

**McGladrey & Pullen**

Certified Public Accountants

# **Common Revenue Bond Fund (Resolution 876) of the Port Authority of the City of Saint Paul**

Financial Report  
December 31, 2008

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# McGladrey & Pullen

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## Independent Auditor's Report

To the Board of Commissioners  
Port Authority of the City of Saint Paul

We have audited the accompanying balance sheets of the Common Revenue Bond Fund (Resolution 876) of the Port Authority of the City of Saint Paul (the 876 Bond Fund) as of December 31, 2008 and 2007, and the related statements of revenues, expenses and changes in net assets (deficit), and cash flows for the years then ended. These financial statements are the responsibility of the 876 Bond Fund's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

As discussed in Note 1, the financial statements of the 876 Bond Fund are intended to present the financial position, and the changes in financial position and cash flows, of only the 876 Bond Fund, a prior financing program managed by the Port Authority of the City of Saint Paul, that are attributable to the transactions of the 876 Bond Fund. They do not purport to, and do not, present fairly the financial position of the Port Authority of the City of Saint Paul as of December 31, 2008 and 2007, or the changes in its financial position or its cash flows 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 876 Bond Fund as of December 31, 2008 and 2007, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming the 876 Bond Fund will continue as a going concern. As discussed in Note 8 to the financial statements, the 876 Bond Fund has suffered shortfalls in facility rental revenue, and available net revenues were not sufficient to pay scheduled debt service during 2008 and 2007. As of December 31, 2008, its liabilities exceed its assets. This raises substantial doubt about the 876 Bond Fund's ability to continue as a going concern. Management's plans in regard to these matters are described in Note 8. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Management has chosen not to present a Management's Discussion and Analysis for the 876 Bond Fund that accounting principles generally accepted in the United States of America require to supplement, although not to be part of, the basic financial statements.

*McGladrey & Pullen, LLP*

Minneapolis, Minnesota  
April 21, 2009

Common Revenue Bond Fund (Resolution 876) of the Port Authority of the City of Saint Paul

Balance Sheets  
December 31, 2008 and 2007  
(In Thousands)

Assets	2008	2007
Current Assets		
Restricted cash and cash equivalents (Note 2)	\$ 6,961	\$ 885
Accounts receivable and other, less allowance for doubtful accounts of \$-0- and \$662 for 2008 and 2007, respectively	-	27
<b>Total current assets</b>	<b>6,961</b>	<b>912</b>
Restricted Investments and Accrued Interest (Note 2)	15,517	19,383
Capital Assets, net of accumulated depreciation and impairment write-downs (Note 3)	3,585	4,489
<b>Total assets</b>	<b>\$ 26,063</b>	<b>\$ 24,784</b>
<b>Liabilities and Net Assets (Deficit)</b>		
Current Liabilities		
Current portion of revenue notes and bonds (Note 4)	\$ 7,310	\$ 7,425
Past-due portion of revenue notes and bonds (Note 4)	34,456	27,031
Accounts payable, accrued expenses and unearned revenue	1,997	2,071
Accrued interest payable, including portion related to past-due revenue notes and bonds	3,500	1,547
<b>Total current liabilities</b>	<b>47,263</b>	<b>38,074</b>
Revenue Notes and Bonds, net of current maturities, past-due portion and unamortized discounts of \$236 and \$351 in 2008 and 2007, respectively (Note 4)	9,668	16,863
<b>Total liabilities</b>	<b>56,931</b>	<b>54,937</b>
Commitments and Contingencies (Notes 4, 7 and 8)		
Net Assets (Deficit)		
Invested in capital assets, net of related debt	(45,194)	(44,175)
Restricted by bond indentures	14,326	14,022
<b>Total net assets (deficit)</b>	<b>(30,868)</b>	<b>(30,153)</b>
<b>Total liabilities and net assets (deficit)</b>	<b>\$ 26,063</b>	<b>\$ 24,784</b>

See Notes to Financial Statements.

