

# STATE OF MINNESOTA

## Office of the State Auditor



**Rebecca Otto**  
**State Auditor**

---

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

**YEARS ENDED DECEMBER 31, 2016 AND 2015**

## **Description of the Office of the State Auditor**

The mission of the Office of the State Auditor is to oversee local government finances for Minnesota taxpayers by helping to ensure financial integrity and accountability in local governmental financial activities.

Through financial, compliance, and special audits, the State Auditor oversees and ensures that local government funds are used for the purposes intended by law and that local governments hold themselves to the highest standards of financial accountability.

The State Auditor performs approximately 150 financial and compliance audits per year and has oversight responsibilities for over 3,300 local units of government throughout the state. The office currently maintains five divisions:

**Audit Practice** - conducts financial and legal compliance audits of local governments;

**Government Information** - collects and analyzes financial information for cities, towns, counties, and special districts;

**Legal/Special Investigations** - provides legal analysis and counsel to the Office and responds to outside inquiries about Minnesota local government law; as well as investigates allegations of misfeasance, malfeasance, and nonfeasance in local government;

**Pension** - monitors investment, financial, and actuarial reporting for approximately 650 public pension funds; and

**Tax Increment Financing** - promotes compliance and accountability in local governments' use of tax increment financing through financial and compliance audits.

The State Auditor serves on the State Executive Council, State Board of Investment, Land Exchange Board, Public Employees Retirement Association Board, Minnesota Housing Finance Agency, and the Rural Finance Authority Board.

Office of the State Auditor  
525 Park Street, Suite 500  
Saint Paul, Minnesota 55103  
(651) 296-2551  
state.auditor@osa.state.mn.us  
www.auditor.state.mn.us

This document can be made available in alternative formats upon request. Call 651-296-2551 [voice] or 1-800-627-3529 [relay service] for assistance; or visit the Office of the State Auditor's web site: [www.auditor.state.mn.us](http://www.auditor.state.mn.us).

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

**Years Ended December 31, 2016 and 2015**



**Audit Practice Division  
Office of the State Auditor  
State of Minnesota**

This page was left blank intentionally.

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

TABLE OF CONTENTS

	<u>Exhibit</u>	<u>Page</u>
<b>Introductory Section</b>		
Organization		1
<b>Financial Section</b>		
Independent Auditor's Report		2
Basic Financial Statements		
Comparative Statement of Net Position	1	4
Comparative Statement of Revenues, Expenses, and Changes in Net Position	2	6
Comparative Statement of Cash Flows	3	7
Notes to the Financial Statements		8
<b>Compliance Report</b>		
Independent Auditor's Report on Compliance with Enabling Resolutions		25

This page was left blank intentionally.



This page was left blank intentionally.



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

ORGANIZATION  
DECEMBER 31, 2016

Mayor Betsy Hodges

City Council

Ward 1	Kevin Reich
Ward 2	Cam Gordon
Ward 3	Jacob Frey
Ward 4	Barbara Johnson
Ward 5	Blong Yang
Ward 6	Abdi Warsame
Ward 7	Lisa Goodman
Ward 8	Elizabeth Glidden
Ward 9	Alondra Cano
Ward 10	Lisa Bender
Ward 11	John Quincy
Ward 12	Andrew Johnson
Ward 13	Linea Palmisano

City Coordinator Spencer Cronk

Finance Officer Mark Ruff

City Council terms all expire December 31, 2017.

This page was left blank intentionally.



This page was left blank intentionally.



REBECCA OTTO  
STATE AUDITOR

# STATE OF MINNESOTA OFFICE OF THE STATE AUDITOR

SUITE 500  
525 PARK STREET  
SAINT PAUL, MN 55103-2139

(651) 296-2551 (Voice)  
(651) 296-4755 (Fax)  
state.auditor@state.mn.us (E-mail)  
1-800-627-3529 (Relay Service)

## INDEPENDENT AUDITOR'S REPORT

The Honorable Betsy Hodges, Mayor,  
and Members of the City Council  
City of Minneapolis, Minnesota

### Report on the Financial Statements

We have audited the accompanying financial statements of the City of Minneapolis General Agency Reserve Fund System (GARFS) as of and for the years ended December 31, 2016 and 2015, and the related notes to the financial statements, which collectively comprise GARFS' basic financial statements, as listed in the table of contents.

#### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

#### *Auditor's Responsibility*

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City of Minneapolis' preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the City of Minneapolis General Agency Reserve Fund System as of December 31, 2016 and 2015, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

***Emphasis of Matter***

As discussed in Note 2, the financial statements present only the General Agency Reserve Fund System and do not purport to, and do not, present fairly the financial position of the City of Minneapolis as of December 31, 2016 and 2015, or the results of its operations or cash flows of the City's proprietary funds for the years then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

*/s/Rebecca Otto*

REBECCA OTTO  
STATE AUDITOR

*/s/Greg Hierlinger*

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR

April 17, 2017

## **BASIC FINANCIAL STATEMENTS**

This page was left blank intentionally.



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

**EXHIBIT 1**

**COMPARATIVE STATEMENT OF NET POSITION  
DECEMBER 31, 2016 AND 2015**

	<b>2016</b>	<b>2015</b>
<b><u>Assets</u></b>		
<b>Current assets</b>		
<b>Cash and cash equivalents</b>		
Common reserve account	\$ 2,976,908	\$ 4,220,510
Industrial development bond account	1,036,216	4,372,422
Debt service account	1,222,080	1,677,879
Construction funds	4,900	4,900
Other	95,018	85,279
<b>Total cash and cash equivalents</b>	<b>\$ 5,335,122</b>	<b>\$ 10,360,990</b>
<b>Investments</b>		
Industrial development bond account	\$ 32,760,144	\$ 29,195,265
General agency reserve fund	1,362,684	950,324
<b>Total investments</b>	<b>\$ 34,122,828</b>	<b>\$ 30,145,589</b>
<b>Receivables</b>		
Accrued interest	\$ 308,238	\$ 254,335
Capitalized leases	3,375,100	4,035,000
<b>Total receivables</b>	<b>\$ 3,683,338</b>	<b>\$ 4,289,335</b>
<b>Total current assets</b>	<b>\$ 43,141,288</b>	<b>\$ 44,795,914</b>
<b>Noncurrent assets</b>		
<b>Receivables</b>		
Capitalized leases	72,935,000	80,750,100
<b>Total Assets</b>	<b>\$ 116,076,288</b>	<b>\$ 125,546,014</b>

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

**EXHIBIT 1  
(Continued)**

**COMPARATIVE STATEMENT OF NET POSITION  
DECEMBER 31, 2016 AND 2015**

	<b>2016</b>	<b>2015</b>
<b><u>Liabilities</u></b>		
<b>Current liabilities</b>		
Accounts payable	\$ 15,129	\$ 16,099
Accrued interest payable	359,236	396,155
Unearned revenue	1,073,816	1,267,288
Developer reserve deposits	2,976,908	4,220,510
Bonds payable	3,380,000	4,035,000
<b>Total current liabilities</b>	<b>\$ 7,805,089</b>	<b>\$ 9,935,052</b>
<b>Noncurrent liabilities</b>		
Bonds payable	72,935,000	80,755,000
<b>Total Liabilities</b>	<b>\$ 80,740,089</b>	<b>\$ 90,690,052</b>
<b><u>Net Position</u></b>		
Restricted for debt service	\$ 35,336,199	\$ 34,855,962

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

**EXHIBIT 2**

**COMPARATIVE STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION  
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015**

	<b>2016</b>	<b>2015</b>
<b>Operating Revenues</b>		
Interest on capitalized leases and developer fees	\$ 4,372,599	\$ 4,947,613
Interest income	244,328	701,329
Increase (decrease) in fair value of investments	(38,469)	(392,773)
Administrative fees	365,309	389,831
Miscellaneous revenues	283,781	-
	<b>\$ 5,227,548</b>	<b>\$ 5,646,000</b>
<b>Operating Expenses</b>		
Interest	\$ 4,585,417	\$ 4,980,000
Professional services and other expenses	161,894	267,056
	<b>\$ 4,747,311</b>	<b>\$ 5,247,056</b>
<b>Change in Net Position</b>	<b>\$ 480,237</b>	<b>\$ 398,944</b>
<b>Net Position - January 1</b>	<b>34,855,962</b>	<b>34,457,018</b>
<b>Net Position - December 31</b>	<b>\$ 35,336,199</b>	<b>\$ 34,855,962</b>

