

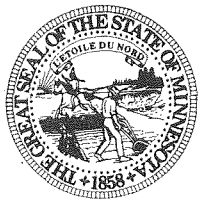
**METROPOLITAN SPORTS FACILITIES COMMISSION
FINANCIAL STATEMENTS AND MANAGEMENT LETTER
FOR THE YEAR ENDED DECEMBER 31, 1988**

APRIL 1989

METROPOLITAN SPORTS FACILITIES COMMISSION

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STATE OF MINNESOTA

OFFICE OF THE LEGISLATIVE AUDITOR

VETERANS SERVICE BUILDING, ST. PAUL, MN 55155 • 612/296-4708

JAMES R. NOBLES, LEGISLATIVE AUDITOR

Independent Auditor's Report

Ronald Gornick, Chairman
Metropolitan Sports Facilities Commission

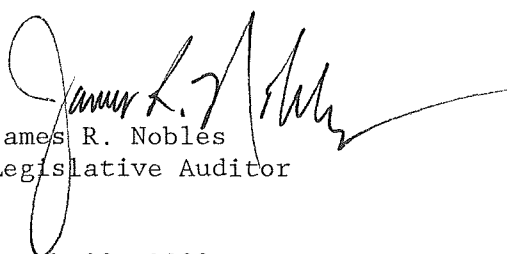
Members of the Metropolitan Sports Facilities Commission

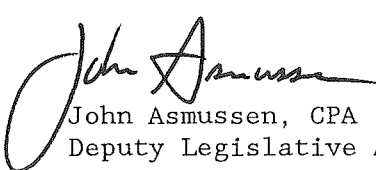
William Lester, Executive Director
Metropolitan Sports Facilities Commission

We have audited the accompanying balance sheets of the Metropolitan Sports Facilities Commission as of December 31, 1988 and 1987, and the related statements of income and retained earnings and cash flows for the years then ended. 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 audits.

We conducted our audits in accordance with generally accepted auditing standards. 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 significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide 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, 1988 and 1987, and the results of its operations and its cash flows for the years then ended in conformity with generally accepted accounting principles.


James R. Nobles
Legislative Auditor


John Asmussen, CPA
Deputy Legislative Auditor

March 20, 1989

METROPOLITAN SPORTS FACILITIES COMMISSION
FINANCIAL SECTION

METROPOLITAN SPORTS FACILITIES COMMISSION

Balance Sheets
December 31, 1988 and 1987

<u>Assets</u>	<u>1988</u>	<u>1987</u>
Unrestricted current assets (note 3):		
Revenue Fund:		
Operating Account:		
Cash	\$ 73,107	\$ 297,547
Investments, at cost	1,367,656	75,009
Accounts receivable	2,027,498	1,494,408
Accrued interest receivable	254,841	103,599
Prepaid expenses and other assets	110,436	116,130
Repair and Replacement Account:		
Investments, at cost	652,308	112,308
Prepaid expenses	22,725	22,725
Operating Reserve Account:		
Investments, at cost	3,929,250	3,929,250
Capital Improvement Account:		
Investments, at cost	5,273,481	4,171,691
Accounts receivable	149,587	149,587
Concession Reserve Account:		
Investments, at cost	<u>1,478,689</u>	<u>1,220,473</u>
Total unrestricted current assets	<u>15,339,578</u>	<u>11,692,727</u>
Unrestricted noncurrent assets:		
Property and equipment (notes 5, 6 and 10):		
Domed Stadium site	8,700,000	8,700,000
Domed Stadium	76,388,291	74,640,933
Sports Center Site	<u>2,204,214</u>	<u>2,385,269</u>
	87,292,505	85,726,202
Less accumulated depreciation and amortization	<u>(18,889,810)</u>	<u>(15,598,316)</u>
Total property and equipment	<u>68,402,695</u>	<u>70,127,886</u>
Met Center property and equipment subject to long-term use agreement (see offsetting reserve account) (note 4)	<u>7,567,618</u>	<u>6,991,441</u>
Total unrestricted noncurrent assets	<u>75,970,314</u>	<u>77,119,327</u>
Total unrestricted assets	<u>91,309,892</u>	<u>88,812,054</u>
Restricted assets (note 3):		
Construction Fund:		
Investments, at cost	846,799	767,193
Accounts receivable and accrued interest (note 8)	<u>4,100</u>	<u>4,175</u>
	<u>850,899</u>	<u>771,368</u>

See accompanying notes to financial statements.

METROPOLITAN SPORTS FACILITIES COMMISSION

Balance Sheets
December 31, 1988 and 1987

	<u>1988</u>	<u>1987</u>
Restricted assets (note 3) continued:		
Bond Fund:		
Debt Service Account:		
Investments, at cost	5,233,981	5,293,037
Accounts receivable and accrued interest	<u>32,915</u>	<u>17,819</u>
	<u>5,266,896</u>	<u>5,310,856</u>
Prepayment and Purchase Account: (note 10)		
Investments, at cost	<u>4,167,382</u>	<u>-0-</u>
	<u>4,167,382</u>	<u>-0-</u>
Debt Service Reserve Account:		
Investments, at cost	8,828,296	8,715,067
Accrued interest receivable	<u>167,924</u>	<u>347,577</u>
	<u>8,996,220</u>	<u>9,062,644</u>
Total restricted assets	<u>19,281,397</u>	<u>15,144,868</u>

Total Assets	<u>\$110,591,289</u>	<u>\$103,956,922</u>
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See accompanying notes to financial statements.

