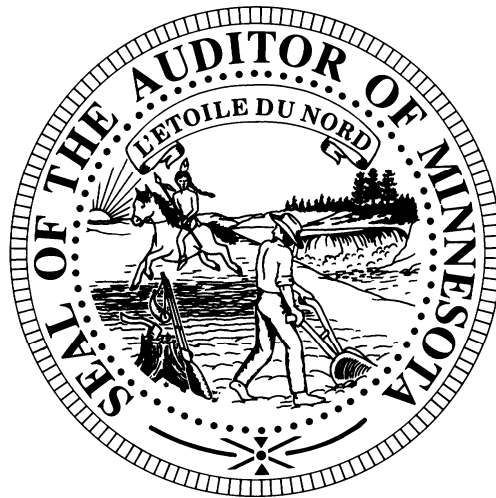


STATE OF MINNESOTA

Office of the State Auditor



Julie Blaha
State Auditor

CITY OF MINNEAPOLIS
GENERAL AGENCY RESERVE FUND SYSTEM
MINNEAPOLIS, MINNESOTA

YEARS ENDED DECEMBER 31, 2018 AND 2017

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 100 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 600 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.

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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.

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

Years Ended December 31, 2018 and 2017



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

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

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

ORGANIZATION
DECEMBER 31, 2018

Mayor Jacob Frey

City Council

Ward 1	Kevin Reich
Ward 2	Cam Gordon
Ward 3	Steve Fletcher
Ward 4	Phillipe Cunningham
Ward 5	Jeremiah Ellison
Ward 6	Abdi Warsame
Ward 7	Lisa Goodman
Ward 8	Andrea Jenkins
Ward 9	Alondra Cano
Ward 10	Lisa Bender
Ward 11	Jeremy Schroeder
Ward 12	Andrew Johnson
Ward 13	Linea Palmisano

City Coordinator Nuria Rivera-Vandermyde

Finance Officer Mark Ruff

City Council terms all expire December 31, 2021.

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JULIE BLAHA
STATE AUDITOR

STATE OF MINNESOTA OFFICE OF THE STATE AUDITOR

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INDEPENDENT AUDITOR'S REPORT

The Honorable Jacob Frey, 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, 2018 and 2017, 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, 2018 and 2017, and the changes in its financial position 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, 2018 and 2017, or the changes in financial position 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.

Other Matters

Required Supplementary Information

Management has omitted the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

/s/Julie Blaha

JULIE BLAHA
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

April 19, 2019

BASIC FINANCIAL STATEMENTS

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

EXHIBIT 1

**COMPARATIVE STATEMENT OF NET POSITION
DECEMBER 31, 2018 AND 2017**

	2018	2017
<u>Assets</u>		
Current assets		
Cash and cash equivalents		
Common reserve account	\$ 2,668,689	\$ 2,636,276
Industrial development bond account	14,978,446	5,719,339
Debt service account	1,084,957	1,147,687
Other	97,782	94,151
Total cash and cash equivalents	\$ 18,829,874	\$ 9,597,453
Investments		
Industrial development bond account	\$ 19,993,501	\$ 28,524,009
General agency reserve fund	1,562,284	1,468,307
Total investments	\$ 21,555,785	\$ 29,992,316
Receivables		
Accrued interest	\$ 177,052	\$ 254,740
Capitalized leases	2,730,000	2,735,000
Total receivables	\$ 2,907,052	\$ 2,989,740
Total current assets	\$ 43,292,711	\$ 42,579,509
Noncurrent assets		
Receivables		
Capitalized leases	58,835,000	61,565,000
Total Assets	\$ 102,127,711	\$ 104,144,509

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

***EXHIBIT 1
(Continued)***

**COMPARATIVE STATEMENT OF NET POSITION
DECEMBER 31, 2018 AND 2017**

	2018	2017
<u>Liabilities</u>		
Current liabilities		
Accounts payable	\$ 15,859	\$ 15,173
Accrued interest payable	297,828	308,687
Unearned revenue	751,571	802,680
Developer reserve deposits	2,676,871	2,636,276
Bonds payable	2,730,000	2,735,000
Total current liabilities	\$ 6,472,129	\$ 6,497,816
Noncurrent liabilities		
Bonds payable	58,835,000	61,565,000
Total Liabilities	\$ 65,307,129	\$ 68,062,816
<u>Net Position</u>		
Restricted for debt service	\$ 36,820,582	\$ 36,081,693

