

# 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, 2004 AND 2003**

## **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.

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

**YEARS ENDED DECEMBER 31, 2004 AND 2003**



**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  
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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	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

Lee Sheehy - Term is indefinite.

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# STATE OF MINNESOTA

## OFFICE OF THE STATE AUDITOR

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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, 2004 and 2003, 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' Community Planning and Economic Development Department, as of December 31, 2004 and 2003, and the changes in its financial position and cash flows of its proprietary fund 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, 2004 and 2003, 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 11, 2005, 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 11, 2005

## **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, 2004 AND 2003**

	<b>2004</b>	<b>2003</b>
<b><u>Assets</u></b>		
<b>Current assets</b>		
<b>Cash and cash equivalents</b>		
Common reserve account	\$ 5,839,492	\$ 6,231,729
Industrial development account	9,448,897	9,128,064
Debt service account	476,326	725,722
Construction funds	4,521,196	4,147,640
Other	156,450	27,181
<b>Total cash and cash equivalents</b>	<b>\$ 20,442,361</b>	<b>\$ 20,260,336</b>
<b>Investments</b>		
Common reserve account	\$ 1,295,130	\$ 1,376,142
Industrial development account	22,966,672	22,505,308
General agency reserve fund	1,199,636	1,251,113
<b>Total investments</b>	<b>\$ 25,461,438</b>	<b>\$ 25,132,563</b>
<b>Receivables</b>		
Accrued interest	\$ 134,243	\$ 119,774
Capitalized leases receivable from developers	2,400,000	2,475,000
Capitalized notes receivable from developers	585,000	655,000
Receivables from other funds	95,000	85,000
<b>Total receivables</b>	<b>\$ 3,214,243</b>	<b>\$ 3,334,774</b>
<b>Total current assets</b>	<b>\$ 49,118,042</b>	<b>\$ 48,727,673</b>
<b>Noncurrent assets</b>		
Receivables		
Capitalized leases	\$ 31,110,875	\$ 34,369,493
Notes receivable from developer	3,880,000	6,780,000
Receivables from other funds	21,626,877	21,671,457
<b>Total noncurrent assets</b>	<b>\$ 56,617,752</b>	<b>\$ 62,820,950</b>
<b>Total Assets</b>	<b>\$ 105,735,794</b>	<b>\$ 111,548,623</b>

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

***EXHIBIT 1  
(Continued)***

**COMPARATIVE STATEMENT OF NET ASSETS  
DECEMBER 31, 2004 AND 2003**

	<b>2004</b>	<b>2003</b>
<b><u>Liabilities</u></b>		
<b>Current liabilities</b>		
Bonds payable	\$ 3,080,000	\$ 3,215,000
Accounts payable	11,726	8,986
Accrued interest payable	326,208	358,734
Developer reserve deposits	3,565,180	4,037,273
Unearned revenue	689,052	346,864
<b>Total current liabilities</b>	<b>\$ 7,672,166</b>	<b>\$ 7,966,857</b>
<b>Noncurrent liabilities</b>		
Bonds payable	64,715,000	70,540,000
<b>Total Liabilities</b>	<b>\$ 72,387,166</b>	<b>\$ 78,506,857</b>
<b><u>Net Assets</u></b>		
Restricted for debt service	<b>\$ 33,348,628</b>	<b>\$ 33,041,766</b>

**CITY OF MINNEAPOLIS  
COMMUNITY PLANNING AND ECONOMIC DEVELOPMENT DEPARTMENT  
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, 2004 AND 2003**

