Minneapolis
City of Lakes

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May 31, 2001

Mayor Sharon Sayles Belton,
Council President Jackie Cherryhomes,
City Council Members,
And Citizens Of the City of Minneapolis, Minnesota

TRANSMITTAL

We are pleased to present the Comprehensive Annual Financial Report (CAFR) for the City of Minneapolis for the year ended December 31, 2000. The purpose of the report is to provide the Mayor, City Council, City Staff, citizens, bondholders, and other interested parties with useful information concerning the City's operations and financial position. The City is responsible for the accuracy, completeness, and fairness of the data presented in this report.

To the best of our knowledge, the following report is accurate in all material respects. It has been prepared in accordance with standards prescribed by the Governmental Accounting Standards Board (GASB), the Government Finance Officer Association of the United States and Canada (GFOA) and other rule-making bodies. We believe the report contains all disclosures necessary for the reader to understand the City's financial affairs.

THE REPORT

This report consists of three sections. Section I, the introductory section, contains the Table of contents, this transmittal letter, and other general interest material. Section II, the financial section, contains the auditor's opinion, the City's general purpose financial statements, notes to the financial statements, and detailed combining and individual statements and schedules for the City's funds and account groups. Section III, the statistical section, includes a ten-year history of financial and non-financial data that give a context in which to understand the City's financial statements.

STEWARDSHIP

The City prepares financial reports to promote *accountability*. The City's elected officials are accountable to the citizens; City management is accountable to the elected officials. This report gives citizens and other interested parties one means of assessing whether the elected and appointed officials in the City have faithfully carried out their role of being good stewards of the City's resources.

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Affirmative Action Employer

Internal Controls: The City's management is responsible for establishing a system of internal controls to:

1) Safeguard City assets from loss or unauthorized use or disposal.

2) Provide reliable financial records for preparing internal and external financial reports and for maintaining accountability over City assets.

3) Ensure compliance with applicable Federal and State laws and regulations related to programs for which the City receives assistance.

No system of internal controls can be perfect. Therefore, internal controls are meant to provide "reasonable assurance". Reasonable assurance means:

1) The cost of a control should not exceed the benefits likely to be derived from that control.

2) The costs and benefits of internal controls are subject to estimates and judgements by management.

We believe that the City's internal controls reasonably safeguard assets, assure that financial transactions are properly recorded and reported, and ensure compliance with applicable Federal and State laws and regulations.

As the City's governing board, the Mayor and City Council are responsible to:

1) Ensure that the City administration fulfills its responsibilities in the preparation of the financial statements;

2) Review the scope of the City's audits and the accounting principles applied in the City's financial reporting.

To ensure independence, the Office of the State Auditor has full and free access to meet with the City Council to discuss the results of their assessment of the adequacy of internal accounting controls and the quality of the City's financial reporting.

Budgetary Controls: In addition to its system of internal controls the City maintains a system of budgetary controls. Budgetary controls assure compliance with the City Council's approved budget. Annually, the City adopts budgets on a basis consistent with generally accepted accounting principles (GAAP) for its General Fund and Special Revenue funds. Capital projects funds adopt project-length budgets. Debt service expenditures are controlled through bond ordinances.

The legal level of budgetary control is the agency (department) level. Budgetary amendments at the department level within funds must be approved by the City Council. Appropriations lapse at year-end.

Spending control is maintained by an encumbrance system. Purchase orders, contracts, and other commitments are recorded within the City's accounting system as encumbrances. Encumbrances reserve appropriation authority. Purchase orders and contracts are pre-audited for appropriation authority through the system. Orders that exceed appropriated balances are not released until funded or approved. Encumbrances outstanding at the end of the year are reported as reservations of fund balance and do not represent GAAP expenditures.

THE CITY AND ITS SERVICES

Physical Description

The City of Minneapolis, located in Hennepin County, is the largest city in Minnesota and serves as the center of finance, industry, trade, and transportation for the Upper Midwest region of the United States.

Minneapolis is 59 square miles, including five square miles of inland water. The City drapes along the banks of the nation's largest river, the Mississippi. Minneapolis is known as "The City of Lakes" featuring 22 lakes and 170 city parks. The Minneapolis Park System is one of the City's most prized assets.

There are 81 residential neighborhoods within in the City offering a broad range of housing to 161,000 households. Minneapolis has more than thirty theaters; the Guthrie Theater and the Children's Theatre Company are recognized as two of the country's best. The City boasts two world-class art museums and is home to the internationally acclaimed Minnesota Orchestra.

Minneapolis is home to an estimated 382,600 people (2000 Census data). According to 2000 Census data, the population within the City grew by 3.9 *per cent* from 1990 to 2000. Persons of color comprise an estimated 30.5 *per cent* of the City's population.

Minneapolis, as the major city within the larger metropolitan area, enjoys a strong and highly diverse business foundation of companies involved in manufacturing supercomputers, electronics, medical instruments, milling, machine manufacturing, food processing and graphic arts. In addition, with seven hospitals and the University of Minnesota, Minneapolis is a nationally known medical center that produces many high technology medical products.

Form of Government and Organization

The City is a municipal corporation governed by a Mayor–Council form of government; it was incorporated in 1867, and it adopted a Charter on November 2, 1920. The Mayor and 13 City Council Members from individual wards are elected for terms of four years, without limit on the number of terms that may be served.

City Council

As provided in the City Charter, the City Council governs Minneapolis through its legislative, administrative, and financial power over City functions. The Council levies taxes, enacts ordinances and resolutions, licenses businesses, and exercises budgetary and policy control over City departments.

Council members represent the interests of their constituents. They respond to inquiries, suggestions and complaints regarding City programs and services and meet regularly with constituents to discuss developments affecting the ward that they represent, and the city as a whole.

Mayor

The Mayor is responsible for a variety of leadership duties, including: appointing representatives to a variety of agencies and commissions, nominating department head candidates for Executive Committee and Council approval, proposing the annual operating and capital budgets, and reviewing, approving, or vetoing all Council actions.

