

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, 2021 and 2020

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, 2021 and 2020



**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, 2021

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, Interim Heather Johnston

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 Audit of the Financial Statements

Opinion

We have audited the financial statements of the City of Minneapolis General Agency Reserve Fund System (GARFS) as of and for the year ended December 31, 2021 and 2020, and the related notes to the financial statements, which collectively comprise GARFS' basic financial statements, as listed in the table of contents.

In our opinion, the accompanying 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, 2021 and 2020, and the respective changes in financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the City of Minneapolis General Agency Reserve Fund System, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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, 2021 and 2020, 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.

Responsibilities of Management 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, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the City of Minneapolis General Agency Reserve Fund System's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance, and therefore, is not a guarantee that an audit conducted in accordance with auditing standards generally accepted in the United States of America will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with auditing standards generally accepted in the United States of America, we:

- exercise professional judgment and maintain professional skepticism throughout the audit;
- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements;
- obtain an understanding of internal control relevant to the audit 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 of Minneapolis General Agency Reserve Fund System's internal control. Accordingly, no such opinion is expressed;
- evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements; and

- conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the City of Minneapolis General Agency Reserve Fund System's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

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 is the responsibility of management and, 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. 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

April 28, 2022

/s/Dianne Syverson

DIANNE SYVERSON, CPA
DEPUTY STATE AUDITOR

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, 2021 AND 2020
(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, 2021, and December 31, 2020. 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, 2021, was \$25,069,041, a decrease of \$32,979 from December 31, 2020. The net position of GARFS at December 31, 2020, was \$25,102,020, a decrease of \$5,496,057 from December 31, 2019.
- As of December 31, 2021, bonds were outstanding on two projects with maturity dates ranging from December 1, 2035, to June 1, 2039. As of December 31, 2020, bonds were outstanding on three projects with maturity dates ranging from December 1, 2035, to December 1, 2040.
- Lease payments of \$18,220,300 and \$21,345,520 were received in 2021 and 2020, respectively, to service the bonds.

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.

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 two projects with outstanding bonds.

GARFS' assets consist primarily of \$24,640,000 and \$40,550,000 of capitalized leases at December 31, 2021 and 2020, respectively. Lease payments received are used to pay principal and interest on the bonds.

GARFS' liabilities consist of mainly \$24,640,000 and \$40,550,000 in bonds payable at December 31, 2021 and 2020, respectively.

GARFS' net position decreased by \$32,979 during the current fiscal year, mainly due to planned bond payments. At December 31, 2020, the net position decreased by \$5,496,057, 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 2021 with a net loss of \$32,979.

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 for 2020.

As of December 31, 2021, GARFS had total long-term bonds outstanding of \$23,575,000, compared to \$39,145,000 in the prior year. These bonds are secured with capitalized leases in amounts identical to the bond balances.

Statement of Revenues and Expenses

	<u>2021</u>	<u>2020</u>	<u>2019</u>
Revenues			
Interest on capitalized leases and developer fees	\$ 2,230,178	\$ 2,949,973	\$ 3,568,760
Other revenue	<u>148,496</u>	<u>1,179,356</u>	<u>1,403,090</u>
Total Revenue	<u>\$ 2,378,674</u>	<u>\$ 4,129,329</u>	<u>\$ 4,971,850</u>
Expenses			
Interest	\$ 2,230,201	\$ 2,966,882	\$ 3,555,806
Other expenses	<u>181,452</u>	<u>158,504</u>	<u>138,549</u>
Total Expenses	<u>\$ 2,411,653</u>	<u>\$ 3,125,386</u>	<u>\$ 3,694,355</u>
Net Income (Loss) Before Transfers	\$ (32,979)	\$ 1,003,943	\$ 1,277,495
Transfer to City of Minneapolis	<u>-</u>	<u>(6,500,000)</u>	<u>(7,500,000)</u>
Change in Net Position	<u>\$ (32,979)</u>	<u>\$ (5,496,057)</u>	<u>\$ (6,222,505)</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, 2021 AND 2020**

