

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, 2020 and 2019

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 Minnesota’s local 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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**City of Minneapolis
General Agency Reserve Fund System
Minneapolis, Minnesota**

Years Ended December 31, 2020 and 2019



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

**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, 2020

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	Jamal Osman
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 Mark Ruff

Finance Officer Dushani Dye

City Council terms all expire December 31, 2021.



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, 2020 and 2019, 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 opinions.

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, 2020 and 2019, 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 to the financial statements, 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, 2020 and 2019, 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

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis be presented to supplement the basic financial statements. Such information, although not 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. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

/s/Julie Blaha

JULIE BLAHA
STATE AUDITOR

/s/Dianne Syverson

DIANNE SYVERSON, CPA
DEPUTY STATE AUDITOR

April 28, 2021

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE PERIODS ENDED DECEMBER 31, 2020 AND 2019
(Unaudited)**

This section of the General Agency Reserve Fund System's (GARFS) annual financial report presents our Management's Discussion and Analysis (MD&A) of GARFS' financial performance during the periods ended on December 31, 2020, and December 31, 2019. The MD&A is designed to assist the reader in focusing on significant financial issues, to provide an overview of GARFS' financial activity and position, and to identify financial trends and concerns.

Since this section is designed to focus on the current year's activities, resulting changes, and currently known facts, please read it in conjunction with GARFS' financial statements.

FINANCIAL HIGHLIGHTS

- The net position of GARFS at December 31, 2020, was \$25,102,020, a decrease of \$5,496,057 from December 31, 2019. The net position of GARFS at December 31, 2019, was \$30,598,077, a decrease of \$6,222,505 from December 31, 2018.
- As of December 31, 2020, bonds were outstanding on three projects with maturity dates ranging from December 1, 2035, to December 1, 2040. As of December 31, 2019, bonds were outstanding on five projects with maturity dates ranging from December 1, 2023, to December 1, 2040.
- Lease payments of \$21,345,520 and \$6,296,838 were received in 2020 and 2019, respectively, to service the bonds.
- During 2020, a transfer of \$6,500,000 was made to the City's Capital Projects Fund.

AGENCY OVERVIEW

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.

The Basic and Supplemental Resolutions 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.

The basic financial statements are designed to provide readers with a broad overview of GARFS' finances in a manner like a private-sector business. These statements include:

- Comparative Statement of Net Position, which presents information on all of GARFS' assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position usually serve as a useful indicator of whether the financial position of GARFS is improving or deteriorating. The Statement of Net Position can be found as Exhibit 1 on pages 9 and 10.
- Comparative Statement of Revenues, Expenses, and Changes in Net Position, which presents information showing how GARFS' net position changed during the most recent period. This statement shows the total revenues and total expenses of GARFS and the difference between them, GARFS' "net income." This Statement can be found as Exhibit 2 on page 11.
- Comparative Statement of Cash Flows, which presents changes in cash and cash equivalents resulting from operations and capital and noncapital financing activities. The Comparative Statement of Cash Flows can be found as Exhibit 3 on page 12.
- The Notes to the Financial Statements provide additional information that is essential to the full understanding of the data provided in GARFS' other basic financial statements. The Notes to the Financial Statements can be found on pages 13 through 28 of this report.

FINANCIAL POSITION

The following table provides a comparative analysis of GARFS' financial position as of the fiscal years ending December 31, 2020, 2019, and 2018. It provides a summary of the economic resources (assets), the claims on these resources (liabilities) by outside creditors, and the net resources (equity) available to the organization.

