Minneapolis
City of Lakes

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Mayor R. T. Rybak,
Council President Barbara Johnson,
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 (the City) for the year ended December 31, 2005. The purpose of the report is to provide the Mayor, City Council, City Staff, citizens, bond holders, 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 Officers 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.

REPORT FORMAT

There are three main sections in this report:

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, Management's Discussion and Analysis (MD&A), the basic financial statements, notes to the financial statements, and detailed combining and individual statements and schedules for the City's funds.

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.

The transmittal letter is designed to complement the MD&A and should be read in conjunction with it. The City's MD&A can be found immediately following the independent auditor's report.

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.

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 judgments 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.

THE CITY AND ITS SERVICES

Physical Description

The City, 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 169,000 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 *percent* from 1990 to 2000, reversing a trend of declining population that began in 1950.

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.

Most of the information above is from the *State of the City*, a publication of the City's Community Planning and Economic Development Department. The *State of the City* contains a wealth of demographic and other data, which paint a detailed and thorough picture of the City. The *State of the City* 2003 can be accessed from City's web site, at http://www.ci.minneapolis.mn.us/planning/soc03/

Form of Government and Organization

The City is a municipal corporation governed by a Mayor–Council form of government. 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.

THE REPORTING ENTITY

The City organizes its financial activities in a variety of funds. In accordance with GASB Statement No. 14, the City's financial statements include all funds of the City ("primary government") as well as its component units. The primary government represents all funds 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. 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 a blended component unit. The Minneapolis Library Board, Minneapolis Park and Recreation Board, and the Municipal Building Commission (MBC) are discretely presented components in the City's financial statements.

ECONOMIC CONDITION AND OUTLOOK

A discussion and analysis of City's overall financial condition during the fiscal year ended 2005 is included as part of the MD&A.

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 2.5 percent (source: Finance Department –Treasury Division).

DEBT MANAGEMENT

The primary goal of the City's debt management practices is to maintain its ability to access capital markets at the lowest possible cost (interest rate) without endangering its ability to finance essential services. The City's conservative financial practices have earned its general obligation debt some of the highest ratings available from national bond rating services as follows:

- Fitch IBCA - AAA
- Standard & Poor's - AAA
- Moody's Investors Service - Aa1

RISK MANAGEMENT

The City accounts for its Risk Management activities in 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 law requires the Office of the State Auditor (OSA) to perform the City's annual audit. The OSA's report on the City's financial statements is based on their audit in accordance with generally accepted auditing standards. The Auditor's unqualified audit opinion is included as page one and two 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 for its CAFR for the fiscal year ended December 31, 2004. A Certificate of Achievement is valid for a period of one year only. The City has received this prestigious award for thirty-six years.

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

In addition, the City also received an award of Distinguished Budget Presentation for its annual budget for the year 2005.

ACKNOWLEDGEMENTS

Preparation of this report on a timely basis could not have been accomplished without the efficient and dedicated services of the staff of the City's finance department, the Library Board, the Park Board, and the Community Planning and Economic Development. We also extend our appreciation to Mary Dunning for her exceptional services in coordinating the preparation and completion of this report. 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, Steven Bosacker, for their

interest in conducting the financial operations of this City in a responsible and progressive manner.

Respectfully submitted,

Patrick P. Born
Finance Officer

Charles Elliott, CPA
Controller

Jacob Cherucheril, CPA
Manager, Financial Accounting & Reporting