



MAGIC FUND
Annual Compliance
Report
2007

**Compiled by the City of Minot
Finance Department
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Annual Report of

MINOT AREA GROWTH BY INVESTMENT AND
COOPERATION

(The “Magic Fund”)

to

City Council of Minot

Date: May 15, 2008

Richard F. White, Chairman

I. MAGIC FUND BALANCE and FUNDS SPENT

The MAGIC Fund balance at December 31, 2007 was \$4.59 million, slightly less than the previous year end balance of \$4.66 million. Total receipts during the year were \$2.91 million, up 16.9% with the sales tax portion increasing 11.1%. This increase is indicative of the strong economic climate in the city and surrounding areas. At the same time, disbursements for economic development projects were \$2.72 million, 6.6 times greater than in 2006, reflecting a significant increase in investment opportunities. In fact, this was the first year since 2001 in which there were substantial disbursements from the fund. The fund balance at year end includes \$336,000 reserved for approved projects. Since its inception in 1990, the fund has disbursed \$25.6 million to over 200 entities. (This amount excludes funds for the MedVision project which were ultimately reclaimed.) There were just six companies that in total received approximately 50% of the fund disbursements. All of those companies are still operating.

Most of the fund disbursements in 2007 involved four projects: InfoTech – Minot Technology Center, \$400,000; MG Grain, \$550,000; Intermodal Facility, \$1.2 million; AG Park, \$882,000. Of these entities, only InfoTech - Minot is functioning at this time; the others are still in the formative stages. It is important to note that the lion's share of these funds, other than for InfoTech - Minot, is being used for permanent improvements for the associated physical facilities involved, thereby representing real investments for the future. It should also be noted that, except for InfoTech - Minot, the other 3 projects are very much interdependent.

The fate of MG Grain is unknown at this time due to the untimely death of Mr. Ghattas, but it is our understanding that there are legitimate and able parties interested in resuming the efforts to complete the facility and begin operations.

II. PERFORMANCE of JOB DEVELOPMENT AGREEMENTS

As mentioned above, the InfoTech - Minot endeavor is the only project functioning at this time. There was a question of whether the target employment levels for InfoTech - Minot were met by the dates prescribed in the agreement. The Finance Department staff and legal counsel have reviewed the documentation to make a conclusive determination. It appears that the employment levels have not been achieved, and the first installment (\$66,666) of the forgivable loan will have to be paid by InfoTech - Minot. Any additional payments that may also be due are still to be determined.

Additional employment and compensation is provided later in this report.

III. SUPPORTING SERVICES CONTRACTS

The Minot Area Development Corporation (MADC) is a non-profit organization engaged by the City of Minot to assist with economic development. There are four full-time employees and a part-time intern from Minot State University working at the company. Its board of directors consists of volunteers from the local business community, Minot State University, Minot Air Force Base and other public agencies with an interest in economic development. The MAGIC Fund supports MADC through direct payments that were \$305,000 per year in 2006 and 2007. MADC is also supported by its members, or more recently referred to as investors, who typically contribute annually to the organization based upon a formula related to size.

MADC supports the city, and, therefore the screening committee, by marketing the advantages to primary sector companies considering expansion or relocation within the Minot area, performing research and due diligence related to solid, prospective companies, and negotiating support agreements to facilitate economic growth in the area. The steering committee relies heavily upon the expertise of the MADC personnel to investigate thoroughly all significant aspects of each

proposal presented for consideration. The role of MADC's board of directors is crucial in this process, for that body sets the standards for execution of the corporation's role and responsibilities. The committee members, officials of the city and citizens of Minot can rest assured that this reliance is well founded. That is not to say the process is, or can become, one of a rubber stamp. Critical evaluation by all affected parties of every project proposal is required not only to ensure proper oversight but also to foster understanding and affirmation (at least by most) of the endeavors deemed appropriate for financial support from the city. The broad participation that has occurred in this oversight has helped to promote adjustments or alterations to recommended, accepted and approved applications. That is one of the reasons why it is a rare event for the screening committee not to recommend approval, by the city council, of a submitted application.