Statement of Net Position

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Assets			
Current and other assets	\$ 29,253,429	\$ 36,800,171	\$ 43,292,711
Noncurrent assets	<u>39,145,000</u>	<u>56,160,000</u>	<u>58,835,000</u>
Total Assets	<u>\$ 68,398,429</u>	<u>\$ 92,960,171</u>	<u>\$ 102,127,711</u>
Liabilities			
Current liabilities	\$ 4,151,409	\$ 6,202,094	\$ 6,472,129
Noncurrent liabilities	<u>39,145,000</u>	<u>56,160,000</u>	<u>58,835,000</u>
Total Liabilities	<u>\$ 43,296,409</u>	<u>\$ 62,362,094</u>	<u>\$ 65,307,129</u>
Net Position			
Restricted	<u>\$ 25,102,020</u>	<u>\$ 30,598,077</u>	<u>\$ 36,820,582</u>

Net position is reported as restricted when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or are imposed by law through constitutional provisions or enabling legislation (City ordinances). GARFS has three projects with outstanding bonds.

GARFS' assets consist primarily of \$40,550,000 and \$58,835,000 of capitalized leases at December 31, 2020 and 2019, respectively. Lease payments received are used to pay principle and interest on the bonds. There was a decrease in cash and cash equivalents and investments in 2020 due to the transfer to the City's capital projects funds.

GARFS' liabilities consist of mainly \$40,550,000 and \$58,835,000 in bonds payable at December 31, 2020 and 2019, respectively.

GARFS' net position decreased by \$5,496,057 during the current fiscal year, mainly due to planned bond payments and the transfer to the City's capital projects funds. At December 31, 2019, the net position decreased by \$6,225,505, mainly due to planned bond payments and the transfer to the City's capital projects funds.

OPERATING ACTIVITIES

GARFS was initially funded in 1984 with an advance by the Minneapolis Community Development Agency (MCDA). The advance was permanently transferred to GARFS in 1988. MCDA activities were transferred to the City in 2003. GARFS' revenues represent interest earnings and rental revenue from the lessees in accordance with lease agreements. GARFS' expenses were interest and administrative costs. GARFS finished 2020 with a net income before transfers of \$1,003,943.

On April 29, 2016, the City Council approved ordinance amendment 2016-031 amending Chapter 16 of the Minneapolis Code of Ordinances by adding Article XIV, Neighborhood Park and Street Infrastructure Plans. The amendment established a 20-year funding plan to make significant additional capital improvements to neighborhood parks and street infrastructure utilizing racial and economic equity criteria while also avoiding the uncertainty and inflexibility of various potential ballot measures.

The 2020 budget for the City of Minneapolis included a transfer of \$6,500,000 from GARFS to the City’s Capital Projects Fund for the Neighborhood Park and Street Infrastructure Plans. These resources will improve all types of capital infrastructure with a distinct emphasis on improving street paving, protected bikeways and pedestrian improvements, lighting and traffic related safety improvements, and major improvements to neighborhood parks. The result of this transfer was a decrease in net position, which was offset by increased interest and other revenue as well as decreased expenses, for a total change in net position of \$5,496,057.

As of December 31, 2020, GARFS had total long-term bonds outstanding of \$39,145,000, compared to \$56,160,000 in the prior year. These bonds are secured with capitalized leases in amounts identical to the bond balances.

Statement of Revenues and Expenses

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Revenues			
Interest on capitalized leases and developer fees	\$ 2,949,973	\$ 3,568,760	\$ 3,686,219
Other revenue	<u>1,179,356</u>	<u>1,403,090</u>	<u>928,365</u>
Total Revenue	<u>\$ 4,129,329</u>	<u>\$ 4,971,850</u>	<u>\$ 4,614,584</u>
Expenses			
Interest	\$ 2,966,882	\$ 3,555,806	\$ 3,688,289
Other expenses	<u>158,504</u>	<u>138,549</u>	<u>187,406</u>
Total Expenses	<u>\$ 3,125,386</u>	<u>\$ 3,694,355</u>	<u>\$ 3,875,695</u>
Net Income (Loss) Before Transfers	\$ 1,003,943	\$ 1,277,495	\$ 738,889
Transfer to City of Minneapolis	<u>(6,500,000)</u>	<u>(7,500,000)</u>	<u>-</u>
Change in Net Position	<u>\$ (5,496,057)</u>	<u>\$ (6,222,505)</u>	<u>\$ 738,889</u>

CONTACTING GARFS' FINANCIAL MANAGEMENT

This financial report is designed to provide a general overview of GARFS' finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the City's Finance Officer at the City of Minneapolis, 350 South Fifth Street, Minneapolis, Minnesota 55415.

