

Financial Audit

**Metropolitan Sports Facilities
Commission**
For the Year Ended December 31, 2001



Financial Audit Division

The Office of the Legislative Auditor (OLA) is a professional, nonpartisan office in the legislative branch of Minnesota State government. Its principal responsibility is to audit and evaluate the agencies and programs of state government (the State Auditor audits local governments).

OLA's Financial Audit Division annually audits the state's financial statements and, on a rotating schedule, audits agencies in the executive and judicial branches of state government, three metropolitan agencies, and several "semi-state" organizations. The division also investigates allegations that state resources have been used inappropriately.

The division has a staff of approximately fifty auditors, most of whom are CPAs. The division conducts audits in accordance with standards established by the American Institute of Certified Public Accountants and the Comptroller General of the United States.

Consistent with OLA's mission, the Financial Audit Division works to:

- Promote Accountability,
- Strengthen Legislative Oversight, and
- Support Good Financial Management.

Through its Program Evaluation Division, OLA conducts several evaluations each year and one best practices review.

OLA is under the direction of the Legislative Auditor, who is appointed for a six-year term by the Legislative Audit Commission (LAC). The LAC is a bipartisan commission of Representatives and Senators. It annually selects topics for the Program Evaluation Division, but is generally not involved in scheduling financial audits.

All findings, conclusions, and recommendations in reports issued by the Office of the Legislative Auditor are solely the responsibility of the office and may not reflect the views of the LAC, its individual members, or other members of the Minnesota Legislature.

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If you have comments about our work, or you want to suggest an audit, investigation, evaluation, or best practices review, please contact us at 651-296-4708 or by e-mail at auditor@state.mn.us

Metropolitan Sports Facilities Commission

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Audit Participation

The following members of the Office of the Legislative Auditor prepared this report:

Claudia Gudvangen, CPA	Deputy Legislative Auditor
Jeanine Leifeld, CPA, CISA	Audit Manager
Mike Willis, CPA, CIA	Auditor-in-Charge
Susan Mady	Auditor
Sheila Sun	Auditor

Exit Conference

We discussed this report with the following representatives of the Metropolitan Sports Facilities Commission at an exit conference held on May 22, 2002:

Bill Lester	Executive Director
Terrell Towers	Commission Member
Roger Simonson	Finance Director
Teri Portinen	Assistant Finance Director
Linda Brennan	Accountant

Financial Section



Independent Auditor's Report

Ms. Kathryn Roberts, Chair
Metropolitan Sports Facilities Commission

Members of the Metropolitan Sports Facilities Commission

Mr. William Lester, Executive Director
Metropolitan Sports Facilities Commission

We have audited the accompanying statement of net assets of the Metropolitan Sports Facilities Commission as of and for the year ended December 31, 2001, and the related statements of income, retained earnings, and cash flows for the years then ended as presented on pages 10 to 12. These financial statements are the responsibility of the Commission's management. Our responsibility is to express an opinion 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Metropolitan Sports Facilities Commission as of December 31, 2001, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 2 to the financial statements, the Metropolitan Sports Facilities Commission implemented Governmental Accounting Standards Board (GASB) Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments for the year ended December 31, 2001. This statement establishes new financial reporting requirements for state and local governments throughout the United States.

Management's Discussion and Analysis on pages 3 to 8 is not a required part of the Commission's basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which

Ms. Kathryn Roberts, Chair
Members of the Metropolitan Sports Facilities Commission
Mr. William Lester, Executive Director
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consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 15, 2002, on our consideration of the Metropolitan Sports Facilities Commission's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

/s/ James R. Nobles

James R. Nobles
Legislative Auditor

March 15, 2002

/s/ Claudia J. Gudvangen

Claudia J. Gudvangen, CPA
Deputy Legislative Auditor

Metropolitan Sports Facilities Commission

Management's Discussion and Analysis

This report consists of two parts: 1) management's discussion and analysis and 2) financial statements.

As management of the Metropolitan Sports Facilities Commission (the Commission), we offer readers of the Commission's financial statements this narrative and analysis of the financial activities for the fiscal year ended December 31, 2001. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our financial statements.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Commission's financial statements. The Commission's statements include two components: 1) the financial statements, and 2) notes to the financial statements.

Financial Highlights

The assets of the Commission exceeded its liabilities at the close of the most recent fiscal year by \$61,824,500. Of this amount, \$19,303,368 is committed to promoting use of the Metrodome, maintaining the Metrodome, and replacing facilities and equipment essential to the operation of the Metrodome. Investments in Capital Assets, net of depreciation, are \$42,521,132.

The Commission's net assets decreased by \$7,354,471 in the year ended December 31, 2001.

The Commission ceased operation of the plaza in 2001. The plaza-leased property was designated for a Light Rail Transit Station. It was necessary to write off the Commission's investment of the plaza fixed assets. This removal resulted in a loss of \$3,684,524 for the disposal of fixed assets.

