



OFFICE OF THE LEGISLATIVE AUDITOR
STATE OF MINNESOTA

Financial Audit

Metropolitan Sports Facilities Commission
For the Year Ended December 31, 1999



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
Joan Haskin, CPA, CISA	Auditor-in-Charge
Mike Willis	Auditor
Valerie Wozniak	Auditor

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 balance sheets of the Metropolitan Sports Facilities Commission as of and for the years ended December 31, 1999 and 1998, and the related statements of income, retained earnings, and cash flows for the years then ended as presented on pages 3 to 16. 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 generally accepted auditing standards 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, 1999 and 1998, and the results of its operations and its cash flows for the years then ended in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 14, 2000, 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

/s/ Claudia J. Gudvangen

James R. Nobles
Legislative Auditor

Claudia J. Gudvangen, CPA
Deputy Legislative Auditor

March 14, 2000

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Metropolitan Sports Facilities Commission

Balance Sheet December 31, 1999 and 1998

ASSETS	<u>1999</u>	<u>1998</u>
Current assets:		
Cash and cash equivalents	\$14,498,186	\$10,800,051
Investments (note 4)	5,270,975	5,264,282
Accounts receivable	1,875,876	2,446,983
Accounts receivable – facilities cost credit (note 3)	2,093,680	0
Accrued interest receivable	54,685	40,739
Prepaid expense	<u>61,778</u>	<u>65,123</u>
Total current assets	\$23,855,180	\$18,617,178
Fixed assets: (note 2)		
Metrodome stadium site	\$8,700,000	\$8,700,000
Metrodome stadium building and equipment	108,886,840	107,176,060
Less accumulated depreciation	<u>(65,567,414)</u>	<u>(60,104,035)</u>
Total fixed assets, net	\$52,019,426	\$55,772,025
TOTAL ASSETS	<u>\$75,874,606</u>	<u>\$74,389,203</u>
LIABILITIES and EQUITY		
Current liabilities:		
Accounts payable	\$1,686,141	\$540,019
Accounts payable – facilities cost credit (note 3)	2,093,680	0
Accrued expenses	152,509	155,310
New stadium advances (note 10)	<u>85,497</u>	<u>0</u>
Total current liabilities	\$4,017,827	\$695,329
Equity:		
Contributed capital (note 2)	\$17,069,238	\$17,069,238
Retained earnings: (note 2)	<u>54,787,541</u>	<u>56,624,636</u>
Total equity	\$71,856,779	\$73,693,874
TOTAL LIABILITIES and EQUITY	<u>\$75,874,606</u>	<u>\$74,389,203</u>

Metropolitan Sports Facilities Commission

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

Statements of Revenue, Expenses, and Changes in Retained Earnings Years Ended December 31, 1999 and 1998

	<u>1999</u>	<u>1998</u>
Revenue:		
Concession revenue (note 3)	\$12,128,110	\$11,852,795
Admission tax	4,636,332	3,923,446
Stadium rents	4,383,490	3,686,506
Advertising fees	1,792,685	1,757,281
Plaza concession receipts	159,320	175,364
Parking fees	142,809	132,939
Other	816,479	706,118
Less – facilities cost credit (note 3)	<u>(3,498,199)</u>	<u>0</u>
Total revenue	\$20,561,026	\$22,234,449
Expenses:		
Concession operating costs (note 3)	\$6,829,635	\$6,454,897
Personal services	3,116,778	2,963,955
Contractual services	2,693,136	2,537,945
Tenants share of concession receipts (note 3)	2,446,205	2,417,619
Utilities	1,928,348	1,939,866
Audio-visual maintenance costs	532,982	371,126
Supplies, repairs, and maintenance	443,065	452,076
Facilities planning (research/public information)	421,448	555,687
Insurance	243,708	234,199
Professional services	172,240	196,134
Technical consultants	126,589	236,602
Plaza concession operating cost	116,225	112,323
Communication	70,972	63,033
Tenants share of plaza concession receipts	54,008	69,744
Travel and meeting	53,716	58,106
Miscellaneous	814,549	1,083,360
Less – expenses reimbursed by tenants	<u>(2,428,998)</u>	<u>(2,143,611)</u>
Total expenses before depreciation and amortization	\$17,634,606	\$17,603,061
Operating income before depreciation and amortization	\$2,926,420	\$4,631,388
Depreciation and amortization	<u>(5,607,362)</u>	<u>(5,467,424)</u>