BASIC FINANCIAL STATEMENTS

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

EXHIBIT 1

**COMPARATIVE STATEMENT OF NET POSITION
DECEMBER 31, 2020 AND 2019**

	2020	2019
<u>Assets</u>		
Current assets		
Cash and cash equivalents		
Common reserve account	\$ 2,152,501	\$ 2,573,705
Industrial development bond account	2,667,388	12,165,006
Debt service account	569,452	950,204
Other	66,288	144,311
Total cash and cash equivalents	\$ 5,455,629	\$ 15,833,226
Investments		
Industrial development bond account	\$ 20,260,109	\$ 16,354,963
General agency reserve fund	1,966,227	1,806,728
Total investments	\$ 22,226,336	\$ 18,161,691
Receivables		
Accrued interest	\$ 166,464	\$ 130,254
Capitalized leases	1,405,000	2,675,000
Total receivables	\$ 1,571,464	\$ 2,805,254
Total current assets	\$ 29,253,429	\$ 36,800,171
Noncurrent assets		
Receivables		
Capitalized leases	39,145,000	56,160,000
Total Assets	\$ 68,398,429	\$ 92,960,171

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

***EXHIBIT 1
(Continued)***

**COMPARATIVE STATEMENT OF NET POSITION
DECEMBER 31, 2020 AND 2019**

	2020	2019
<u>Liabilities</u>		
Current liabilities		
Accounts payable	\$ 17,923	\$ 10,620
Accrued interest payable	193,158	286,796
Unearned revenue	382,750	655,896
Developer reserve deposits	2,152,578	2,573,782
Bonds payable	1,405,000	2,675,000
Total current liabilities	\$ 4,151,409	\$ 6,202,094
Noncurrent liabilities		
Bonds payable	39,145,000	56,160,000
Total Liabilities	\$ 43,296,409	\$ 62,362,094
<u>Net Position</u>		
Restricted for debt service	\$ 25,102,020	\$ 30,598,077

**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, 2020 AND 2019**

	<u>2020</u>	<u>2019</u>
Operating Revenues		
Interest on capitalized leases and developer fees	\$ 2,949,973	\$ 3,568,760
Investment earnings	464,705	692,329
Increase (decrease) in fair value of investments	470,305	344,515
Administrative fees	244,346	274,033
Miscellaneous revenues	-	92,213
	<u> </u>	<u> </u>
Total Operating Revenues	\$ 4,129,329	\$ 4,971,850
Operating Expenses		
Interest	\$ 2,966,882	\$ 3,555,806
Professional services and other expenses	158,504	138,549
	<u> </u>	<u> </u>
Total Operating Expenses	\$ 3,125,386	\$ 3,694,355
Operating Income (Loss)	\$ 1,003,943	\$ 1,277,495
Transfer to City of Minneapolis fund	<u>(6,500,000)</u>	<u>(7,500,000)</u>
Change in Net Position	\$ (5,496,057)	\$ (6,222,505)
Net Position – January 1	<u>30,598,077</u>	<u>36,820,582</u>
Net Position – December 31	<u><u>\$ 25,102,020</u></u>	<u><u>\$ 30,598,077</u></u>