Departments

The City organizes itself by departments, which are managed by department heads (see City of Minneapolis organization chart at the end of this transmittal letter). These City departments provide a broad range of services including: police; fire; health and family support services; public works; assessment of property; attorney services; civil rights; planning; regulatory services; and management support services.

City of Minneapolis Goals provide a foundation for setting priorities, dedicating time, and expending resources. With these goals, elected officials and appointed department heads, as well as city staff, focus on the same set of priorities and concerns. The adopted City Goals for 2001 were as follows:

Build Community

- Increase safety and confidence in the City of Minneapolis through effective and efficient law enforcement and prosecution, and criminal justice reform.
- Strengthen the participation of all citizens, including children, in the economic and civic life of the community.
- Reduce the negative environmental impacts of the Airport while maintaining its economic benefits to the people who live, work and play in Minneapolis.

Strengthen Markets

- Increase the City's population and tax base by developing and supporting housing choices citywide through preservation of

Notable Achievements by Minneapolis and Minnesota

- Minneapolis-St.Paul is the **ninth largest "Cyber City" in the country**, with 4,042 high-tech establishments in the metro region, ranking it eighth best in the nation. (American Electronics Association, 2000)
- According to an August 2000 Sales and Marketing Management Report, Minneapolis-St. Paul **Buying Power Index is the eleventh best nation-wide** and the Median Household EBI (Effective Buying Income) is $47,002, indicating a strong consumer base in the region.
- Minnesota is the **most livable state in America**. (Morgan Quitno Press, 1999)
- Minnesota has the **highest percentage of residents owning their own homes** --75%-- than any other state in America. (Twin Cities Metro Report, 1999-2000)
- Fortune magazine annually ranks the Twin Cities among the **top four places in the nation to balance business and family**. (2000)

existing housing and new construction.

- Position the City in the world marketplace to grow our diverse, resilient economy.
- Create strong vital commercial corridors citywide through mixed-use development, including a variety of businesses and creative housing.
- Make downtown a great place to live, work, play and do business.

Keep the City Clean and Healthy

- Improve public transportation to get people to jobs, school, fun and other daily activities.
- Preserve, enhance and create a substantial natural and historic environment citywide.
- Strengthen our City through infrastructure investments.
- Provide Strong Leadership and Management
- Provide an efficient, effective, results-oriented City government that has a clearly defined role in relationship to other levels of government.

THE REPORTING ENTITY

The City organizes it financial activities in a variety of funds and account groups. In accordance with GASB Statement No. 14, the City's financial statements include all funds and account groups of the City ("primary government") as well as its component units. The primary government represents all funds and account groups under the ultimate control of the Mayor and City Council. Component units are separate legal entities. While legally separate, component units are part of City government *in substance*. The City's financial statements would be misleading without incorporating component unit information.

Component units are reported as if they were an integral part of the City ("blended") if they meet one of two criteria:

1) The governing board of the component is "substantively the same" as the primary government's board.

2) The component serves the primary government exclusively or almost exclusively.

The Minneapolis Community Development Agency (MCDA) is blended with the City because the City Council exercises effective control of the MCDA's governing board. In fact, the City Council is the MCDA's governing board. Other entities blended with the primary government are the Board of Estimate and Taxation (BET) and the Municipal Building Commission (MBC). The BET and MBC provide services almost entirely to the City.

Some component units are reported in a separate column of the City's financial statement set apart from the rest of the primary government. Units are discretely presented in the financial statements because, while the City is financially accountable for them, they do not meet the criteria for blending noted above. The Minneapolis Library Board and the Minneapolis Park and Recreation Board are discretely presented components in the City's financial statements.

ECONOMIC CONDITION AND OUTLOOK

- Both the U.S. and the local economy performed well in calendar year 2000, though in the later half of the year the national economy began to show signs of slowdown and weakness.

- Most economists, as well as others, are predicting much slower growth in the national economy in 2001 but not a recession - followed by possible modest growth with low inflation.

- The nation's economic slowdown will certainly impact the local economy - as companies begin to see slower growth in profits compared to recent years - slowing employment growth and a potential softening of the local real estate boom of recent years.

Recent Developments[1]

U.S. economic growth for calendar year 2000 exceeded most economists' expectations, extending the longest economic expansion since World War II. The national unemployment rate, 4 *per cent*, reached its lowest level in thirty years and real (inflation-adjusted) gross domestic product (GDP) grew at an impressive rate of 5.1 *per cent*. However, GDP and unemployment rate slowed considerably during the second half of 2000, as rising energy prices, downturn in corporate profits and a decline in the financial markets combined served to soften business investment and consumer demand. Inventories of many businesses began to rise, resulting in slow-down of manufacturing. Consumer confidence levels began to decline at the end of 2000, resulting in less retail sales.

Finally, with short-term interest rates gradually rising through calendar year 2000, yields on treasury bills began to exceed those on long-term Treasury bonds, a relationship known as "an inverted yield curve" often evident when the national economy is either slowing sharply or entering a recession.

First quarter 2001, performance proved greater than anticipated. During first quarter 2001, the GDP grew at an annual rate of 2 *per cent*. While less than prior year rate of growth it was still faster than most economists were expecting. The first quarter growth in GDP made it official that the U.S. economy has expanded for an unprecedented ten straight years. Whether this expansion in the nation's economy will continue remains to be seen.

The local economic expansion in 2000 generally matched the nation's, if not stronger. Local unemployment rates for both the State of Minnesota and the metropolitan region were below the national average.