METROPOLITAN SPORTS FACILITIES COMMISSION

Balance Sheets
December 31, 1988 and 1987

<u>Liabilities, Reserves, Contributions and Retained Earnings</u>	<u>1988</u>	<u>1987</u>
Current liabilities (payable from unrestricted current assets):		
Accounts payable	\$ 879,557	\$ 446,461
Accrued expenses	88,351	95,866
Current portion of long-term debt (note 6b)	300,000	300,000
Deferred revenue	<u>500,000</u>	<u>-0-</u>
	<u>1,767,908</u>	<u>842,327</u>
Current liabilities (payable from restricted assets):		
Current portion of long-term debt (note 6a)	1,150,000	1,180,000
Accounts and contracts payable	709,679	709,679
Accrued interest	<u>905,525</u>	<u>926,470</u>
	<u>2,765,204</u>	<u>2,816,149</u>
Long-term debt, less current portion (note 6)	47,984,978	49,373,127
Reserve for Met Center property and equipment subject to long-term use agreement (see offsetting asset account) (note 4)	<u>7,567,618</u>	<u>6,991,441</u>
Total liabilities	<u>60,085,798</u>	<u>60,023,044</u>
Capital contributions	<u>17,069,238</u>	<u>17,069,238</u>
Retained earnings:		
Restricted for debt service	16,516,194	12,328,719
Unrestricted	<u>16,920,149</u>	<u>14,535,921</u>
	<u>33,436,343</u>	<u>26,864,640</u>
Total capital contributions and retained earnings	<u>50,505,581</u>	<u>43,933,878</u>
Total Liabilities, Reserves, Contributions, and Retained Earnings	<u>\$110,591,289</u>	<u>\$103,956,922</u>

See accompanying notes to financial statements.

METROPOLITAN SPORTS FACILITIES COMMISSION

Statements of Income and Retained Earnings Years Ended December 31, 1988 and 1987

	<u>1988</u>	<u>1987</u>
Revenue:		
Stadium rents	\$ 2,937,021	\$ 2,113,615
Parking fees	733,495	649,920
Concession revenue (note 4)	15,682,847	13,099,158
Expenses reimbursed by tenants	1,438,174	1,106,618
Admission tax	3,770,887	3,410,603
Unrestricted interest income	870,503	621,794
Other	<u>522,923</u>	<u>459,912</u>
Total revenue	<u>25,955,850</u>	<u>21,461,620</u>
Expenses:		
Personal services	1,447,726	1,223,001
Concession operating costs	6,961,925	5,570,277
Tenants' share of concession receipts (note 4)	4,413,462	3,877,573
Technical consultants	308,799	196,892
Professional services	428,237	402,885
Contractual services	1,166,872	982,600
Metropolitan Council services (note 2)	8,185	19,651
Travel and meetings	42,109	31,690
Supplies, repairs, and maintenance	237,757	171,306
Utilities	1,634,525	1,349,741
Insurance	625,944	641,275
Communication	22,915	20,498
Real Estate Taxes	200,000	200,000
Lawsuit settlement (note 6b)	61,851	1,373,127
Miscellaneous	<u>170,650</u>	<u>176,830</u>
Total expenses before depreciation and amortization	<u>17,730,957</u>	<u>16,237,346</u>
Operating income before depreciation and amortization and disposal of fixed assets	<u>8,224,893</u>	<u>5,224,274</u>
Less: Depreciation and amortization	3,509,610	3,104,564
Condemnation award (note 10)	3,818,945	-0-
Gain (loss) on disposal of fixed assets	<u>-0-</u>	<u>2,224</u>
Operating income (loss)	<u>8,534,228</u>	<u>2,121,934</u>
Other income (expense), restricted:		
Interest income	1,722,410	1,411,345
Interest expense on Domed Stadium revenue bonds (note 5)	<u>(3,684,935)</u>	<u>(3,764,455)</u>
Net other income (loss), restricted	<u>(1,962,525)</u>	<u>(2,353,210)</u>
Net income (loss)	6,571,703	(231,176)
Retained earnings, beginning of year	<u>26,864,640</u>	<u>27,095,816</u>
Retained earnings, end of year	<u>\$ 33,436,343</u>	<u>\$ 26,864,640</u>

See accompanying notes to financial statements.