**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, 2018 AND 2017**

	<u>2018</u>	<u>2017</u>
Operating Revenues		
Interest on capitalized leases and developer fees	\$ 3,686,219	\$ 4,305,141
Interest income	390,079	266,912
Increase (decrease) in fair value of investments	256,103	87,677
Administrative fees	282,183	311,402
	<u>282,183</u>	<u>311,402</u>
Total Operating Revenues	\$ 4,614,584	\$ 4,971,132
Operating Expenses		
Interest	\$ 3,688,289	\$ 4,075,362
Professional services and other expenses	187,406	150,276
	<u>187,406</u>	<u>150,276</u>
Total Operating Expenses	\$ 3,875,695	\$ 4,225,638
Change in Net Position	\$ 738,889	\$ 745,494
Net Position – January 1	36,081,693	35,336,199
	<u>36,081,693</u>	<u>35,336,199</u>
Net Position – December 31	\$ 36,820,582	\$ 36,081,693
	<u>36,820,582</u>	<u>36,081,693</u>

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

EXHIBIT 3

**COMPARATIVE STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017**

	2018	2017
Cash Flows from Operating Activities		
Receipts from customers and users	\$ 6,948,991	\$ 16,107,452
Interest received from investments	467,767	320,410
Developer construction funds used	-	(4,900)
Payments to suppliers	(186,720)	(150,232)
Net cash provided by (used in) operating activities	\$ 7,230,038	\$ 16,272,730
Cash Flows from Noncapital Financing Activities		
Principal paid on bonds	\$ (2,735,000)	\$ (12,015,000)
Interest paid on bonds	(3,699,148)	(4,125,911)
Net cash provided by (used in) noncapital financing activities	\$ (6,434,148)	\$ (16,140,911)
Cash Flows from Investing Activities		
Purchase of investments	\$ (5,303,813)	\$ (20,863,870)
Sale of investments	13,740,344	24,994,382
Net cash provided by (used in) investing activities	\$ 8,436,531	\$ 4,130,512
Net Increase (Decrease) in Cash and Cash Equivalents	\$ 9,232,421	\$ 4,262,331
Cash and Cash Equivalents – January 1	9,597,453	5,335,122
Cash and Cash Equivalents – December 31	\$ 18,829,874	\$ 9,597,453
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities		
Operating Income (Loss)	\$ 738,889	\$ 745,494
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities		
Interest expense	3,688,289	4,075,362
(Increase) decrease in accrued interest receivable	77,688	53,498
(Increase) decrease in capitalized leases receivable	2,735,000	12,010,100
Increase (decrease) in accounts payable	686	44
Increase (decrease) in unearned revenue	(51,109)	(271,136)
Increase (decrease) in developer reserve deposits	40,595	(340,632)
Net Cash Provided by (Used in) Operating Activities	\$ 7,230,038	\$ 16,272,730
Noncash Investing, Capital, and Financing Activities		
Increase (decrease) in the value of investments reported at fair value	\$ 256,103	\$ 87,677

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, 2018 AND 2017

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 7). 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, 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, 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. Cash between investments is held in money market funds and is not collateralized. 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, 2018 and 2017, 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. Investments in any one issuer at December 31, 2018 and 2017, that represent five percent or more of GARFS' investments subject to concentration of credit risk are as follows:

Issuer	Reported Amount	
	2018	2017
Otter Tail County Revenue Bonds	\$ 1,331,050	\$ -

**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, 2018 and 2017, and information relating to interest and credit quality investment risks:

2018

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%	-	-	2.6	\$ 720,189
U.S. Mortgage obligations	100.0	-	-	3.3	4,150,412
U.S. Treasury securities	100.0	-	-	2.0	5,172,421
Municipal bonds	79.9	-	20.1%	1.2	9,950,479
City of Minneapolis investment pool	-	-	100.0	N/A	1,562,284
Total investments					\$ 21,555,785
Cash and cash equivalents					18,829,874
Total Cash and Investments					<u>\$ 40,385,659</u>

2017

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	\$ 887,412
U.S. Mortgage obligations	100.0	-	-	3.0	4,042,684
U.S. Treasury securities	100.0	-	-	1.7	4,516,101
Municipal bonds	87.2	-	12.8%	1.4	19,077,812
City of Minneapolis investment pool	-	-	100.0	N/A	1,468,307
Total investments					\$ 29,992,316
Cash and cash equivalents					9,597,453
Total Cash and Investments					<u>\$ 39,589,769</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, 2018 and 2017, the City had the following recurring fair value measurements:

2018

	December 31, 2018	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	\$ 720,189	\$ 222,645	\$ 497,544	\$ -
U.S. Mortgage obligations	4,150,412	-	4,150,412	-
U.S. Treasury securities	5,172,421	-	5,172,421	-
Municipal bonds	9,950,479	-	9,950,479	-
Total investments included in the fair value hierarchy	\$ 19,993,501	\$ 222,645	\$ 19,770,856	\$ -
City of Minneapolis investment pool	1,562,284			
Total investments	\$ 21,555,785			
Cash and cash equivalents	18,829,874			
Total Cash and Investments	\$ 40,385,659			

