

Disclaimer

The Hennepin County Housing and Redevelopment Authority (HCHRA) Financial Statements contained on the County's web pages are historical information as of December 31, 2016. The information in the Financial Statements has not been updated for developments subsequent to the date of the independent auditor's report.

The County has taken reasonable security measures to protect the integrity of its website and information posted thereon. However, no web site can fully ensure against infiltration. Absent any unauthorized act that deletes, edits, or somehow manipulates the words or data, this publication represents the presentation of the HCHRA's Financial Statements dated December 31, 2016.

This online document has been formatted for two-sided printing.



HENNEPIN COUNTY
HOUSING AND REDEVELOPMENT AUTHORITY
(A Component Unit of Hennepin County, Minnesota)

Financial Statements

December 31, 2016

(With Independent Auditors' Report Thereon)



Hennepin County Housing and Redevelopment Authority
A Component Unit of Hennepin County, Minnesota
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Hennepin County Housing and Redevelopment Authority
A Component Unit of Hennepin County, Minnesota
Principal Officials 2016

Board of Commissioners:

Linda Higgins, Chair

Debbie Goettel, Vice Chair

Marion Greene, Secretary

Mike Opat

Peter McLaughlin

Jan Callison

Jeff Johnson

Executive Director:

David J. Hough



Independent Auditor's Report

Hennepin County Housing and Redevelopment Authority Board
Hennepin County, Minnesota

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and the major fund of Hennepin County Housing and Redevelopment Authority (HCHRA), a component unit of Hennepin County, Minnesota, as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise HCHRA's 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 opinions on these financial statements based on our audit. We conducted our audit 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 entity's 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 entity'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 respective financial position of the governmental activities and the major fund of HCHRA as of December 31, 2016, and the respective changes in financial position and the budgetary comparison for the general fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Management has chosen not to present a management's discussion and analysis for HCHRA 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.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise HCHRA's basic financial statements. The accompanying supplementary information, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The 2016 supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements, or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the 2016 supplementary information is fairly stated, in all material respects, in relation to the 2016 basic financial statements taken as a whole.

We have also previously audited, in accordance with auditing standards generally accepted in the United States of America, HCHRA's 2015 basic financial statements (not presented herein) and have issued our report dated July 22, 2016, which contained unmodified opinions on the respective financial statements of the governmental activities and the major fund. The accompanying supplementary information, as listed in the table of contents, as of and for the year ended December 31, 2015, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the 2015 basic financial statements. The accompanying supplementary information has been subjected to the auditing procedures applied in the audit of the 2015 basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare those financial statements, or to those financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the 2015 supplementary information is fairly stated, in all material respects, in relation to the 2015 basic financial statements taken as a whole.

RSM US LLP

Minneapolis, Minnesota
July 17, 2017



Hennepin County Housing and Redevelopment Authority
A Component Unit of Hennepin County, Minnesota
Governmental Fund Balance Sheet and Statement of Net Position
December 31, 2016

	General Fund	Adjustments (Note 1)	Statement of Net Position
ASSETS			
Current Assets:			
Interest in County investment pool	\$ 10,728,214	\$ -	\$ 10,728,214
Delinquent taxes receivable, net	54,737	-	54,737
Due from other governmental agencies	62,365	-	62,365
Accounts receivable	52,496	-	52,496
Prepaid items	977,873	-	977,873
Land held for resale	6,583,789	-	6,583,789
Restricted cash and investments	767,806	-	767,806
 Total Current Assets	 19,227,280	 -	 19,227,280
Noncurrent Assets:			
Notes receivable	15,707,903	-	15,707,903
Capital Assets:			
Land	-	1,423,503	1,423,503
Buildings	-	12,654,573	12,654,573
Construction in progress	-	34,964,127	34,964,127
Less accumulated depreciation	-	(6,740,683)	(6,740,683)
Net capital assets	-	42,301,520	42,301,520
Total Noncurrent Assets	15,707,903	42,301,520	58,009,423
 Total Assets	 \$ 34,935,183	 \$ 42,301,520	 \$ 77,236,703
LIABILITIES			
Current Liabilities:			
Accounts and contracts payable	\$ 9,430,940	\$ -	\$ 9,430,940
Note payable	-	518,092	518,092
 Total Current Liabilities	 9,430,940	 518,092	 9,949,032
Noncurrent Liabilities:			
Due to Hennepin County	13,198,051	-	13,198,051
Note payable	-	4,344,736	4,344,736
 Total Noncurrent Liabilities	 13,198,051	 4,344,736	 17,542,787
 Total Liabilities	 22,628,991	 4,862,828	 27,491,819
FUND BALANCES/NET POSITION			
Fund Balances:			
Nonspendable	7,561,662	(7,561,662)	-
Restricted	604,926	(604,926)	-
Committed	4,139,604	(4,139,604)	-
 Total Fund Balances	 12,306,192	 (12,306,192)	 -
 Total Liabilities and Fund Balances	 \$ 34,935,183		
Net Position:			
Net investment in capital assets		37,438,692	37,438,692
Restricted for low income housing and economic development		604,926	604,926
Unrestricted		11,701,266	11,701,266
 Total Net Position		 \$ 49,744,884	 \$ 49,744,884

