For the fiscal year ended December 31, 2002 (Dollar Amounts Expressed in Thousands)

General Obligation Demand Bonds

The City has issued General Obligation demand bonds maturing serially through December 1, 2027, in the original amounts of $23,230, $26,845, $28,200, $24,000, $38,000, $88,400, $29,000 and $88,800. The bonds were issued pursuant to resolutions adopted by the City Council and the proceeds were used to finance a portion of the cost of constructing certain local improvements.

The remaining redemption schedule for these bonds is as follows:

Year	Amount
2003	12,190
2004	10,365
2005	8,660
2006	4,935
2007	2,255
2008	1,700
2009	1,780
2010	2,215
2011	840
2012	890
2013	940
2014	1,010
2015	20,330
2016	20,400
2017	20,480
2018	20,570
2019	1,420
2020	1,510
2021	1,620
2022	1,740
2023	1,870
2024	2,000
2025	2,150
2026	2,300
2027	2,470
Total	$ 146,640

The bonds are subject to purchase on the demand of the holder at a price equal to the principal plus accrued interest on delivery to the City's Remarketing agents. The Remarketing agents are authorized to use their best efforts to sell the repurchased bonds at a price equal to 100 percent of the principal amount by adjusting the interest rate. These demand bonds are backed by the full faith, credit and taxing power of the City and are included in long-term debt. Under irrevocable Standby Bond Purchase Agreements issued by HypoVereinsbank, acting through its New York branch, the trustee is entitled to draw an amount sufficient to pay the purchase price of bonds delivered to it. The letters of credit are for the original sale amount, are subject to extension with the agreement of the Bank and carry a rate equal to the Federal Funds rate plus one-half of one percent per annum with respect to amounts advanced. The expiration dates for the Standby Bond Purchase Agreements range from June 19, 2003 to June 13, 2006. Amounts advanced under the Standby Bond Purchase Agreements are due on the expiration date of the agreement.

The City has the option to convert all of the bonds from a variable interest rate to a fixed interest rate, which shall be determined by the Remarketing Agent on a date not more than 35 days or less than ten days prior to the proposed conversion date. The City is required to pay to HypoVereinsbank an annual commitment fee of one-eighth of one percent per annum of the outstanding principal amount of the bonds and the same rate on the maximum interest payments on certain of these issues. The Remarketing agent receives a fee equal to one-tenth of one percent of the principal amount of bonds held by the public.

NOTE 9 – DEMAND BONDS (continued)

During 2002, the City of Minneapolis converted $127,800 of outstanding variable rate bonds to fixed rate bonds. The bonds converted were associated with construction of the expanded Minneapolis Convention Center.

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On December 9, 2002, Standard and Poors Corporation lowered the short-term credit rating of HypoVereinsbank from A-1 to A-2. As a result of this downgrade and subsequent to December 31, 2002, the City of Minneapolis is negotiating with Dexia Credit Local, acting through its New York Agency, to provide Standby Bond Purchase Agreements covering the City's entire variable rate bond portfolio.

NOTE 10 – LEASES

Capital Leases

The MCDA has various capital leases for its operations. The following is a schedule of the future minimum lease payments under the capitalized leases, together with the present value of the net minimum lease payments as of December 31, 2002:

	Amount
Year ending December 31, 2003	$ 9
Less: amount representing interest	1
Present value of net minimum Lease payment	$ 8

Operating Leases

The MCDA leases office space and equipment for its operations. The lease for office space expires in the year 2016, and the office space lease payments were $1,166 in 2002. The equipment lease periods vary from one to three years, and the equipment lease payments were $89 in 2002. In addition, the MCDA leases equipment, uniforms, and office space for its theatre operations. These lease periods vary from one to four years, and the lease payments were $67 in 2002.

The future minimum lease payments for operating leases are as follows:

Year ending December 31	Government Activity Amount	Business Type Activity Amount
2003	$ 1,231	$ 360
2004	811	350
2005	662	350
2006	564	350
2007	518	
2008 - 2012	3,139	
2013 - 2017	3,411	
2018 - 2019	3	
Total minimum lease payments	$ 10,339	$ 1,410

NOTE 10 – LEASES (continued)

Operating leases with scheduled rent increases

The City leases office space for various operations. The leases contain scheduled rent increases with terms varying from three to twelve years. The operating lease transactions are measured on a straight-line basis over the lease term per GASB

For the fiscal year ended December 31, 2002 (Dollar Amounts Expressed in Thousands)

Statement No. 13-Accounting for Operating Leases with Scheduled Rent Increases. Application of the straight-line basis to the total lease expenditures of $8,420 over the lease terms results in a total annual lease amount of $822.

For 2002 the amount of lease expenditures is as follows:

	Amount
Operating leases	$ 822
Additional Straight Line Basis	(128)
Total expenditures	$ 694

The future minimum lease expenditures for operating leases with scheduled rent increases are as follows:

Year	Government Activity Amount	Business Type Activity Amount
2003	$ 725	$ 60
2004	692	62
2005	241	64
2006	49	67
2007	26	69
2008 - 2012	2	356
2013 - 2017		375
2018 - 2019		157
Total minimum lease payments	$ 1,735	$ 1,210