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

3. Cash and Investments

Fair Value Measurement (Continued)

2017

	December 31, 2017	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	\$ 887,412	\$ 450,098	\$ 437,314	\$ -
U.S. Mortgage obligations	4,042,684	152,473	3,890,211	-
U.S. Treasury securities	4,516,101	-	4,516,101	-
Municipal bonds	19,077,812	-	19,077,812	-
Total investments included in the fair value hierarchy	\$ 28,524,009	\$ 602,571	\$ 27,921,438	\$ -
City of Minneapolis investment pool	1,468,307			
Total investments	\$ 29,992,316			
Cash and cash equivalents	9,597,453			
Total Cash and Investments	\$ 39,589,769			

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.

Investments as of December 31, 2018 and 2017, are as follows:

	2018		2017	
	Cost	Fair Value	Cost	Fair Value
U.S. Federal agency obligations	\$ 716,828	\$ 720,189	\$ 890,926	\$ 887,412
U.S. Mortgage obligations	4,211,571	4,150,412	4,086,933	4,042,684
U.S. Treasury securities	5,177,666	5,172,421	4,550,265	4,516,101
Municipal bonds	10,261,919	9,950,479	19,624,222	19,077,812
City of Minneapolis investment pool	1,569,202	1,562,284	1,477,034	1,468,307
Total Investments	\$ 21,937,186	\$ 21,555,785	\$ 30,629,380	\$ 29,992,316

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

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, 2018 and 2017:

	2018	2017
Discount Steel	\$ 246,162	\$ 246,162
Hennepin Theatre Trust	1,600,000	1,600,000
Open Systems International, Inc.	1,371,429	1,371,429
LifeSource Project	856,000	856,000
Total	\$ 4,073,591	\$ 4,073,591

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

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

A summary of long-term debt activity for the years ended December 31, 2018 and 2017, is as follows:

	2018	2017
Development Revenue Bonds		
Payable - January 1	\$ 64,300,000	\$ 76,315,000
Retired	(2,735,000)	(12,015,000)
Payable - December 31	\$ 61,565,000	\$ 64,300,000
Due Within One Year	\$ 2,730,000	\$ 2,735,000

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

6. 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 \$34,971,947 and \$34,243,348 as of December 31, 2018 and 2017, respectively.

7. Capitalized Leases Receivable (see pages 21 through 23)

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).

8. 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, 2018**

	<u>Interest Rate</u>	<u>Issue Date</u>	<u>Final Maturity Date</u>
Outstanding Development Revenue Bonds			
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
Hennepin Theatre Trust	5.23% to 6.30%	12-20-05	12-01-35
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
Total Outstanding Development Revenue Bonds			

2017 Amounts

NOTE 5

<u>Issued</u>	<u>Bonds Retired</u>	<u>Outstanding</u>	<u>Principal Due in 2019</u>	<u>Interest Due in 2019</u>
\$ 1,500,000	\$ 1,500,000	\$ -	\$ -	\$ -
1,900,000	1,720,000	180,000	180,000	4,725
3,300,000	2,535,000	765,000	140,000	39,206
21,055,000	4,995,000	16,060,000	560,000	1,004,708
18,000,000	2,130,000	15,870,000	360,000	1,004,743
25,000,000	7,775,000	17,225,000	1,135,000	1,014,781
12,595,000	1,130,000	11,465,000	355,000	505,775
<u>\$ 83,350,000</u>	<u>\$ 21,785,000</u>	<u>\$ 61,565,000</u>	<u>\$ 2,730,000</u>	<u>\$ 3,573,938</u>
<u>\$ 98,840,000</u>	<u>\$ 34,540,000</u>	<u>\$ 64,300,000</u>		

**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, 2018**

	<u>2019</u>	<u>2020</u>	<u>2021</u>
Current Annual Obligations			
Discount Steel – A	\$ 180,000	\$ -	\$ -
Kristol Properties	140,000	145,000	150,000
Hennepin Theatre Trust	560,000	595,000	630,000
Open Systems International, Inc.	360,000	380,000	395,000
Open Access Technology International, Inc. (Taxable and Tax Exempt)	1,135,000	1,190,000	395,000
LifeSource Project	<u>355,000</u>	<u>365,000</u>	<u>380,000</u>
Total principal payments	\$ 2,730,000	\$ 2,675,000	\$ 1,950,000
Total interest payments	<u>3,573,938</u>	<u>3,441,547</u>	<u>3,305,955</u>
Total Current Annual Obligations of Principal and Interest to Maturity	<u>\$ 6,303,938</u>	<u>\$ 6,116,547</u>	<u>\$ 5,255,955</u>