	<b>2004</b>	<b>2003</b>
<b>Operating Revenues</b>		
Interest on capitalized leases and developer fees	\$ 2,214,228	\$ 2,906,896
Interest income	424,890	477,914
Increase in fair value of investments	205,875	680,193
Administrative fees	322,549	267,828
Other revenues	83,333	6,812
<b>Total Operating Revenues</b>	<b>\$ 3,250,875</b>	<b>\$ 4,339,643</b>
<b>Operating Expenses</b>		
Interest	\$ 4,312,092	\$ 4,530,149
Professional services and other expenses	356,297	310,333
<b>Total Operating Expenses</b>	<b>\$ 4,668,389</b>	<b>\$ 4,840,482</b>
<b>Income (Loss) Before Transfers</b>	<b>\$ (1,417,514)</b>	<b>\$ (500,839)</b>
Transfers in	1,724,376	1,729,097
<b>Change in Net Assets</b>	<b>\$ 306,862</b>	<b>\$ 1,228,258</b>
<b>Net Assets - January 1</b>	<b>33,041,766</b>	<b>31,813,508</b>
<b>Net Assets - December 31</b>	<b>\$ 33,348,628</b>	<b>\$ 33,041,766</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, 2004 AND 2003**

	<b>2004</b>	<b>2003</b>
<b>Cash flows from operating activities</b>		
Receipts from customers and users	\$ 9,238,824	\$ 6,284,817
Payments to suppliers	(353,557)	(317,472)
Payments for interfund services used	-	(932,427)
<b>Net cash provided by (used in) operating activities</b>	<b>\$ 8,885,267</b>	<b>\$ 5,034,918</b>
<b>Cash flows from noncapital financing activities</b>		
Proceeds from bond and note issued	\$ 2,475,000	\$ 3,300,000
Transfers from other funds	1,724,376	1,729,097
Principal paid on bonds and notes	(8,435,000)	(5,905,000)
Interest paid on bonds and notes	(4,344,618)	(4,551,347)
<b>Net cash provided by (used in) noncapital financing activities</b>	<b>\$ (8,580,242)</b>	<b>\$ (5,427,250)</b>
<b>Cash flows from investing activities</b>		
Purchase of investments	\$ (2,044,082)	\$ (2,522,871)
Sale of investments	1,921,082	9,278,049
<b>Net cash provided by (used in) investing activities</b>	<b>\$ (123,000)</b>	<b>\$ 6,755,178</b>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	<b>\$ 182,025</b>	<b>\$ 6,362,846</b>
<b>Cash and Cash Equivalents - January 1</b>	<b>20,260,336</b>	<b>13,897,490</b>
<b>Cash and Cash Equivalents - December 31</b>	<b>\$ 20,442,361</b>	<b>\$ 20,260,336</b>
<b>Reconciliation of operating income to net cash provided by (used in) operating activities</b>		
Income before transfers	\$ (1,417,514)	\$ (500,839)
Adjustments to reconcile income before operating transfers to net cash provided by (used in) operating activities		
Interest expense	4,312,092	4,530,149
Increase in fair value of investments	(205,875)	(680,193)
(Increase) decrease in administrative fees and lease payments receivable	-	9,162
(Increase) decrease in accrued interest receivable	(14,469)	58,442
(Increase) decrease in notes receivable	2,970,000	625,000
(Increase) decrease in capital leases receivable	3,333,618	2,220,100
(Increase) decrease in receivables from other agency funds	34,580	(932,427)
Increase (decrease) in accounts payable	2,740	(7,139)
Increase (decrease) in deposits held for others	(472,093)	(231,743)
Increase (decrease) in unearned revenue	342,188	(55,594)
<b>Net Cash Provided by (Used in) Operating Activities</b>	<b>\$ 8,885,267</b>	<b>\$ 5,034,918</b>

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

NOTES TO THE FINANCIAL STATEMENTS  
AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003

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1. Organization and Purpose

*Establishment of the Agency* - 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, draws under a \$10,000,000 letter of credit, 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 (GASB) pronouncements.

*Lease Agreements* - The CPED 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 of the 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).

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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.

*Cash and Cash Equivalents* - Cash and short-term investments having original maturities of less than 90 days are classified as cash and cash equivalents.

*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

Substantially all 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 are held by the bank's trust department in the name of GARFS or the CPED (GASB Statement No. 3, *Credit Risk Category 1*). All uninvested cash deposits are federally insured.