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

**EXHIBIT 3**

**COMPARATIVE STATEMENT OF CASH FLOWS  
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015**

	<b>2016</b>	<b>2015</b>
<b>Cash Flows from Operating Activities</b>		
Receipts from customers and users	\$ 12,021,146	\$ 10,409,532
Interest received from investments	190,425	734,390
Contribution (withdrawal) from developer funds	-	(2,951,116)
Payments to suppliers	(162,864)	(274,318)
<b>Net cash provided by (used in) operating activities</b>	<b>\$ 12,048,707</b>	<b>\$ 7,918,488</b>
<b>Cash Flows from Noncapital Financing Activities</b>		
Principal paid on bonds	\$ (8,475,000)	\$ (5,310,000)
Interest paid on bonds	(4,622,336)	(5,001,658)
<b>Net cash provided by (used in) noncapital financing activities</b>	<b>\$ (13,097,336)</b>	<b>\$ (10,311,658)</b>
<b>Cash Flows from Investing Activities</b>		
Purchase of investments	\$ (23,109,780)	\$ (18,869,085)
Sale of investments	19,132,541	20,829,373
<b>Net cash provided by (used in) investing activities</b>	<b>\$ (3,977,239)</b>	<b>\$ 1,960,288</b>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	<b>\$ (5,025,868)</b>	<b>\$ (432,882)</b>
<b>Cash and Cash Equivalents - January 1</b>	<b>10,360,990</b>	<b>10,793,872</b>
<b>Cash and Cash Equivalents - December 31</b>	<b>\$ 5,335,122</b>	<b>\$ 10,360,990</b>
<b>Reconciliation of operating income (loss) to net cash provided by (used in) operating activities</b>		
<b>Operating Income (Loss)</b>	<b>\$ 480,237</b>	<b>\$ 398,944</b>
<b>Adjustments to reconcile operating income (loss) before operating transfers to net cash provided by (used in) operating activities</b>		
Interest expense	4,585,417	4,980,000
(Increase) decrease in accrued interest receivable	(53,903)	33,061
(Increase) decrease in capitalized leases receivable	8,475,000	5,310,000
Increase (decrease) in accounts payable	(970)	(7,262)
Increase (decrease) in unearned revenue	(193,472)	209,187
Increase (decrease) in deposits held for others	-	(2,951,116)
Increase (decrease) in developer reserve deposits	(1,243,602)	(54,326)
<b>Net Cash Provided by (Used in) Operating Activities</b>	<b>\$ 12,048,707</b>	<b>\$ 7,918,488</b>
<b>Noncash investing, capital, and financing activities</b>		
Increase (decrease) in the value of investments reported at fair value	<b>\$ (38,469)</b>	<b>\$ (392,773)</b>

The notes to the financial statements are an integral part of this statement.

Page 7

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

NOTES TO THE FINANCIAL STATEMENTS  
AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

---

---

1. Organization and Purpose

*Establishment of the Department* - In 1981, the Housing and Redevelopment Authority in and for the City of Minneapolis, Minnesota, was renamed the Minneapolis Community Development Agency (the MCDA) by an ordinance of the Minneapolis City Council under authority granted by Minnesota Laws 1980, Chapter 595. In 1986, the MCDA was reorganized by Minneapolis City Ordinance 86-Or-035 under the above authority. By such ordinance, the MCDA was reorganized to encourage, among other things, commercial and industrial growth and redevelopment and to process applications for industrial revenue bond financing. In addition, the public housing activities formerly carried on were organized separately. In 2003, the Minneapolis City Council adopted resolutions transferring MCDA activities to the City. These activities are organized under the City of Minneapolis.

*Creation of Common Bond Fund Program* - The City has adopted a Basic Resolution, a General Agency Reserve Resolution, and a Supplemental General Agency Reserve Resolution, which enabled the City to issue and sell obligations to finance the construction, reconstruction, acquisition, improvement, betterment, and extension of authorized facilities. This is generally known as the Common Bond Fund Program and consists of two separate common bond funds (A and B) for governmental and nongovernmental issuers. The bonds are payable from and secured by the following: discretionary contributions from the City, lease payments, deficiency accounts, administrative fee account, common reserve account, Industrial Development Bond account, general agency reserve fund, and a pledge of up to one-half percent of tax capacity of the City of Minneapolis. The City has also pledged to maintain certain reserve ratios as defined in the Basic Resolution. In addition, certain developers have issued letters of credit for the benefit of the General Agency Reserve Fund System (GARFS) to back the common reserve requirement in lieu of cash deposits.

*Appropriation of GARFS Funds* - The Basic and Supplemental Resolutions noted above direct GARFS to obtain lease agreements to meet the debt service requirements of the financing. Substantially all receipts of GARFS are pledged and appropriated for debt service on outstanding bonds. GARFS funds are maintained in separate accounts by an independent trustee and by the City.

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

---

---

1. Organization and Purpose (Continued)

*Initial Funding* - In order to provide initial funding for GARFS, an advance of \$5,000,000 was made from the MCDA's development account in 1984. The advance of \$5,000,000, along with the accrued interest thereon of \$2,698,116, was permanently transferred from the MCDA's development account to GARFS in 1988.

2. Summary of Significant Accounting Policies

*Financial Statements* - The financial statements of GARFS are combined into a single enterprise fund and are intended to present only the financial activity of the General Agency Reserve Fund System. The statements do not include various other funds of the City of Minneapolis, Minnesota.