Common Revenue Bond Fund (Resolution 876) of the Port Authority of the City of Saint Paul

Statements of Revenues, Expenses and Changes in Net Assets (Deficit)

Years Ended December 31, 2008 and 2007

(In Thousands)

	2008	2007
Operating revenues:		
Revenue bond facilities and loan agreements:		
Facility rentals (Note 6)	\$ 2,574	\$ 2,784
Interest on loans	-	22
Operating income on owned facilities, excluding interest and depreciation	-	306
Rentals on other properties	878	809
<b>Total operating revenues</b>	<b>3,452</b>	<b>3,921</b>
Operating expenses:		
Interest on revenue bonds and notes payable	4,952	4,952
Depreciation and amortization	672	905
Allowance on uncollectible receivables	-	462
General and administrative	459	757
<b>Total operating expenses</b>	<b>6,083</b>	<b>7,076</b>
<b>Operating loss</b>	<b>(2,631)</b>	<b>(3,155)</b>
Nonoperating revenues and gains:		
Investment income	722	745
Gain on sale of property	1,194	14,703
<b>Total nonoperating revenues and gains</b>	<b>1,916</b>	<b>15,448</b>
<b>Change in net assets</b>	<b>(715)</b>	<b>12,293</b>
Net assets (deficit) at beginning of the year	(30,153)	(42,446)
Net assets (deficit) at end of the year	<b>\$ (30,868)</b>	<b>\$ (30,153)</b>

See Notes to Financial Statements.

Common Revenue Bond Fund (Resolution 876) of the Port Authority of the City of Saint Paul

Statements of Cash Flows  
 Years Ended December 31, 2008 and 2007  
 (In Thousands)

	2008	2007
<b>Cash Flows From Operating Activities</b>		
Receipts from customers, including interest on loans receivable	\$ 3,412	\$ 3,618
Collections on loan principal	-	163
Payments for general and administrative expenses	(466)	(856)
Interest paid	(2,999)	(3,818)
<b>Net cash used in operating activities</b>	<b>(53)</b>	<b>(893)</b>
<b>Cash Flows From Capital and Related Financing Activities</b>		
Proceeds from sale of facilities	1,541	15,302
<b>Net cash provided by capital and related financing activities</b>	<b>1,541</b>	<b>15,302</b>
<b>Cash Flows From Investing Activities</b>		
Purchase of investments	(70,207)	(46,473)
Proceeds from sales and maturities of investments	73,995	31,770
Interest received	800	607
<b>Net cash provided by (used in) investing activities</b>	<b>4,588</b>	<b>(14,096)</b>
<b>Net increase in restricted cash and cash equivalents</b>	<b>6,076</b>	<b>313</b>
Restricted Cash and Cash Equivalents, beginning of year	885	572
Restricted Cash and Cash Equivalents, end of year	<u>\$ 6,961</u>	<u>\$ 885</u>
<b>Reconciliation of Operating Loss to Net Cash Used in Operating Activities</b>		
Operating loss	\$ (2,631)	\$ (3,155)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation and amortization	672	905
Collections on loan principal	-	163
Changes in operating receivables, payables and accruals:		
Accounts receivable	27	479
Accounts payable, accrued expenses and unearned revenue	(74)	(419)
Accrued interest	1,953	1,134
<b>Net cash used in operating activities</b>	<b>\$ (53)</b>	<b>\$ (893)</b>
<b>Schedule of Noncash Capital and Related Financing Activities</b>		
Deposits applied to payoff on sale of 876 Properties	<u>\$ 112</u>	<u>\$ -</u>

See Notes to Financial Statements.

## Common Revenue Bond Fund (Resolution 876) of the Port Authority of the City of Saint Paul

### Notes to Financial Statements

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#### Note 1. Summary of Significant Accounting Policies

**Nature of business:** The Common Revenue Bond Fund (Resolution 876) of the Port Authority of the City of Saint Paul (the 876 Bond Fund) is managed by the Port Authority of the City of Saint Paul (the Port Authority) for the benefit of the 876 Bond Fund bondholders.

The Port Authority is a body corporate and politic created under the State of Minnesota and a redevelopment agency within the meaning of the Minnesota statutes. The Port Authority is a component unit of the City of Saint Paul (the City). The Port Authority is an enterprise fund and accounts for operations similar to private business enterprises, where the intent is that the costs to provide services on a continuing basis be financed or recovered primarily through user charges. The Port Authority's intended purpose is to increase the volume of commerce and employment in the City of Saint Paul through the creation of development districts and the acquisition and construction of industrial, commercial and other revenue-producing projects.