Investments as of December 31 are as follows:

	2004		2003	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Pooled investments	\$ 1,199,636	\$ 1,199,636	\$ 1,248,129	\$ 1,251,113
Municipal bonds	15,062,219	19,319,533	15,137,432	19,090,196
Federal agency obligations	1,592,100	1,567,017	2,215,798	2,237,456
Other federal obligations	2,556,003	2,533,512	1,685,599	1,712,058
Guaranteed investment contracts	841,740	841,740	841,740	841,740
Total	<u>\$ 21,251,698</u>	<u>\$ 25,461,438</u>	<u>\$ 21,128,698</u>	<u>\$ 25,132,563</u>

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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, 2004 and 2003, with fair values of \$19,319,533 and \$19,013,352 at December 31, 2004 and 2003, respectively, with maturities of six 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 expires July 19, 2008. Pursuant to the Supplemental Bond Resolution, GARFS has a covenant to renew or to accumulate \$20,000,000 in the IDB account. As of December 31, 2004 and 2003, GARFS' IDB account balance exceeds this requirement.

Under the letter of credit agreements, one of the covenants for the CPED and GARFS is to maintain funds in the IDB account until the amount accumulates to 20 percent of the principal amount of outstanding bonds, notwithstanding provisions in the Supplemental Bond Resolution, which may permit earlier discretionary withdrawals. As of December 31, 2004 and 2003, there were no amounts outstanding against the letter of credit.

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, 2004:



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4. Bonded Debt Security (Continued)

The Lakes Limited Partnership	\$ 463,635
Diversified Graphics	184,281
NICO Properties	416,262
Pajor & Associates	126,562
Resources, Inc.	142,500
Discount Steel	246,162
Bridgerail Properties	<u>249,313</u>
Total	<u>\$ 1,828,715</u>

*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 and 17)

A summary of long-term activity for the years ended December 31, 2004 and 2003, is as follows:

	2004	2003
Development Revenue Bonds		
Payable - January 1	\$ 73,755,000	\$ 76,360,000
Issued	2,475,000	3,300,000
Retired	<u>(8,435,000)</u>	<u>(5,905,000)</u>
Payable - December 31	<u>\$ 67,795,000</u>	<u>\$ 73,755,000</u>
Due Within One Year	<u>\$ 3,080,000</u>	<u>\$ 3,215,000</u>

6. Related - Party Transactions

The CPED contributed \$1,854,376 in 2004 and \$1,859,097 in 2003 in support of GARFS, which includes net operating transfers of \$1,724,376 in 2004 and \$1,729,097 in 2003; and these amounts are reflected as transfers in the Statement of Revenues, Expenses, and Changes in Net Assets. The primary source of support not reflected as transfers relates to principal payments on debt.

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6. Related - Party Transactions (Continued)

In addition to the transactions discussed above, the CPED carried out certain transactions with developers, as follow:

*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 \$118,360 and \$119,406 in 2004 and 2003, respectively.

7. Industrial Development Bond Account

Within GARFS, there is an IDB account. Funds are remitted to this account as specified in the Common Bond Fund Resolutions. The 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 \$32,415,569 and \$31,633,372 as of December 31, 2004 and 2003, respectively.

8. Receivables From Other City Funds

	<u>2004</u>	<u>2003</u>
Theatre Project		
Principal payments due	\$ 22,225,000	\$ 22,225,000
Unexpended construction funds	(1,514,799)	(1,564,404)
Reserve deposit	<u>(2,673,992)</u>	<u>(2,670,521)</u>
Total Theatre Project	<u>\$ 18,036,209</u>	<u>\$ 17,990,075</u>
Stimson Building		
Principal payments due	\$ 5,750,000	\$ 5,835,000
Unexpended construction funds	(1,162,272)	(1,167,729)
Reserve deposit	<u>(902,060)</u>	<u>(900,889)</u>
Total Stimson Building	<u>\$ 3,685,668</u>	<u>\$ 3,766,382</u>
Less: current maturities	<u>\$ (95,000)</u>	<u>\$ (85,000)</u>
Total	<u>\$ 21,626,877</u>	<u>\$ 21,671,457</u>

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8. Receivables From Other City Funds (Continued)

*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.