*Basis of Accounting* - The GARFS' enterprise fund is accounted for using the full accrual, economic resource basis of accounting. Revenues are recognized when they are earned, and expenses are recognized when they are incurred.

*Lease Agreements* - The City of Minneapolis has entered into lease agreements with developers. The annual lease payments approximate the principal and interest requirements on the outstanding bonds. The leases are capitalized in an amount equal to the principal of the related bonds, net of any unexpended construction fund proceeds (see Note 8). Each lease agreement includes a bargain purchase option exercisable at the end of the lease term. In addition, the leased property may be purchased at various anniversaries during the lease terms at amounts at least equal to the outstanding principal amount of the underlying bonds.

*Developer Reserve Deposits* - Certain developers have made reserve deposits upon commencement of the lease agreement as security for payments due under the agreement. Reserve deposits will be applied against the final lease payments due or outstanding balance in the event of default by the developer. In addition, letters of credit have been issued by corporations and financial institutions for the benefit of GARFS to back the common reserve requirement of certain developers in lieu of cash deposits (see Note 4).

*Unearned Revenue* - Unearned revenue represents interest payments received from developers prior to the due date. Amounts are reported as revenue during the period earned.

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

---

---

2. Summary of Significant Accounting Policies (Continued)

*Equity Classifications* - Equity is classified as net position. The unrestricted component of net position is the net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position. The restricted portion of net position consists of net position with constraints placed on its use by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation. When both restricted and unrestricted resources are available for use, it is GARFS' policy to use restricted resources first and then unrestricted resources as needed.

*Use of Estimates* - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

*Commitments and Contingencies* - The City is involved in litigation encountered in the normal course of business. In the opinion of management, the resolution of these matters will not have a material effect on the financial position or results of operations of GARFS.

3. Cash and Investments

Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with original maturities of less than 90 days from the date of acquisition.

Except for pooled investments in the custody of the City of Minneapolis Treasurer, all other cash and cash equivalents and investments of GARFS are held and invested by an independent trustee bank, which is a member of the Federal Reserve System. All such cash and investments, except those in the custody of the City Treasurer, are held by the bank's trust department in the name of GARFS or the City. All cash deposits not invested are federally insured.

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

---

---

3. Cash and Investments (Continued)

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a financial institution failure, GARFS' deposits or investment payments may be delayed or not be returned. GARFS' custodial credit risk for funds held by the trustee is covered by the trust agreement. Deposits of GARFS are predominantly held in money market funds, which do not require collateral. The remaining GARFS' deposits are held in depository accounts of the City of Minneapolis, where deposits have adequate collateral levels and are subject to the City's custodial credit risk policy. At December 31, 2016 and 2015, GARFS' deposits and investments were not exposed to custodial credit risk.

Interest Rate Risk

Interest rate risk is the risk that changes in the market interest rates will adversely affect the fair value of an investment. For investments of GARFS, exposure to interest rate risk is minimized by investing in both short-term and long-term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. For both investments held by the trustee and those held by the City, it is the policy for GARFS to invest only in securities that meet the ratings requirements set by state statute.

Concentration of Credit Risk

The concentration of credit risk is the risk of loss that may be caused by investing in a single issuer. No investments in any one issuer at December 31, 2016 and 2015 represent five percent or more of GARFS' investments.



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

3. Cash and Investments (Continued)

The following table presents GARFS' investment balances at December 31, 2016 and 2015, and information relating to interest and credit quality investment risks:

2016

Investment Type	Standard & Poor's Credit Risk Rating			Interest Rate Risk	Carrying (Fair) Value
	Low Credit Risk (a)	Medium or Higher Credit Risk (b)	Not Rated (c)	Weighted Average Maturity (Years)	
U.S. Federal agency obligations	100.0%	-	-	1.3	\$ 1,246,663
U.S. Mortgage obligations	100.0	-	-	2.8	1,033,759
U.S. Treasury securities	100.0	-	-	2.0	7,992,799
Municipal bonds	90.6	-	9.4%	1.1	22,486,923
City of Minneapolis investment pool	-	-	100.0	N/A	1,362,684
Total investments					\$ 34,122,828
Cash and cash equivalents					5,335,122
Total Cash and Investments					<u>\$ 39,457,950</u>

2015

Investment Type	Standard & Poor's Credit Risk Rating			Interest Rate Risk	Carrying (Fair) Value
	Low Credit Risk (a)	Medium or Higher Credit Risk (b)	Not Rated (c)	Weighted Average Maturity (Years)	
U.S. Federal agency obligations	100.0%	-	-	1.2	\$ 365,096
U.S. Mortgage obligations	100.0	-	-	2.6	905,880
U.S. Treasury securities	100.0	-	-	2.0	8,713,368
Municipal bonds	90.8	-	9.2%	1.3	19,210,921
City of Minneapolis investment pool	-	-	100.0	N/A	950,324
Total investments					\$ 30,145,589
Cash and cash equivalents					10,360,990
Total Cash and Investments					<u>\$ 40,506,579</u>

N/A Not Applicable

(a) Low credit risk is considered a rating of "A" or better for long-term securities.