METROPOLITAN SPORTS FACILITIES COMMISSION

Statements of Cash Flows
Years ended December 31, 1988 and 1987

	<u>1988</u>	<u>1987</u>
Cash flow from operating activities:		
Net income (loss)	\$ 6,571,703	\$ (231,176)
Adjustments to reconcile net increase to net cash provided by operating activities:		
Depreciation and amortization	3,509,610	3,104,564
Condemnation award (note 10)	(3,818,945)	-0-
Gain on sale of fixed assets	-0-	(2,224)
Lawsuit settlement (note 6)	-0-	1,373,127
Changes in unrestricted assets and liabilities:		
Decrease (increase) in accounts receivable	(533,090)	(257,993)
Decrease (increase) in accrued interest receivable	(151,242)	13,220
Decrease (increase) in prepaid expenses	5,694	(84,271)
Increase (decrease) in accounts payable	433,096	79,754
Increase (decrease) in salaries payable	(7,515)	1,936
Increase (decrease) in deferred revenues	500,000	-0-
Increase (decrease) in settlement payable (note 6)	<u>(238,149)</u>	<u>(300,000)</u>
Net cash provided by operating activities	<u>6,271,162</u>	<u>3,696,937</u>
Cash flow from investing activities:		
Net purchase of unrestricted investments	(3,192,653)	(1,249,489)
Purchase of fixed assets	(1,965,476)	(1,635,899)
Proceeds from condemnation award (note 10)	4,000,000	-0-
Decrease (increase) in restricted assets	(4,136,530)	111,946
Increase (decrease) in restricted liabilities	<u>(20,945)</u>	<u>(178,836)</u>
Net cash used in investing activities	<u>(5,315,604)</u>	<u>(2,952,278)</u>
Cash flow from financing activities:		
Payment of outstanding bonds	(1,180,000)	(1,180,000)
Proceeds from note	<u>-0-</u>	<u>629,801</u>
Net cash used in financing activities	<u>(1,180,000)</u>	<u>(550,199)</u>
Net increase (decrease) in cash	(224,440)	194,459
Cash on January 1	<u>297,547</u>	<u>103,088</u>
Cash on December 31	<u><u>\$ 73,107</u></u>	<u><u>\$ 297,547</u></u>

See accompanying notes to financial statements.

METROPOLITAN SPORTS FACILITIES COMMISSION

NOTES TO FINANCIAL STATEMENTS December 31, 1988 and 1987

(1) ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

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 Metropolitan Sports Center (Met Center) and the Hubert H. Humphrey Metrodome sports facility (Domed Stadium).

Admission Tax

The Commission is required to impose a 10 percent admission tax on all admissions to events conducted at the Domed Stadium. The admission tax is intended for use by the Commission as a source of revenue to pay current operating expenses and, to the extent available, debt service.

Liquor Tax and Hotel-Motel Tax

As provided for in the Stadium Act, the Commission has entered into a Hotel-Motel and Liquor Tax agreement with the City of Minneapolis. On or before October 15 of each year, the Metropolitan Council is required to establish the "City Tax Requirement" for the next succeeding calendar year. The City Tax Requirement is the revenues determined by the Metropolitan Council from year to year to be required, together with revenues available to the Commission, to pay when due all debt service on bonds and all expenses of operation, administration and maintenance of the Domed Stadium, including reserves for debt service and expenses. Once the determination of the dollar amount of the City Tax Requirement is made, the City is required to set the rate or rates of the Liquor Tax or the Hotel-Motel Tax, or both, so that the estimated net tax proceeds from such sales taxes will equal the City Tax Requirement. There has been no City Tax Requirement since December 31, 1984. Revenue from the Liquor Tax/Hotel-Motel Tax is allocated to the Sports Facilities Revenue Bond Fund Debt Service Account.

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 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.

METROPOLITAN SPORTS FACILITIES COMMISSION

Cash and Investments

General

Commission investments consist principally of debt securities and are recorded at cost.

In accordance with generally accepted accounting principles, investments are categorized as to risk. Risk category 1 includes investments that are insured or registered, or for which the securities are held by the Commission or its agent in the Commission's name. 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. 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 Risk category 1, except approximately \$638,000 which is invested in a U.S. government securities mutual fund. The risk categories do not apply to mutual funds since they are not evidenced by distinct securities that exist in physical or book entry form.

Deposits

At December 31, 1988, the Commission's bank balance for cash was \$449,825 and the book balance was \$72,793. The bank balance \$424,878 was secured by federal depository insurance or by collateral held in the Commission's name. The remaining \$24,942 was uninsured and uncollateralized. Minn. Stat. Section 118.01 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 10 percent more than the amount on deposit in excess of any insured portion at the close of the business day. During 1988, the combined insured amount and collateral fell short of the legal requirement on 27 days. The average balance on those days was \$797,227.

Property and Equipment

Property and equipment are recorded at cost and depreciated using the straight-line method over the estimated useful lives of the related assets. Depreciation expense, excluding amounts relating to the Met Center, is reflected in the statements of income. Depreciation on the Met Center property and equipment is recorded as a charge against the related balance sheet reserve account (note 4). Domed Stadium construction costs relating to exclusive year-around leased space, primarily private spectator boxes, locker rooms, and team offices, are reimbursed to the Commission by tenants. As of December 31, 1988, reimbursed construction costs for leased space totalled \$8,950,906. This construction cost is not considered an asset of the Commission and is not included in the Commission's financial statements.

Interest Costs

In accordance with generally accepted accounting principles, the Commission capitalized interest costs incurred during the major construction period.

METROPOLITAN SPORTS FACILITIES COMMISSION

(2) RELATIONSHIP WITH THE METROPOLITAN COUNCIL

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 governed by the Commission.
- To refund bonds authorized or assumed under the Stadium Act.
- To fund judgements 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. Additionally, the Council provides the Commission with other services such as review of the liquor tax/hotel-motel tax and legal council regarding the bond indenture.