The Port Authority's lending and development programs are primarily financed by the issuance of various forms of revenue bonds or notes. The 876 Bond Fund was one of the financing programs managed by the Port Authority. The 876 Bond Fund was established in 1974 and provided for the issuance of revenue bonds which are payable solely from the pooled revenues of the financed projects. Accordingly, the 876 Bond Fund is reported as an agency fund in the basic financial statements of the Port Authority. Projects are comprised of 876 Properties, which are land and facilities financed in whole or in part by the issuance of 876 Bonds. Nonrevenue Bond facilities are revenue-producing assets not financed by 876 Bonds; while revenues are pledged to the 876 Bond Fund, the sales proceeds are not pledged to the 876 Bond Fund.

**Basis of accounting and financial statement presentation:** For purposes of presenting these financial statements, the financial statements of the 876 Bond Fund have been prepared in conformity with accounting principles generally accepted in the United States of America that are applicable to business-type governmental entities. The financial statement presentation and disclosures also conform to those required for business-type governmental entities.

The 876 Bond Fund utilizes the accounting method used for proprietary funds, which is the economic resources measurement focus and the accrual basis of accounting. Revenues are recognized when earned, and expenses are recorded when liabilities are incurred without regard to receipt or disbursement of cash. Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the proprietary fund's principal ongoing operations. The principal operating revenues of the 876 Bond Fund are derived from facility and other rentals charged to customers. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, interest expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses. When both restricted and unrestricted resources are available for use, it is the 876 Bond Fund's policy to use restricted resources first, and then unrestricted resources as they are needed.

Pursuant to Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the 876 Bond Fund has elected to not apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB) issued after November 30, 1989.

## Common Revenue Bond Fund (Resolution 876) of the Port Authority of the City of Saint Paul

### Notes to Financial Statements

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#### Note 1. Summary of Significant Accounting Policies (Continued)

**Restricted cash and cash equivalents:** Restricted cash and cash equivalents include demand deposits, money market mutual fund accounts and commercial paper with original maturities of three months or less. The periodic loan and lease payments received by the 876 Bond Fund are deposited by the Port Authority and invested on a short-term basis in checking and savings accounts. Interest income earned as a result of the pooling of the 876 Bond Fund deposits with the Port Authority's deposits is distributed based on the investment fund balances for the 876 Bond Fund and the Port Authority. All cash and cash equivalents are restricted for payment of debt service on the bonds.

**Restricted investments:** Investments are reported at fair value, with the unrealized gains and losses reported as a component of investment income, except for debt securities that have a remaining maturity at the time of purchase of one year or less, which are reported at amortized cost. All earnings attributable to these funds are accounted for directly in the 876 Bond Fund and are restricted for payment of debt service on the bonds. The funds and accounts the 876 Bond Fund is required to maintain are as follows:

- **Bond Fund:** Basic Resolution 876 requires that all available net revenues, as defined in the resolution, be deposited in this fund to pay scheduled principal and interest payments.
- **Prepaid net revenues, special funds and retained funds:** Basic Resolution 876 requires that these subaccounts be maintained. Amounts required to be deposited into these subaccounts are 1) all available net revenues prepaid or other sums paid or credited under any revenue agreement with respect to any 876 property in accordance with any prepayment, termination or purchase provision to the extent such sums are computed with reference to the balance of debt service on any 876 Bonds; and 2) any proceeds from the sale of all or part of an 876 property, or in a lump-sum settlement in connection with such an 876 property, after deducting all of the 876 Bond Fund's expenses and equity interest.

**Unamortized bond discounts:** Unamortized bond discounts are being amortized over the life of the related bonds using the straight-line method, which materially approximates the amounts calculated under effective-interest. Amortization of bond discounts for the years ended December 31, 2008 and 2007, was \$115 and \$166, respectively.

**Net assets:** Net assets are classified in two components. *Net assets invested in capital assets, net of related debt* consists of capital assets net of accumulated depreciation and related indebtedness. *Restricted net assets* are noncapital net assets that must be used for a particular purpose, as specified by creditors.

**Right to tax revenues from the City:** Neither the City nor the Port Authority has an obligation to provide funds to pay principal and/or interest on the 876 Bond Fund bonds.