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

EXHIBIT 3

**COMPARATIVE STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019**

	2020	2019
Cash Flows from Operating Activities		
Receipts from customers and users	\$ 21,255,274	\$ 6,810,757
Interest received from investments	428,495	739,127
Payments to suppliers	(151,201)	(143,788)
	\$ 21,532,568	\$ 7,406,096
Cash Flows from Noncapital Financing Activities		
Principal paid on bonds	\$ (18,285,000)	\$ (2,730,000)
Interest paid on bonds	(3,060,520)	(3,566,838)
Transfer to City of Minneapolis fund	(6,500,000)	(7,500,000)
	\$ (27,845,520)	\$ (13,796,838)
Cash Flows from Investing Activities		
Purchase of investments	\$ (17,368,401)	\$ (6,530,647)
Sale of investments	13,303,756	9,924,741
	\$ (4,064,645)	\$ 3,394,094
Net Increase (Decrease) in Cash and Cash Equivalents	\$ (10,377,597)	\$ (2,996,648)
Cash and Cash Equivalents – January 1	15,833,226	18,829,874
Cash and Cash Equivalents – December 31	\$ 5,455,629	\$ 15,833,226
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities		
Operating Income (Loss)	\$ 1,003,943	\$ 1,277,495
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities		
Interest expense	2,966,882	3,555,806
(Increase) decrease in accrued interest receivable	(36,210)	46,798
(Increase) decrease in capitalized leases receivable	18,285,000	2,730,000
Increase (decrease) in accounts payable	7,303	(5,239)
Increase (decrease) in unearned revenue	(273,146)	(95,675)
Increase (decrease) in developer reserve deposits	(421,204)	(103,089)
	\$ 21,532,568	\$ 7,406,096
Net Cash Provided by (Used in) Operating Activities	\$ 21,532,568	\$ 7,406,096
Noncash investing, capital, and financing activities		
Increase (decrease) in the value of investments reported at fair value	\$ 470,305	\$ 344,515

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

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

NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

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 (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, 2020 and 2019, 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. There are no investments in any one issuer at December 31, 2020 and 2019, that represent five percent or more of GARFS' investments subject to concentration of credit risk.

**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, 2020 and 2019, and information relating to interest and credit quality investment risks:

2020

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%	-	-	17.9	\$ 2,181,510
U.S. Mortgage obligations	100.0	-	-	35.6	331,952
U.S. Treasury securities	100.0	-	-	0.0	5,347,639
Municipal bonds	97.3	-	2.7%	3.5	12,399,008
City of Minneapolis investment pool	-	-	100.0	N/A	1,966,227
Total investments					\$ 22,226,336
Cash and cash equivalents					5,455,629
Total Cash and Investments					\$ 27,681,965

2019

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%	-	-	16.7	\$ 3,264,138
U.S. Mortgage obligations	100.0	-	-	32.8	444,175
U.S. Treasury securities	100.0	-	-	2.1	7,766,109
Municipal bonds	86.6	-	13.4%	1.5	4,880,541
City of Minneapolis investment pool	-	-	100.0	N/A	1,806,728
Total investments					\$ 18,161,691
Cash and cash equivalents					15,833,226
Total Cash and Investments					\$ 33,994,917

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, except for the City of Minneapolis' investment pool, in which the individual investments are rated and disclosed as such in the City's Comprehensive Annual Financial Report.

**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, 2020 and 2019, the City had the following recurring fair value measurements:

2020

	December 31, 2020	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	\$ 2,181,510	\$ -	\$ 2,181,510	\$ -
U.S. Mortgage obligations	331,952	-	331,952	-
U.S. Treasury securities	5,347,639	-	5,347,639	-
Municipal bonds	12,399,008	-	12,399,008	-
Total investments included in the fair value hierarchy	\$ 20,260,109	\$ -	\$ 20,260,109	\$ -
City of Minneapolis investment pool	1,966,227			
Total investments	\$ 22,226,336			
Cash and cash equivalents	5,455,629			
Total Cash and Investments	\$ 27,681,965			

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

3. Cash and Investments

Fair Value Measurement (Continued)