	2021	2020
<u>Assets</u>		
Current assets		
Cash and cash equivalents		
Common reserve account	\$ 299,500	\$ 2,152,501
Industrial development bond account	3,458,636	2,667,388
Debt service account	470,842	569,452
Other	74,183	66,288
Total cash and cash equivalents	\$ 4,303,161	\$ 5,455,629
Investments		
Industrial development bond account	\$ 19,427,758	\$ 20,260,109
General agency reserve fund	1,967,716	1,966,227
Total investments	\$ 21,395,474	\$ 22,226,336
Receivables		
Accrued interest	\$ 161,585	\$ 166,464
Capitalized leases	1,065,000	1,405,000
Total receivables	\$ 1,226,585	\$ 1,571,464
Total current assets	\$ 26,925,220	\$ 29,253,429
Noncurrent assets		
Receivables		
Capitalized leases	23,575,000	39,145,000
Total Assets	\$ 50,500,220	\$ 68,398,429

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

***EXHIBIT 1
(Continued)***

**COMPARATIVE STATEMENT OF NET POSITION
DECEMBER 31, 2021 AND 2020**

	2021	2020
<u>Liabilities</u>		
Current liabilities		
Accounts payable	\$ 16,627	\$ 17,923
Accrued interest payable	113,059	193,158
Unearned revenue	361,916	382,750
Developer reserve deposits	299,577	2,152,578
Bonds payable	1,065,000	1,405,000
Total current liabilities	\$ 1,856,179	\$ 4,151,409
Noncurrent liabilities		
Bonds payable	23,575,000	39,145,000
Total Liabilities	\$ 25,431,179	\$ 43,296,409
<u>Net Position</u>		
Restricted for debt service	\$ 25,069,041	\$ 25,102,020

**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, 2021 AND 2020**

	2021	2020
Operating Revenues		
Interest on capitalized leases and developer fees	\$ 2,230,178	\$ 2,949,973
Investment earnings	915,592	464,705
Increase (decrease) in fair value of investments	(984,223)	470,305
Administrative fees	217,127	244,346
	\$ 2,378,674	\$ 4,129,329
Operating Expenses		
Interest	\$ 2,230,201	\$ 2,966,882
Professional services and other expenses	181,452	158,504
	\$ 2,411,653	\$ 3,125,386
Operating Income (Loss)	\$ (32,979)	\$ 1,003,943
Transfer to City of Minneapolis fund	-	(6,500,000)
Change in Net Position	\$ (32,979)	\$ (5,496,057)
Net Position – January 1	25,102,020	30,598,077
Net Position – December 31	\$ 25,069,041	\$ 25,102,020

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

EXHIBIT 3

**COMPARATIVE STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020**

	2021	2020
Cash Flows from Operating Activities		
Receipts from customers and users	\$ 15,499,247	\$ 21,255,274
Interest received from investments	920,471	428,495
Payments to suppliers	(182,748)	(151,201)
	\$ 16,236,970	\$ 21,532,568
Net cash provided by (used in) operating activities		
Cash Flows from Noncapital Financing Activities		
Principal paid on bonds	\$ (15,910,000)	\$ (18,285,000)
Interest paid on bonds	(2,310,300)	(3,060,520)
Transfer to City of Minneapolis fund	-	(6,500,000)
	\$ (18,220,300)	\$ (27,845,520)
Net cash provided by (used in) noncapital financing activities		
Cash Flows from Investing Activities		
Purchase of investments	\$ (3,922,236)	\$ (17,368,401)
Sale of investments	4,753,098	13,303,756
	\$ 830,862	\$ (4,064,645)
Net cash provided by (used in) investing activities		
Net Increase (Decrease) in Cash and Cash Equivalents	\$ (1,152,468)	\$ (10,377,597)
Cash and Cash Equivalents – January 1	5,455,629	15,833,226
Cash and Cash Equivalents – December 31	\$ 4,303,161	\$ 5,455,629
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities		
Operating Income (Loss)	\$ (32,979)	\$ 1,003,943
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities		
Interest expense	2,230,201	2,966,882
(Increase) decrease in accrued interest receivable	4,879	(36,210)
(Increase) decrease in capitalized leases receivable	15,910,000	18,285,000
Increase (decrease) in accounts payable	(1,296)	7,303
Increase (decrease) in unearned revenue	(20,834)	(273,146)
Increase (decrease) in developer reserve deposits	(1,853,001)	(421,204)
	\$ 16,236,970	\$ 21,532,568
Net Cash Provided by (Used in) Operating Activities		
Noncash investing, capital, and financing activities		
Increase (decrease) in the value of investments reported at fair value	\$ (984,223)	\$ 470,305