(b) Medium or higher credit risk is any rating below low credit risk.

(c) Obligations not rated on Standard & Poor's rating scale were rated in the top categories with other rating agencies.

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

3. Cash and Investments (Continued)

Fair Value Measurement

The City categorizes its fair value measurements with the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. That hierarchy has three levels. U.S. federal agency obligations classified as Level 1 inputs are valued using quoted prices (unadjusted) in active markets for identical investments. All other debt securities classified as Level 2 inputs are valued based on various non-active market and industry inputs, that are observable for the investment, either directly or indirectly.

At December 31, 2016, the City had the following recurring fair value measurements:

	December 31, 2016	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments by fair value level				
Debt securities				
U.S. Federal agency obligations	\$ 1,246,663	\$ 796,454	\$ 450,209	\$ -
U.S. Mortgage obligations	1,033,759	-	1,033,759	-
U.S. Treasury securities	7,992,799	-	7,992,799	-
Municipal bonds	22,486,923	-	22,486,923	-
Total investments included in the fair value hierarchy	\$ 32,760,144	\$ 796,454	\$ 31,963,690	\$ -
City of Minneapolis investment pool	1,362,684	-	1,362,684	-
Total Investments	\$ 34,122,828	\$ 796,454	\$ 33,326,374	\$ -
Cash and cash equivalents	5,335,122			
Total Investments	\$ 39,457,950			

Funds held by the City of Minneapolis are pooled to enhance investment earnings. The fair value of the City of Minneapolis investment pool is the fair value per share of the underlying portfolio. There are no redemption limitations.

Fair value measurement information is not available for 2015.

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

3. Cash and Investments

Fair Value Measurement (Continued)

Investments as of December 31, 2016 and 2015, are as follows:

	2016		2015	
	Cost	Fair Value	Cost	Fair Value
U.S. Federal agency obligations	\$ 1,256,859	\$ 1,246,663	\$ 353,425	\$ 365,096
U.S. Mortgage obligations	1,044,959	1,033,759	928,310	905,880
U.S. Treasury securities	8,023,855	7,992,799	8,750,922	8,713,368
Municipal bonds	23,153,703	22,486,923	19,846,498	19,210,921
City of Minneapolis investment pool	1,366,524	1,362,684	952,000	950,324
<b>Total Investments</b>	<b>\$ 34,845,900</b>	<b>\$ 34,122,828</b>	<b>\$ 30,831,155</b>	<b>\$ 30,145,589</b>

4. Bonded Debt Security

In addition to funds maintained by GARFS, the bond obligations issued are secured by the following:

Letters of credit have been issued by corporations and financial institutions for the benefit of GARFS to back the common reserve requirements of certain developers in lieu of cash deposits as follows at December 31, 2016 and 2015:

Discount Steel	\$ 246,162
Hennepin Theatre Trust	1,600,000
Quality Resource Group	266,000
New French Acquisition Holdco, Inc.	810,456
Open Systems International, Inc.	1,371,429
LifeSource Project	856,000
<b>Total</b>	<b>\$ 5,150,047</b>

*Tax Pledge and Reserve Ordinance* - The Minneapolis City Council passed an ordinance, as amended, which pledges up to one-half percent of tax capacity to secure payment of bond principal and interest on all bonds issued after May 22, 1987, the effective date of the resolution.

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

---

5. Long-Term Debt Bond Issues (see pages 17 through 20)

A summary of long-term debt activity for the years ended December 31, 2016 and 2015, is as follows:

	2016	2015
Development Revenue Bonds		
Payable - January 1	\$ 84,790,000	\$ 90,100,000
Retired	(8,475,000)	(5,310,000)
Payable - December 31	\$ 76,315,000	\$ 84,790,000
Due Within One Year	\$ 3,380,000	\$ 4,035,000

The Infinite Graphics and the Ambassador Press capital lease receivables were paid off during 2016, ahead of the planned repayment schedule, increasing the 2016 retired amount from what was previously scheduled as the due within one year amount from 2015.