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Operating (loss) income	(\$2,680,942)	(\$836,036)
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Statements of Revenue, Expenses, and Changes in Retained Earnings Years Ended December 31, 1999 and 1998

	<u>1999</u>	<u>1998</u>
Non-operating income (expense):		
Net Met Center revenues (note 8)	\$0	(\$2,818)
Investment income	852,857	1,068,440
Gain Met Center land sale (note 8)	0	22,107,849
Disposal of fixed assets	(9,010)	(5,031)
Interest expense domed stadium revenue bonds	<u>0</u>	<u>(632,027)</u>
Total non-operating income (expense)	\$843,847	\$22,536,413
Net income (loss)	(\$1,837,095)	\$21,700,377
Retained earnings, January 1	<u>56,624,636</u>	<u>34,924,259</u>
Retained earnings, December 31	<u><u>\$54,787,541</u></u>	<u><u>\$56,624,636</u></u>

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

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Statements of Cash Flows Years Ended December 31, 1999 and 1998

	<u>1999</u>	<u>1998</u>
Cash flows from operating activities:		
Operating (loss) income	(\$2,680,942)	(\$836,036)
Adjustments to reconcile operating income to net cash flows provided by operating activities:		
Depreciation and amortization	5,607,362	5,467,424
Changes in assets and liabilities:		
Decrease (increase in accounts receivable	(1,522,573)	1,118,373
Decrease (increase) in prepaid expenses	3,345	(1,859)
(Decrease) increase in accounts payable	3,239,803	(570,035)
(Decrease) increase in wages receivable	<u>(2,802)</u>	<u>(42,259)</u>
Net cash provided by operating activities	\$ 4,644,193	\$ 5,135,608
Cash flows from investing activities:		
Gross purchases	(\$7,213,187)	(\$16,456,605)
Gross sales	6,766,079	15,514,682
Interest received	985,960	853,660
Interest received-trustee	0	356,456
Gross purchases with trustee	0	(32,546,213)
Gross sales with trustee	<u>0</u>	<u>41,820,391</u>
Net cash provided by investing activities	\$538,852	\$ 9,542,371
Cash flows from capital and related financing activities:		
Principal paid on bonds	\$0	(\$34,090,000)
Interest paid on bonds	0	(1,118,063)
Acquisition of capital assets	(1,484,910)	(1,193,727)
Proceeds from sale of capital assets	0	25,583,894
Receipts from Met Center operations	<u>0</u>	<u>(2,819)</u>
Net cash used for capital and related financing activities	(\$1,484,910)	(\$10,820,715)
Net (decrease) increase in cash and cash equivalents	\$3,698,135	\$ 3,857,264
Cash and cash equivalents at beginning of year	<u>10,800,051</u>	<u>6,942,787</u>
Cash and cash equivalents at end of year	<u>\$14,498,186</u>	<u>\$10,800,051</u>

Metropolitan Sports Facilities Commission

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

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Notes to Financial Statements December 31, 1999 and 1998

(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) (note 8).

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 Norwest Bank Minnesota, National Association, 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 9).

Component Unit

The Commission is a component unit of the Council.

Foundation

The Metropolitan Sports Facilities Commission Foundation (Foundation) was incorporated as a Minnesota nonprofit corporation in May 1995. The Foundation's purpose and activities are

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exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. The purpose of the Foundation is to promote educational and charitable activities by providing financial and other support for athletic and other activities for underserved youth, and in so doing, promoting and enhancing student education.