IV. DENIED APPLICATIONS

No applications were denied in 2007.

V. FINANCIAL and MANAGEMENT HEALTH of the FUND

The City's Finance Department's report provides details for the figures mentioned in section I., above. We are fortunate to have a reasonable amount of cash in the fund for future endeavors. We are also fortunate to have a strong growing economy in the area that is supporting replenishment of the MAGIC Fund resources. Assuming a continued stream of revenue in the current year, in the first 3 months of this year, the fund has awarded nearly 65% of the expected inflow. However, coupled with the current cash position and further ability to leverage fund resources, there should be adequate capabilities to support anticipated future opportunities. In addition, pro-rata proceeds from the Energy Park lot sales in phase I. will be returned to the fund.

Given the substantial and realistic potential for our future economic growth because of energy, agriculture, technology, transportation, and military defense activities, one of our challenges will be to manage the growth appropriately. We are all aware of situations where growth got out of control, and the results can, many times, be worse than no growth at all. We must continue to be very particular about the projects we choose to support. Our evaluations and deliberations of opportunities need to be widened to not only assess the financial implications but also must particularly consider the social, quality of life, and ancillary support aspects of expanding our economic resources and environment. (The shoes must fit to be comfortable.)

In times like the current when there are ample opportunities, there is a danger for a sense of urgency to come to the forefront and dominate the process of selection, evaluation and deliberation. We should resist such pressure to ensure our processes and guidelines are fully employed, for our efforts cannot lose sight of the long-term implications of today's actions.

The Port of North Dakota Authority, as named by the Mayor, has essentially assumed control of the Intermodal Facility. The City of Minot will maintain ownership of the Intermodal facility.

Also, as noted in last year's recommendations, the direct payments to MADC are substantial and becoming a larger portion of its annual operating resources. Consequently, it may be appropriate to have MADC's financial reports reviewed by the screening committee annually. With the increased number of active projects in various stages of operation, and with more to come, additional staff resources seem warranted to ensure adequate monitoring and follow-up on all projects. This need was recognized, considered and approved a few years ago. The city's approved manpower authorizations include such a resource for economic development. We recommend the position be filled. At this stage, however, a part-time or contracted resource may be appropriate.

On behalf of the MAGIC Fund Screening Committee,

Richard F. White, Chairman

City of Minot



Finance Department

May 15, 2008

To: Mayor and City Council
From: City of Minot Finance Department
RE: 2007 MAGIC Fund Annual Compliance Report

The 2007 MAGIC Fund Annual Compliance Report is divided into sections. The section on the MAGIC Fund Commitments shows the companies approved for funding during 2003 – 2007, the City in which the individual company is located, and the requirements to be met in order to receive funding. As of December 31, 2007, the MAGIC Fund had the following outstanding commitments:

Minot:

Intermodal Facility	Grant	\$1,234
Agricultural Park	Grant	\$335,151

Total collections for the Economic Development portion of the one-cent sales tax from 2003 - 2007 were \$11,169,983.

The section on MAGIC Fund Jobs and Wages Comparison reveals jobs committed per the development agreement or contract versus the actual jobs and wages as presented to us by the individual companies. All companies shown in the MAGIC Fund Commitments section for 2003-2007 are shown on this comparison, along with other companies that voluntarily shared their information with us.

The audited 2007 financial statements – including the Balance Sheet, the Statement of Revenues, Expenditures and Changes in Fund Balance, and the Statement of Revenues, Expenditures, and Changes in Fund Balance, Budget and Actual – were taken from the City of Minot CAFR. Additional financial statements include the outstanding loan activity for 2007.