(3) SPECIAL FUNDS UNDER THE SPORTS FACILITIES REVENUE BOND TRUST INDENTURE

Special funds, some of which may only be used for certain restricted purposes, are required under the Indenture of Trust between the Metropolitan Council and the Commission covering the issuance of the Sports Facilities Revenue Bonds.

The following special funds and accounts therein are established by the trust indenture:

- (a) A Construction Fund, to be held and administered as a trust fund by the Trustee.
- (b) A Tax Receipts Fund, to be held and administered as a trust fund by the Trustee.
- (c) A Sports Facilities Revenue Bond Fund, to be held and administered as a trust fund by the Trustee, with the following accounts therein:
 - (i) a Debt Service Account;
 - (ii) a Series D Bonds Principal Account;
 - (iii) a Prepayment and Purchase Account; and
 - (iv) a Debt Service Reserve Account.
- (d) A Revenue Fund, to be held and administered by the Commission, with the following accounts therein:

METROPOLITAN SPORTS FACILITIES COMMISSION

- (i) a Revenue Receipts Account;
 - (ii) an Operating Account;
 - (iii) an Operating Reserve Account;
 - (iv) a Repair and Replacement Account; and
 - (v) a Capital Improvement Account.
- (e) A Property Insurance and Award Fund, to be held and administered as a trust fund by the Trustee.

These funds and accounts, where applicable, have been reflected on the Commission's financial statements. Inactive accounts and clearing accounts are not reflected in the financial statements.

The City of Minneapolis has agreed with the Metropolitan Council and the Commission that the City will impose a sales tax supplement on liquor and hotel-motel sales (City Tax Requirement), if necessary. There has been no City Tax Requirement since December 31, 1984. These sales tax supplement receipts are to be deposited in the Tax Receipts Fund and, except for any sums allocated to the Operating Fund, are to be disbursed by the Trustee monthly to fund:

- (a) The Debt Service Account, such amount as is required to meet the Debt Service Account Requirement.
- (b) The Series D Bond Principal Account, such amount as is required to meet the Series D Bond Principal Account Requirement.
- (c) The Debt Service Reserve Account, such amount as is required to restore the Debt Service Reserve Account to its minimum requirement of the average annual debt service payment.

Revenues generated from operations of the Commission are to be deposited in a Revenue Receipts Account which will be used to fund operating expenses through the Operating Account and Operating Reserve Account, and to fund deposits to the Repair and Replacement Account. Any net operating revenues remaining after funding these accounts shall be deposited in the Debt Service Account.

Interest earned on the Sports Facilities Revenue Bond Fund Accounts and the Tax Receipts Fund is included in the Debt Service Account. Interest earned on the Revenue Fund Accounts is to be maintained in the respective accounts from which the investment was made.

(4) OPERATION OF THE DOMED STADIUM AND MET CENTER

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 Domed Stadium.

METROPOLITAN SPORTS FACILITIES COMMISSION

The Commission owns the concessions in the Domed Stadium. It has a ten year agreement with a management company to operate the concessions which is effective until 1996. 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 accounts as required by the concession services agreement. The current agreement allows the management company to retain 5 percent of net operating profits whereas the prior agreement had allowed a 10 percent retainage. The remainder is remitted to the Commission which distributes amounts to the major tenants based upon their respective use agreements. (See also note 6b.)

A financial summary of the concession operations for the years ending December 31, 1988 and 1987 follows:

SUMMARY OF CONCESSION OPERATIONS Years Ended December 31, 1988 and 1987

	<u>1988</u>	<u>1987</u>
Gross Receipts	\$15,682,846	\$13,099,158
Less: Cost of goods sold and concessionaire's operating expenses	6,280,566	5,043,458
Payment to concession reserve accounts	<u>784,142</u>	<u>654,958</u>
Net Operating Profit	<u>\$ 8,618,138</u>	<u>\$ 7,400,742</u>
Distribution of Net Operating Profits:		
Payments to tenants:		
Minnesota Twins - Regular	\$ 3,935,035	\$ 2,858,073
Minnesota Twins - Post season	-0-	538,760
Minnesota Vikings - Regular	228,722	194,972
Minnesota Vikings - Post season	27,255	-0-
University of Minnesota	221,301	284,528
Others	<u>1,149</u>	<u>1,341</u>
Tenant's share of concession net operating profits	<u>4,413,462</u>	<u>3,877,674</u>
Payment to concession management company	430,907	371,498
MSFC share	<u>3,773,769</u>	<u>3,151,570</u>
Total Distribution - Net Operating Profit	<u>\$ 8,618,138</u>	<u>\$ 7,400,742</u>

The Commission has an agreement with the City of Minneapolis concerning parking receipts whereby the Commission has been guaranteed certain minimum amounts to be paid by the City to the Commission. Such amounts relate to the increased parking near the Domed Stadium.

METROPOLITAN SPORTS FACILITIES COMMISSION

The Met Center Facility was built by the North Star Financial Corporation (North Star) with ownership of the facility being transferred at no cost to the Commission. During 1984 and previously, the Commission's participation in the revenues and receipts of the Met Center was limited to the annual sum of \$4,800. While receiving this fixed annual sum, the Commission did not pay the operating and maintenance expenses of the Met Center. The Amendment to Hockey Playing and Metropolitan Sports Area Use Agreement effective January 16, 1985, provides that beginning August 1, 1985 the North Star will pay the Commission a percentage of receipts each agreement year for consideration, and will also pay all operating, maintenance, managing, and insurance costs each year. Lease payments received from the North Star totalled \$119,645 in 1988. The Agreement further provides that the North Star shall have the option to purchase the Met Center for its fair market value at a specific time during the term of the agreement. Since the Met Center assets are subject to the long-term use agreement, the assets are recorded on the balance sheet in memorandum form with a related reserve established. As explained in Note 1, depreciation of \$444,695 in 1987 and \$491,561 in 1988 on the Met Center property and equipment is not charged to operations.