6. Related-Party Transactions

*Laurel Village* - In 1995, the MCDA entered into an agreement with the developer of Laurel Village in which the City committed to use \$2,656,318 of tax increment revenues, or other available funds, through the year 2016 to stabilize funding for the John Alden Apartments. These funds were repledged to pay debt service on the Laurel Village Series 1997 Development Revenue Bonds. These bonds were retired in 2015, and the final amount paid by the City pursuant to this commitment was \$105,372. In 2016, the City received \$283,781 of revenue due to the closure of the related trustee accounts.

7. Industrial Development Bond (IDB) Account

Within GARFS, there is an IDB account. Funds are remitted to this account as specified in the Common Bond Fund Resolutions. The City has pledged not to reduce the IDB account to a balance less than \$20,000,000. The balance in the IDB account was \$33,796,360 and \$33,567,687 as of December 31, 2016 and 2015, respectively.

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

---

---

8. Capitalized Leases Receivable

According to the Basic Resolution and Indenture, GARFS is to enter into a Revenue Agreement with developers receiving funds. Such agreements are in the form of capitalized leases (see also Note 2). The agreements outstanding are detailed on pages 21 through 24.

9. Other Commitments and Contingencies

In connection with the normal conduct of its affairs, the City is involved in various claims, litigation, and judgments. None of these cases directly involve GARFS. It is management's intent that GARFS' resources would not be used to settle any of these claims. Consequently, it is expected that the final settlement of these matters will not materially affect the financial statements of GARFS.

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

**NOTES TO THE FINANCIAL STATEMENTS  
OUTSTANDING DEVELOPMENT REVENUE BONDS  
DECEMBER 31, 2016**

	<u>Interest Rate</u>	<u>Issue Date</u>	<u>Final Maturity Date</u>
<b>General Agency Reserve Fund System</b>			
Halper Box	5.10% to 6.15%	04-01-97	06-01-17
Cord Sets	4.10% to 5.50%	07-01-98	06-01-18
Discount Steel - A	5.00% to 5.25%	12-01-99	06-01-19
Kristol Properties	2.45% to 5.12%	11-20-03	12-01-23
Infinite Graphics	2.25% to 5.50%	07-14-04	12-01-24
Hennepin Theatre Trust	5.23% to 6.30%	12-20-05	12-01-35
Ambassador Press	4.27% to 6.50%	06-26-06	12-01-26
Quality Resource Group	5.28% to 5.84%	03-04-07	12-01-27
New French Acquisition Holdco, Inc. (Taxable and Tax Exempt)	4.62% to 5.70%	07-26-07	06-01-28
Open Systems International, Inc.	2.29% to 6.60%	06-16-10	06-01-40
Open Access Technology International, Inc. (Taxable and Tax Exempt)	1.25% to 6.25%	12-29-10	12-01-40
LifeSource Project	3.00% to 4.00%	10-17-13	06-01-39
<b>Total Outstanding Development Revenue Bonds</b>			

**2015 Amounts**

NOTE 5

	Bonds			Principal Due in 2017	Interest Due in 2017
	Issued	Retired	Outstanding		
\$ 2,400,000	\$ 2,250,000	\$ 150,000	\$ 150,000	\$ 4,612	
1,500,000	1,300,000	200,000	110,000	7,975	
1,900,000	1,280,000	620,000	215,000	26,906	
3,300,000	2,285,000	1,015,000	120,000	52,019	
2,475,000	2,475,000	-	-	-	
21,055,000	3,975,000	17,080,000	495,000	1,067,438	
8,400,000	8,400,000	-	-	-	
3,100,000	1,000,000	2,100,000	140,000	120,616	
9,990,000	2,870,000	7,120,000	445,000	359,794	
18,000,000	1,465,000	16,535,000	325,000	1,038,686	
25,000,000	5,645,000	19,355,000	1,045,000	1,106,763	
12,595,000	455,000	12,140,000	335,000	526,025	
<b>\$ 109,715,000</b>	<b>\$ 33,400,000</b>	<b>\$ 76,315,000</b>	<b>\$ 3,380,000</b>	<b>\$ 4,310,834</b>	
<b>\$ 112,230,000</b>	<b>\$ 27,440,000</b>	<b>\$ 84,790,000</b>			

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

**NOTES TO THE FINANCIAL STATEMENTS  
CURRENT ANNUAL OBLIGATIONS ON OUTSTANDING PRINCIPAL BALANCES  
OF BOND ISSUES AND INTEREST PAYMENTS  
DECEMBER 31, 2016**