★The Magic City★

MAGIC Fund Commitments 2003 - 2007

MAGIC Fund Report

Business	Year	Amount	Type of Funds	Outstanding	Contract Requirements & Comments
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Minot					
Artspace	2005	\$62,500	Loan	\$0	Funding to assist in future Artspace project
Albertson Consulting	2005	\$50,000	Loan	\$38,143	This is a restructure of their remaining debt. Two years at 2% and 5 years at 4%
Dakota Outerwear	2004	\$31,000	Grant	-	To help with an interest buy-down to purchase a larger building
Info Tech - Minot	2007	\$200,000	Grant	-	To assist with the startup cost of the company
		\$200,000	Forgivable Loan	-	Forgivable pursuant to reaching and maintaining employment requirements. See attached
MG Grain	2007	\$300,000	Grant	-	Assist in paying for rail spur, water & sewer lines
		\$250,000	Forgivable Loan	-	See attached
	2006	\$1,200,000	Grant	-	Intermodal Facility
MADC	2007	\$882,000	Grant	-	Minot Value-Added Agricultural Complex. Funds used for fencing, high voltage line relocation, land purchase, water and sewer infrastructure and 15% contingency funds.
Minot Milling	2005	\$110,000	Grant	-	To be used to buy-down the interest on a loan to the Bank of ND to assist in the expansion of the elevator for Philadelphia Macaroni.

Westhope

Deva Lifewear	2005	\$32,500	Loan	\$20,538	This loan is the result of the restructure of the MAGIC Fund preferred stock ownership in Deva Lifewear. It is a 3% - 84 month loan.
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Conditions of Agreements

MG Grain

\$250,000 Forgivable Loan

Employment Conditions – On or before December 31, 2008 MG Grain will employ 20 full-time employees. This employment level shall be maintained throughout the term of the loan.

Facility Conditions – MG Grain shall have executed contracts to lease, construct, operate and maintain an agricultural processing facility in Minot.

Guaranty Conditions – Minot is to have an unconditional guaranty fully executed by Milad Ghattas, guaranteeing the \$250,000 loan to MG Grains.

Due to the death of the owner, MG Grain was given an extension of 1 year to complete the compliance reporting requirements.

Info Tech - Minot

\$200,000 Forgivable Loan

Employment Conditions – On or before 30 days from February 3, 2007, Info Tech - Minot will employ 8 full-time employees. On or before May 1, 2007, Info Tech - Minot will employ an additional 7 full-time employees. On or after May 1, 2007, Info Tech - Minot will maintain, for 3 years, 15 full-time employees.

Facility Conditions – On or before closing, Info Tech - Minot shall have made arrangements to lease and establish a technology center in Minot.

Guaranty Conditions – The loan is expressly conditioned upon Minot receiving an unconditional guaranty of both Veronica Kon and Matti Kon, jointly and severally, guaranteeing the loan to Info Tech - Minot.

Lien Condition – Info Tech - Minot shall have caused, by closing and at all times a loan balance is outstanding, Minot to obtain, own, retain, and hold a perfected security interest in Info Tech - Minot's accounts receivables which shall be junior only to the first lien of equipment financing and a line of credit totaling not more than \$200,000 in total.

MAGIC Fund Job and Wage Comparison - 2007

2007 Jobs and Wages		Committed	Actual		
City	Company	Jobs	Jobs		Wages
Kenmare					
	MTI	-	Executive	0	\$0
	(Midwest Telemarketing Inc.)		Management	1	33,215
			Supervisor	2	53,626
			Line & Staff	25	280,022
			Total	28	\$366,863
Minot					
	Albertson Consulting	-	Executive	1	\$75,800
			Management	1	52,002
			Supervisor	0	0
			Line & Staff	10	218,518
			Total	12	\$346,320
	Dakota Outerwear Co				
	Did not respond				
	Info Tech - Minot	15	Executive	2	\$71,968
			Management	3	269,672
			Supervisor	2	71,513
			Line & Staff	7	169,662
			Total	14	\$582,815
	ING-2001 Grant	750	Executive	1	\$200,000
			Management	23	1,320,535
			Supervisor	44	1,489,155
			Line & Staff	751	18,211,262
			Day Care & Contract Employees	23	343,600
			Total	842	\$21,564,552
	Minot Milling	-	Executive	1	\$166,253
			Management	2	155,731
			Supervisor	3	147,758
			Line & Staff	28	959,528
			Total	34	\$1,429,270