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, 2021 AND 2020

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, 2021 and 2020, 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, 2021 and 2020, 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, 2021 and 2020, and information relating to interest and credit quality investment risks:

2021

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	\$ 16,048
U.S. Mortgage obligations	100.0	-	-	3.3	1,163,646
U.S. Treasury securities	100.0	-	-	2.1	6,139,844
Municipal bonds	96.2	-	3.8%	1.6	12,108,220
City of Minneapolis investment pool	-	-	100.0	N/A	1,967,716
Total investments					\$ 21,395,474
Cash and cash equivalents					4,303,161
Total Cash and Investments					\$ 25,698,635

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

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, 2021 and 2020, the City had the following recurring fair value measurements:

2021

	December 31, 2021	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	\$ 16,048	\$ -	\$ 16,048	\$ -
U.S. Mortgage obligations	1,163,646	-	1,163,646	-
U.S. Treasury securities	6,139,844	-	6,139,844	-
Municipal bonds	12,108,220	-	12,108,220	-
Total investments included in the fair value hierarchy	\$ 19,427,758	\$ -	\$ 19,427,758	\$ -
City of Minneapolis investment pool	1,967,716			
Total investments	\$ 21,395,474			
Cash and cash equivalents	4,303,161			
Total Cash and Investments	\$ 25,698,635			

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

3. Cash and Investments

Fair Value Measurement (Continued)

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			

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, 2021 and 2020, are as follows:

	2021		2020	
	Cost	Fair Value	Cost	Fair Value
U.S. Federal agency obligations	\$ 15,632	\$ 16,048	\$ 2,132,113	\$ 2,181,510
U.S. Mortgage obligations	1,335,626	1,163,646	323,297	331,952
U.S. Treasury securities	6,183,147	6,139,844	5,304,587	5,347,639
Municipal bonds	12,462,182	12,108,220	12,086,445	12,399,008
City of Minneapolis investment pool	1,947,582	1,967,716	1,944,366	1,966,227
Total Investments	\$ 21,944,169	\$ 21,395,474	\$ 21,790,808	\$ 22,226,336

**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, 2021 and 2020:

	2021	2020
Hennepin Theatre Trust	\$ 1,600,000	\$ 1,600,000
LifeSource Project	856,000	856,000
Total	\$ 2,456,000	\$ 2,456,000

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, 2021 and 2020, is as follows:

	2021	2020
Development Revenue Bonds		
Payable – January 1	\$ 40,550,000	\$ 58,835,000
Retired	(15,910,000)	(18,285,000)
Payable – December 31	\$ 24,640,000	\$ 40,550,000
Due Within One Year	\$ 1,065,000	\$ 1,405,000

**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 \$22,886,394 and \$22,927,497 as of December 31, 2021 and 2020, 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, 2021**

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

2020 Amounts

NOTE 5

<u>Issued</u>	<u>Bonds Retired</u>	<u>Outstanding</u>	<u>Principal Due in 2022</u>	<u>Interest Due in 2022</u>
\$ 21,055,000	\$ 6,780,000	\$ 14,275,000	\$ 670,000	\$ 894,930
25,000,000	25,000,000	-	-	-
<u>12,595,000</u>	<u>2,230,000</u>	<u>10,365,000</u>	<u>395,000</u>	<u>461,775</u>
<u>\$ 58,650,000</u>	<u>\$ 34,010,000</u>	<u>\$ 24,640,000</u>	<u>\$ 1,065,000</u>	<u>\$ 1,356,705</u>
<u>\$ 79,950,000</u>	<u>\$ 39,400,000</u>	<u>\$ 40,550,000</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, 2021**