The Commission confirmed by resolution its waiver of rents due from the Vikings. The action reduced receivables and payables by \$5,150,594 during 1999-2000. The amount of the current (2001) waived rent, \$3,085,123 is treated as revenue in stadium rents and as an expense in facilities cost credit.

Financial Statements

The financial statements are designed to provide readers with a broad overview of the Commission's finances in a manner similar to the private business sector.

The statement of net assets presents information on all of the Commission's assets and liabilities, with the difference between the two as net assets. Over time, the net assets may serve as a useful indicator of the Commission's financial position.

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The statement of revenue, expenses and changes in net assets presents information showing how the Commission's net assets changed during the year ended December 31, 2001. The primary business of the Commission is the operation of the Hubert H. Humphrey Metrodome sports facility.

The statement of cash flow reports cash and cash equivalent activities for the fiscal year resulting from operating, capital and investing activities. The net result of these activities added to the beginning of the year cash balance reconciles to the cash and cash equivalent balance at the end of the current fiscal year. Contrary to the other financial statements, this statement is prepared on a cash basis.

The notes that follow the statements provide additional information that is essential to the full understanding of the data provided in the Commission's financial statements.

Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of the Commission's financial position. The assets exceeded liabilities by \$61,824,500 at the close of the most recent fiscal year December 31, 2001. The Commission adopts an annual budget for its activities that is approved by the Metropolitan Council.

The largest portion of the Commission's net assets, \$42,521,132 (69%), reflects its investment in capital assets (e.g. Metrodome stadium site, building and equipment) less depreciation. These capital assets are comprised of the land, stadium, and stadium equipment; and consequently, are not available for future spending. The Commission's debt was defeased to maturity in March 1998. Accordingly, as a result of the defeasance, while the bonds are not yet retired, all bondholders are entitled to payment of principal and interest only from the Escrow Fund. Liens related to the defeased bonds have been discharged; therefore, there is no effect on the investment in capital assets.

Metropolitan Sports Facilities Commission's Net Assets Years Ended December 31, 2001 and 2000

	<u>2001</u>	<u>2000</u>
Current Assets	\$22,754,950	\$24,245,657
Capital Assets	<u>42,521,132</u>	<u>47,317,062</u>
Total Assets	<u>\$65,276,082</u>	<u>\$71,562,719</u>
Less:		
Current Liabilities	<u>(3,451,582)</u>	<u>(2,383,749)</u>
Net Assets:		
Invested in capital assets	\$42,521,132	\$47,317,062
Unrestricted	<u>19,303,368</u>	<u>21,861,909</u>
Total Net Assets	<u>\$61,824,500</u>	<u>\$69,178,971</u>

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At the end of the current fiscal year, the Commission is able to report positive balances in both categories of net assets.

The unrestricted net assets of \$19,303,368 (31%) are available to be used to meet the Commission's ongoing obligations to creditors. These assets are reserved for operating, capital improvement, repair and replacement, and concession reserve accounts.

Commission Activities

Operational activities decreased the Commission's net assets by \$4,772,887 while non-operational activities decreased net assets by \$2,581,584. Key elements of the activities are as follows:

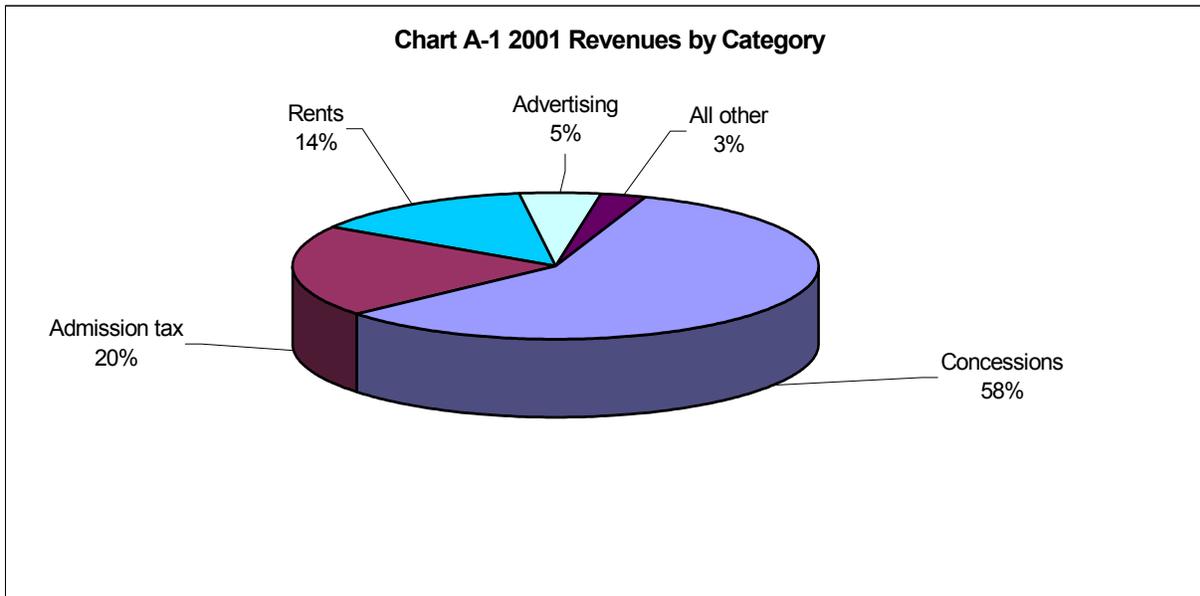
Metropolitan Sports Facilities Commission's Net Assets Changes in Net Assets Years Ended December 31, 2001 and 2000