The Foundation has no members. The Board of Directors of the Foundation is comprised of the sitting members and chair of the Commission. The Foundation is thus deemed a component unit of the Commission. The Foundation's net assets, changes in net assets, and cash flows are not material to the Commission.

The Board of Directors of the Foundation has determined to dissolve the Foundation, and dissolution proceedings are under way.

(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 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 had 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.

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 and commercial paper.

Investments

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

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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, Norwest 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.

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	11 to 30 years, or bond life, or the year 2009
Building Improvements	11 to 30 years, or bond life, 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 and, to the extent required and available, debt service.

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 9).

Contributed Capital

Upon establishment of the Commission through authorizing legislation in 1977, certain contributions were provided to the Commission to commence its operations. This contributed capital amount of \$17,069,238, classified as a component of the Commission's equity in the

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balance sheet, arose from the contributions of (i) various assets by the Commission's predecessor organization (the Metropolitan Sports Area Commission), (ii) the Metrodome stadium site, and (iii) proceeds from the Council related to a metropolitan on-sale liquor tax that was repealed in 1979.

Retained Earnings

At the time of the defeasance of the Metrodome Refunding Bonds in March 1998 (note 9), 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 retained earnings, which include the accounts maintained pursuant to Commission resolution were as follows as of December 31, 1999 and 1998:

	<u>1999</u>	<u>1998</u>
<u>Retained Earnings</u>		
Operating account	\$ 2,188,460	\$ 2,139,305
Operating reserve account	2,100,000	2,100,000
Capital improvement account	11,924,488	11,051,298
Repair and replacement account	3,525,772	2,434,058
Concessions reserve account	98,633	197,188
Fixed assets	<u>34,950,188</u>	<u>38,702,787</u>
Total retained earnings	<u>\$54,787,541</u>	<u>\$56,624,636</u>

(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 the payment to each of the Twins, the Vikings, and the University for 1999 and subsequent seasons of an amount 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

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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, the amount of the facilities cost credit paid to the Twins was \$976,887.

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 and 2000 football seasons. The facilities cost credit will be reduced to the extent necessary to pay any shortfall in 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, the facilities cost credit paid to the University was \$427,632.

At this date, the Vikings have declined to execute a draft of the requisite amendment to the Vikings Use Agreement prepared and tendered by the Commission. Nonetheless, the Vikings have withheld rents due the Commission under the present Use Agreement in an amount that they advise approximates the proposed facilities costs credit (admission taxes have been paid by the Vikings when and as due). It is the Commission's position that the Vikings' rent remains due and that the Vikings' obligation to pay rent has not been waived or forgiven by the Commission. No facilities cost credit will be paid (and no rent will be setoff, waived, or forgiven) unless and until a definitive, written amendment to the Vikings Use Agreement is signed by the Vikings. The rent withheld by the Vikings for the 1999 football season is \$2,093,680. This amount of rent is reflected as a receivable in the Commission's balance sheet. (See accounts receivable – facilities cost credit.) While a like amount has been expensed and reflected as an account payable, the Commission is unable to predict the likelihood that the Vikings will execute the proffered definitive amendment or any other substantially similar amendment. Thus, the Commission intends to continue to pursue the collection of the rent due.

Concessions

The Commission owns the concessions in the Metrodome. It has an agreement with a management company to manage the concessions, which was effective until January 31, 1999, then extended to January 31, 2000 and, most recently extended to May 31, 2000. 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

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following table reflects the actual operations of the concessions for the years-ended 1999 and 1998.