(5) DOMED STADIUM COSTS

A summary of the Domed Stadium costs which have been capitalized as of December 31, 1988 and 1987, is as follows:

	<u>1988</u>	<u>1987</u>
Original construction costs	\$52,106,141	\$52,106,141
Construction manager fees, expenses, and performance bond	8,038,488	8,038,488
Architect fees	4,491,118	4,491,118
Capitalized interest	2,476,771	2,476,771
Sewer availability charge, insurance, legal and other	3,354,729	3,354,729
Building and equipment additions	<u>5,921,045</u>	<u>4,173,686</u>
	<u>\$76,388,292</u>	<u>\$74,640,933</u>

(6) LONG-TERM DEBT

Long-term debt at December 31, 1988 and 1987 was as follows:

	<u>1988</u>	<u>1987</u>
7.1% - 7.5% Sports Facilities Revenue Bonds, Series 1979	48,600,000	49,780,000
Less current portion	<u>(1,150,000)</u>	<u>(1,180,000)</u>
	<u>47,450,000</u>	<u>48,600,000</u>
Due to Minnesota Vikings as a result of lawsuit settlement	\$ 834,978	\$ 1,073,127
Less current portion	<u>(300,000)</u>	<u>(300,000)</u>
	<u>534,978</u>	<u>773,127</u>
Long-term debt, less current portion	<u>\$47,984,978</u>	<u>\$49,373,127</u>

METROPOLITAN SPORTS FACILITIES COMMISSION

(6) LONG-TERM DEBT (con't)

- (a) The Series D Bonds were assumed by the Commission from its predecessor organization, the Metropolitan Sports Area Commission. As a result of the sale of the Metropolitan Stadium Properties in 1984, these Series D Bonds were defeased by placing in an irrevocable trust, sufficient funds to satisfy all scheduled payments of both interest and principal due on the Series D Bonds. The total remaining Series D Bond principal amount of \$3,115,500 is due on December 1, 1989. In accordance with Statement on Financial Accounting Standards (SFAS) 76, the Series D Bond debt is considered extinguished for financial reporting purposes and therefore, the assets and liabilities of the trust account, including the related bonds, are not included in the accompanying financial statements.

The annual requirements to amortize all outstanding Sports Facilities Revenue Bonds as of December 31, 1988, including interest payments, are as follows:

YEAR ENDING DECEMBER 31	PRINCIPAL	INTEREST	TOTAL DEBT
	Sports Facilities Revenue Bonds	Sports Facilities Revenue Bonds	SERVICE REQUIREMENT
1989	1,150,000	3,622,100	4,772,100
1990	1,350,000	3,540,450	4,890,450
1991	1,430,000	3,440,550	4,870,550
1992	1,525,000	3,334,730	4,859,730
1993	1,650,000	3,221,880	4,871,880
1994	1,760,000	3,099,780	4,859,780
1995	1,875,000	2,969,540	4,844,540
1996	2,000,000	2,830,790	4,830,790
1997	2,130,000	2,682,790	4,812,790
1998	2,230,000	2,525,170	4,755,170
1999	2,350,000	2,360,150	4,710,150
2000	2,430,000	2,186,250	4,616,250
2001	2,485,000	2,004,000	4,489,000
2002	2,590,000	1,817,625	4,407,625
2003	2,750,000	1,623,375	4,373,375
2004	2,945,000	1,417,125	4,362,125
2005	3,190,000	1,196,250	4,386,250
2006	3,190,000	957,000	4,147,000
2007	3,190,000	717,750	3,907,750
2008	3,190,000	478,500	3,668,500
2009	3,190,000	239,250	3,429,250
	<u>\$48,600,000</u>	<u>\$46,265,055</u>	<u>\$ 94,865,055</u>

Under the Indenture of Trust, the Sports Facilities Revenue Bonds bear interest at rates ranging from 7.1 percent to 7.5 percent annually with interest payable semiannually on April 1 and October 1 of each year. In connection with the financing, the Commission has agreed to certain financial and other covenants with the bond holders, including the following:

METROPOLITAN SPORTS FACILITIES COMMISSION

- The total cost of constructing the Domed Stadium under the construction contracts, not including costs paid from funds provided by others and certain incidental costs to be paid from interest earnings during the construction period, is limited to \$55,000,000.
 - All hotel-motel and liquor tax revenues, and the excess of revenues over expenses after funding of certain operating reserve accounts are pledged as collateral for payment of debt service.
- (b) In 1984 the Commission and the Minnesota Vikings negotiated a settlement of a Viking lawsuit regarding the right to operate future concessions at the Metrodome. The agreement contained a provision that the Commission pay the Vikings \$1.5 million over five years, if the concession contract was not awarded to them by January 1, 1987. The Commission signed a long-term concession agreement with a vendor other than the Vikings on July 30, 1986. Therefore, the Commission became obligated pursuant to the agreement with the Vikings. In compliance with this provision, the Commission made the first installment payment to the Vikings in 1987.