National Economic Outlook

Most economists are not predicting a recession for the nation's economy. The colder than average winter, combined with higher energy costs had a stinging affect on the nation's economy. The slowdown in the financial markets also caused consumers to show concern, and consumer demand began to fall at the end of 2000 and continued to decline during first quarter

[1] The information on recent economic development was extracted from the New York City Independent Budget Office's, *Analysis of the Mayor's Preliminary 2002 Budget Report, Economic Outlook Section.*

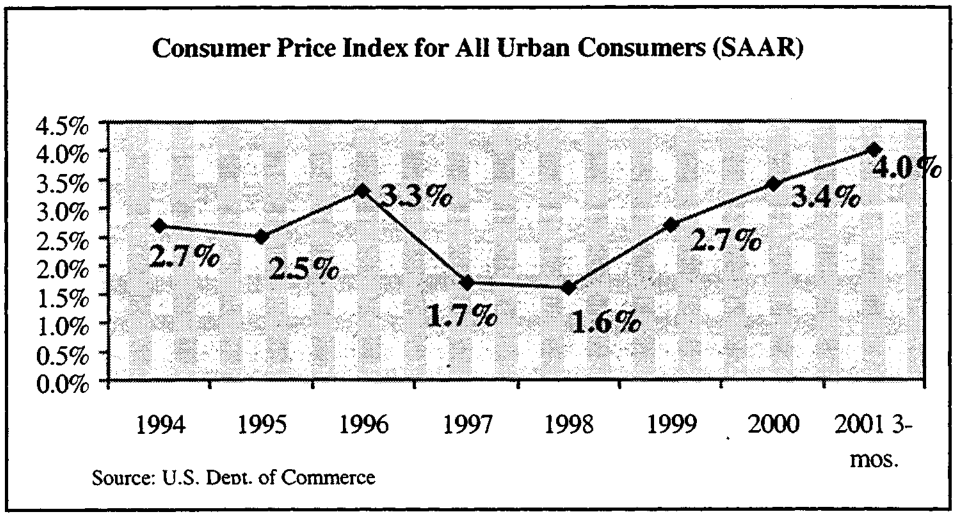
2001. However, although consumer demand has been falling, some sectors such as autos and housing have been resilient. It is noteworthy that although energy costs were rising, inflation for 2000 remained at a moderate rate of 3.4 *per cent.* The Federal Reserve has responded to the moderate growth in inflation by easing monetary policy.

Local Economic Outlook

The slowdown in the national economy has had some effect on the local economy, however there are signs of resilience. Local economists are forecasting continued expansion but with slower growth for the region. In addition, they are forecasting a tight labor market in the region, wage and price pressures, and mixed growth for industry sectors.

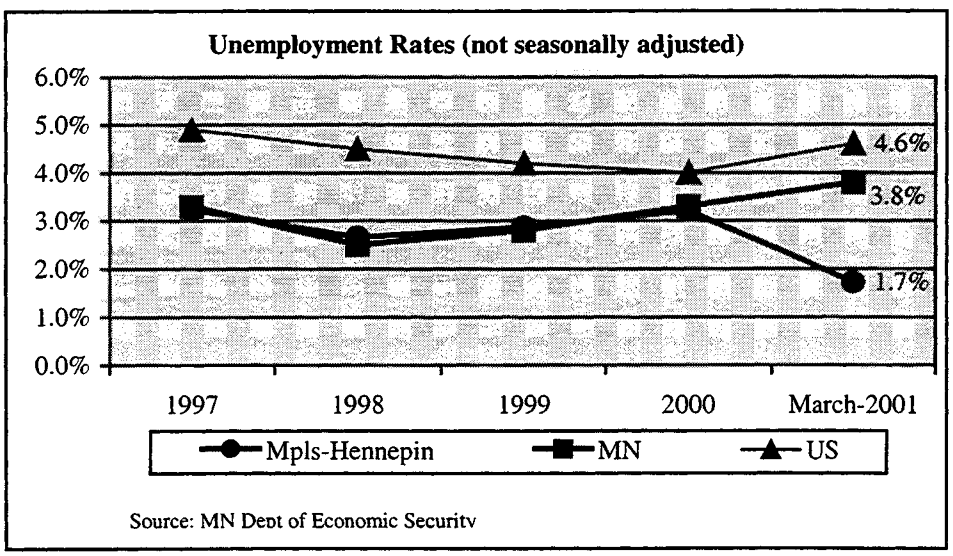
Inflation

For the first three months of 2001, the consumer price index for all urban consumers (CPI-U) advanced at a 4- *per cent* seasonally adjusted annual rate (SAAR). This compares with an increase of 3.4 *per cent* in all of 2000.



Unemployment

Minneapolis/Hennepin County's unemployment rate for March 2001 was 1.7 *per cent*, compared to 3.8 *per cent* for the State of Minnesota and 4.6 *per cent* for the United States for the same period (not seasonally adjusted). Minneapolis' workforce was estimated at 207,057 for March 2001 (MN Department of Economic Security). When the larger Minneapolis and St. Paul metropolitan region is taken into account (statistical area), including parts of Wisconsin, the unemployment rate for March-2001 was 2.8 *per cent* (based on a total estimated labor force of 1,718,349).