**Operating leases:** The 876 Bond Fund's leasing operations consist principally of the leasing of various land and facilities. A majority of the capital assets are subject to operating leases. All of the 876 facility leases are classified as operating leases, which expire at various times through 2019. Under the operating method of accounting for these leases, the cost of the land improvements and facilities is recorded as an asset and is depreciated over the terms of the leases, and the rental income is recognized ratably as the lease rental payments are earned. The leases contain a buyout clause whereby the lessee can purchase the property under lease for specified terms based on the lease agreement.

## Common Revenue Bond Fund (Resolution 876) of the Port Authority of the City of Saint Paul

### Notes to Financial Statements

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#### Note 1. Summary of Significant Accounting Policies (Continued)

**Capital assets:** Capital assets include land and land improvements, and buildings and structures. Land and land improvements are recorded at cost. Industrial development district investments that were financed by bonds secured by tax increments are depreciated over the lives of the related tax increment districts. Buildings and structures are recorded at cost, including capitalized interest. Because the buildings and structures are subject to long-term operating leases (see Note 6), these facilities are depreciated on a straight-line basis over the terms of the leases (generally 20 to 30 years).

**Impairment of capital assets:** The 876 Bond Fund reviews its capital assets for recoverability whenever events or changes in circumstances suggest that the service utility of a capital asset may have significantly or unexpectedly declined, indicating that an impairment of its long-lived assets has occurred. If an impairment has occurred, the impairment loss would be measured using the method that best reflects the diminished service utility of the capital asset. For 2008 and 2007, management has determined that no additional impairment of capital assets occurred.

**Deposits by lessees:** Certain bond issues require the lessees to deposit funds as security for the related bonds or for other purposes. The 876 Bond Fund provides a credit against the lease payment generally during the last year of the lease agreement. Deposits by lessees are included with accrued expenses in the balance sheets.

**Land rents, fleeting and tonnage revenues:** The 876 Bond Fund is also entitled to net revenues from non-876 bond financed properties consisting of tonnage and fleeting activities in which barge access to Port Authority properties has been granted and other net revenues generated by rentals of unencumbered land parcels of the Port Authority.

**Operating income on owned facilities:** The 876 Bond Fund operated its repossessed 876 Properties and recorded the operating revenues and expenses from all repossessed 876 Properties on a net basis. At December 31, 2007, all previously repossessed properties had been sold. The 876 Bond Fund generated net operating income, excluding interest and depreciation, of \$306, net of operating expenses of \$522 for the year ended December 31, 2007, from the operation of these owned facilities.

**Concentration of risk:** Due to the many factors which can affect recoverability, including future economic changes in the Saint Paul real estate market, the estimated loss on an individual 876 property or loan may not be the same as the ultimate loss actually sustained. While the 876 Bond Fund uses the best information available to make its evaluation, future adjustments to these estimates may be necessary if there are significant changes in economic conditions.

**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 amounts reported in the financial statements and the accompanying notes. Ultimate results could differ from those estimates.

## Common Revenue Bond Fund (Resolution 876) of the Port Authority of the City of Saint Paul

### Notes to Financial Statements

#### Note 2. Deposits and Investments

The 876 Bond Fund's cash and investments consisted of the following at December 31, 2008 and 2007:

	2008	2007
Demand and time deposits with financial institutions	\$ 83	\$ 18,310
Investments:		
Money market mutual funds	4,419	-
4M Fund	462	-
Commercial paper	2,999	-
Municipal bonds	306	-
Federal Home Loan Banks (FHLB)	3,587	-
Federal Home Loan Mortgage Corporation (FHLMC)	-	1,958
Federal National Mortgage Association (FNMA)	3,930	-
Mortgage-backed securities:		
Federal Home Loan Mortgage Corporation (FHLMC)	4,160	-
Federal National Mortgage Association (FNMA)	2,532	-
Total investments	22,395	1,958
Total cash and investments	\$ 22,478	\$ 20,268

**Custodial credit risk — deposits:** The 876 Bond Fund's deposits are managed by the Port Authority. The Port Authority's policy is to follow Minnesota Statutes, which require that all deposits with financial institutions be collateralized in an amount equal to 110 percent of deposits in excess of FDIC insurance (140 percent if collateralized with notes secured by first mortgages). The 876 Bond Fund's accounts were maintained at depositories and consisted of checking and savings accounts as well as certificates of deposit.