	<u>2017</u>	<u>2018</u>	<u>2019</u>
Halper Box	\$ 150,000	\$ -	\$ -
Cord Sets	110,000	90,000	-
Discount Steel - A	215,000	225,000	180,000
Kristol Properties	120,000	130,000	140,000
Hennepin Theatre Trust	495,000	525,000	560,000
Quality Resource Group	140,000	150,000	160,000
New French Acquisition Holdco, Inc. (Taxable and Tax Exempt)	445,000	470,000	490,000
Open Systems International, Inc.	325,000	340,000	360,000
Open Access Technology International, Inc. (Taxable and Tax Exempt)	1,045,000	1,085,000	1,135,000
LifeSource Project	<u>335,000</u>	<u>340,000</u>	<u>355,000</u>
<b>Total principal payments</b>	<b>\$ 3,380,000</b>	<b>\$ 3,355,000</b>	<b>\$ 3,380,000</b>
<b>Total interest payments</b>	<b><u>4,310,834</u></b>	<b><u>4,154,264</u></b>	<b><u>3,991,361</u></b>
<b>Total Current Annual Obligations of Principal and Interest to Maturity</b>	<b><u>\$ 7,690,834</u></b>	<b><u>\$ 7,509,264</u></b>	<b><u>\$ 7,371,361</u></b>



**NOTE 5**  
**(Continued)**

<u>2020</u>	<u>2021</u>	<u>2022-2026</u>	<u>2027-2031</u>	<u>2032-2036</u>	<u>2037-2040</u>	<u>Total</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 150,000
-	-	-	-	-	-	200,000
-	-	-	-	-	-	620,000
145,000	150,000	330,000	-	-	-	1,015,000
595,000	630,000	3,780,000	5,115,000	5,380,000	-	17,080,000
170,000	175,000	1,055,000	250,000	-	-	2,100,000
515,000	545,000	3,160,000	1,495,000	-	-	7,120,000
380,000	395,000	2,370,000	3,230,000	4,435,000	4,700,000	16,535,000
1,190,000	395,000	2,395,000	3,240,000	4,350,000	4,520,000	19,355,000
365,000	380,000	2,145,000	2,615,000	3,260,000	2,345,000	12,140,000
<u>\$ 3,360,000</u>	<u>\$ 2,670,000</u>	<u>\$ 15,235,000</u>	<u>\$ 15,945,000</u>	<u>\$ 17,425,000</u>	<u>\$ 11,565,000</u>	<u>\$ 76,315,000</u>
<u>3,824,785</u>	<u>3,653,161</u>	<u>15,884,121</u>	<u>11,309,822</u>	<u>6,357,868</u>	<u>1,559,213</u>	<u>55,045,429</u>
<u><u>\$ 7,184,785</u></u>	<u><u>\$ 6,323,161</u></u>	<u><u>\$ 31,119,121</u></u>	<u><u>\$ 27,254,822</u></u>	<u><u>\$ 23,782,868</u></u>	<u><u>\$ 13,124,213</u></u>	<u><u>\$ 131,360,429</u></u>

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

**NOTES TO THE FINANCIAL STATEMENTS  
SCHEDULE OF CAPITALIZED LEASES  
DECEMBER 31, 2016**

	<b>Total Lease Payments</b>	<b>Total Interest</b>
<b>Capitalized Leases</b>		
Halper Box	\$ 154,612	\$ 4,612
Cord Sets	210,450	10,450
Discount Steel - A	666,987	46,987
Kristol Properties	1,234,351	219,351
Hennepin Theatre Trust	29,704,459	12,624,459
Quality Resource Group	2,897,966	797,966
New French Acquisition Holdco, Inc. (Taxable and Tax Exempt)	9,656,076	2,536,076
Open Systems International, Inc.	32,412,232	15,877,232
Open Access Technology International, Inc. (Taxable and Tax Exempt)	34,693,458	15,338,458
LifeSource Project	19,729,838	7,589,838
<b>Total Capitalized Leases</b>	<b>\$ 131,360,429</b>	<b>\$ 55,045,429</b>

**2015 Amounts**

**NOTE 8**

<u>Total Principal</u>	<u>Unexpended Construction Funds</u>	<u>Capitalized Leases Receivable</u>	<u>Current Portion</u>	<u>Noncurrent Portion</u>
\$ 150,000	\$ 4,900	\$ 145,100	\$ 145,100	\$ -
200,000	-	200,000	110,000	90,000
620,000	-	620,000	215,000	405,000
1,015,000	-	1,015,000	120,000	895,000
17,080,000	-	17,080,000	495,000	16,585,000
2,100,000	-	2,100,000	140,000	1,960,000
7,120,000	-	7,120,000	445,000	6,675,000
16,535,000	-	16,535,000	325,000	16,210,000
19,355,000	-	19,355,000	1,045,000	18,310,000
12,140,000	-	12,140,000	335,000	11,805,000
<b><u>\$ 76,315,000</u></b>	<b><u>\$ 4,900</u></b>	<b><u>\$ 76,310,100</u></b>	<b><u>\$ 3,375,100</u></b>	<b><u>\$ 72,935,000</u></b>
		<b><u>\$ 84,785,100</u></b>	<b><u>\$ 4,035,000</u></b>	<b><u>\$ 80,750,100</u></b>