MAGIC Fund Job and Wage Comparison - 2007

2007 Jobs and Wages		Committed Jobs	Actual Jobs	Wages
City	Company			
Mohall				
	MTI (Midwest Telemarketing Inc.)	-	Executive Management Supervisor Line & Staff	3 8 30 48 Total 89
				\$297,923 366,034 700,365 1,123,460 \$2,487,782
Westhope				
	Deva Lifewear, Inc	-	Executive Management Supervisor Line & Staff	4 1 0 14 Total 19
				\$120,000 28,840 0 156,869 \$305,709

Summary

In the year 2007, ING had 750 total committed jobs per their contracts or promissory notes. The actual jobs for ING currently total 842. The company Info Tech - Minot had 15 committed jobs per their contract or promissory note and currently Info Tech - Minot employs 14. In addition, 5 other companies reported 189 jobs were in place with the following employment and wage totals per category:

Total Employees	Category	Total Wages
23	Daycare & Contract	\$343,600
883	Line & Staff	21,119,321
81	Supervisor	2,462,417
39	Management	2,226,029
12	Executive	931,944
1,038		\$27,083,311

2007 Benefits Summary for MAGIC Fund Annual Compliance Report

Health Insurance

Of the 7 companies that responded to the survey:

- 0 paid 100% of the premium for health insurance
- 4 paid for 76-100% of the premium for health insurance
- 2 paid for 51-75% of the premium for health insurance
- 0 paid for 26-50% of the premium for health insurance
- 1 paid for 1-25% of the premium for health insurance
- 0 carried no health insurance

Pension Benefits

Of the 7 companies that responded to the survey:

- 1 pay for 100% of the pension plan
- 0 pay 76 -100% for the pension plan
- 0 pay 26 - 51% for the pension plan
- 4 pay 1 - 25% for the pension plan
- 1 have no pension plan
- 1 participate in a 401K plan

Vacation Benefits

Of the 7 companies that responded to the survey:

- 4 companies do offer a vacation benefit
- 3 companies do not offer any vacation benefit

Other Tangible Benefits Sick Leave, Dental, Vision, Holiday Pay, etc.

Of the 7 companies that responded to the survey:

- 5 companies do offer other benefits
- 2 companies do not offer other benefits

City of Minot, North Dakota
Balance Sheet
Sales Tax Economic Development Fund
December 31, 2007
With Comparative Totals for December 31, 2006

	Dec 31, 2007	Dec 31, 2006
ASSETS		
Cash and investments	\$3,633,695	\$4,288,494
Restricted cash and investments	336,385	-
Investments	57,875	100,000
Loans receivable	508,682	115,961
Allowance for loans receivable	(101,736)	(23,192)
Due from other agencies	259,606	181,224
Total assets	<u><u>\$4,694,507</u></u>	<u><u>\$4,662,487</u></u>
LIABILITIES		
Liabilities		
Due to other agencies	\$105,380	\$0
Total liabilities	<u><u>105,380</u></u>	<u><u>-</u></u>
FUND BALANCE		
Reserved for economic development	336,385	100,000
Reserved for loans receivable	406,946	92,769
Unreserved		
Undesignated	3,845,796	4,469,718
Total fund balance	<u><u>4,589,127</u></u>	<u><u>4,662,487</u></u>
Total liabilities and fund balance	<u><u>\$4,694,507</u></u>	<u><u>\$4,662,487</u></u>