*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 18 and 19.

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 as follows:

<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
Winslow Printing Company I	July 21, 2003	December 1, 2003
Winslow Printing Company II	July 21, 2003	December 1, 2003
7-Sigma, Inc.	October 28, 2003	December 1, 2003
Ronshar Properties	October 29, 2003	December 1, 2003
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

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

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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, 2004**

	Interest Rate	Issue Date	Final Maturity Date	Bonds and Notes			Principal Due in 2005	Interest Due in 2005
				Issued	Retired	Outstanding		
General Agency Reserve Fund System								
Shaw Acquisition Corporation II	10.40%	07-01-87	02-01-07	\$ 945,000	\$ 660,000	\$ 285,000	\$ 85,000	\$ 29,640
The Lakes Limited Partnership	10.35%	09-01-90	02-01-10	3,825,000	1,850,000	1,975,000	255,000	204,412
Diversified Graphics	6.75% to 10.00%	06-01-92	12-01-12	1,660,000	955,000	705,000	120,000	61,137
Precision Tapes, Inc.	4.70% to 6.50%	11-01-93	06-01-13	2,100,000	1,270,000	830,000	70,000	51,219
NICO Properties	5.60% to 6.80%	07-01-95	02-01-24	4,650,000	1,205,000	3,445,000	180,000	231,233
Carlson Companies	4.85% to 6.00%	03-01-96	02-01-11	8,370,000	3,905,000	4,465,000	585,000	255,665
Halper Box	5.10% to 6.15%	04-01-97	06-01-17	2,400,000	555,000	1,845,000	100,000	109,033
Ambassador Press	5.10% to 6.20%	05-01-97	06-01-17	4,600,000	1,570,000	3,030,000	275,000	179,335
Shaw Refunding	4.90% to 5.40%	04-01-97	06-01-05	1,365,000	1,195,000	170,000	170,000	4,590
Baker Bearing	5.10% to 6.20%	05-01-97	12-01-17	2,900,000	670,000	2,230,000	120,000	133,010
Laurel Village Alden Limited Partnership II	4.30% to 5.75%	10-01-97	06-01-27	2,515,000	265,000	2,250,000	50,000	125,420
100 East 22nd Associates - A	4.00% to 5.50%	10-01-97	06-01-12	2,820,000	1,020,000	1,800,000	200,000	93,315
Cord Sets	4.10% to 5.50%	07-01-98	06-01-18	1,500,000	300,000	1,200,000	60,000	62,048
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	405,000	595,000	105,000	134,281
Pajor and Associates	4.75% to 6.75%	03-01-00	12-01-25	1,505,000	120,000	1,385,000	35,000	90,395
Resource, Inc.	4.65% to 6.00%	08-01-00	12-01-20	1,650,000	210,000	1,440,000	60,000	81,573
Elmer Enterprises Refunding	3.90% to 5.875%	04-01-01	06-01-19	2,395,000	280,000	2,115,000	100,000	117,840
Theatres Project	5.35% to 5.45%	10-01-01	12-01-31	22,225,000	-	22,225,000	-	1,205,898
Stimson Building	5.80%	10-01-01	12-01-06	6,000,000	250,000	5,750,000	95,000	333,500
Bridgerail Properties	4.31 to 7.00%	09-01-02	06-01-22	2,750,000	165,000	2,585,000	90,000	159,313
Kristol Properties	2.45% to 5.12%	11-20-03	12-01-23	3,300,000	205,000	3,095,000	220,000	132,815
Infinite Graphics	2.25% to 5.50%	07-14-04	12-01-24	2,475,000	-	2,475,000	105,000	118,819
<b>Total Outstanding Development Revenue Bonds</b>				<b>\$ 84,850,000</b>	<b>\$ 17,055,000</b>	<b>\$ 67,795,000</b>	<b>\$ 3,080,000</b>	<b>\$ 3,914,491</b>
<b>2003 Amounts</b>				<b>\$ 90,230,000</b>	<b>\$ 16,475,000</b>	<b>\$ 73,755,000</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, 2004**

