275	653,275
Hennepin Theatre Trust	37,516,923	18,341,923
Ambassador Press	8,810,377	2,420,377
Quality Resource Group	4,213,596	1,503,596
New French Bakery	13,680,127	4,630,127
Open Systems International	39,252,780	21,252,780
Open Access Technology International, Inc.	45,443,038	21,338,038
	\$ 166,043,496	\$ 74,058,496
Total capitalized leases		
Notes Receivable		
Carlson Companies	-	-
	\$ 166,043,496	\$ 74,058,496
Total Capitalized Leases and Notes Receivable	\$ 166,043,496	\$ 74,058,496

2010 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>
\$ 975,000	\$ 4,900	\$ 970,100	\$ 145,000	\$ 825,100
1,000,000	-	1,000,000	175,000	825,000
1,850,000	-	1,850,000	70,000	1,780,000
145,000	-	145,000	145,000	-
675,000	-	675,000	85,000	590,000
1,535,000	-	1,535,000	165,000	1,370,000
1,105,000	-	1,105,000	50,000	1,055,000
1,880,000	-	1,880,000	125,000	1,755,000
1,730,000	-	1,730,000	160,000	1,570,000
1,660,000	-	1,660,000	135,000	1,525,000
19,175,000	-	19,175,000	375,000	18,800,000
6,390,000	5	6,389,995	540,000	5,849,995
2,710,000	-	2,710,000	110,000	2,600,000
9,050,000	11	9,049,989	350,000	8,699,989
18,000,000	3	17,999,997	275,000	17,724,997
<u>24,105,000</u>	<u>1,489,296</u>	<u>22,615,704</u>	<u>895,000</u>	<u>21,720,704</u>
\$ 91,985,000	\$ 1,494,215	\$ 90,490,785	\$ 3,800,000	\$ 86,690,785
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>\$ 91,985,000</u>	<u>\$ 1,494,215</u>	<u>\$ 90,490,785</u>	<u>\$ 3,800,000</u>	<u>\$ 86,690,785</u>
		<u>\$ 83,137,763</u>	<u>\$ 3,940,000</u>	<u>\$ 79,197,763</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, 2011**

	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>
Capitalized Leases				
Halper Box	\$ 200,504	\$ 201,279	\$ 201,439	\$ 200,984
Baker Bearing	231,575	235,260	233,170	230,460
Laurel Village Alden Limited Partnership II	174,940	176,090	176,928	177,467
100 East 22nd Associates - A	148,987	-	-	-
Cord Sets	119,788	119,975	119,887	119,525
Discount Steel - A	240,150	241,650	242,650	238,038
Pajor & Associates	124,038	125,787	122,212	123,638
Bridgerail Properties	250,750	248,875	246,725	249,300
Kristol Properties	244,875	238,075	241,115	173,550
Infinite Graphics	224,200	222,450	220,450	163,200
Hennepin Theatre Trust	1,563,456	1,562,194	1,564,797	1,560,983
Ambassador Press	886,799	886,369	894,259	895,012
Quality Resource Group	263,524	262,715	261,482	264,978
New French Bakery	806,876	803,594	804,431	804,700
Open Systems International	1,368,841	1,371,429	1,366,863	1,365,559
Open Access Technology International, Inc.	2,152,356	2,150,506	2,150,956	2,150,081
Total capitalized lease maturities	\$ 9,001,659	\$ 8,846,248	\$ 8,847,364	\$ 8,717,475
Notes Receivable				
Carlson Companies	-	-	-	-
Total Maturities	\$ 9,001,659	\$ 8,846,248	\$ 8,847,364	\$ 8,717,475

Note 8
(Continued)

<u>2016</u>	<u>2017-2021</u>	<u>2022-2026</u>	<u>2027-2031</u>	<u>2032-2036</u>	<u>2037-2040</u>	<u>Total</u>
\$ 199,914	\$ 154,612	\$ -	\$ -	\$ -	\$ -	\$ 1,158,732
231,975	-	-	-	-	-	1,162,440
177,688	895,347	911,260	190,260	-	-	2,879,980
-	-	-	-	-	-	148,987
118,888	210,450	-	-	-	-	808,513
237,800	666,987	-	-	-	-	1,867,275
124,738	626,124	493,238	-	-	-	1,739,775
249,150	1,246,550	251,450	-	-	-	2,742,800
172,912	878,725	355,626	-	-	-	2,304,878
162,975	825,225	494,775	-	-	-	2,313,275
1,561,035	7,818,083	7,817,385	7,815,810	6,253,180	-	37,516,923
893,637	2,802,026	1,552,275	-	-	-	8,810,377
262,932	1,314,428	1,318,937	264,600	-	-	4,213,596
804,450	4,023,864	4,024,212	1,608,000	-	-	13,680,127
1,367,858	6,814,884	6,787,435	6,755,600	6,718,937	5,335,374	39,252,780
2,145,681	9,906,045	6,526,251	6,524,062	6,519,600	5,217,500	45,443,038
\$ 8,711,633	\$ 38,183,350	\$ 30,532,844	\$ 23,158,332	\$ 19,491,717	\$ 10,552,874	\$ 166,043,496
-	-	-	-	-	-	-
\$ 8,711,633	\$ 38,183,350	\$ 30,532,844	\$ 23,158,332	\$ 19,491,717	\$ 10,552,874	\$ 166,043,496

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REBECCA OTTO
STATE AUDITOR

STATE OF MINNESOTA OFFICE OF THE STATE AUDITOR

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH ENABLING RESOLUTIONS

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

We have audited the basic financial statements of the General Agency Reserve Fund System, a part of the City of Minneapolis Community Planning and Economic Development Department (CPED), as of and for the year ended December 31, 2011, and have issued our report thereon dated April 25, 2012. 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, 2012