	<u>2001</u>	<u>2000</u>
Operating revenue	\$33,291,638	\$26,502,698
Operating expenses	(32,784,745)	(24,718,695)
Depreciation and amortization	<u>(5,279,780)</u>	<u>(5,692,491)</u>
Operating (loss)	(\$4,772,887)	(\$3,908,488)
Non-operating income expense):		
Investment income	\$1,102,940	\$1,352,141
Disposal of fixed assets	<u>(3,684,524)</u>	<u>(121,462)</u>
Non-operating (loss)	(\$2,581,584)	\$1,230,679
(Decrease) in net assets	(\$7,354,471)	(\$2,677,809)
Net assets, January 1st	<u>69,178,971</u>	<u>71,856,780</u>
Net assets December 31st	<u>\$61,824,500</u>	<u>\$69,178,971</u>

Metropolitan Sports Facilities Commission

MSFC 2001 Major Revenue Sources Chart A-1

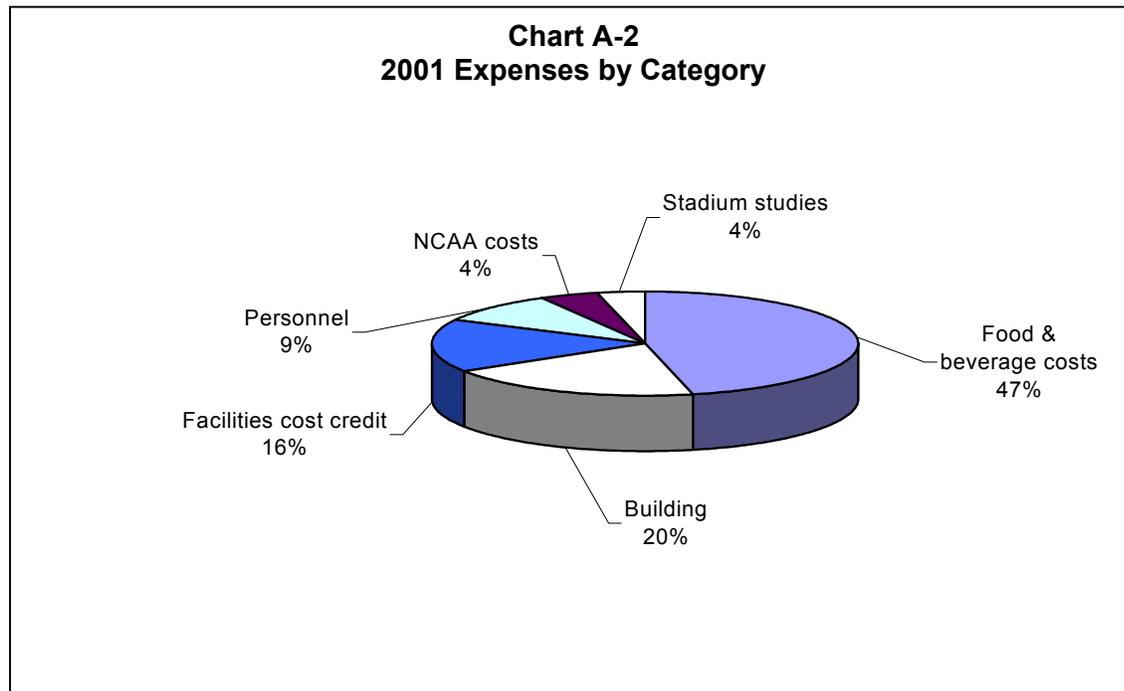
See Chart A-1 for a percentage analysis of major revenue sources to the MSFC. The Commission has entered into use agreements with the Minnesota Twins Inc., the Minnesota Vikings Football Club and the University of Minnesota. These agreements contain provisions for various revenue sources such as rents, admission taxes, advertising fees and operation of food and beverage concessions. In addition, the Commission also hosts other events in the Metrodome.



Metropolitan Sports Facilities Commission

MSFC 2001 Major Operating Expenses Chart A-2

See Chart A-2 for a percentage analysis of major expenses by category. The Commission has entered into use agreements with the teams to provide and maintain the Metrodome. The Commission controls the food and beverage concessions in the Metrodome. The concessions management company is responsible for handling all receipts and paying operating costs while retaining five percent of the net profits. The remainder is remitted to the Commission, which distributes amounts to the major tenants based on their use agreements.