In accordance with generally accepted accounting principles, in 1988 the Commission expensed \$61,851 for interest on the second installment payment of \$300,000 and the present value of future payments of \$534,978.

(7) PENSION PLAN

All employees are covered by the Minnesota State Retirement System (MSRS) pension plan except for those employees previously covered by the Public Employees Retirement Association plan who have elected to remain covered under that plan. MSRS requires contributions by employers and employees equal to 3.9 percent and 3.7 percent of gross salary, respectively. Pension expense included in the statement of income was \$38,768 in 1987 and \$46,531 in 1988.

MSRS administers statewide plans covering employees of the State of Minnesota, school districts, counties, cities and other political subdivisions. The unfunded vested benefit liability of the plan is not actuarially segregated by employer unit. As of June 30, 1988, MSFC employees represented less than one percent of active MSRS plan participants. At June 30, 1988, the date of the latest actuarial valuation available, net assets available for benefits was \$1,609,164,000 for the MSRS plan. Historical trend information should be available through MSRS after the fiscal year ended June 30, 1988.

(8) CONTINGENT LIABILITIES

The Commission is a defendant in various lawsuits arising out of operations and construction of the sports facilities. The Commission believes that any ultimate liability arising from all such suits will not have a material effect on the Commission's financial condition.

METROPOLITAN SPORTS FACILITIES COMMISSION

(9) LEASE COMMITMENTS

The Commission leases various equipment under a noncancellable operating lease agreement extending through 1991. Future minimum lease commitments as of December 31, 1988 are as follows:

Year Ending <u>December 31</u>	
1989	\$ 359,698
1990	356,917
1991	<u>356,917</u>
Total Minimum Lease Payments	<u>\$1,073,532</u>

Rental expense for all operating leases, including the above commitment, was \$363,912 in 1988.

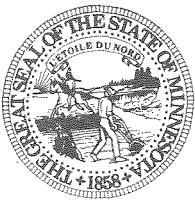
(10) GAIN ON CONDEMNATION AWARD

The gain on condemnation award in 1988 resulted from the Met Center land condemnation for right-of-way and easement proceedings by the Bloomington Port Authority. The Commission received a \$4,000,000 award for condemnation taking and damages. In order to comply with Minn. Stat. Section 473.556, Subd. 6, the proceeds have been deposited into the prepayment and purchase account, to be used for debt service. The funds are held by a trustee in accordance with the Indenture of Trust, and earned \$167,382 interest revenue in 1988. The gain on condemnation award is calculated as follows:

Condemnation Award	\$4,000,000
Cost Basis of Land	<u>181,055</u>
Gain on Condemnation Award	<u>\$3,818,945</u>

There is a disagreement between the Metropolitan Sports Facilities Commission and Northstar Financial Corporation regarding the eventual disposition of these funds. The respective shares of the condemnation award will be determined at a later date. Should the Metropolitan Sports Facilities Commission and Northstar Financial Corporation fail to reach an agreement, the matter may be settled in court.

**METROPOLITAN SPORTS FACILITIES COMMISSION
MANAGEMENT LETTER SECTION**



STATE OF MINNESOTA

OFFICE OF THE LEGISLATIVE AUDITOR

VETERANS SERVICE BUILDING, ST. PAUL, MN 55155 • 612/296-4708

JAMES R. NOBLES, LEGISLATIVE AUDITOR

Senator John Brandl, Chairman
Legislative Audit Commission

Members of the Legislative Audit Commission

Mr. Ronald Gornick, Chairman
Metropolitan Sports Facilities Commission

Members of the Metropolitan Sports Facilities Commission

Mr. William Lester, Executive Director
Metropolitan Sports Facilities Commission

Audit Scope

We have completed a financial and compliance audit of the Metropolitan Sports Facilities Commission for the year ended December 31, 1988. Our audit was made in accordance with generally accepted auditing standards and the standards for financial and compliance audits contained in the U.S. General Accounting Office Government Auditing Standards, and accordingly, included such audit procedures considered necessary in the circumstances. Fieldwork was completed on March 3, 1989.

Internal Accounting Control Systems

One objective of this audit was to study and evaluate major internal accounting control systems; payroll, operating disbursements, fixed assets, investments, and revenue at the commission, in effect as of January 31, 1989.

The management of the Metropolitan Sports Facilities Commission is responsible for establishing and maintaining a system of internal accounting control. In fulfilling this responsibility, estimates and judgments by management is required to assess the expected benefits and related costs of control procedures. The objectives of a system are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly.

Because of inherent limitations in any system of internal accounting control, errors or irregularities may occur and not be detected. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions, or that the degree of compliance with the procedures may deteriorate.

Senator John Brandl, Chairman
Members of the Legislative Audit Commission
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Finance-Related Legal Provisions

Another objective of this audit was to verify that financial transactions were made in accordance with significant finance-related laws. The Metropolitan Sports Facilities is governed generally by Minn. Stat. Section 473.551 to 473.596. According to Minn. Stat. Section 473.556, Subd.5, a major power of the commission is to "equip, improve, operate, manage, and control the metropolitan sports area and sports facilities constructed or remodeled. . . ."