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

Hennepin County Housing and Redevelopment Authority
A Component Unit of Hennepin County, Minnesota
**Statement of Governmental Fund Revenues, Expenditures,
and Changes in Fund Balance and Statement of Activities**
For the Year Ended December 31, 2016

	General Fund	Adjustments (Note 1)	Statement of Activities
REVENUES			
Property taxes	\$ 7,115,210	\$ -	\$ 7,115,210
Intergovernmental	27,642,562	518,092	28,160,654
Investment earnings	40,329	-	40,329
Charges for services	2,056,900	-	2,056,900
Other	229,807	-	229,807
Total Revenues	37,084,808	518,092	37,602,900
EXPENDITURES/EXPENSES			
Housing and Redevelopment:			
Current:			
Commodities	109,528	-	109,528
Contractual services	4,272,746	-	4,272,746
Capital outlay	32,888,157	(32,888,157)	-
Other charges	526,776	-	526,776
Grants	5,426,991	-	5,426,991
Depreciation	-	632,729	632,729
Total Expenditures/Expenses	43,224,198	(32,255,428)	10,968,770
Net Change in Fund Balance	(6,139,390)	6,139,390	-
Change in Net Position	-	26,634,130	26,634,130
FUND BALANCE/NET POSITION			
Beginning	18,445,582	4,665,172	23,110,754
Ending	\$ 12,306,192	\$ 37,438,692	\$ 49,744,884

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

Hennepin County Housing and Redevelopment Authority
A Component Unit of Hennepin County, Minnesota
Statement of General Fund Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual
For the Year Ended December 31, 2016

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
REVENUES				
Property taxes	\$ 7,066,307	\$ 7,066,307	\$ 7,115,210	\$ 48,903
Intergovernmental	3,076,176	21,276,176	27,642,562	6,366,386
Investment earnings	125,000	125,000	40,329	(84,671)
Charges for services	2,188,000	2,188,000	2,056,900	(131,100)
Other	2,075,017	3,175,017	229,807	(2,945,210)
Total Revenues	14,530,500	33,830,500	37,084,808	3,254,308
EXPENDITURES				
Commodities	61,250	61,250	109,528	(48,278)
Contractual services	3,909,344	3,786,393	4,272,746	(486,353)
Capital outlay	-	-	32,888,157	(32,888,157)
Other charges	2,975,009	3,173,105	526,776	2,646,329
Grants	7,596,176	9,371,206	5,426,991	3,944,215
Total Expenditures	14,541,779	16,391,954	43,224,198	(26,832,244)
Net Change in Fund Balance	(11,279)	17,438,546	(6,139,390)	\$ <u>(23,577,936)</u>
Fund Balance - Beginning	18,445,582	18,445,582	18,445,582	
Fund Balance - Ending	\$ 18,434,303	\$ 35,884,128	\$ 12,306,192	

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

Hennepin County Housing and Redevelopment Authority
A Component Unit of Hennepin County, Minnesota
Notes to the Financial Statements
December 31, 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Financial Reporting Entity

The Hennepin County Housing and Redevelopment Authority (HCHRA) was established in 1987 for the purpose of supporting housing development, tax base expansion, job increases, and industrial and commercial development in accordance with the powers and authorities granted in laws of Minnesota sections 383B.77 and 469.001 to 469.047.