Capital Asset and Debt Administration

The Commission's investment in capital assets for its activities as of December 31, 2001 amounts to \$42,521,132 (net of accumulated depreciation of \$71,519,360). The capital assets consist of the Metrodome site, stadium, and related equipment. The Commission's investment in capital assets decreased by \$4,795,931 (10%), due to the writing off of the Commission's assets for \$3,802,055 which consisted of the plaza area, old color video boards, and current years depreciation of \$5,279,780, offset by \$4,285,903 in acquisitions consisting mainly of new color video boards, the Chicago Avenue marquee, and upgrading concession stands.

Capital Assets

Land	\$ 8,700,000
Stadium building	69,244,412
Building improvements	25,563,630
Equipment	<u>10,532,450</u>
Total Fixed Assets, before depreciation	\$114,040,492
Less: Accumulated depreciation	<u>(71,519,360)</u>
Total Fixed Assets, net of depreciation	<u>\$ 42,521,132</u>

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Outstanding Debt

Long-term Debt

As noted previously, the Metrodome Refunding bonds were defeased to maturity in March 1998. As a result of the defeasance, while the bonds are not yet retired, the related liens have been discharged and the escrow fund, held in trust by the Wells Fargo Bank, is obligated for the remaining bond principal and interest payments.

Requests for Information

This financial report is designed to provide a general overview of the Metropolitan Sports Facilities Commission's finances for all those with interest in its financial position. Questions concerning any of the information provided in these reports or requests for additional information should be addressed to the Executive Director, Metropolitan Sports Facilities Commission, Hubert H. Humphrey Metrodome, 900 South Fifth Street, Minneapolis, Minnesota 55415.

Basic Financial Statements

Metropolitan Sports Facilities Commission

Statement of Net Assets December 31, 2001

ASSETS	
Current assets: (notes 2 & 4)	
Cash and cash equivalents	\$11,706,768
Investments	6,801,572
Accounts receivable	4,112,008
Accrued interest receivable	57,649
Prepaid expense	<u>76,953</u>
Total current assets	\$22,754,950
Capital Assets: (note 2)	
Metrodome stadium site	\$ 8,700,000
Metrodome stadium building and equipment	105,340,492
Less accumulated depreciation	<u>(71,519,360)</u>
Total non-current capital assets	\$42,521,132
Total Assets	<u>\$65,276,082</u>
LIABILITIES	
Current liabilities:	
Accounts payable	\$3,305,398
Accrued expenses	146,184
Total current liabilities	\$3,451,582
NET ASSETS	
Investments in Capital Assets (Note 2)	\$42,521,132
Unrestricted (Note 2)	<u>19,303,368</u>
Total net assets	\$61,824,500
Total Liabilities and Net Assets	<u>\$65,276,082</u>

The accompanying notes are an integral part of the financial statements.

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Statements of Revenue, Expenses, and Changes in Net Assets For the Year Ended December 31, 2001

Revenue:	
Concession revenue (note 3)	\$19,367,061
Admission tax	6,724,513
Stadium rents	4,633,947
Advertising fees	1,604,761
Share of novelty sales	262,451
Parking fees	146,015
Plaza concession receipts	7,083
Other	<u>545,807</u>
Total revenue	\$33,291,638
Expenses:	
Concession operating costs (note 3)	\$10,204,957
Tenants share of concession receipts (note 3)	4,978,809
Contractual services	3,782,745
Personal services	3,114,633
Utilities	2,332,833
NCAA tournament expense	1,462,894
Facilities planning (research / public information)	1,159,501
Supplies, repairs and maintenance	677,490
Audio-visual maintenance costs	444,512
Insurance	293,153
Professional services	163,523
Technical consultants	163,426
Communication	156,880
Travel and meeting expenses	38,786
Plaza concession operating cost	13,014
Tenants share of plaza concession receipts	434
Miscellaneous	1,015,804
Facilities cost credit (note 3)	5,406,589
Less - expenses reimbursed by tenants	<u>(2,625,238)</u>
Total expenses before depreciation and amortization	\$32,784,745
Operating income before depreciation and amortization	\$ 506,893
Depreciation and amortization	<u>(5,279,780)</u>
Operating (loss) income	(\$4,772,887)
Non-operating income (expense):	
Investment income	\$ 1,102,940
Disposal of fixed assets	<u>(3,684,524)</u>
Total non-operating income (expense)	(\$2,581,584)
Changes in Net Assets	(\$7,354,471)
Net Assets, January 1	<u>69,178,971</u>
Net Assets, December, 31	<u>\$61,824,500</u>

The accompanying notes are an integral part of the financial statements.