2019

	December 31, 2019	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	\$ 3,264,138	\$ -	\$ 3,264,138	\$ -
U.S. Mortgage obligations	444,175	-	444,175	-
U.S. Treasury securities	7,766,109	-	7,766,109	-
Municipal bonds	4,880,541	-	4,880,541	-
Total investments included in the fair value hierarchy	\$ 16,354,963	\$ -	\$ 16,354,963	\$ -
City of Minneapolis investment pool	1,806,728			
Total investments	\$ 18,161,691			
Cash and cash equivalents	15,833,226			
Total Cash and Investments	\$ 33,994,917			

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, 2020 and 2019, are as follows:

	2020		2019	
	Cost	Fair Value	Cost	Fair Value
U.S. Federal agency obligations	\$ 2,132,113	\$ 2,181,510	\$ 3,263,316	\$ 3,264,138
U.S. Mortgage obligations	323,297	331,952	442,684	444,175
U.S. Treasury securities	5,304,587	5,347,639	7,682,847	7,766,109
Municipal bonds	12,086,445	12,399,008	5,008,943	4,880,541
City of Minneapolis investment pool	1,944,366	1,966,227	1,798,678	1,806,728
Total Investments	\$ 21,790,808	\$ 22,226,336	\$ 18,196,468	\$ 18,161,691

**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, 2020 and 2019:

	2020	2019
Hennepin Theatre Trust	\$ 1,600,000	\$ 1,600,000
Open Systems International, Inc.	-	1,371,429
LifeSource Project	856,000	856,000
Total	\$ 2,456,000	\$ 3,827,429

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 22 through 25)

A summary of long-term debt activity for the years ended December 31, 2020 and 2019, is as follows:

	2020	2019
Development Revenue Bonds		
Payable – January 1	\$ 58,835,000	\$ 61,565,000
Retired	(18,285,000)	(2,730,000)
Payable – December 31	\$ 40,550,000	\$ 58,835,000
Due Within One Year	\$ 1,405,000	\$ 2,675,000

**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 \$22,927,497 and \$28,519,969 as of December 31, 2020 and 2019, respectively.

7. Capitalized Leases Receivable (see pages 26 through 28)

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, 2020**

	<u>Interest Rate</u>	<u>Issue Date</u>	<u>Final Maturity Date</u>
Outstanding Development Revenue Bonds			
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			

2019 Amounts

NOTE 5

Bonds			Principal	Interest
Issued	Retired	Outstanding	Due	Due
			in 2021	in 2021
\$ 3,300,000	\$ 3,300,000	\$ -	\$ -	\$ -
21,055,000	6,150,000	14,905,000	630,000	933,675
18,000,000	18,000,000	-	-	-
25,000,000	10,100,000	14,900,000	395,000	907,250
12,595,000	1,850,000	10,745,000	380,000	476,975
\$ 79,950,000	\$ 39,400,000	\$ 40,550,000	\$ 1,405,000	\$ 2,317,900
\$ 81,850,000	\$ 23,015,000	\$ 58,835,000		

**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, 2020**

	2021	2022	2023
Current Annual Obligations			
Hennepin Theatre Trust	\$ 630,000	\$ 670,000	\$ 710,000
Open Access Technology International, Inc. (Taxable and Tax Exempt)	395,000	425,000	450,000
LifeSource Project	380,000	395,000	410,000
Total principal payments	\$ 1,405,000	\$ 1,490,000	\$ 1,570,000
Total interest payments	2,317,900	2,239,268	2,155,700
Total Current Annual Obligations of Principal and Interest to Maturity	\$ 3,722,900	\$ 3,729,268	\$ 3,725,700

NOTE 5
(Continued)