The HCHRA is a blended component unit of Hennepin County, Minnesota (the County). A blended component unit, although a legally separate entity, is in substance part of the County's operations and so data from this unit is combined with financial information of the primary government and reported as a special revenue fund in Hennepin County's Comprehensive Annual Financial Report, which can be obtained from the County. Hennepin County was established in 1852 as an organized county having powers, duties, and privileges granted counties by Minnesota Statutes. The County is governed by a seven-member board of commissioners elected from districts within the County. The County Commissioners comprise the entire HCHRA board and exercise financial accountability. Employees of Hennepin County staff projects of the HCHRA. The HCHRA has no employees.

The financial statements of the HCHRA are prepared in accordance with accounting principles generally accepted in the United States of America as established for governmental entities.

Measurement Focus, Basis of Accounting and Basis of Presentation

The annual financial report includes two separate sets of statements, the government-wide financial statements and the fund financial statements. The measurement focus, basis of accounting and basis of presentation differs between the government-wide financial statements and the fund financial statements. These differences, along with an explanation of the differing purposes and information provided by these separate financial statements, are described in the sections below.

As a special-purpose government engaged in a single governmental program, the government-wide statements and the fund financial statements have been combined in one statement. An adjustments column reflects the following differences between the two types of statements:

- Governmental funds report capital outlays as expenditures. Capital assets are reported in the Statement of Net Position at historical cost and in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.
- Long-term liabilities, such as the note payable, are not due and payable in the current period and, therefore, are not reported in the fund financial statements. Long-term liabilities are reported in the Statement of Net Position and the effect of related transactions is reported in the Statement of Activities.

Government-wide Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the activities of the HCHRA using the *economic resources measurement focus* and the *accrual basis of accounting*. The economic resources measurement focus results in the reporting of all inflows, outflows, and balances affecting or reflecting HCHRA net position. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recognized when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which the taxes are levied. The structure of the two government-wide financial statements (the statement of net position and the statement of activities) is described in the following two paragraphs.

Hennepin County Housing and Redevelopment Authority
A Component Unit of Hennepin County, Minnesota
Notes to the Financial Statements
December 31, 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

The Statement of Net Position is designed to display the financial position of the HCHRA. The HCHRA reports all capital assets and long-term liabilities, such as long-term debt. The net position of the HCHRA is reported in three categories: 1) net investment in capital assets; 2) restricted; and 3) unrestricted. Restrictions reported are those imposed by parties outside the HCHRA, such as creditors, grantors, contributors, laws and regulations of other governments, or imposed by law through enabling legislation. When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, and then unrestricted resources as they are needed.

The Statement of Activities demonstrates the degree to which expenses of a given function are offset by program revenues. Program revenues include 1) intergovernmental revenues restricted to meeting operational or capital requirements of a particular function, 2) charges for services, and 3) other program revenues. Property taxes and investment earnings (losses) properly not included in program revenues are reported as general revenues. Just as the statement of net position reports capital assets, the Statement of Activities reports depreciation expense.

Fund Financial Statements

The accounts of the HCHRA are organized on the basis of funds. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The General Fund is used to account for the HCHRA's activities. Governmental fund types use the *current financial resources measurement focus* and the *modified accrual basis of accounting*. The current financial resources measurement focus results in the reporting of only near-term (current) inflows, outflows, and balances of expendable (spendable) financial resources. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they are "measurable and available"). "Measurable" means the amount of the transaction can be determined. Property taxes are considered measurable when levied for, intergovernmental revenues when applicable eligibility requirements have been met, and charges for services when provided. "Available" means collectible within the current period or soon enough thereafter to pay liabilities of the current period. The HCHRA considers revenues to be available if they are collected within 60 days after year-end. Changes in the fair value of investments are recognized in investment earnings (losses) at the end of each year. Expenditures are recorded when the related fund liability is incurred, except for unmatured principal and interest, which is recognized when due.

Assets, Liabilities, and Fund Balance/Net Position

The HCHRA's *cash* is deposited in pooled accounts of the Hennepin County Investment Pool, an internal investment pool. Cash surpluses in these accounts are invested by the County. Investment earnings (losses) are allocated to the HCHRA on the basis of average monthly cash and investment balances. The HCHRA's portion of the pool is presented as Interest in County Investment Pool.