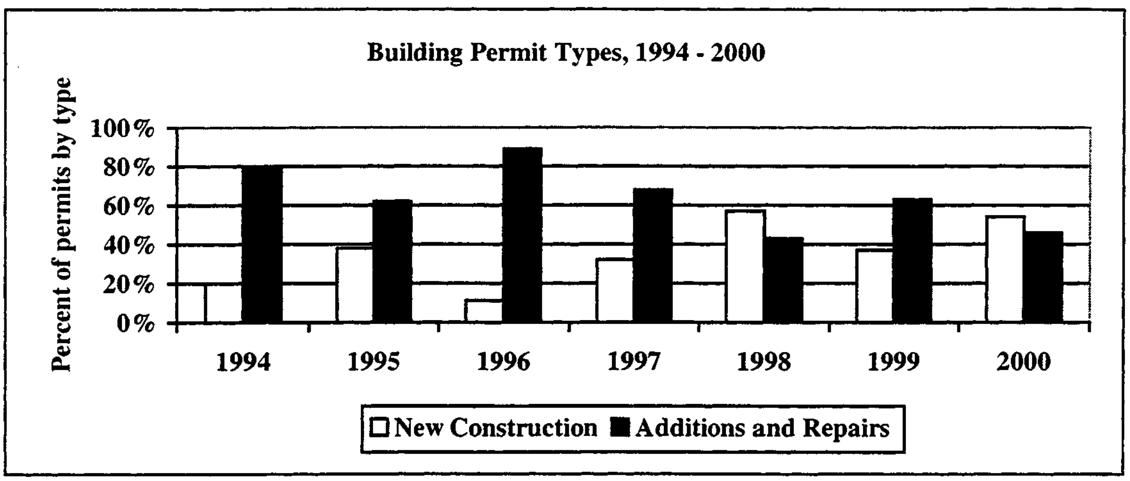


Construction Permits

Construction permit values can serve as a leading economic indicator. New construction and renovation can be a concrete sign of investor confidence in the economic climate of a city. From home renovations and additions, to small business expansions, to the development of multi-million dollar buildings by private and public funds, investments such as these in buildings of all types demonstrate the vitality of the construction market.

Year	Total Value of all Permits	Percentage Value: Additions and Repairs	Percentage Value: New Construction	Annual Change (Percent)
1994	$276,431,204	80%	20%	29%
1995	$322,424,505	62%	38%	17%
1996	$296,128,370	89%	11%	8%
1997	$483,825,940	68%	32%	50%
1998	$365,096,329	43%	57%	-25%
1999	$700,609,948	63%	37%	92%
2000	$978,371,997	46%	54%	40%

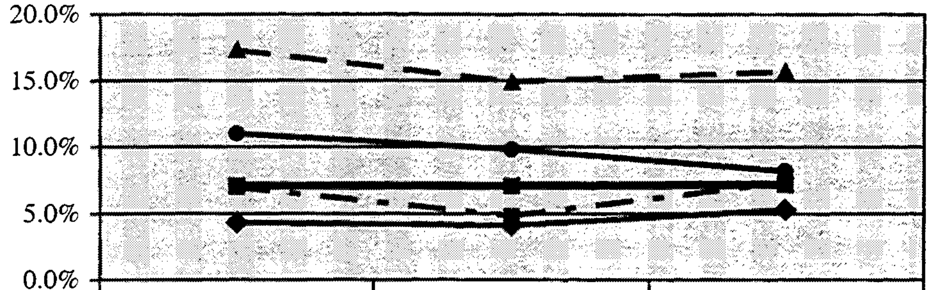
The chart below provides a comparison of building permits for new construction versus permits for additions and repairs. The balance between investment in new construction and reinvestment in existing properties demonstrates owner confidence in the City of Minneapolis.



Downtown Office Space – Vacancy Rate

According to information presented in the "2001 Towle Report", prepared by Colliers Towle Real Estate Company, the overall vacancy rate for downtown office space increased from 6.3 *per cent* to 7.2 *per cent*, from the sixth month period between second and fourth quarter 2000. Vacancies increased in all classifications, except renovated. The Minneapolis central business district (CBD) had 1.7 million sq. ft. under construction as of year-end 2000, plus the second Target Corp. headquarters building and third American Express (AMEX) building. The overall vacancy rate is projected to climb to the low teens by the end of 2001.

Vacancy Rates, Office Space 1998-2000



	1998	1999	2000
Class A	4.3%	4.1%	5.3%
Class B	7.0%	4.8%	7.4%
Class C	17.3%	14.9%	15.7%
Renovated	11.0%	9.8%	8.2%
Total Average	7.1%	7.1%	7.2%

Class A   Class B   Class C   Renovated   Total Average

Source: Towle Real Estate Company, 2000 Office Market Update

Explanation of Office Space Classifications:

Class A	Newer building in first class condition, décor, and design.
Class B	Seasoned buildings in good condition and generally over ten years old.
Class C	Older buildings of any size in average to poor condition.
Renovated	Buildings which have had a complete renovation, including all mechanical systems and exterior treatment.

Tax Base Growth

The City's tax base has maintained consistent annual growth in recent years, downtown is thriving with millions of square feet of office space under construction, and the City's continued commercial and industrial growth has created new jobs and fueled the tax base.

City of Minneapolis Property Values and Tax Capacity 1999 Values and Tax Capacity For Taxes Collected in 2000						
Group	Assessed Value	% of Total Value	% Chg. From Prior Yr	Tax Capacity	% of Total Tax Capacity	% Chg. From Prior Yr
Commercial	4,191,715,865	25.9%	5.6%	138,233,838	43.4%	2.4%
Industrial	902,210,885	5.6%	12.1%	29,294,101	9.2%	9.1%
Residential	9,581,195,110	59.2%	4.0%	118,884,070	37.3%	7.4%
Apartment	1,495,183,320	9.2%	13.0%	32,108,408	10.1%	9.6%
Other	9,397,400	0.1%	13.6%	153,388	0.0%	3.7%
Total	16,179,702,580	100.0%	5.6%	318,673,805	100.0%	5.5%

From 1996 to 2000, total assessed value of property in Minneapolis increased by 21.4 *per cent* from $12.7 billion to $16.2 billion.

Outlook for Development

Downtown: As stated, downtown continues the economic boom with office, commercial, residential and arts developments either being planned or under construction. The Light Rail Transit project gained final funding approval in 2000, which will influence future development in the downtown area for all types of development. Office space continues to increase with the American Express office tower that was completed and the American Express operations building that is under construction. The Target store and the Retek on the Mall office tower project is under construction. The office building 50 South 6th Street is under construction. Development plans for Block E are moving forward to include a movie theater complex and restaurants. Marquette Plaza (formerly the Federal Reserve Bank) is also under construction.

Arts and Education: In addition to downtown office construction, major education and arts developments are occurring in the downtown area. The Minnesota Historical Society Heritage Center is moving forward and the Mill Ruin Park is under construction. Open Book opened on Washington Avenue. Planning for a new Guthrie theatre site along the river continues. On the other side of downtown, St. Thomas University is extending its downtown campus. The Library referendum passed allowing for the development of a new downtown central library. Other projects continue such as the Avenue of the Arts and the Schubert Theater. Downtown housing development continues with the construction of East Village and Stone Arch Lofts. Klodt Tower has become the first approved apartment in the downtown core.