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Statement of Cash Flows For the Year Ended December 31, 2001

Cash flows from operating activities:	
Cash received from concession sales	\$ 9,384,671
Cash received from tenants	8,102,761
Cash received from others	2,047,392
Cash payments to employees	(3,145,090)
Cash payments to tenants	(4,978,809)
Cash payments to vendors	<u>(10,602,822)</u>
Net cash provided (used) by operating activities	\$ 808,103
Cash flows from investing activities:	
Gross purchases	(\$ 4,510,941)
Gross sales	3,993,170
Interest received	<u>1,027,602</u>
Net cash provided by investing activities	\$ 509,831
Cash flows from (to) capital and related financing activities:	
Acquisition of capital assets	<u>(\$4,168,372)</u>
Net cash used for capital and related financing activities	(\$4,168,372)
Increase (decrease) in cash and cash equivalents	(\$2,850,438)
Cash and cash equivalents at beginning of year	<u>14,557,206</u>
Cash and cash equivalents at end of year	<u>\$11,706,768</u>
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	(\$4,772,887)
Adjustment to reconcile operating income to net cash provided by operating activities:	
Depreciation	5,279,780
Changes in current operating assets and liabilities:	
Current assets: (increase) decrease:	
Accounts receivable	(757,055)
Prepaid expenses	(9,569)
Current liabilities: (increase) decrease:	
Accounts payable	1,098,291
Other accrued expenses	<u>(30,457)</u>
Net cash provided (used) by operating activities	<u>\$ 808,103</u>

There were no significant noncash investing, capital, and financing activities.

The accompanying notes are an integral part of the financial statements.

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Notes to Financial Statements December 31, 2001

(1) *Organization and Relationship with the Metropolitan Council*

Authorizing Legislation

The Metropolitan Sports Facilities Commission (the Commission) was established under Chapter 89 (the Stadium Act) of Minnesota Laws of 1977 and operates under Minnesota Statutes Chapter 473, as amended. The primary responsibility of the Commission is the operation of the Hubert H. Humphrey Metrodome sports facility (Metrodome). The Commission, prior to January 1998, also owned the site of the former Metropolitan Sports Center (Met Center).

The Stadium Act gives the Metropolitan Council (Council) the following powers and duties relating to the Commission:

Debt Issuance

- To provide funds for the acquisition or betterment of sports facilities by the Commission.
- To refund bonds authorized or assumed under the Stadium Act.
- To fund judgments entered by any court against the Commission, or against the Council in matters relating to the Commission's functions.

Budget Approval

Budgets prepared by the Commission are subject to Council review and approval.

The Council, on behalf of the Commission, issued Sports Facilities Revenue Refunding Bonds (Metrodome Refunding Bonds) pursuant to an Indenture of Trust (Indenture) dated as of August 1, 1992, between the Council, the Commission, and Wells Fargo Bank Minnesota, as Trustee (Trustee). The Metrodome Refunding Bonds were defeased in March 1998, and the Indenture (and the lien thereof with respect to the special funds and accounts established therein) was discharged by such defeasance (note 8).

Component Unit

The Commission is a component unit of the Council.

(2) *Significant Accounting Policies*

Basis of Accounting

The financial activities of the Commission are accounted for as an enterprise fund, and accordingly, the accompanying financial statements are presented on the accrual basis. Enterprise funds account for operations that are financed and operated in a manner

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similar to private business enterprises - where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes. The Commission's accounting policies conform to generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board. In accordance with Governmental Accounting Standard No. 20, the Commission does not apply any pronouncements of the Financial Accounting Standards Board issued after November 30, 1989.

For the year ended December 31, 2001, the Commission adopted the provisions of Statement No. 34 of the Government Accounting Standards Board, "Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments." Statement No. 34 established standards for financial reporting for all state and local governmental entities. There was no accumulated effect on the basic financial statements, except for the reclassifying of net assets in accordance with the Statement.

Cash and Cash Equivalents

The Commission considers all highly liquid investments purchased with original maturities of three months or less to be cash equivalents. The Commission's cash and cash equivalents consist of bank deposits, commercial paper and short term U.S. Government Securities.

Investments

Commission investments consist principally of debt securities of the U.S. Government. Under Statement No. 31 of the Governmental Accounting Standards Board (GASB), the Commission's investments are reported at fair market value (note 4).

In accordance with generally accepted accounting principles, investments are categorized as to credit risk. Credit risk category 1 includes investments that are insured or registered, or for which the securities are held in custody by its agent in the Commission's name (i.e., the Commission's short duration investment custodian, Wells Fargo Bank Minnesota, and cash equivalent investment advisor, SIT Investment Fixed Income Advisors, Inc.). Credit risk category 2 includes uninsured and unregistered investments for which the securities are held by the broker's or dealer's trust department or agent in the Commission's name. Credit risk category 3 includes uninsured and unregistered investments for which the securities are held by the broker or dealer or by its trust department or agent but not in the Commission's name. All Commission investments are included in credit risk category 1.