<u>2024</u>	<u>2025</u>	<u>2026 - 2030</u>	<u>2031 - 2035</u>	<u>2036 - 2040</u>	<u>Total</u>
\$ 750,000	\$ 800,000	\$ 4,815,000	\$ 6,530,000	\$ -	\$ 14,905,000
475,000	505,000	3,050,000	4,105,000	5,495,000	14,900,000
430,000	445,000	2,510,000	3,115,000	3,060,000	10,745,000
<u>\$ 1,655,000</u>	<u>\$ 1,750,000</u>	<u>\$ 10,375,000</u>	<u>\$ 13,750,000</u>	<u>\$ 8,555,000</u>	<u>\$ 40,550,000</u>
<u>2,067,510</u>	<u>1,974,498</u>	<u>8,256,317</u>	<u>4,875,120</u>	<u>1,398,888</u>	<u>25,285,201</u>
<u><u>\$ 3,722,510</u></u>	<u><u>\$ 3,724,498</u></u>	<u><u>\$ 18,631,317</u></u>	<u><u>\$ 18,625,120</u></u>	<u><u>\$ 9,953,888</u></u>	<u><u>\$ 65,835,201</u></u>

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

NOTE 7

**NOTES TO THE FINANCIAL STATEMENTS
SCHEDULE OF CAPITALIZED LEASES
DECEMBER 31, 2020**

	<u>Total Lease Payments</u>	<u>Total Interest</u>	<u>Capitalized Leases Receivable</u>	<u>Current Portion</u>	<u>Noncurrent Portion</u>
Capitalized Leases					
Hennepin Theatre Trust	\$ 23,450,050	\$ 8,545,050	\$ 14,905,000	\$ 630,000	\$ 14,275,000
Open Access Technology International, Inc. (Taxable and Tax Exempt)	26,089,663	11,189,663	14,900,000	395,000	14,505,000
LifeSource Project	<u>16,295,488</u>	<u>5,550,488</u>	<u>10,745,000</u>	<u>380,000</u>	<u>10,365,000</u>
Total Capitalized Leases	<u><u>\$ 65,835,201</u></u>	<u><u>\$ 25,285,201</u></u>	<u><u>\$ 40,550,000</u></u>	<u><u>\$ 1,405,000</u></u>	<u><u>\$ 39,145,000</u></u>
 2019 Amounts			<u><u>\$ 58,835,000</u></u>	<u><u>\$ 2,675,000</u></u>	<u><u>\$ 56,160,000</u></u>

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

**NOTES TO THE FINANCIAL STATEMENTS
CAPITALIZED LEASES RECEIVABLE MATURITIES, INCLUDING INTEREST
DECEMBER 31, 2020**

	<u>2021</u>	<u>2022</u>	<u>2023</u>
Capitalized Leases			
Hennepin Theatre Trust	\$ 1,563,675	\$ 1,564,930	\$ 1,563,725
Open Access Technology International, Inc. (Taxable and Tax Exempt)	1,302,250	1,307,563	1,306,000
LifeSource Project	<u>856,975</u>	<u>856,775</u>	<u>855,975</u>
Total Capitalized Lease Maturities	<u>\$ 3,722,900</u>	<u>\$ 3,729,268</u>	<u>\$ 3,725,700</u>

NOTE 7
(Continued)

<u>2024</u>	<u>2025</u>	<u>2026 - 2030</u>	<u>2031 - 2035</u>	<u>2036 - 2040</u>	<u>Total</u>
\$ 1,560,060	\$ 1,563,935	\$ 7,819,155	\$ 7,814,570	\$ -	\$ 23,450,050
1,302,875	1,303,188	6,524,687	6,520,900	6,522,200	26,089,663
859,575	857,375	4,287,475	4,289,650	3,431,688	16,295,488
<u>\$ 3,722,510</u>	<u>\$ 3,724,498</u>	<u>\$ 18,631,317</u>	<u>\$ 18,625,120</u>	<u>\$ 9,953,888</u>	<u>\$ 65,835,201</u>

**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, 2020, and the related notes to the financial statements, which collectively comprise GARFS' basic financial statements, and have issued our report thereon dated April 28, 2021.

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, insofar as they relate to financial and accounting matters.

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/Dianne Syverson

DIANNE SYVERSON, CPA
DEPUTY STATE AUDITOR

April 28, 2021