City of Minot, North Dakota
Statement of Revenues, Expenditures and Changes in Fund Balance
Sales Tax Economic Development Fund
December 31, 2007
With Comparative Totals for December 31, 2006

	<u>Dec 31, 2007</u>	<u>Dec 31, 2006</u>
REVENUES		
Sales tax collections	\$2,648,554	\$2,384,118
Interest income	221,360	68,990
Miscellaneous	42,531	37,357
Total revenues	<u>2,912,445</u>	<u>2,490,465</u>
EXPENDITURES		
Current		
Economic development	<u>2,717,155</u>	<u>408,008</u>
Excess (deficiency) of revenues over (under) expenditures	195,290	2,082,457
OTHER FINANCING SOURCES (USES)		
Transfers in	-	275,071
Transfers out	<u>(268,650)</u>	<u>(115,169)</u>
Total other financing sources (uses)	<u>(268,650)</u>	<u>159,902</u>
Net change in fund balance	(73,360)	2,242,359
Fund balance, January 1	<u>4,662,487</u>	<u>2,420,128</u>
Fund balance, December 31	<u><u>\$4,589,127</u></u>	<u><u>\$4,662,487</u></u>

City of Minot, North Dakota
Statement of Revenues, Expenditures and Changes in Fund, Budget and Actual
Sales Tax Economic Development Fund
For the Fiscal Year Ended December 31, 2007
With Comparative Totals for December 31, 2006

	December 31, 2007			December 31, 2006			
	Original & Final Budgeted Amounts	Actual Amounts	Variance with Final Budget	Original Budgeted Amounts	Final Budgeted Amounts	Actual Amounts	Variance with Final Budget
REVENUES							
Sales tax collections	\$2,248,400	\$2,648,554	\$400,154	\$2,000,000	\$2,000,000	\$2,384,118	\$384,118
Interest income	-	221,360	221,360	-	-	68,990	68,990
Miscellaneous	-	42,531	42,531	-	-	37,357	37,357
Total revenues	2,248,400	2,912,445	664,045	2,000,000	2,000,000	2,490,465	490,465
EXPENDITURES							
Current							
Economic development	2,198,400	2,717,155	518,755	2,215,578	2,240,578	408,008	1,832,570
Excess (deficiency) of revenues over (under) expenditures	50,000	195,290	145,290	(215,578)	(240,578)	2,082,457	(1,342,105)
OTHER FINANCING SOURCES (USES)							
Transfers in	-	-	-	265,578	265,578	275,071	9,493
Transfers out	(50,000)	(268,650)	(218,650)	(50,000)	(50,000)	(115,169)	(65,169)
Total other financing sources (uses)	(50,000)	(268,650)	(218,650)	215,578	215,578	159,902	(55,676)
Net change in fund balance	\$0	(73,360)	(\$73,360)	\$0	(\$25,000)	2,242,359	(\$1,397,781)
Fund balance, January 1		4,662,487				2,420,128	
Fund balance, December 31		<u>\$4,589,127</u>				<u>\$4,662,487</u>	

City of Minot, North Dakota
Magic Fund Activity on Outstanding Loans
December 31, 2007
With Comparative Totals to December 31, 2006

	Jan 1, 2007	Payments	Adjustment	Dec 31, 2007	Dec 31, 2006
Leeds EDC Trust	\$10,000	\$10,000	\$0	\$0	\$10,000
Albertson Consulting	47,812	9,668	-	38,143	47,812
Dakota Marketing-Eliance	20,646	20,646	-	-	20,646
Deva Lifewear	25,002	4,464	-	20,538	25,002
Art Space	12,500	12,500	-	-	12,500
Info Tech	-	-	200,000	*	200,000
Informed Care (Medvision)	-	4,000	-	**	-
MG Grain	-	-	250,000	*	250,000
	<u>\$115,960</u>	<u>\$61,279</u>	<u>\$450,001</u>	<u>\$508,682</u>	<u>\$115,960</u>

* New loan

** Collection of debt originally written off