	<u>2022</u>	<u>2023</u>	<u>2024</u>
Current Annual Obligations			
Hennepin Theatre Trust	\$ 670,000	\$ 710,000	\$ 750,000
LifeSource Project	395,000	410,000	430,000
	<u>1,065,000</u>	<u>1,120,000</u>	<u>1,180,000</u>
Total principal payments	\$ 1,065,000	\$ 1,120,000	\$ 1,180,000
Total interest payments	<u>1,356,705</u>	<u>1,299,700</u>	<u>1,239,635</u>
Total Current Annual Obligations of Principal and Interest to Maturity	<u><u>\$ 2,421,705</u></u>	<u><u>\$ 2,419,700</u></u>	<u><u>\$ 2,419,635</u></u>

NOTE 5
(Continued)

<u>2025</u>	<u>2026</u>	<u>2027 - 2031</u>	<u>2032 - 2036</u>	<u>2037 - 2040</u>	<u>Total</u>
\$ 800,000	\$ 850,000	\$ 5,115,000	\$ 5,380,000	\$ -	\$ 14,275,000
445,000	465,000	2,615,000	3,260,000	2,345,000	10,365,000
\$ 1,245,000	\$ 1,315,000	\$ 7,730,000	\$ 8,640,000	\$ 2,345,000	\$ 24,640,000
1,176,310	1,109,310	4,372,560	1,904,330	226,338	12,684,888
<u>\$ 2,421,310</u>	<u>\$ 2,424,310</u>	<u>\$ 12,102,560</u>	<u>\$ 10,544,330</u>	<u>\$ 2,571,338</u>	<u>\$ 37,324,888</u>

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

NOTE 7

**NOTES TO THE FINANCIAL STATEMENTS
SCHEDULE OF CAPITALIZED LEASES
DECEMBER 31, 2021**

	<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	\$ 21,886,375	\$ 7,611,375	\$ 14,275,000	\$ 670,000	\$ 13,605,000
LifeSource Project	<u>15,438,513</u>	<u>5,073,513</u>	<u>10,365,000</u>	<u>395,000</u>	<u>9,970,000</u>
Total Capitalized Leases	<u>\$ 37,324,888</u>	<u>\$ 12,684,888</u>	<u>\$ 24,640,000</u>	<u>\$ 1,065,000</u>	<u>\$ 23,575,000</u>
 2020 Amounts			<u>\$ 40,550,000</u>	<u>\$ 1,405,000</u>	<u>\$ 39,145,000</u>

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

**NOTES TO THE FINANCIAL STATEMENTS
CAPITALIZED LEASES RECEIVABLE MATURITIES, INCLUDING INTEREST
DECEMBER 31, 2021**

	2022	2023	2024
Capitalized Leases			
Hennepin Theatre Trust	\$ 1,564,930	\$ 1,563,725	\$ 1,560,060
LifeSource Project	856,775	855,975	859,575
Total Capitalized Lease Maturities	\$ 2,421,705	\$ 2,419,700	\$ 2,419,635

NOTE 7
(Continued)

2025	2026	2027 - 2031	2032 - 2036	2037 - 2040	Total
\$ 1,563,935	\$ 1,564,735	\$ 7,815,810	\$ 6,253,180	\$ -	\$ 21,886,375
857,375	859,575	4,286,750	4,291,150	2,571,338	15,438,513
\$ 2,421,310	\$ 2,424,310	\$ 12,102,560	\$ 10,544,330	\$ 2,571,338	\$ 37,324,888



**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, 2021, and the related notes to the financial statements, which collectively comprise GARFS' basic financial statements, and have issued our report thereon dated April 28, 2022.

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 report 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, 2022