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Fixed Assets

Property, building improvements, and equipment are recorded at cost and depreciated using the straight-line method over the estimated useful lives of the related assets.

Estimated useful lives are as follows:

Buildings	9 to 30 years or the year 2009
Building Improvements	9 to 30 years or the year 2009
Equipment	3 to 10 years

Depreciation expense is reflected in the statement of revenue and expenses.

Admission Tax

Pursuant to Minn. Stat. Section 473.595, the Commission imposes a ten percent admission tax on all admissions to events conducted at the Metrodome. The admission tax is intended for use by the Commission as a source of revenue to pay current operating expenses, improvements, and, to the extent required and available, debt service and reserves.

Liquor Tax and Hotel-Motel Tax

As provided for in the Stadium Act, the Commission entered into a hotel-motel and liquor tax agreement (Minneapolis Tax Agreement) with the city of Minneapolis, under which the city would provide its hotel-motel tax and liquor tax as a back-up for debt service on bonds and expenses of operation, administration, and maintenance of the Metrodome. The Minneapolis Tax Agreement expired upon the defeasance of the Metrodome Refunding Bonds (note 7). Net Assets

At the time of the defeasance of the Metrodome Refunding Bonds in March 1998 (note 7), the Commission, by resolution, established a system of funds and accounts similar to that previously existing in the Revenue Fund under the Indenture for the appropriate deposit, budgeting, accounting, and expenditure functions of the Commission. The components of net assets, which include the accounts maintained pursuant to Commission resolution, were as follows as of December 31, 2001.

Net Assets

Investment in capital assets		\$42,521,131
Unrestricted		
Operating account	\$4,990,135	
Capital improvement account	10,994,551	
Repair and replacement account	2,959,507	
Concessions reserve account	<u>359,176</u>	<u>19,303,368</u>
Total net assets		<u>\$61,824,500</u>

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(3) *Operation of the Metrodome*

The Commission has entered into use agreements with the Minnesota Twins, Inc., the Minnesota Vikings Football Club, and the University of Minnesota. These agreements contain provisions for, among other things, rental rates, exclusive use space, payment of event-related costs and expenses, private boxes, and sharing of concession revenue. Special events are also held in the Metrodome.

Facilities Cost Credit

In its meeting of July 15, 1998, the Commission authorized payment to each of the Twins, the Vikings, and the University for 1999 and subsequent seasons to alleviate their costs of operation in the Metrodome, not to exceed the amount of admission tax paid by each to the Commission for the respective events of each at the Metrodome. (This has come to be referred to as the “facilities cost credit.”) The Commission’s authorization was conditioned upon the negotiation and execution of changes to the Use Agreement of each of the teams in exchange for consideration appropriate to each. While the facilities cost credit may not exceed admission tax amounts attributable respectively to each team’s events, the tax is not waived or pledged to the teams. It is payable by the Commission solely from the general assets of the Commission.

The new Use Agreement with the Twins entered into as of July 31, 1998 (note 6) allocates to the Twins certain concessions and advertising revenues attributable to the Twins beginning in the 1999 season, as well as the annual facilities cost credit. For 1999, 2000 and 2001, the amount of the facilities cost credit paid to the Twins was \$976,887, \$1,128,547 and \$1,860,006.

As of August 15, 1999, the Commission’s Use Agreement with the University of Minnesota was amended to provide for payment of a facilities cost credit to the University with respect to the 1999, 2000 and 2001 football seasons. The facilities cost credit will be reduced to the extent necessary to pay any shortfall in the Commission’s revenues which would not permit the Commission (a) to pay Metrodome administration, maintenance, and operation expenses in the succeeding year and (b) to maintain reserves adequate in the Commission’s opinion to perform required repairs, maintenance, and improvements on the Metrodome. For 1999, 2000 and 2001, the facilities cost credit paid to the University was \$427,632, \$407,062 and \$461,460.

Since 1998, the Vikings declined to execute the requisite amendment to the Vikings Use Agreement prepared and tendered by the Commission. Nonetheless, during that period the Vikings withheld rents due the Commission under the present Use Agreement in an amount that approximates the proposed facilities costs credit (admission taxes have been paid by the Vikings when and as due). During that period, it was the Commission’s position that the Vikings’ rent remained due and that the Vikings’ obligation to pay rent was not waived or forgiven by the Commission. On February 22, 2002 the Commission unilaterally adopted a resolution which confirmed its approval of the past and prospective

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Vikings rent forgiveness, specifying the terms and conditions of its action and noting its reliance upon the Vikings' 30 year commitment to play home games in the Metrodome. The rent withheld by the Vikings for the 1999, 2000 and 2001 football season was \$2,093,680, \$3,056,914 and \$3,085,123.