Neighborhoods. In addition to the boom in office development downtown, large numbers of other projects are underway in the neighborhoods. Office development included the Broadway Ridge Office Center and the Stinson Tech Campus. The former Bank's (retail) and the former Grainbelt Brewhouse are both changing to office space. Redevelopment of the Great Lake Commercial Center on Lake Street (formerly known as the Sears site) continues.

Residential. Residential development continues along Humboldt Avenue North where an ambitious project is underway that will include significant housing redevelopment along a new Greenway. Several large residential projects have been completed on the east bank surrounding the University of Minnesota. Other residential developments abound, in the warehouse district, along the waterfront, in the uptown area and throughout the city.

Public Use Facilities. Construction of a new public safety facility to augment the current Adult Detention Center housed on the fifth floor of City Hall is nearing completion. The YWCA sports facility located at 21st Avenue South and Lake Street has been completed. A major expansion to the Minneapolis Convention Center will be completed in early 2002.

Light Rail Transit Opportunities. Substantial planning efforts are underway along the Hiawatha corridor in anticipation of the development of the Twin Cities first light rail line traveling from downtown to Minneapolis-St. Paul International Airport and the Mall of America.

FINANCIAL MANAGEMENT POLICIES AND PRACTICES

The City of Minneapolis' financial management policies serve as framework for the overall fiscal management of the City and enable the City to maintain its financial stability. The policies serve as a foundation to address changing circumstances and conditions, and assist in the decision-making process. The financial policies represent guidelines for evaluating both current activities and proposals for future programs.

Revenue Management. The City strives to ensure that funding for public programs is derived from a fair, equitable, and adequate resource base, while minimizing tax differential burdens. Effort is placed on structuring and maintaining a stable revenue system to shelter programs and services from short-term fluctuations in any single revenue source. The City believes that services, which have a citywide benefit, should be financed with revenue sources that are generated from a broad base, such as property taxes and state aids. Services where the customer determines the use are financed mostly with user fees, charges and assessments directly related to the level of service provided.

Investment Management. The City maintains investment policies to ensure that all revenues received by the City are promptly recorded and deposited in designated depositories, and if not immediately required for payments of obligations, are placed in authorized investments earning interest income. The following objectives govern the City's investments, as listed in order of importance: safety; liquidity; yield; local considerations for financial institutions within the City; and maintaining the public trust. In addition, it is the policy of the City to diversify its investment portfolios.

Reserve Policies. The City strives to manage its finances to ensure that adequate reserves are available to provide resources for cash flow and contingency purposes, while maintaining reasonable tax rates. With respect to the City's General Fund, it is a financial goal of the City to maintain a 10 *per cent* reserve (undesignated fund balance). The 10 *per cent* balance represents an amount needed to avoid cash flow interruptions; to generate interest income; to avoid the need for short-term borrowing; and to assist in maintaining a triple-A bond rating. To the extent that unusual contingencies do exist as a result of state or federal aid uncertainties, salary settlement estimates, or other unknowns, a balance larger than this "base" amount would be evaluated. For all other funds of the City (not including the General Fund), it is the City's policy to maintain balances that reflect the nature of the accounts.

Use of Fund Balances. Available fund balances are not used for on-going operating expenditures, unless determination has been made that available balances are in excess of required guidelines and that plans have been established to address future operating budget shortfalls. Emphasis is placed on one-time uses that achieve future operating cost reductions.

Debt Management. Management of the City's debt involves consideration not only of the absolute amount of debt, but also attention to yearly trends in the relationship of the debt to other financial measures. It is important for the City to maintain its ability to incur present and future debt at minimal interest rates in amounts needed for infrastructure and economic development of the City without endangering the City's ability to finance essential City services. The City believes its debt management policies should support the following: maintain a balanced relationship between debt service requirements and current operating costs; encourage growth of the tax base; actively seek alternative funding sources; and minimize interest costs and maximize investment returns.

The City participates in a Joint Debt Committee to promote the exchange of information concerning the debt issuance plans of the participating governments. The City, the Minneapolis Special School District No. 1, and Hennepin County share in whole or in part the same property tax base. The actions of one government affect the same taxpayers. Therefore, to the degree that the governments are aware of each jurisdiction's capital financing plans means that the issuance of debt may be managed so as to minimize the impact on the property taxpayer. The Joint Debt Committee meets several times per year to develop a better perspective on the debt issuance levels for participating governments and to coordinate the amount and timing of future debt issues.

Operating Budget Policies. Through its established annual budget process, the City strives to maintain adequate service levels at a reasonable cost by following sound financial management and budgeting practices.

Capital Budget Polices. The City's is focused on trying to maintain its public infrastructure in the most cost-efficient manner within the available resources. The goal is to maintain physical assets at a level adequate to protect the City's capital investments and minimize future maintenance and replacement costs. To assist with this effort, the City prepares and adopts a five-year Capital Improvement Program (CIP), which details each capital project, the estimated cost and funding source. A priority system is used to rank and recommend projects. Operating expenditures are to be programmed to include the cost of implementing the CIP and are to reflect estimates of all associated personnel expenses and operating costs attributable to the capital outlays.

REVIEW OF THE CITY'S BUSINESS LINES

Applying the City's financial principles uniformly within a given economic environment should result in logical, predictable, outcomes. This financial report quantifies the results of past actions and decisions. While past results do not necessarily predict future results, they provide useful information for citizens, investors, and others about the mix, timing, and probability of the City's future cash-flows.

Internal Service Funds

The City of Minneapolis operates six internal service funds: Engineering materials and testing; Intergovernmental services; Property services; Permanent improvement equipment; Public works stores; and the Self-Insurance fund. Internal service funds operate like for-profit businesses: they charge user fees to recover the cost of operations and accumulate equity for various purposes. Unlike businesses, internal service funds do not sell significant amounts of goods and services to third parties. Instead, they have one, captive customer—the City government itself.