	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010-2014</u>	<u>2015-2019</u>	<u>2020-2024</u>	<u>2025-2029</u>	<u>2030-2034</u>	<u>Total</u>
Shaw Acquisition Corporation II	\$ 85,000	\$ 100,000	\$ 100,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 285,000
The Lakes Limited Partnership	255,000	280,000	310,000	340,000	375,000	415,000	-	-	-	-	1,975,000
Diversified Graphics	120,000	105,000	110,000	65,000	65,000	240,000	-	-	-	-	705,000
Precision Tapes, Inc.	70,000	75,000	80,000	85,000	90,000	430,000	-	-	-	-	830,000
NICO Properties	180,000	195,000	205,000	220,000	235,000	560,000	775,000	1,075,000	-	-	3,445,000
Carlson Companies	585,000	620,000	650,000	690,000	735,000	1,185,000	-	-	-	-	4,465,000
Halper Box	100,000	105,000	110,000	115,000	120,000	735,000	560,000	-	-	-	1,845,000
Ambassador	275,000	290,000	310,000	325,000	345,000	945,000	540,000	-	-	-	3,030,000
Shaw Refunding	170,000	-	-	-	-	-	-	-	-	-	170,000
Baker Bearing	120,000	125,000	130,000	140,000	150,000	890,000	675,000	-	-	-	2,230,000
Laurel Village Alden Limited Partnership II	50,000	50,000	55,000	55,000	60,000	355,000	480,000	645,000	500,000	-	2,250,000
100 East 22nd Associates - A	200,000	210,000	225,000	235,000	245,000	685,000	-	-	-	-	1,800,000
Cord Sets	60,000	65,000	65,000	70,000	75,000	430,000	435,000	-	-	-	1,200,000
Discount Steel (A)	-	-	-	-	-	835,000	1,065,000	-	-	-	1,900,000
Discount Steel (B)	105,000	110,000	120,000	125,000	135,000	-	-	-	-	-	595,000
Pajor & Associates	35,000	35,000	40,000	40,000	40,000	250,000	350,000	480,000	115,000	-	1,385,000
Resource, Inc.	60,000	60,000	65,000	70,000	70,000	425,000	560,000	130,000	-	-	1,440,000
Elmer Enterprises Refunding	100,000	105,000	110,000	115,000	120,000	685,000	880,000	-	-	-	2,115,000
Theatres Project (Pantages)	-	-	-	-	-	1,000,000	2,705,000	5,110,000	8,705,000	4,705,000	22,225,000
Stimson Building	95,000	5,655,000	-	-	-	-	-	-	-	-	5,750,000
Bridgerail properties	90,000	90,000	95,000	100,000	105,000	615,000	835,000	655,000	-	-	2,585,000
Kristol Properties	220,000	230,000	235,000	240,000	140,000	790,000	615,000	625,000	-	-	3,095,000
Infinite Graphics	105,000	110,000	110,000	115,000	120,000	675,000	535,000	705,000	-	-	2,475,000
<b>Total principal payments</b>	<b>\$ 3,080,000</b>	<b>\$ 8,615,000</b>	<b>\$ 3,125,000</b>	<b>\$ 3,145,000</b>	<b>\$ 3,225,000</b>	<b>\$ 12,145,000</b>	<b>\$ 11,010,000</b>	<b>\$ 9,425,000</b>	<b>\$ 9,320,000</b>	<b>\$ 4,705,000</b>	<b>\$ 67,795,000</b>
<b>Total interest payments</b>	<b>3,914,491</b>	<b>3,734,747</b>	<b>3,223,363</b>	<b>3,026,113</b>	<b>2,828,873</b>	<b>11,508,256</b>	<b>8,336,913</b>	<b>5,455,164</b>	<b>2,856,860</b>	<b>394,308</b>	<b>45,279,088</b>
<b>Total Maturities</b>	<b>\$ 6,994,491</b>	<b>\$ 12,349,747</b>	<b>\$ 6,348,363</b>	<b>\$ 6,171,113</b>	<b>\$ 6,053,873</b>	<b>\$ 23,653,256</b>	<b>\$ 19,346,913</b>	<b>\$ 14,880,164</b>	<b>\$ 12,176,860</b>	<b>\$ 5,099,308</b>	<b>\$ 113,074,088</b>