Investments authorized by State law include investments in governmental bonds, notes, bills, mortgages, and other securities which are direct obligations or are guaranteed or insured issues of the United States, its agencies and instrumentalities, or organizations created by an act of Congress. In addition, state law allows investment in general obligations of the State of Minnesota or any of its municipalities, bankers acceptances of United States banks eligible for purchase by the Federal Reserve System, certain commercial paper issued by United States corporations or their Canadian subsidiaries, repurchase agreements, reverse repurchase agreements, and certain other securities described in the law. Investments in the Pool are stated at fair value. The fair value of investments is based on quoted market prices or inputs other than quoted prices that are observable for the investment, either directly or indirectly.

Accounts receivable relate to intergovernmental revenues and are reimbursement based, with no allowance for uncollectible accounts necessary. The portion of receivables not collected within 60 days is offset by deferred inflows of resources in the fund financial statements.

Hennepin County Housing and Redevelopment Authority
A Component Unit of Hennepin County, Minnesota
Notes to the Financial Statements
December 31, 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Assets, Liabilities, and Fund Balance/Net Position – Continued

Prepaid items represent payments to vendors whose costs are applicable to future reporting periods, and are recorded as prepaid items in both the government-wide and fund financial statements.

Capital assets are reported in the government-wide financial statements at historical cost. Capital assets used in governmental activities are not financial resources and therefore net capital assets are not reported in the fund financial statements. Capital assets are depreciated or amortized in the statement of activities for governmental activities using the straight-line method. Buildings are depreciated over their 20-50 year estimated useful lives. For fund financial statement reporting purposes, capital outlays are reported as expenditures. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized and are reported as expenses in the governmental activities and as expenditures in the fund financial statements. The net capital asset activity in the current period relates to depreciation that is recognized in the government activities statement of activities.

Long-term debt is reported as a liability in the government-wide financial statements. Long-term obligations are not due and payable in the current period and therefore are not reported in the fund financial statements. Proceeds are reported in the fund statements as intergovernmental revenue and no interest expense is recognized due to the debt forgiveness features of the obligation described in Note 5. For fund financial statement reporting purposes, current period debt forgiveness does not provide current financial resources to government funds and therefore it is not reflected in the statement of revenues, expenditures and changes in fund balance.

Fund balance. In the governmental fund financial statements, fund balance is reported in the following classifications that are based on the spending constraints placed on the resources:

- Nonspendable fund balance – amounts that are not in a spendable form (such as prepaid items).
- Restricted fund balance – amounts constrained to specific purposes by their providers (such as higher levels of government) or imposed by law through enabling legislation.
- Committed fund balance – amounts constrained to specific purposes by the HCHRA Board as approved or rescinded in a Board Resolution.
- Assigned fund balance – amounts constrained by the HCHRA's intent to be used for specific purposes, but are neither restricted nor committed. The HCHRA Board has the authority to assign fund balance.
- Unassigned fund balance – amounts included in the residual classification for the General Fund that have not been restricted, committed, or assigned to specific purposes, and deficit fund balances of the other funds.

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, restricted fund balance is used first. When an expenditure is incurred for which unrestricted fund balance is to be used, committed amounts are used first, followed by assigned, and then unassigned.

Net position. In the government-wide financial statements, the net investment in capital assets is reported separately. Restricted net position is reported for amounts that are legally restricted by outside parties to be used for a specific purpose or imposed by law through enabling legislation. The unrestricted component of net position consists of the net amount of the assets, deferred outflows of resources, and liabilities that are not included in the determination of the other two components of net position.

Stewardship, Compliance and Accountability

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Annual appropriated budgets are adopted for the general fund based on the modified accrual basis of accounting. These annual appropriations lapse at year-end to the extent that they have not been expended or encumbered.

Hennepin County Housing and Redevelopment Authority
A Component Unit of Hennepin County, Minnesota
Notes to the Financial Statements
December 31, 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Stewardship, Compliance and Accountability – Continued

Project-length financial plans are adopted for certain projects. An annual project budget is adopted that reflects the annual appropriation for the project-length plan, which does not lapse until the project is completed. The cumulative total actual project expenditures may not exceed the cumulative total appropriated budget. The remaining total budget for these projects at year-end is shown below.