Concessions

The Commission controls the food and beverage concessions in the Metrodome. Concessions are operated by a management company. A new Concessions Service Agreement was entered into June 1, 2000 and will terminate on January 31, 2004. The management company is responsible for handling receipts and paying operating costs, including the payment of five percent of gross receipts to the Concession Reserve account as required by the concession services agreement. The current agreement allows the management company to retain five percent of net operating profits; the remainder is remitted to the Commission which distributes amounts to the major tenants based upon their respective use agreements. The following table reflects the actual operations of the concessions for the year ended December 31, 2001.

Summary of Concession Operations

Gross Concession Revenue	\$19,367,061
Concession Operating Costs:	
Cost of goods and concessionaire's operating expenses	\$ 9,400,111
Concessionaire management fee	451,953
Repair and maintenance of concession equipment	352,893
Total concession operating costs	<u>\$10,204,957</u>
Net Operating Income	<u>\$ 9,162,104</u>
Distribution of Net Operating Income:	
Payments to tenants:	
Minnesota Twins	\$ 4,103,947
Minnesota Vikings	544,778
University of Minnesota	312,569
Others	<u>17,515</u>
Tenants share of concession net operating profits	\$ 4,978,809
Commission share	<u>4,183,295</u>
Total Distribution - Net Operating Profit	<u>\$ 9,162,104</u>

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Metrodome Plaza Concessions

In addition to the concession operations inside the Metrodome as provided in the foregoing summary, the Commission has operated the concession operations at the Metrodome Plaza on the property west of the Metrodome. The Plaza opened in 1996. The Plaza was constructed at a total cost of \$5 million. In April 2001, under threat of condemnation, the Plaza was closed and the lease terminated to allow construction of the new light rail transit station. Under agreements with the Commission's principal tenants (two in writing), all operating profits (consisting of Plaza concession revenues less direct cost of goods and labor costs) were distributed to these principal tenants. Those agreements were terminated by their terms relating to condemnation.

(4) *Investments and Deposits*

Investments

Investments of the Commission consisted of the following at December 31, 2001.

<u>Investment Type</u>	<u>Fair Market Value</u>
US Government Obligations	\$6,801,572

Under GASB Statement No. 31, "Accounting and Financial Reporting for Certain Investments and for External Investment Pools," Commission investments are reported at fair market value and investment income, including changes in the fair market value of investments (whether or not realized), is recognized as revenue.

Deposits

At December 31, 2001, the Commission's bank balance for cash was \$207,023. The bank balances were fully covered by federal depository insurance or collateral throughout 2001. Minn. Stat. Section 118A.03 requires that deposits by municipalities, including public commissions, be secured by depository insurance or a combination of depository insurance and collateral security. The statute further requires the total collateral computed at its fair market value shall be at least ten percent more than the amount of deposit in excess of any insured portion at the close of the business day.

(5) *Pension Plan*

The following pension disclosures are made to comply with GASB Statement 27, "Accounting for Pensions by State and Local Government Employers."

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Plan description

All employees are covered by the Minnesota State Retirement System (MSRS) multiple employer cost sharing pension plan. MSRS provides retirement benefits, as well as disability benefits, to members and benefits to survivors upon death of eligible members. Minnesota Statutes, Chapter 352, establishes MSRS. MSRS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the MSRS plan administrator at the Minnesota State Retirement System, 60 Empire Drive, Suite 300, St. Paul, Minnesota 55103.

Funding policy

Minnesota Statutes, Chapter 352, sets the rate for employee and employer contributions. Contributions are made to the fund by employees and the Commission based on a percentage of gross salary. The actuarially determined required contribution rates were 7.12 percent for 2001, 6.12 percent for 2000 and 6.48 percent for 1999. During 2001, 2000 and 1999 the contribution rates were 4.00 percent for employees and 4.00 percent for the Commission. The Commission's contributions to MSRS for the years ending December 31, 2001, 2000 and 1999 were \$74,501, \$80,535 and 98,348, respectively. Contributions were 100 percent of required contributions.

(6) *Minnesota Twins*

In 1997 the Minnesota Twins served notice upon the Commission that their obligation to play all home games at the Metrodome through 2011 was terminated under certain provisions of the Use Agreement, effective as of the end of the 1998 baseball season. On April 1, 1998, the Commission filed in Hennepin County District Court an action contesting the Twins' termination of the Use Agreement.

The dispute was settled by a stipulated dismissal approved by the Court on September 1, 1998. Pursuant to the settlement, the Commission and the Twins entered into a new and restated 1998 Baseball Use Agreement. That agreement obligated the Twins to play games at the Metrodome through October 31, 2001 and remain in the Metrodome office space through December 31, 2001. In addition, the Twins were given the right to extend the Use Agreement for three successive one-year periods, the last of which would end on October 31, 2003 (or December 31, 2003, as to office space). All claims and counterclaims for money damages and for other relief were dismissed with prejudice. In October 2001, the Twins exercised the option for the 2002 season. Shortly after that, Major League Baseball announced plans to purchase ("contract") two teams prior to the 2002 season. The Twins were widely identified as one of the two teams. The Commission initiated litigation against the Twins and Major League Baseball and obtained an injunction against them preventing the contraction for the 2002 season. The litigation continues, seeking, among other things to prohibit interference by Major

Metropolitan Sports Facilities Commission

League Baseball in 2003 and after with the Commission's prospective business and contractual relations with the Twins.