The financial condition of the Internal service funds represents a major financial challenge for the City; four of the six funds had material retained earnings deficits at year-end 2000, a total deficit for all funds of $68.5 million. For some period of time, rates charged to other city funds have been insufficient to recover costs. The rate of spending within these funds has outpaced the growth in revenue. As a result, the Funds have deteriorated financially.

In 2000, the Mayor and City Council adopted a multi-year financial plan for the Intergovernmental services fund, and a similar plan for the Permanent improvement equipment fund will be adopted in second-quarter 2001. These plans are available for review on-line at www.ci.minneapolis.mn.us, or by writing the City's Finance Officer.

Since 1999, the City has increased the annual revenue for the Internal Service Funds by $4.0 million, funded from property tax revenue increase. This additional funding has meant that rates charged to other city funds have been adjusted to closer reflect the actual cost of services provided. The City will continue to increase internal service charges or contribute other unrestricted funds until the Internal service fund revenues are sufficient to cover expenses. The City anticipates that revenues will exceed expenses by 2003. Negative cash balances within the Internal Service Funds are projected through 2008 according to adopted and pending financial plans.

Two major factors contributed to the total $19.9 million decline in the equity position of the Internal service funds from year-end 1999 to year-end 2000. The combined financial impact of these two major factors represent $16.4 million of the negative change in fund equity.

The first major factor was an $8.8 million legal settlement for which judgment bonds were issued in 2000. In 2000, the Mayor and City Council increased the City's property tax revenue to be collected in 2001 by $1.1 million to cover the annual debt service payments on ten-year bonds sold to satisfy the judgement. Property taxes will be transferred from the General Fund to the Self-Insurance Fund to pay for the debt service on these bonds. However, future property tax revenue is not shown as an asset (i.e., taxes receivable) within Internal Service Funds. Therefore, the bottom-line impact of recognizing the loss from the judgement was an $8.8 million reduction in retained earnings.

The second major factor was a $7.6 million increase in the unfunded self-insurance claims liability during 2000 (from $21.9 million to $29.5 million). Claims liabilities are reported when it is probable that a loss has occurred and the amount of the loss can reasonably be estimated. Liabilities include an amount for estimated claims administration expenses and an amount for claims that have been incurred but are not reported (see Note 25 for more detail). Prior to 2000 the City has not maintained an equity position to cover claims liability. Instead, the City has made decisions on funding at the time of settlement or pay out.

The City has shown a commitment to address the major challenge that exists within the Internal Service Funds and is confident that the financial plans that have been adopted and will be adopted will resolve the condition within an acceptable time period.

General Fund

The General Fund is the main operating fund for the City of Minneapolis. Most of the services generally associated with local government are at least partially financed through the General Fund. The General Fund pays for: police protection; fire protection; designing and maintaining roads and other infrastructure; enforcing health and building codes; and, providing the general administrative services necessary to running the business of government itself.

Revenue Analysis (in thousands):

Revenues and other Sources (by importance)	2000 Amended Budget	2000 Actual	1999 Actual	Percentage Incr./(Decr.) 1999 – 2000
Intergovernmental Revenue	87,978	88,475	85,638	3.3%
Property Tax	55,915	56,634	54,658	3.6%
Franchise Fees	20,020	21,594	19,679	9.7%
Licenses and Permits	16,097	19,243	16,938	13.6%
Charges for Service	15,259	17,252	17,917	(3.7%)
Fines and Forfeits	6,300	6,742	5,957	13.2%
Special Assessments	2,620	2,766	2,950	(6.2%)
Investment Income	1,453	2,705	1,200	125.4%
Miscellaneous Revenue	949	1,199	959	25.0%
Total Revenues	206,591	216,610	205,896	5.2%
Transfers in	14,338	26,280	24,884	5.6%
Total Revenues and other Sources	220,929	242,890	230,780	5.2%

Total General Fund revenues and other sources grew by 5.2 *per cent* or approximately $12 million in 2000 over 1999 levels. Total revenues and sources exceeded 2000 budget by almost $22 million or 10 *per cent.* Franchise fees, license and permit revenues, and transfers-in drove excess revenues over budget.

Franchise fees are charged to certain utilities that operate within the public right of way. The City's franchise fees are based on a percentage of the franchisee's gross revenues. The City's largest franchisees are Xcel energy (electric utility) and Reliant energy (gas utility). Because of the unusually cold weather in the October-December combined with the surge in natural gas prices during that time, the City recognized unusually high franchise revenues for 2000. During 2000, franchise fees increased by $1.91 million over 1999 levels and were 8 *per cent* above budget—a level not expected to be sustained.

The strong economy contributed to a high property-tax collection rate. Total current and delinquent taxes collected in 2000 was equal to almost 100 *per cent* of the amount levied for 2000. Tax collections are somewhat sensitive to economic conditions. Strong collections in 2000 do not necessarily assure a similar collection rate in future years.

The strong local economy, relatively low interest rates, low vacancy, and high office absorption rates in the central business district, also contributed to a downtown building boom which has lasted for several years and continued through 2000. The building boom generated unusually high levels of building permit revenues. Fueled by the growth in building permits, total license and permit revenue for 2000 was $2.3 million higher than last year and more than $3.0 million (19.5 *per cent*) above budget for the current year. Building permits are a non-renewable source of revenue. Like franchise revenues, the unusual FY2000 levels represent "windfall" earnings.