Year	Appropriated Budget	Actual Expenditures	Remaining Budget
2014	\$ 4,900,000	\$ 4,187,128	\$ 712,872
2015	71,679,846	8,722,578	62,957,268
2016	25,900,000	39,138,054	(13,238,054)
Cumulative Total	<u>102,479,846</u>	<u>52,047,760</u>	<u>50,432,086</u>

The HCHRA Board must adopt a proposed maximum property tax levy by September 30. The Board holds public hearings, makes modifications to the budget, and legally enacts the budget by passage of a resolution. The final levy must be certified to the County Auditor by December 20. Any changes in the budget must be within the revenues and reserves estimated or the revenue estimates must be changed by a vote of the Board. Expenditures may not legally exceed budgeted appropriations.

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 and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from these estimates.

2. INTEREST IN HENNEPIN COUNTY INVESTMENT POOL AND RESTRICTED CASH AND INVESTMENTS

The County’s Office of Budget and Finance is responsible for the treasury function of all of the County’s deposits and investments held by its funds and blended component units. Cash from all funds is pooled for deposit and investment purposes. At December 31, the HCHRA comprised \$10,728,214, or 0.9 percent of the County’s total pooled cash and investments. The HCHRA participates in the County investment pool and surpluses are invested by the County. In 2016, the HCHRA had investment income of \$72,608 and an unrealized loss on investments of \$32,279. As of December 31, 2016, the County had 83% of investments invested in U.S. government and agency issues, 16% in repurchase agreements, and 1% invested in money market funds. Detailed information about the County’s deposits with financial institutions, fair value measurements, management of investment risk, and repurchase agreements can be obtained directly from the County’s 2016 financial statements.

At December 31, \$767,806 of restricted HCHRA cash was held by the MN Housing Finance Agency with surplus invested in money market funds.

Hennepin County Housing and Redevelopment Authority
A Component Unit of Hennepin County, Minnesota
Notes to the Financial Statements
December 31, 2016

3. CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2016 was as follows:

	Balance			Balance	
	January 1, 2016	Additions	Deletions	December 31, 2016	
<i>Capital assets not being depreciated:</i>					
Land	\$ 1,423,503	\$ -	\$ -	\$ 1,423,503	
Construction in progress	2,075,970	32,888,157	-	34,964,127	
Total capital assets not being depreciated	<u>3,499,473</u>	<u>32,888,157</u>	-	<u>36,387,630</u>	
<i>Capital assets being depreciated:</i>					
Buildings	12,654,573	-	-	12,654,573	
Less accumulated depreciation	6,107,954	632,729	-	6,740,683	
Total capital assets being depreciated	<u>6,546,619</u>	<u>(632,729)</u>	-	<u>5,913,890</u>	
Capital Assets, Net	<u>\$ 10,046,092</u>	<u>\$32,255,428</u>	<u>\$ -</u>	<u>\$ 42,301,520</u>	

4. RECEIVABLES

Taxes Receivable

Property tax liens attach on the first Monday of the year following property assessment. Tax levies are certified five business days after December 20 of the year the property is assessed. The taxes levied are payable in the following year in two equal installments. The amounts and due dates for taxes on real property are half on or before May 15 and the balance on or before October 15. Estimated uncollectible delinquent taxes at year-end total \$19,213.

Notes Receivable

At December 31, 2016, the HCHRA reports notes receivables of \$15,707,903. In 2011, the Board authorized participation in a project to construct the Northwest Family Service Center. The HCHRA's participation in this transaction allowed the HCHRA and partners to benefit from New Market Tax Credits. The County originally provided a \$14,175,000 loan for the project that flowed through the HCHRA to Northwest Family Service Center Lender LLC. At year-end, the HCHRA reports the remaining \$13,198,051 note receivable and a corresponding liability to the County (see Note 5 below). The note charges a 6% interest rate and matures in June 2019 with all principal due at that time. Prepayment of principal is allowed at any time. The HCHRA also provides Transit-oriented Development (TOD) loans and reports the \$3,346,469 notes receivable, net of \$836,617 allowance for uncollectibles, for net TOD notes receivable of \$2,509,852.