The commission is subject to various specific legal provisions which direct its conduct regarding specific financial issues. Minn. Stat. Section 473.556, Subd. 12 and Minn. Stat. Section 473.595, Subd. 1 and 2 relate to commission revenues, including facility use agreements, admission taxes, and rentals. Minn. Stat. Section 473.595, Subd. 3 discusses budgeting. Other specific provisions include Minn. Stat. Section 473.556, Subd.7 and 14 relating to contracts, Subd. 8 on employees, and Subd. 13 on insurance.

The commission is also subject to certain general legal provisions which govern the financial management of all metropolitan agencies. Specifically, Minn. Stat. Section 473.141, Subd. 7 relates to commission salaries and expense reimbursements, Subd. 9 discusses personnel and payroll, and Subd. 13 relates to operating procedures. Minn. Stat. Section 473.163 requires annual budget preparation and approval.

The Metropolitan Sports Facilities Commission is not subject to the accounting system prescribed by the Department of Finance for state agencies. The compensation and other conditions of employment of commission employees is generally not governed by the rules applicable to state employees. However, employees are reimbursed for expenses in the same manner as state employees. Employees are members of the Minnesota State Retirement System.

The management of the Metropolitan Sports Facilities Commission is responsible for the commission's compliance with laws and regulations. In connection with our audit, we selected and tested transactions and records from the programs administered by the commission. The purpose of our testing of transactions was to obtain reasonable assurance that the Metropolitan Sports Facilities Commission had, in all material respects, administered their programs in compliance with the aforementioned laws and regulations.

Status of Prior Audit Findings

We have reviewed the status of audit findings included in the 1987 management letter which we issued on April 27, 1988. The management letter contained five findings. Three findings have been completely

Senator John Brandl, Chairman
Members of the Legislative Audit Commission
Mr. Ronald Gornick, Chairman
Members of the Metropolitan Sports Facilities Commission
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Page 3

resolved. The two remaining findings were each partially resolved, with portions repeated within the current management letter.

Conclusions

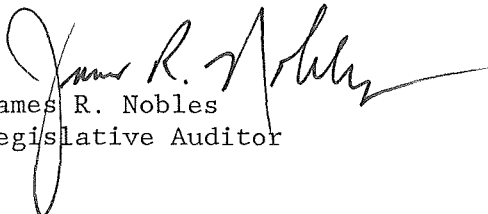
We have issued an unqualified opinion on the Metropolitan Sports Facilities Commission's financial statements for the year ended December 31, 1988. Our opinion dated March 20, 1989, is included in the financial section of this report.

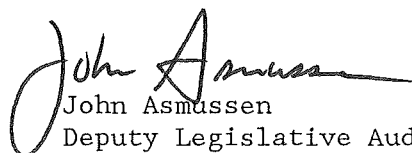
In our opinion, the Metropolitan Sports Facilities Commission's system of internal accounting control in effect as of January 31, 1989, taken as a whole, was sufficient to provide management with reasonable, but not absolute assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorizations.

However, finding #1 concerning documentation of employee expenses and finding #3 concerning control over the commission's equipment represent weaknesses in the commission's internal controls which subjects the commission to an unnecessary financial risk and should be corrected. Progress of resolving these findings will be reviewed during our audit next year.

The results of our testing of transactions and records for the year ended December 31, 1988, indicated that, except for the issue discussed in finding #2, the commission complied with the aforementioned finance-related legal provisions. Nothing came to our attention in connection with our audit that caused us to believe that the Metropolitan Sports Facilities Commission was not in compliance with other applicable legal requirements or with any terms, covenants, provisions, or conditions of the Indenture of Trust Between Metropolitan Council and First Trust Company of St. Paul. However, it should be noted that our examination was not directed primarily toward obtaining knowledge of such noncompliance.

We would like to thank the Metropolitan Sports Facilities Commission staff for their cooperation during this audit.


James R. Nobles
Legislative Auditor


John Asmussen
Deputy Legislative Auditor

March 20, 1989

METROPOLITAN SPORTS FACILITIES COMMISSION

CURRENT FINDINGS AND RECOMMENDATIONS

1. PRIOR FINDING PARTIALLY RESOLVED: Commission members and employees do not always adequately document certain employee expense reimbursement claims.

The Metropolitan Sports Facilities Commission has an employee expense policy. This policy reimburses employees and members similar amounts paid to state employees. However, documentation included with some travel expense claims is inadequate to support expense reimbursements and to explain all costs. This lack of documentation is most apparent when the executive director or chair have charged expenses to a commission credit card. In several instances, the director and the chair charged meals using the commission credit cards and also claimed the same meals on their employee expense forms. Once we brought these instances to the attention of the commission, approximately \$65 in erroneous reimbursements were repaid. The commission does not have an internal system to make certain that commission members and staff do not claim unallowable or duplicate expenses.

In certain instances, the commission cannot repay commission members and employees for long distance phone calls. Commission policy allows commission members and employees to incur long-distance charges for official business while in travel status. The State of Minnesota's Commissioner's Plan entitles commission members to charge personal calls up to \$2 per day. No similar policy now exists for commission employees for personal phone calls while in travel status. The staff and chair usually charge telephone calls on their hotel or lodging bill. However, they usually do not document the business purpose of the calls they made. Without this documentation, the commission accounting staff cannot determine when employees have made personal calls which they must repay.