**Investments:** Statutes authorize the 876 Bond Fund to invest in certain securities which are direct obligations, guaranteed, or insured issues of the United States, its agencies, its instrumentalities or organizations created by acts of Congress. Also authorized are investments in certain state and local securities, commercial paper with maturities of less than 270 days, guaranteed investment contracts, bankers' acceptances, time deposits, repurchase agreements, securities lending agreements, and authorized mutual funds with final maturities no longer than 13 months. Investments in the 876 Bond Fund are managed by the Port Authority. The Port Authority's investment policy for the 876 Bond Fund is limited to those investments authorized by statute.

**Interest rate risk:** As a means of managing its exposure to fair value losses arising from increasing interest rates, it is the Port Authority's practice to match maturities to its liquidity needs, which allows the Port Authority to hold all investments to maturity.

As of December 31, 2008 and 2007, the 876 Bond Funds investments all had a stated maturity of less than one year.

## Common Revenue Bond Fund (Resolution 876) of the Port Authority of the City of Saint Paul

### Notes to Financial Statements

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#### Note 2. Deposits and Investments (Continued)

**Credit risk:** As a means of managing its exposure to an issuer of a debt security that will not fulfill its obligation, it is the 876 Bond Fund's practice to follow state law, which limits investments in authorized securities to certain credit risk ratings and maturities. The 876 Bond Fund's investments at December 31, 2008, had the following ratings:

	Moody's	S&P
Federal Home Loan Mortgage Corporation (FHLMC)	Aaa	AAA
Federal Home Loan Bank (FHLB)	Aaa	AAA
Federal National Mortgage Association (FNMA)	Aaa	AAA
Commercial paper	P-1	A-1 to A-1+
Municipal bonds	Aaa	AAA
Money market mutual funds	Aaa	AAAm
4M Fund	Unrated	Unrated

**Custodial credit risk:** For an investment, the custodial credit risk is that in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, the 876 Bond Fund will not be able to recover the value of its investments that are in the possession of another party. The Port Authority requires all securities purchased to be made in such a manner so that the securities are at all times insured, registered in the Port Authority's name, or are in the possession of the Port Authority. Securities will be held by a third-party custodian as evidenced by safekeeping receipts.

**Concentration of credit risk:** It is the Port Authority's general practice to limit the amount the Port Authority may invest in any one commercial paper issuer at the time of purchase to no more than 10 percent of the total investments managed by the Port Authority.

At December 31, 2008 and 2007, more than 5 percent of the 876 Bond Fund's investments are in the following issuers:

	2008	2007
Federal Home Loan Mortgage Corporation (FHLMC)	19%	100%
Federal Home Loan Bank (FHLB)	16%	0%
Federal National Mortgage Association (FNMA)	29%	0%

**Common Revenue Bond Fund (Resolution 876) of the Port Authority of the City of Saint Paul**

**Notes to Financial Statements**

**Note 2. Deposits and Investments (Continued)**

A reconciliation of cash and investments as reported in the balance sheets is as follows as of December 31, 2008 and 2007:

	2008	2007
Carrying amount of demand deposits	\$ 83	\$ 885
Carrying amount of time deposits	-	17,425
Carrying amount of investments	22,395	1,958
	<u>\$ 22,478</u>	<u>\$ 20,268</u>
Restricted cash and cash equivalents	\$ 6,961	\$ 885
Restricted investments and accrued interest	15,517	19,383
	<u>\$ 22,478</u>	<u>\$ 20,268</u>

Reserve funds are restricted in accordance with the provisions of the 876 Bond Fund and are available for future principal and interest payments. The 876 Bond Fund's restricted cash and investments included the following as of December 31, 2008 and 2007:

	2008	2007
Program reserve funds:		
Bond Fund	\$ 691	\$ 614
Prepaid net revenues, special funds and retained funds	21,787	19,654
	<u>22,478</u>	<u>20,268</u>
Funds held by revenue agreements	(181)	(187)
Funds available for future debt service	<u>\$ 22,297</u>	<u>\$ 20,081</u>

**Note 3. Capital Assets**

Capital asset additions, retirements and balances for the years ended December 31, 2008 and 2007, were as follows:

	Balance, December 31, 2007	Additions	Deductions	Balance, December 31, 2008
Land	\$ 2,169	\$ -	\$ (300)	\$ 1,869
Land improvements	16,544	-	(105)	16,439
Buildings and structures	19,384	-	(3,011)	16,373
	<u>38,097</u>	-	<u>(3,416)</u>	<u>34,681</u>
Less:				
Accumulated depreciation	(33,608)	(557)	3,069	(31,096)
Net capital assets	<u>\$ 4,489</u>	<u>\$ (557)</u>	<u>\$ (347)</u>	<u>\$ 3,585</u>

## Common Revenue Bond Fund (Resolution 876) of the Port Authority of the City of Saint Paul

### Notes to Financial Statements

#### Note 3. Capital Assets (Continued)

	Balance, December 31, 2006	Additions	Deductions	Balance, December 31, 2007
Land	\$ 2,279	\$ -	\$ (110)	\$ 2,169
Land improvements	16,544	-	-	16,544
Buildings and structures	34,480	-	(15,096)	19,384
	53,303	-	(15,206)	38,097
Less:				
Accumulated depreciation	(47,469)	(742)	14,603	(33,608)
Net capital assets	\$ 5,834	\$ (742)	\$ (603)	\$ 4,489

#### Note 4. Revenue Bonds and Notes Payable

All revenue bonds issued under the 876 Bond Fund were issued for the purpose of acquiring or constructing capital assets, and are payable solely and exclusively from amounts to be received under leases or loan agreements, escrow account earnings from previously refunded bonds or notes, amounts held in various reserve funds established to secure payment of the revenue bonds, and revenue from the operations of nonbond facilities. These debt obligations are collateralized by all 876 Bond Fund assets and the related proceeds from operations of bond and nonbond facilities and the sale of 876 Properties. The bonds are collateralized equally and ratably, with all other sources of payment pledged to the 876 Bond Fund. These obligations are not secured by the credit of the Port Authority.

The total of the 876 Bond Fund revenue bonds and notes payable as of December 31, 2008 and 2007, is as follows:

	2008	2007
Revenue bonds and notes payable, 4.0% to 13.5%, interest due serially through 2016	\$ 51,670	\$ 51,670
Less unamortized bond discount	(236)	(351)
Less current maturities	(7,310)	(7,425)
Less past-due portion	(34,456)	(27,031)
	\$ 9,668	\$ 16,863

The 876 Bond Fund has previously refunded certain outstanding revenue bond issues. Proceeds from the sale of the refunding issues, together with certain other restricted funds of the 876 Bond Fund, were placed in escrow in an amount sufficient to defease the principal and interest payments on the bond issues refunded. Because the refunded bonds are considered to be legally defeased, the unpaid balance of the defeased bonds of \$3,645 and \$6,300 at December 31, 2008 and 2007, respectively, is not included in the balance sheets.

## Common Revenue Bond Fund (Resolution 876) of the Port Authority of the City of Saint Paul

### Notes to Financial Statements

#### Note 4. Revenue Bonds and Notes Payable (Continued)

A schedule of changes in the 876 Bond Fund's revenue bonds and notes payable for 2008 and 2007 follows:

	Balance, December 31, 2007	Additions	Deductions	Balance, December 31, 2008	Amounts Due Within One Year and Past Due
Revenue bonds and notes payable	\$ 51,670	\$ -	\$ -	\$ 51,670	\$ 41,766

	Balance, December 31, 2006	Additions	Deductions	Balance, December 31, 2007	Amounts Due Within One Year and Past Due
Revenue bonds and notes payable	\$ 51,670	\$ -	\$ -	\$ 51,670	\$ 34,456

Scheduled maturities of long-term obligations, excluding interest owed on past-due principal, for the years ending December 31 are as follows:

	Principal	Interest	Total
Past due	\$ 34,456	\$ 3,087	\$ 37,543
2009	7,310	1,695	9,005
2010	3,515	1,020	4,535
2011	2,620	648	3,268
2012	2,635	361	2,996
2013	1,000	104	1,104
2014 – 2017	134	28	162
	<u>\$ 51,670</u>	<u>\$ 6,943</u>	<u>\$ 58,613</u>

Ramsey County District Court (Court), in an order dated October 22, 2004, confirmed the Port Authority's right to adjust the dates of all interest and principal payments beginning December 1, 2004. In accordance with the order, the Port Authority calculates the net cash available on May 15 and November 15 of each year for interest and principal payments due on June 1 and December 1. Payments on past-due principal will be made based on a priority basis established by the order. The order also provided for the payment of the fund's third-party expenses relating to paying agent fees and other general and administrative expenses from the 876 Bond Fund.