The most significant transfers received by the General fund were as follows:

- From the Employee retirement fund (to make retirement contributions to closed retirement plans—year-end adjustment not reflected in City's revised budget). $11.0 million
- From the Parking fund $ 8.0 million
- From the Convention Center (entertainment taxes) $ 5.5 million

Expenditure Analysis (in thousands):

Expenditures and other Uses (by reporting category)	2000 Amended Budget	2000 Actual	1999 Actual	Percentage Incr./(Decr.) 1999 – 2000
General Government	39,509	38,346	34,159	12.3%
Public Safety	146,471	145,259	136,945	6.1%
Highways and Streets	35,077	34,744	38,515	(9.8%)
Health and Welfare	3,718	3,576	3,563	0.4%
Total Expenditures	224,775	221,925	213,182	4.1%
Transfers out	11,944	11,945	10,364	15.3%
Total Expenditures and Other Uses	236,719	233,870	223,546	4.6%

Increased departmental expenditures were due primarily to higher wage rates from contract settlements and less anticipated savings from staff turnover. Highway and street expenditures decreased because the street sweeping program was transferred from the General fund to the Sewer Enterprise fund in 2000.

Fund Balance:

By City Charter, the General Fund may not spend more than its adopted expenditure budget in any year. There are no legal restrictions on revenue similar to those on expenditures. During any given year, revenues may be more or less than budget. As a result, revenues (and other sources of funds) usually exceed expenditures. Differences between revenues and expenditures are "closed" into the fund balance at the end of each year. The fund's original budget was for expenditures to equal revenues with no change in fund balance. The revised budget, as reported in the detailed fund statements in this report, assumed a $15 million *decrease* in fund balance due to planned expenditures exceeding planned revenues.[2] However, primarily because of the positive revenue variances discussed above, the General Fund's balance increased during 2000 by approximately $9 million (or approximately 31 *per cent*) over last year's balance.

General Fund Summary (in thousands of dollars)			
	Revenues and other Sources	**Expenditures and other Uses**	**Change in Fund Balance**
Original 2000 Budget	218,827	218,827	0
Revised 2000 Budget[2]	220,929	236,719	(15,790)
Actual 2000 amounts	242,890	233,870	9,020
Actual 2000 as % of Original 2000 Budget	111%	107%	n.a.
Actual 2000 as % of Revised 2000 Budget	110%	99%	n.a.

The General Fund's balance is an operating reserve (source of working capital) and a cushion against adverse economic surprises. The City's policy is to maintain a General Fund balance of 10 *per cent* of the following year's budgeted revenues (and other uses). The balance at the end of 2000 represents 13 *per cent* of General Fund budgeted revenues for 2001.

[2] The City has a long standing budgeting and accounting practice where the City amends its expenditure budget at the end of the year to account for the retirement expenditures to closed retirement funds. However, it does not adjust the corresponding revenue (transfer in) budget to account for the funding from the employee retirement fund. If the City adjusted both sides of the General Fund budget affected by retirement expenditures, the Revised 2000 Budget would have included only a $4.8 million reduction to fund balance.

Special Revenue Funds

The Special revenue funds account for revenues that are earmarked for specific purposes. The use of a Special revenue fund is usually required by State statute, City charter, City ordinance, or grantor requirements. The City of Minneapolis reports eleven separate Special revenue funds.

The eleven Special revenue funds can be divided into four major groups (in thousands):

Group	Funds included	2000 amended Expenditures & Other Uses Budget (group)	2000 Actual (group)	1999 Actual (group)	Percent Change 1999 – 2000
MCDA	MCDA	71,758	36,826	45,048	(22.3%)
Grant Funds	Includes: CDBG, Federal and State Grants	91,383	43,639	45,992	(5.1%)
Convention Center and Reserve	Convention Ctr. and Arena reserve funds	74,687	68,923	55,936	23.2%
Other	Includes: Police grants, MBC,BET Retirement	22,202	21,110	16,770	25.9%
Total		260,030	170,498	163,746	4.1%

MCDA

The MCDA funds account for the development activities of the Minneapolis Community Development Agency. The special revenue supporting these activities is largely Intergovernmental revenues. In 2000, the Agency received approximately $14 million of transfers from Community Development Block Grant and other federal programs and another $4 million in state and local grants. Combined, federal transfers and state and local grants accounted for more than 55 *per cent* of the MCDA special revenue fund's revenues and other sources in 2000. The Agency's primary expenditures are for urban redevelopment and housing. MCDA special revenue fund expenditures and other uses totaled $36.8 million in 2000 which represents 22 *per cent* of total City special revenue expenditures and other uses in 2000.

Grant Funds

The City receives grant money from a variety of sources. The largest single source is the Federal Community Development Block Grant program (CDBG). The purpose of the CDBG program is to channel federal funds to local uses for the benefit of low and moderate-income persons. Because of the size and importance of the CDBG program to the City's overall finances, the CDBG grants are accounted for in their own fund. The CDBG fund spent (or transferred to other funds) $21.6 million in 2000 which represents 13 *per cent* of total City special revenue expenditures (and transfers) in 2000.

The City receives various other federal, state, metropolitan council, and other grants which are accounted for in other funds. Major City programs supported largely or entirely by grant revenue include: Healthy Start; Maternal Child Health; Welfare to Work; Lead Hazard Reduction; Empowerment Zone; HOME; Community Health Services. Life-to-date funding exceeds $1 million for each of these programs through December 31, 2000. Absent grant funding, these activities would have to be financed through the General Fund or the activities would have to be eliminated.

Over the long-run grant expenditures should equal grant revenues and fund balance should be zero. However, over the life of individual grants, timing differences between the receipt of grant income and outlays for program expenditures cause fund balances to fluctuate which can create liquidity demands on other City resources

Convention Center and Convention Center Reserve and Arena Reserve Funds

The Convention Center accounts for the maintenance and operation of the Minneapolis Convention Center. The Center was built as an investment to foster economic growth and vitality by providing facilities and services for a wide variety of conventions, shows, and events that would benefit and showcase the City. The Convention Center fixed assets are included in the City's General Fixed Assets.