RECOMMENDATIONS

- Commission members and employees should better document their expense reimbursements claims. These claims should be compared to credit card charges to verify that employees have not duplicated expenses.
- Commission members and employees should label all calls as business or personal. They should document the business purpose of all business calls.

2. The commission's actual travel costs for 1988 exceeded the budgeted amount.

Each year, the commission prepares a budget specifying expected expenses for the year. According to Minn. Stat. Section 473.141, Subd. 7, the budget must provide a separate line for expected per diem, travel and associated expenses for the chair and members. According to the law, the

METROPOLITAN SPORTS FACILITIES COMMISSION

commission may only pay travel expenses when budgeted. A separate line budget limits spending on travel for the year. The commission should review the circumstances requiring added travel costs and amend the travel budget, if necessary.

Fiscal year 1988 budgeted travel expenses were \$36,000. Actual travel costs were \$42,109, exceeding the budget by \$6,109. The commission did not amend the budget for the additional travel. Although we do not dispute the need for the additional travel costs incurred, the legal requirements are very specific. To comply with state statutes, the commission should formally amend the travel budget when actual costs will exceed the original budgeted amount.

RECOMMENDATION

The commission should not allow actual travel costs to exceed the budget for the year. The commission should formally authorize any amended budget for travel and per diem.

3. PRIOR FINDING PARTIALLY RESOLVED: Minnesota Sports Facility Commission does not sufficiently control its equipment.

The cost of equipment owned by the commission at December 31, 1988 (excluding the Metrodome building and property) was over \$1.8 million. Although the value of the equipment is relatively minor in relation to total property, improved control over equipment is essential for several reasons. First, the commission owns several sensitive items, those more subject to pilferage, such as cameras and portable radios. Second, the commission cannot limit access to its equipment. Employees, tenants, concessionaire staff, and the public attending events all have access to equipment owned by the commission. Finally, without adequate control, it may be difficult to distinguish commission property from any personal or tenant property on the premises.

The commission has improved its subsidiary fixed asset records. This detailed equipment list includes actual cost, accumulated depreciation, and current year depreciation expense on an item by item basis. The commission accountant summarizes and reconciles these records to the financial statement balances. However, since the commission updates the fixed asset system only once per year, some purchases could be erroneously expensed for financial reporting. The commission should identify and record fixed assets and capital improvements when bought and put into use.

The commission has also not developed an asset identification system to label each piece of equipment with a unique number. Such an identification system is necessary to reference individual pieces of equipment to the master equipment list as contained on the subsidiary fixed asset system. An asset identification system provides management with the ability to control its equipment. Without identification labels and

METROPOLITAN SPORTS FACILITIES COMMISSION

serial number lists, disputes concerning equipment ownership could arise. Furthermore, there would be little chance of identifying stolen commission property. Finally, periodic verification of the physical existence and location of equipment is also an important step in adequately controlling assets. Periodic physical inventory or cyclical spotchecks allows management to identify missing assets.

RECOMMENDATION

- The commission should improve fixed asset control by:
 - labelling equipment with individual identification numbers;
 - timely updating fixed asset records; and
 - periodically comparing equipment on hand to fixed asset records.



Metropolitan Sports Facilities Commission
Hubert H. Humphrey Metrodome
900 South 5th Street • Minneapolis, MN 55415
Phone 612/332-0386

April 19, 1989

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John Asmussen, CPA
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Greetings:

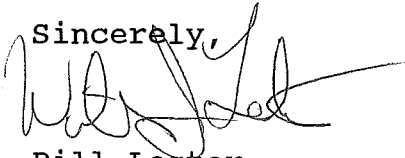
Please accept this letter as a formal response to your financial and compliance audit of the Metropolitan Sports Facilities Commission for the year ending December 31, 1988. The Commission is pleased that you have issued an unqualified opinion on the Metropolitan Sports Facilities Commission's financial statements for 1988. Regarding your current findings and recommendations, please be assured that we will move to respond appropriately and in a timely manner as we have done in the past.

As part of our response I would like to call your attention to the unique mission of the Metropolitan Sports Facilities Commission. The Metrodome, which is operated by the Commission, must by statute be self-supporting. Through aggressive marketing and careful management of our resources, we have remained free of any public tax since 1984. The Commission is a public body which must compete in the private marketplace to ensure our continued financial stability. The presence of the Minnesota Twins, Minnesota Vikings and University of Minnesota Gophers football team is crucial to our success. In addition, we will host the Minnesota Timberwolves during their inaugural season

beginning this fall. Further, the Commission must continue to pursue other major athletic and other events for the Metrodome. Such events include the NCAA Midwest Regional Basketball Tournament and The Final Four, consumer shows, as well as other events. The benefits which accrue to the community and the state through such events are substantial. Any review of the legitimacy and reasonableness of Commission activities should reflect this mission.

Finally, I would like to compliment you and your staff for the professional manner and thoroughness with which the financial and compliance audit was conducted. If you have any further questions, please do not hesitate to contact me.

Sincerely,

A handwritten signature in black ink, appearing to read "Bill Lester", with a long horizontal flourish extending to the right.

Bill Lester
Executive Director

BL/ts