NOTE 5
(Continued)

<u>2022</u>	<u>2023</u>	<u>2024 - 2028</u>	<u>2029 - 2033</u>	<u>2034 - 2038</u>	<u>2039 - 2040</u>	<u>Total</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 180,000
160,000	170,000	-	-	-	-	765,000
670,000	710,000	4,260,000	5,780,000	2,855,000	-	16,060,000
420,000	445,000	2,675,000	3,670,000	5,025,000	2,500,000	15,870,000
425,000	450,000	2,700,000	3,650,000	4,890,000	2,390,000	17,225,000
395,000	410,000	2,320,000	2,850,000	3,570,000	820,000	11,465,000
\$ 2,070,000	\$ 2,185,000	\$ 11,955,000	\$ 15,950,000	\$ 16,340,000	\$ 5,710,000	\$ 61,565,000
3,195,186	3,077,468	13,448,413	9,420,182	4,292,776	421,250	44,176,715
<u>\$ 5,265,186</u>	<u>\$ 5,262,468</u>	<u>\$ 25,403,413</u>	<u>\$ 25,370,182</u>	<u>\$ 20,632,776</u>	<u>\$ 6,131,250</u>	<u>\$ 105,741,715</u>

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

NOTE 7

**NOTES TO THE FINANCIAL STATEMENTS
SCHEDULE OF CAPITALIZED LEASES
DECEMBER 31, 2018**

	Total Lease Payments	Total Interest	Capitalized Leases Receivable	Current Portion	Noncurrent Portion
Capitalized Leases					
Discount Steel – A	\$ 184,725	\$ 4,725	\$ 180,000	\$ 180,000	\$ -
Kristol Properties	886,463	121,463	765,000	140,000	625,000
Hennepin Theatre Trust	26,580,026	10,520,026	16,060,000	560,000	15,500,000
Open Systems International, Inc.	29,685,931	13,815,931	15,870,000	360,000	15,510,000
Open Access Technology International, Inc. (Taxable and Tax Exempt)	30,391,732	13,166,732	17,225,000	1,135,000	16,090,000
LifeSource Project	18,012,838	6,547,838	11,465,000	355,000	11,110,000
Total Capitalized Leases	\$ 105,741,715	\$ 44,176,715	\$ 61,565,000	\$ 2,730,000	\$ 58,835,000
2017 Amounts			\$ 64,300,000	\$ 2,735,000	\$ 61,565,000

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

**NOTES TO THE FINANCIAL STATEMENTS
CAPITALIZED LEASES RECEIVABLE MATURITIES, INCLUDING INTEREST
DECEMBER 31, 2018**

	2019	2020	2021
Capitalized Leases			
Discount Steel – A	\$ 184,725	\$ -	\$ -
Kristol Properties	179,206	177,031	174,600
Hennepin Theatre Trust	1,564,708	1,565,268	1,563,675
Open Systems International, Inc.	1,364,743	1,365,385	1,358,455
Open Access Technology International, Inc. (Taxable and Tax Exempt)	2,149,781	2,152,288	1,302,250
LifeSource Project	860,775	856,575	856,975
Total Capitalized Lease Maturities	\$ 6,303,938	\$ 6,116,547	\$ 5,255,955

NOTE 7

<u>2022</u>	<u>2023</u>	<u>2024 - 2028</u>	<u>2029 - 2033</u>	<u>2034 - 2038</u>	<u>2039 - 2040</u>	<u>Total</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 184,725
176,913	178,713	-	-	-	-	886,463
1,564,930	1,563,725	7,814,400	7,815,845	3,127,475	-	26,580,026
1,359,005	1,358,055	6,776,925	6,743,575	6,694,688	2,665,100	29,685,931
1,307,563	1,306,000	6,522,813	6,522,137	6,521,700	2,607,200	30,391,732
856,775	855,975	4,289,275	4,288,625	4,288,913	858,950	18,012,838
<u>\$ 5,265,186</u>	<u>\$ 5,262,468</u>	<u>\$ 25,403,413</u>	<u>\$ 25,370,182</u>	<u>\$ 20,632,776</u>	<u>\$ 6,131,250</u>	<u>\$ 105,741,715</u>

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JULIE BLAHA
STATE AUDITOR

STATE OF MINNESOTA OFFICE OF THE STATE AUDITOR

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH ENABLING RESOLUTIONS

The Honorable Jacob Frey, 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, 2018, and the related notes to the financial statements, which collectively comprise GARFS' basic financial statements, and have issued our report thereon dated April 19, 2019.

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/Julie Blaha

JULIE BLAHA
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

April 19, 2019

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