The 876 Bond Fund did not have adequate cash to pay the full principal amount due on December 1, 2006, nor at any point since then. In addition, it has not made full interest payments since that time, and it is unlikely full principal and interest payments will be made in the future. The above table represents the scheduled payments due; actual payments will be dependant upon the actual cash flow for the period.

On September 22, 2006, the Court authorized the Port Authority to hold all the prepaid net revenues and special funds received due to prepayments, purchase options, or the sale of properties repossessed by the Port Authority that were on hand or received in the future by the Port Authority. Only cash receipts deposited to the Bond Fund are distributed to bond holders. As a result of proceeds from the sale of repossessed properties, prepaid net revenues and special funds on deposits were \$21,787 and \$19,654 on December 31, 2008 and 2007, respectively.

## Common Revenue Bond Fund (Resolution 876) of the Port Authority of the City of Saint Paul

### Notes to Financial Statements

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#### Note 5. Related-Party Transactions

The Port Authority is legally entitled to charge the borrower a fee for the issuance of the bonds, which partially compensates the Port Authority for the administrative costs of the 876 Bond Fund and the economic development obligations of the Port Authority. Fiscal and administration fees charged by the Port Authority to 876 Bond Fund borrowers were \$104 and \$129 in 2008 and 2007, respectively. These are not pledged to the 876 Bond Fund. In addition, certain 876 Bond Fund borrowers made lease payments for obligations due on non-876 Bond Fund bonds issued by the Port Authority until they were fully repaid in 2007. These payments, totaling approximately \$14 in 2007, were paid to the holders of the non-876 Bond Fund bonds.

#### Note 6. Leasing Arrangements

At December 31, 2008, future minimum rentals to be received under noncancelable performing long-term land and facility leases were as follows:

2009	\$	2,772
2010		2,341
2011		1,654
2012		1,127
2013		1,024
Thereafter		6,835

#### Note 7. Commitments and Contingencies

**Risk management:** The 876 Bond Fund is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors or omissions; and general liability, for which the 876 Bond Fund requires lessees, payors under loans receivable, or property managers (in the case of real estate owned and operated) to carry commercial insurance. The 876 Bond Fund has not reduced insurance coverage requirements in the past year, and no claims have been paid by the 876 Bond Fund in any of the three preceding years.

**Other contingencies:** In the normal course of its business, the 876 Bond Fund is subject to contingencies relating to the performance and completion of contracts, environmental matters and claims of others. In the opinion of management and internal legal counsel, the ultimate settlement of known claims or disputes will not adversely affect the financial position or results of operations of the 876 Bond Fund.

#### Note 8. Going Concern

The 876 Bond Fund had an accumulated deficit of \$30,868 at December 31, 2008, due to the significant number of loan and lease defaults, which have resulted in various property foreclosures by the 876 Bond Fund. Current cash flows from all sources pledged to the 876 Bond Fund, as described in Note 4, were not adequate to meet scheduled debt service requirements in 2007 or 2008. The Port Authority has no obligation to fund these shortfalls from its own assets.

The 876 Bond Fund continues to experience a shortfall in available net revenues required to pay ongoing annual debt service. It is unlikely the available net revenues will ever be sufficient to make full and timely payments of principal and interest due on the 876 Bond Fund bonds. The exact amount of the deficiency in payments is dependent upon a number of variables, the outcome of which cannot be predicted with certainty.

## Common Revenue Bond Fund (Resolution 876) of the Port Authority of the City of Saint Paul

### Notes to Financial Statements

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#### Note 8. Going Concern (Continued)

The Port Authority, as manager of the 876 Bond Fund, petitioned and received preliminary approval from the Ramsey County District Court for a plan to liquidate the 876 Bond Fund and distribute revenues derived from that liquidation to bondholders in a final payment. Certain bondholders opposed that plan and appealed that ruling to the Minnesota Court of Appeals, which affirmed the lower court's ruling. This ruling was appealed to the Minnesota Supreme Court; however, no ruling has been issued as of the date of this report. Pursuant to an earlier court order, the Port Authority will hold current and future prepaid net revenues and special funds for use in the proposed liquidation or as otherwise directed by further court order.