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

**SCHEDULE OF CAPITALIZED LEASES AND NOTES RECEIVABLE  
DECEMBER 31, 2004**

	<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	\$ 345,840	\$ 60,840	\$ 285,000	\$ -	\$ 285,000	\$ 85,000	\$ 200,000
The Lakes Limited Partnership	2,748,145	773,145	1,975,000	-	1,975,000	255,000	1,720,000
Diversified Graphics	981,200	276,200	705,000	-	705,000	120,000	585,000
Precision Tapes, Inc.	1,095,903	265,903	830,000	-	830,000	70,000	760,000
NICO Properties	5,976,057	2,531,057	3,445,000	-	3,445,000	180,000	3,265,000
Halper Box	2,670,639	825,639	1,845,000	50,180	1,794,820	100,000	1,694,820
Ambassador Press	4,081,830	1,051,830	3,030,000	-	3,030,000	275,000	2,755,000
Shaw Refunding	174,590	4,590	170,000	-	170,000	170,000	-
Baker Bearing	3,235,985	1,005,985	2,230,000	-	2,230,000	120,000	2,110,000
Laurel Village Alden Limited Partnership II	4,102,170	1,852,170	2,250,000	-	2,250,000	50,000	2,200,000
100 East 22nd Associates - A	2,216,320	416,320	1,800,000	-	1,800,000	200,000	1,600,000
Cord Sets	1,710,209	510,209	1,200,000	-	1,200,000	60,000	1,140,000
Discount Steel - A	2,482,838	582,838	1,900,000	-	1,900,000	-	1,900,000
Discount Steel - B	1,139,950	544,950	595,000	-	595,000	105,000	490,000
Pajor and Associates	2,608,190	1,223,190	1,385,000	-	1,385,000	35,000	1,350,000
Resource, Inc.	2,249,743	809,743	1,440,000	-	1,440,000	60,000	1,380,000
Elmer Enterprises Refunding	3,198,344	1,083,344	2,115,000	-	2,115,000	100,000	2,015,000
Bridgerail Properties	4,402,794	1,817,794	2,585,000	-	2,585,000	90,000	2,495,000
Kristol Properties	4,441,998	1,346,998	3,095,000	737,714	2,357,286	220,000	2,137,286
Infinite Graphics	3,889,113	1,414,113	2,475,000	1,056,231	1,418,769	105,000	1,313,769
	<b>\$ 53,751,858</b>	<b>\$ 18,396,858</b>	<b>\$ 35,355,000</b>	<b>\$ 1,844,125</b>	<b>\$ 33,510,875</b>	<b>\$ 2,400,000</b>	<b>\$ 31,110,875</b>
<b>Total capitalized leases</b>							
<b>Notes Receivable</b>							
Carlson Companies	5,450,170	985,170	4,465,000	-	4,465,000	585,000	3,880,000
	<b>\$ 59,202,028</b>	<b>\$ 19,382,028</b>	<b>\$ 39,820,000</b>	<b>\$ 1,844,125</b>	<b>\$ 37,975,875</b>	<b>\$ 2,985,000</b>	<b>\$ 34,990,875</b>
<b>Total Capitalized Leases and Notes Receivable</b>							
<b>2003 Amounts</b>					<b>\$ 44,279,493</b>	<b>\$ 3,130,000</b>	<b>\$ 41,149,493</b>