Deferred Long-term Loans Receivable

The HCHRA Affordable Housing Incentive Fund (AHIF) Program assists municipalities, government and nonprofit agencies, private and nonprofit housing developers, and lenders in the development of affordable housing throughout Hennepin County. As of December 31, 2016 there are 183 AHIF deferred loans outstanding, with original terms ranging from 10 to 45 years. All AHIF loans are reported as grant expenditures at issuance. Loans totaling \$24,016,075 are underwritten with no interest payments, and will be forgiven at the end of the loan period if all program conditions are met. These "forgivable" loans will become grants at the end of the loan period. Given the nature of these loans, they are not reported as loans receivable in the financial statements. Additional loans totaling \$29,941,305 are underwritten so that both interest and principal payments are deferred for the full term of the loans if all program conditions are met. These deferred loans are established with between zero and three percent simple interest. These "payable" deferred loans are expected to be repaid, or refinanced with extended terms as of their due date. Given the nature of these loans and the uncertainty of repayment, at the time of origination they were fully reserved resulting in a net carrying value of zero. No repayments were received in 2016.

Hennepin County Housing and Redevelopment Authority
A Component Unit of Hennepin County, Minnesota
Notes to the Financial Statements
December 31, 2016

5. PAYABLES

Notes Payable

In 2006, the HCHRA received a zero interest, deferred repayment housing loan agreement from the MN Housing Finance Agency (MHFA) for the completion of the Veterans and Community Housing Development project. If the Veterans and Community Housing development continues to be owned by the HCHRA and used in compliance with the conditions of specific agreements through 2025, the loan will be forgiven and no repayment to MHFA will be required. The project is being depreciated over the term of the loan agreement. For the year ended December 31, 2016, the beginning loan balance was \$5,380,920 and \$518,092 was amortized as loan forgiveness through intergovernmental revenues, resulting in a remaining balance reported in the Statement of Net Position at year-end of \$4,862,828. In each year from 2017 to 2025, an additional \$518,092 loan forgiveness will be amortized through intergovernmental revenues. In 2026, the final \$200,000 will be amortized.

Due to Hennepin County

As disclosed in Note 4, in 2011 the HCHRA borrowed \$14,175,000 from the County in order to loan funds to Northwest Family Service Center Lender LLC. At December 31, 2016 the outstanding HCHRA amount payable to the County was \$13,198,051. The promissory note specifies that this amount, together with 6% interest, is to be repaid to the County in June 2019. Prepayment of principal is allowed at any time.

6. CONDUIT FINANCING

In support of housing, the HCHRA has issued, or acted as an agent for, various debt instruments (e.g., revenue bonds, refunding bonds, notes) for which the HCHRA has no legal obligation to make principal and interest payments. These conduit financings do not constitute an indebtedness of the HCHRA within the meaning of any state constitutional provision or statutory limitation.

Conduit financings are special limited obligations of the HCHRA payable solely from amounts pledged by the agencies shown in the table below.

Conduit Financing, Agreement Date	Original Balance	Balance December 31, 2015	Balance December 31, 2016
Opportunity Partners, Inc., September 2008	\$ 2,940,022	\$ 1,498,580	\$ 1,264,532
Loring Park Apartments LLC, December 2001	17,250,000	17,250,000	17,250,000
Minneapolis Stone Arch Partners, LLC, May 2002	20,120,000	20,120,000	20,120,000
Ebenezer York Assisted Living LLC December 2009	16,000,000	14,385,000	14,014,844
A-Mill Artist Lofts October 2013	55,000,000	55,000,000	-
A-Mill Artist Lofts November 2015	5,000,000	5,000,000	-
4041 Hiawatha Millworks Lofts April 2016	24,946,367	-	6,786,410
	<u>\$ 141,256,389</u>	<u>\$ 113,253,580</u>	<u>\$ 59,435,786</u>

Hennepin County Housing and Redevelopment Authority
A Component Unit of Hennepin County, Minnesota
Notes to the Financial Statements
December 31, 2016

7. RISK MANAGEMENT

The HCHRA is exposed to various risks of loss related to general and professional liability torts; and theft of, damage to, and destruction of assets. The HCHRA has chosen to retain the risk of torts. Commercial crime insurance and property insurance are purchased to cover the HCHRA's money and securities, as well as buildings and contents, subject to deductible amounts. Settled claims from insured losses have not exceeded commercial insurance coverage for the past three years.