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Summary of Concession Operations

	<u>1999</u>	<u>1998</u>
Gross Concession Revenue	\$12,128,110	\$11,852,795
Concession Operating Costs:		
Cost of goods and concessionaire's operating expenses	\$ 6,092,885	\$ 5,822,259
Concessionaire management fee	271,441	271,893
Repair and maintenance of concession equipment	<u>465,309</u>	<u>360,745</u>
Total concession operating costs	\$ 6,829,635	\$ 6,454,897
Net Operating Income	<u>\$ 5,298,475</u>	<u>\$ 5,397,898</u>
Distribution of Net Operating Income:		
Payments to tenants:		
Minnesota Twins	\$ 1,554,242	\$ 1,760,878
Minnesota Vikings	501,263	400,032
University of Minnesota	377,175	256,709
Others	<u>13,525</u>	<u>0</u>
Tenants share of concession net operating profits	\$ 2,446,205	\$ 2,417,619
Commission share	<u>2,852,270</u>	<u>2,980,279</u>
Total Distribution - Net Operating Profit	<u>\$ 5,298,475</u>	<u>\$ 5,397,898</u>

Metrodome Plaza Concessions

In addition to the concession operations inside the Metrodome as provided in the foregoing summary, the Commission operates 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. It provides a gathering place, both prior to and following events at the Metrodome. Under agreements with the Commission's principal tenants, all operating profits (consisting of Plaza concession revenues less direct cost of goods and labor costs) are distributed to these principal tenants.

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(4) *Investments and Deposits*

Investments

Investments of the Commission consisted of the following at December 31, 1999 and 1998:

<u>Investment Type</u>	<u>1999</u>	<u>1998</u>
	<u>Fair Value</u>	<u>Fair Value</u>
US Government Obligation	\$5,270,975	\$5,264,282

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

Deposits

At December 31, 1999, the Commission's bank balance for cash was \$481,574 and the book balance was \$60,109. The bank balances were fully covered by federal depository insurance or collateral throughout 1999 and 1998. 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."

Plan description

All employees are covered by the Minnesota State Retirement System (MSRS) multiple employer cost sharing pension plan except for those employees previously covered by the Public Employees Retirement Association (PERA) who have elected to remain covered under that 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

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the MSRS plan administrator at the Minnesota State Retirement System, 175 West Lafayette Frontage Road, Suite 300, St. Paul, Minnesota 55107.

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 7.13 percent for 1998. During 1999 and 1998, the 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, 1999, 1998, and 1997, were \$98,648, \$93,468 and \$90,473, 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 Commission sought declaratory and injunctive relief requiring the Twins to continue to play home games at the Metrodome through 2011 and further sought money damages. The parties' views differed as to whether the Twins met either of two conditions specified in the Use Agreement that would allow early termination of the agreement after the 1998 season. The Twins counterclaimed for attorneys' fees and lost revenues of over \$100 million by reason of "abuse of process."

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 obligates the Twins to play games at the Metrodome through October 31, 2000; the Twins have the right to remain in the Metrodome office space through December 31, 2000. In addition, the Twins have 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. The Hennepin County District Court will retain jurisdiction to decide any disputes relating to the Settlement Agreement and Mutual Release signed by the parties.

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.

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During the 1997 Legislative Session, called by the Governor solely to address the Twins' demand for a new stadium, and during the 1998 Legislative Session, legislators rejected a number of proposals to build a new Twins stadium. No serious stadium proposals were considered in the 1999 Session.

(7) *Metrodome Capital Improvement Planning*

The Metrodome opened in 1982 and was built using the then popular 1970's design and technology. After 18 years and over 54.8 million attendees, the Metrodome remains in good condition and usable in accordance with its original design for a multi-purpose stadium. However, the Commission believes that significant improvements would enhance the Metrodome and extend its useful life. These improvements would allow the Metrodome to stay abreast of modern stadium design improvements which will be incorporated into all new arenas and stadiums such as the Wild NHL Arena in St. Paul. This will allow the Metrodome to maintain its competitive position for new and additional events and to satisfy the demands of consumers. The amenities include widening the concourses, adding restrooms for all patrons, especially women, and increasing the points of sale for concessions. There is not enough money in the economy of the Metrodome to pay for significant improvements, nor to fund the replacement of systems that reach the end of their useful life. The Commission will continue to fund the cost of operations and regular repair and maintenance items.