The substantial decline in Twins' attendance since the 1994 season has materially reduced the Twins contributions to net revenues of the Metrodome. It is difficult to assess, without substantial conjecture, the additional financial implications, if any, of the Twins potential departure upon expiration of the restated Use Agreement. But, if the Twins and the Vikings (see note 7) ceased playing at the Metrodome, the Commission's operating revenues would be drastically reduced and its operations could be sustained only by drawing down its reserves.

Since 1997, the Twins and other interested parties have sought legislative assistance to construct a new Twins stadium, without success to date. However, the effort continues in the 2002 Legislative Session.

(7) *Metrodome Capital Improvement Planning*

The Metrodome opened in 1982 and was built using the then popular 1970's design and technology. After 20 years and over 60.5 million attendees, the Metrodome remains in excellent condition and usable in accordance with its original design for a multi-purpose stadium. The Commission will continue to fund the cost of operations and regular repair and maintenance items and make significant improvements as Commission resources allow. Any reduction in the Commission's resources will neglectfully impact the Commission's ability to provide a safe secure facility for athletes, fans and employees.

The Commission undertook an analysis of the potential of using the Metrodome as a football-focused or a baseball-focused facility. Following discussions and deliberations, the Commission decided to concentrate on the conversion of the Metrodome as a football-only stadium. To date, the Commission's proposal has not been well received by the Vikings or the University of Minnesota, both of which favor a new facility. The Vikings have stated to the press that they can escape from their Use Agreement and may do so if a new stadium is not built for them, financed in part from public funds. Of course, the Vikings and the University are committed by their Use Agreement to play all their home games at the Metrodome through the 2011 season and Commission counsel believes those terms are binding upon both teams. The pending legislation to finance a new Twins ballpark contains a provision that would reduce the Commission's reserves by as much as \$15 Million. As of mid-April 2002, separate House and Senate Bills, with these provisions, are before a conference committee of the Legislature. The Commission and others have opposed this action. The Commission cannot predict whether such provisions may be included in a bill reported out by the conference committee and whether the Legislature will adopt them or any portion of the Twins Stadium bills.

Long-Term Debt

In March 1998, the Council and the Commission entered into an Escrow Agreement with the Trustee pursuant to which all outstanding Metrodome Refunding Bonds (approximately \$34 million) were defeased to maturity (October of 2009) in accordance

Metropolitan Sports Facilities Commission

with the provisions of the Indenture relating to such defeasance. Accordingly, as a result of the defeasance, the Metrodome Refunding Bonds are not yet retired, but all holders of any Metrodome Refunding Bonds are entitled to payment of principal of, redemption premium, if any, and interest on the Metrodome Refunding Bonds only from the Escrow Fund, the Indenture, and the lien thereof with respect to all funds and accounts established under the Indenture has been discharged, and the Minneapolis Tax Agreement expired. The Commission has established a system of funds and accounts, similar to that previously existing in the Revenue Fund under the Indenture, for the appropriate deposit, budgeting, accounting, and expenditure functions of the Commission.

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Other Auditor Reports



**Report on Compliance and on Internal Control over Financial Reporting
Based on an Audit of Financial Statements Performed in Accordance with
*Government Auditing Standards***

Ms. Kathryn Roberts, Chair
Metropolitan Sports Facilities Commission

Members of the Metropolitan Sports Facilities Commission

Mr. William Lester, Executive Director
Metropolitan Sports Facilities Commission

We have audited the financial statements of the Metropolitan Sports Facilities Commission as of and for the year ended December 31, 2001, and have issued our report thereon dated March 15, 2002. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Metropolitan Sports Facilities Commission's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Metropolitan Sports Facilities Commission's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce, to a relatively low level, the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Ms. Kathryn Roberts, Chair
Members of the Metropolitan Sports Facilities Commission
Mr. William Lester, Executive Director
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We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the Metropolitan Sports Facilities Commission's management and the Legislative Audit Commission and is not intended to be and should not be used by anyone other than these specified parties.

/s/ James R. Nobles

James R. Nobles
Legislative Auditor

/s/ Claudia J. Gudvangen

Claudia J. Gudvangen, CPA
Deputy Legislative Auditor

March 15, 2002

Metropolitan Sports Facilities Commission

Status of Prior Audit Issues As of March 15, 2002

Most Recent Audit

The Office of the Legislative Auditor performs an annual audit of the Metropolitan Sports Facilities Commission. Legislative Audit Report 01-22, dated May 4, 2001, covered the year ended December 31, 2000. The audit scope included those areas material to the commission's financial statements for the year then ended. There were no findings in the report.