8. GOVERNMENTAL FUND BALANCE CLASSIFICATIONS

In addition to unassigned fund balance, governmental fund balance classifications and the constraints imposed on the uses of those resources are shown in the table below. The classifications are described in greater detail in the Fund Balance and Net Position section of Note 1. Governmental fund balances consisted of the following:

<u>Purpose</u>	<u>Classification and Amount at December 31, 2016</u>		
	<u>Nonspendable</u>	<u>Restricted For</u>	<u>Committed For</u>
Land held for resale	\$6,583,789		
Prepays	977,873		
Veterans housing		\$604,926	
Affordable housing and transit oriented development			\$4,139,604

9. SUBSEQUENT EVENTS

Management has evaluated subsequent events to July 17, 2017, the date the financial statements were available to be issued and determined that no subsequent events required disclosure.

Hennepin County Housing and Redevelopment Authority
A Component Unit of Hennepin County, Minnesota
General Fund Balance Sheet
December 31, 2016 and 2015

	2016	2015
ASSETS		
Interest in County investment pool	\$ 10,728,214	\$ 8,564,272
Delinquent taxes receivable, net	54,737	-
Due from other governmental agencies	62,365	23,663
Accounts receivable	52,496	17,726
Prepaid items	977,873	269,343
Land held for resale	6,583,789	6,583,789
Notes receivable	15,707,903	16,212,245
Restricted cash and investments	767,806	743,085
Total Assets	\$ 34,935,183	\$ 32,414,123
LIABILITIES AND FUND BALANCES		
Liabilities:		
Accounts and contracts payable	\$ 9,430,940	\$ 770,490
Due to Hennepin County	13,198,051	13,198,051
Total Liabilities	22,628,991	13,968,541
Fund Balances:		
Nonspendable	7,561,662	6,853,132
Restricted	604,926	581,801
Committed	4,139,604	8,445,946
Assigned	-	35,730
Unassigned	-	2,528,973
Total Fund Balances	12,306,192	18,445,582
Total Liabilities and Fund Balances	\$ 34,935,183	\$ 32,414,123

Hennepin County Housing and Redevelopment Authority
A Component Unit of Hennepin County, Minnesota
Schedule of General Fund Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual
For the Years Ended December 31, 2016 and 2015

	2016			2015		
	Final Budget	Actual	Variance with Final Budget	Final Budget	Actual	Variance with Final Budget
REVENUES						
Property taxes	\$ 7,066,307	\$ 7,115,210	\$ 48,903	\$ 7,066,307	\$ 7,108,006	\$ 41,699
Intergovernmental	21,276,176	27,642,562	6,366,386	71,249,052	11,060,078	(60,188,974)
Investment earnings (losses)	125,000	40,329	(84,671)	106,900	64,845	(42,055)
Charges for services	2,188,000	2,056,900	(131,100)	1,040,000	1,851,347	811,347
Other	3,175,017	229,807	(2,945,210)	360,714	418,215	57,501
Total Revenues	<u>33,830,500</u>	<u>37,084,808</u>	<u>3,254,308</u>	<u>79,822,973</u>	<u>20,502,491</u>	<u>(59,320,482)</u>
EXPENDITURES						
General Government:						
Commodities	61,250	109,528	(48,278)	31,250	120	31,130
Contractual services	3,786,393	4,272,746	(486,353)	61,710,245	4,547,187	57,163,058
Capital outlay	-	32,888,157	(32,888,157)	-	3,499,473	(3,499,473)
Other charges	3,173,105	526,776	2,646,329	1,277,284	242,536	1,034,748
Grants	9,371,206	5,426,991	3,944,215	16,919,186	4,714,135	12,205,051
Total Expenditures	<u>16,391,954</u>	<u>43,224,198</u>	<u>(26,832,244)</u>	<u>79,937,965</u>	<u>13,003,451</u>	<u>66,934,514</u>
Net Change in Fund Balance	17,438,546	(6,139,390)	\$ <u>(23,577,936)</u>	(114,992)	7,499,040	\$ <u>7,614,032</u>
Fund Balance - Beginning	<u>18,445,582</u>	<u>18,445,582</u>		<u>10,946,542</u>	<u>10,946,542</u>	
Fund Balance - Ending	<u>\$ 35,884,128</u>	<u>\$ 12,306,192</u>		<u>\$ 10,831,550</u>	<u>\$ 18,445,582</u>	