Local sales, lodging, and entertainment taxes support the Convention Center. The strong local economy combined with good promotion and center management has resulted in good revenues for the fund:

Convention Center Fund – Tax Revenues (in thousands)				
Revenues	**2000 Amended Budget**	**2000 Actual**	**1999 Actual**	**Percentage Incr./(Decr.) 1999 – 2000**
Local Sales Tax (0.5% applied City-wide)	26,000	27,391	25,608	7.0%
Lodging Tax (2% applied to hotels and motels with more than 50 units)	2,900	2,983	2,854	4.5%
Food and Liquor Tax (3% on sales in the core downtown area)	10,100	10,880	9,741	11.7%
Entertainment Tax (3% on sales in the core downtown area)	6,500	7,071	6,596	7.2%
TOTAL SPECIAL TAXES	45,500	48,325	44,799	7.9%

Debt Service Funds

Debt service funds account for resources used to pay the City's general long-term debt. Debt issued by the City's Enterprise and Internal Service funds is accounted for within those funds. The City reviews its liability for arbitrage rebate annually. If applicable, the arbitrage rebate liability would be recorded in the appropriate fund.

Capital Projects Funds

Capital projects funds account for the construction of infrastructure and other long-term governmental assets. Activity in the Capital Projects funds is closely related to activity in the long-term debt group of accounts and the Debt Service funds. Assets constructed by the capital projects funds are often initially funded through debt. The debt is accounted for in the City's long-term debt group of accounts. Repayment of bonded debt is accounted for through the debt service funds. Most of the activity that flows through the capital projects funds is planned through the Capital Improvement Plan (CIP).

Enterprise Funds

Enterprise funds sell goods and services to third parties and recover the costs of providing these goods and services through user charges. The MCDA operates the River Terminal facility for the City as well as operating its own enterprise activities. The City manages four other enterprise funds: the Municipal Parking fund; the Solid Waste and Recycling fund; the Sewer Rental fund; and the Water Works fund. The performance of municipal enterprises can be evaluated on the same basis as that of investor-owned enterprises. Of particular importance is the business' ability to recover its costs and retain net income for replacing or expanding its productive assets. Therefore, during the course of the year, the city focuses on two key measures of financial performance in its enterprise funds: operating margin, and net income. Operating margin measures the enterprise's ability to generate positive cash-flow from operations. Net income measures how much income the enterprise keeps as retained earnings for maintenance, replacement, and expansion of its productive assets.

The City's Enterprise operations are in sound financial condition. During 2000, the Mayor and City Council approved a five-year rate structure with modest annual increases that should allow the funds to generate and retain net income so that they will remain in sound condition. Rates contemplated in the five-year plan will be reviewed annually to ensure adequacy and fairness.

CASH MANAGEMENT

During the year cash was invested in certificates of deposit, obligations of the U.S. Treasury, commercial paper, various agency mortgage pools, taxable municipal obligations, and money market funds. The average return on investments during the year was 5.90 *per cent* (source: Finance Department, Treasury). The City pools cash for investment management purposes and distributes investment income daily to funds that are designated to earn interest. As part of the Internal Service fund workout plans, the City has eliminated the working capital charge it used to assess against these funds' deficit cash balances.

RISK MANAGEMENT

The City accounts for its Risk Management activities as an internal service fund and charges the operating funds annually for the anticipated actuarially projected ultimate incurred claims. The City's risk management program operates under the direction of the Risk Management and Claims Division, within the Finance Department. Various programs have been developed to reduce the City's risk of loss including: a comprehensive employee health and safety program; a strategy to reduce tort liability exposure; a financial plan to minimize losses; and, a strategy to reduce the frequency of injuries and illnesses and the cost of workers' compensation.

INDEPENDENT AUDIT

Minnesota State Law requires the Office of the State Auditor (OSA) to perform the City's annual audit. The OSA's report on the City's general purpose financial statements is based on their audit in accordance with generally accepted auditing standards. The Auditor's unqualified audit opinion is included as page 1 in the financial section of this report.

In addition to meeting the State and City's financial audit requirements, the OSA's audit was designed to meet the requirements of the federal Single Audit Act and the related U.S. Office of Management and Budget's Circular A-133. The OSA prepares a separate report on covered activities.

CERTIFICATE OF ACHIEVEMENT

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Minneapolis for its comprehensive annual financial report (CAFR) for the fiscal year ended December 31, 1999. The Certificate of Achievement is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government financial reports.

In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized comprehensive annual financial report the contents of which conform to program standards. The report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. The City of Minneapolis has received the award for thirty-one years. We believe our current report continues to conform to the Certificate of Achievement program requirements and we are submitting it to the GFOA for review.

FORWARD-LOOKING STATEMENTS

The City regularly communicates information concerning its financial plans, condition and results of operations to investors, securities analysts, the news media, and others as part of its normal operations. Some of these communications include "forward-looking" statements concerning management's analysis and expectations as to future plans, results of operations, etc. Forward-looking statements can usually be identified by the use of terms such as "anticipates", "believes","intends", and similar phrases. Management's expectations for the City's future finances naturally involve a number of assumptions and estimates. Various factors could cause actual results to differ materially from these expectations including changes in the State of Minnesota's property tax laws, changes in market interest rates, changes in tax collections, the availability of Federal or State funding for certain programs, etc. Users of the financial statements should evaluate forward-looking statements in light of the risks the City faces.

HOW TO CONTACT MANAGEMENT

For the benefit of its bondholders, the City provides each nationally recognized securities information repository (NRMSIR) with its financial statements within 270 days of each year-end commencing with years ending after December 31, 1996.

Copies of the City of Minneapolis financial statements are available by writing to The City's Finance Officer at The City of Minneapolis, 350 South Fifth Street, Minneapolis, Minnesota, 55415. The annual financial report is also available on-line at www.ci.minneapolis.mn.us.

ACKNOWLEDGEMENTS

Preparation of this report on a timely basis could not have been accomplished without the efficient and dedicated services of the City's finance department, the Library Board, the Park Board, and the MCDA. In addition, we would like to thank the State Auditor's office for their thoroughness and professionalism in conducting the City's audit. Finally, we would like to thank the Mayor, members of the City Council, and the City Coordinator, Kathleen O'Brien, for their interest in conducting the financial operations of this City in a responsible and progressive manner.

Respectfully submitted,

Patrick Born

Patrick P. Born
Finance Officer

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