The Commission has undertaken an analysis of the potential of using the Metrodome as a football-focused or a baseball- focused facility. While the baseball team has rejected staying in the Metrodome, the Minnesota Vikings are reviewing the concept and will provide further analysis. This process is expected to continue throughout the year 2000. Meanwhile, the Vikings continue to publicly state their desire for a new stadium and in 1999 made demands for additional revenue streams from the Metrodome. The Commission has declined the request for additional revenues in light of the proposed facilities cost credit (note 3) and the Commission's ongoing financial obligations to operate, maintain, improve, and repair the Metrodome from these revenues. Of course, the Vikings are bound by their Use Agreement to play all their games at the Metrodome through the 2011 season.

(8) *Met Center Property*

The Met Center was used principally as a hockey venue for the Minnesota North Stars NHL hockey team through April 1993. Upon the departure of the Minnesota North Stars, the Met Center hosted a reduced number of events until March 1994 when the Met Center was closed to events. In December 1994, the Met Center building was demolished.

The Commission's efforts to sell the Met Center property culminated in January 1998 with the sale of the Met Center property to the Metropolitan Airports Commission for \$25,672,000. As required by the Stadium Act and the Indenture, the net sale proceeds were deposited into the Prepayment and Purchase Account under the Indenture and were applied (together with other Commission funds) to the defeasance of the Metrodome Refunding Bonds in March 1998 (note 9).

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(9) *Long-Term Debt*

As of December 31, 1997, Metrodome Refunding Bonds issued by the Council on behalf of the Commission were outstanding in the principal amount of \$34,090,000. In March 1998, the Council and the Commission entered into an Escrow Agreement with the Trustee pursuant to which all outstanding Metrodome Refunding Bonds were defeased to maturity (October of 2009) in accordance with the provisions of the Indenture relating to such defeasance. Under the Escrow Agreement, the Council and the Commission irrevocably deposited with the Trustee \$35,372,063 (comprised of all funds in the Prepayment and Purchase Account, Debt Service Reserve Account, and Debt Service Account, together with additional funds from the Capital Improvement Account, under the Indenture) with which the Trustee purchased and deposited in the Escrow Fund under the Escrow Agreement United States Treasury obligations in principal amounts, at interest rates and yields, and with maturities such that (together with uninvested cash in the Escrow Fund) amounts in the Escrow Fund from time to time will be sufficient to pay all principal of, redemption premium, if any, and interest on the Metrodome Refunding Bonds to their respective maturities (or scheduled mandatory sinking fund redemption dates).

Accordingly, as a result of the defeasance, 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 under the Escrow Agreement and amounts held therein by the Trustee, 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.

(10) *New Stadium Advances*

In 1999, the Commission created a new stadium fund to receive voluntary contributions from the public for a new major league baseball park. In 1999, contributions of \$85,497 were received. The terms governing the fund are contained in a letter agreement with the Minnesota Department of Revenue. The Commission is bound to expend the contributions or deliver them to the State for costs related to ballpark construction. If a site for the ballpark has not been acquired or construction begun by July 1, 2000, the contributions will be returned without interest. The Commission can extend the return date by one year if it determines "to a high degree of certainty" that the qualifying events will occur before July 1, 2002. Up to \$30,000 of the interest is to be retained by the Commission for expenses of administering the fund with any overage divided equally between the Department of Revenue and the Commission. Written confirmation of these terms has been provided to each contributor.

Other Auditor Reports



OFFICE OF THE LEGISLATIVE AUDITOR
State of Minnesota • James Nobles, Legislative Auditor

**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 years ended December 31, 1999 and 1998, and have issued our report thereon dated March 14, 2000. We conducted our audit in accordance with generally accepted auditing standards 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

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Mr. William Lester, Executive Director
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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. 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 14, 2000

Metropolitan Sports Facilities Commission

Status of Prior Audit Issues As of March 14, 2000

Most Recent Audit

The Office of the Legislative Auditor performs an annual audit of the Metropolitan Sports Facilities Commission. Legislative Audit Report 99-24, dated March 19, 1999, covered the year ended December 31, 1998. 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.