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

**CAPITALIZED LEASES AND NOTES RECEIVABLE MATURITIES, INCLUDING INTEREST  
DECEMBER 31, 2004**

	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010-2014</u>	<u>2015-2019</u>	<u>2020-2024</u>	<u>2025-2029</u>	<u>Total</u>
<b>Capitalized Leases</b>										
Shaw Acquisition Corporation II	\$ 114,640	\$ 120,800	\$ 110,400	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 345,840
The Lakes Limited Partnership	459,412	458,020	459,040	456,955	456,765	457,953	-	-	-	2,748,145
Diversified Graphics	181,137	157,588	154,975	102,000	95,500	290,000	-	-	-	981,200
Precision Tapes, Inc.	121,219	121,821	121,925	121,563	120,875	488,500	-	-	-	1,095,903
NICO Properties	411,233	414,307	411,389	412,807	413,233	1,303,424	1,305,164	1,304,500	-	5,976,057
Halper Box	209,033	208,135	206,792	205,098	203,047	1,025,337	613,197	-	-	2,670,639
Ambassador Press	454,335	451,820	453,220	448,535	447,765	1,234,695	591,460	-	-	4,081,830
Shaw Refunding	174,590	-	-	-	-	-	-	-	-	174,590
Baker Bearing	253,010	250,660	248,010	249,910	251,210	1,243,550	739,635	-	-	3,235,985
Laurel Village Alden Limited Partnership II	175,420	173,020	175,570	172,820	175,015	878,303	891,527	902,070	558,425	4,102,170
100 East 22nd Associates - A	293,315	293,618	298,150	295,912	292,850	742,475	-	-	-	2,216,320
Cord Sets	122,048	124,171	121,116	122,892	124,394	610,950	484,638	-	-	1,710,209
Discount Steel - A	-	-	-	-	48,831	1,223,188	1,210,819	-	-	2,482,838
Discount Steel - B	239,281	237,025	239,262	235,994	188,388	-	-	-	-	1,139,950
Pajor and Associates	125,395	123,488	126,562	124,322	122,023	618,663	624,912	620,062	122,763	2,608,190
Resource, Inc.	141,573	138,632	140,633	142,350	138,780	706,525	703,450	137,800	-	2,249,743
Elmer Enterprises Refunding	217,840	218,240	218,305	217,970	217,220	1,067,206	1,041,563	-	-	3,198,344
Bridgerail Properties	249,313	245,434	246,447	246,650	246,012	1,224,638	1,218,425	725,875	-	4,402,794
Kristol Properties	352,815	355,885	351,972	348,180	240,980	1,211,353	873,556	707,257	-	4,441,998
Infinite Graphics	223,819	226,456	223,431	224,856	225,688	1,118,688	820,725	825,450	-	3,889,113
<b>Total capitalized lease maturities</b>	<b>\$ 4,519,428</b>	<b>\$ 4,319,120</b>	<b>\$ 4,307,199</b>	<b>\$ 4,128,814</b>	<b>\$ 4,008,576</b>	<b>\$ 15,445,448</b>	<b>\$ 11,119,071</b>	<b>\$ 5,223,014</b>	<b>\$ 681,188</b>	<b>\$ 53,751,858</b>
<b>Notes Receivable</b>										
Carlson Companies	840,665	841,740	835,265	836,400	839,400	1,256,700	-	-	-	5,450,170
<b>Capital Lease and Note Maturities</b>	<b>\$ 5,360,093</b>	<b>\$ 5,160,860</b>	<b>\$ 5,142,464</b>	<b>\$ 4,965,214</b>	<b>\$ 4,847,976</b>	<b>\$ 16,702,148</b>	<b>\$ 11,119,071</b>	<b>\$ 5,223,014</b>	<b>\$ 681,188</b>	<b>\$ 59,202,028</b>
<b>Total Ca</b>										





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PATRICIA ANDERSON  
STATE AUDITOR

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## **REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING 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, 2004, and have issued our report thereon dated March 11, 2005. 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 11, 2005



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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, 2004, and have issued our report thereon dated March 11, 2005. 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), 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  
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End of Fieldwork: March 11, 2005