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

**NOTES TO THE FINANCIAL STATEMENTS  
CAPITALIZED LEASES RECEIVABLE MATURITIES, INCLUDING INTEREST  
DECEMBER 31, 2016**

	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>
<b>Capitalized Leases</b>				
Halper Box	\$ 154,612	\$ -	\$ -	\$ -
Cord Sets	117,975	92,475	-	-
Discount Steel - A	241,906	240,356	184,725	-
Kristol Properties	172,019	175,869	179,206	177,031
Hennepin Theatre Trust	1,562,438	1,561,995	1,564,708	1,565,268
Quality Resource Group	260,616	263,028	264,523	265,450
New French Acquisition Holdco, Inc. (Taxable and Tax Exempt)	804,794	806,988	802,900	802,788
Open Systems International, Inc.	1,363,686	1,362,615	1,364,743	1,365,385
Open Access Technology International, Inc. (Taxable and Tax Exempt)	2,151,763	2,149,963	2,149,781	2,152,288
LifeSource Project	861,025	855,975	860,775	856,575
<b>Total Capitalized Lease Maturities</b>	<b><u>\$ 7,690,834</u></b>	<b><u>\$ 7,509,264</u></b>	<b><u>\$ 7,371,361</u></b>	<b><u>\$ 7,184,785</u></b>

**NOTE 8**  
**(Continued)**

<u>2021</u>	<u>2022-2026</u>	<u>2027-2031</u>	<u>2032-2036</u>	<u>2037-2040</u>	<u>Total</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 154,612
-	-	-	-	-	210,450
-	-	-	-	-	666,987
174,600	355,626	-	-	-	1,234,351
1,563,675	7,817,385	7,815,810	6,253,180	-	29,704,459
260,812	1,318,937	264,600	-	-	2,897,966
806,394	4,024,212	1,608,000	-	-	9,656,076
1,358,455	6,787,435	6,755,600	6,718,938	5,335,375	32,412,232
1,302,250	6,526,251	6,524,062	6,519,600	5,217,500	34,693,458
856,975	4,289,275	4,286,750	4,291,150	2,571,338	19,729,838
<u>\$ 6,323,161</u>	<u>\$ 31,119,121</u>	<u>\$ 27,254,822</u>	<u>\$ 23,782,868</u>	<u>\$ 13,124,213</u>	<u>\$ 131,360,429</u>

This page was left blank intentionally.



This page was left blank intentionally.





REBECCA OTTO  
STATE AUDITOR

# STATE OF MINNESOTA OFFICE OF THE STATE AUDITOR

SUITE 500  
525 PARK STREET  
SAINT PAUL, MN 55103-2139

(651) 296-2551 (Voice)  
(651) 296-4755 (Fax)  
state.auditor@state.mn.us (E-mail)  
1-800-627-3529 (Relay Service)

## INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH ENABLING RESOLUTIONS

The Honorable Betsy Hodges, Mayor,  
and Members of the City Council  
City of Minneapolis, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America, the accompanying financial statements of the City of Minneapolis General Agency Reserve Fund System (GARFS) as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise GARFS' basic financial statements, and have issued our report thereon dated April 17, 2017.

In connection with our audit, nothing came to our attention that caused us to believe that the City of Minneapolis failed to comply with the financial terms, financial covenants, financial provisions, or financial conditions of the Basic Resolution and Indenture (82-512) or the amendments relating to financial matters establishing the General Agency Reserve for Bonds (82-513), establishing an Industrial Development Bond (IDB) account (82-514), providing funding for the IDB account (83-665), clarifying permitted investments of funds relating to the Common Bond Fund (84-765), amending and restating the Basic Resolution of the City of Minneapolis (A and B) (04-256 and 04-257), and supplementing the Basic Resolution (04-258), insofar as they relate to financial and accounting matters. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the City of Minneapolis' noncompliance with the above referenced provisions.

This communication is intended solely for the information and use of the Mayor, members of the Minneapolis City Council, and management of the City of Minneapolis and is not intended to be, and should not be, used by anyone other than those specified parties.

*/s/Rebecca Otto*

REBECCA OTTO  
STATE AUDITOR

*/s/Greg Hierlinger*

GREG HIERLINGER, CPA  
DEPUTY STATE AUDITOR

April 17, 2017

Page 25