METROPOLITAN SPORTS FACILITIES COMMISSION
FINANCIAL STATEMENTS AND MANAGEMENT LETTER
FOR THE YEAR ENDED DECEMBER 31, 1989

APRIL 1990

Financial Audit Division
Office of the Legislative Auditor
State of Minnesota

90-27

Veterans Service Building, Saint Paul, Minnesota 55155 • 612/296-4708

METROPOLITAN SPORTS FACILITIES COMMISSION

FINANCIAL AUDIT
FOR THE YEAR ENDED DECEMBER 31, 1989

Public Release Date: April 27, 1990 No. 90-27

OBJECTIVES:

- EXAMINE THE COMMISSION'S FINANCIAL STATEMENTS.
- EVALUATE INTERNAL CONTROL STRUCTURE: Cash and investments, revenue and receipts, operating disbursements, payroll, and fixed assets.
- TEST COMPLIANCE WITH CERTAIN FINANCE-RELATED LEGAL PROVISIONS.

CONCLUSIONS:

We issued an unqualified opinion on the commission's financial statements.

We found one area where the internal control structure needed improvement:

- The commission needs to label equipment with individual identification numbers, and needs to perform periodic spotchecks of equipment on hand.

We found that the commission had complied with finance-related legal provisions.

Contact the Financial Audit Division for additional information.
(612) 296-1730

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, 1989 and 1988, 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, 1989 and 1988, 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

April 10, 1990

METROPOLITAN SPORTS FACILITIES COMMISSION

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FINANCIAL SECTION

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Balance Sheets
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Assets	1989	1988
Unrestricted current assets (note 3):		
Revenue Fund:		
Operating Account:		
Cash	$ 279,647	$ 73,107
Investments, at cost	1,159,640	1,367,656
Accounts receivable	2,556,422	2,027,498
Accrued interest receivable	339,673	254,841
Prepaid expenses and other assets	93,161	110,436
Repair and Replacement Account:		
Investments, at cost	1,078,757	652,308
Prepaid expenses	22,725	22,725
Operating Reserve Account:		
Investments, at cost	3,929,250	3,929,250
Capital Improvement Account:		
Investments, at cost	5,079,237	5,273,481
Accounts receivable	149,587	149,587
Concession Reserve Account:		
Investments, at cost	1,079,264	1,478,689
Total unrestricted current assets	15,767,363	15,339,578
Unrestricted noncurrent assets:		
Property and equipment (notes 5 and 9):		
Domed Stadium site	8,700,000	8,700,000
Domed Stadium	78,335,401	76,388,291
Sports Center Site	2,204,214	2,204,214
	89,239,615	87,292,505
Less accumulated depreciation and amortization	(22,020,517)	(18,889,810)
Total property and equipment	67,219,098	68,402,695
Met Center property and equipment subject to long-term use agreement (see offsetting reserve account) (note 4)	7,088,935	7,567,618
Total unrestricted noncurrent assets	74,308,033	75,970,314
Total unrestricted assets	90,075,396	91,309,892
Restricted assets (note 3):		
Construction Fund:		
Investments, at cost	924,010	846,799
Accounts receivable and accrued interest (note 7)	6,503	4,100
	930,513	850,899
Bond Fund:		
Debt Service Account:		
Investments, at cost	5,297,988	5,233,981
Accounts receivable and accrued interest	41,994	32,915
	5,339,982	5,266,896
Prepayment and Purchase Account: (note 9)		
Investments, at cost	4,547,865	4,167,382
	4,547,865	4,167,382

METROPOLITAN SPORTS FACILITIES COMMISSION

Balance Sheets
December 31, 1989 and 1988

	1989	1988
Bond Fund (continued):		
Debt Service Reserve Account:		
Investments, at cost	8,793,730	8,828,296
Accrued interest receivable	393,165	167,924
	9,186,895	8,996,220
Total restricted assets	20,005,255	19,281,397
Total Assets	$110,080,651	$110,591,289
Liabilities, Reserves, Contributions and Retained Earnings		
Current liabilities (payable from unrestricted current assets):		
Accounts payable	$ 1,503,693	$ 879,557
Accrued expenses	114,720	88,351
Current portion of long-term debt (note 5b)	300,000	300,000
Deferred revenue	-0-	500,000
	1,918,413	1,767,908
Current liabilities (payable from restricted assets):		
Current portion of long-term debt (note 5a)	1,350,000	1,150,000
Accounts and contracts payable	709,679	709,679
Accrued interest	885,112	905,525
	2,944,791	2,765,204
Long-term debt, less current portion (note 5)	46,377,777	47,984,978
Reserve for Met Center property and equipment subject to long-term use agreement (see offsetting asset account) (note 4)	7,088,935	7,567,618
Total liabilities	58,329,916	60,085,798
Capital contributions	17,069,238	17,069,238
Retained earnings:		
Restricted for debt service	17,060,464	16,516,194
Unrestricted	17,621,033	16,920,149
	34,681,497	33,436,343
Total capital contributions and retained earnings	51,750,735	50,505,581
Total Liabilities, Reserves, Contributions, and Retained Earnings	$110,080,651	$110,591,289

The notes are an integral part of the financial statements.

METROPOLITAN SPORTS FACILITIES COMMISSION

Statements of Income and Retained Earnings
Years Ended December 31, 1989 and 1988

	1989	1988
Revenue:		
Stadium rents	$ 2,376,293	$ 2,937,021
Parking fees	787,576	733,495
Concession revenue (note 4)	14,548,938	15,682,847
Expenses reimbursed by tenants	1,689,289	1,438,174
Admission tax	4,207,000	3,770,887
Unrestricted interest income	1,139,802	870,503
Other	650,085	522,923
Total revenue	25,398,983	25,955,850
Expenses:		
Personal services	1,691,443	1,447,726
Concession operating costs	6,848,862	6,961,925
Tenants' share of concession receipts (note 4)	4,314,505	4,413,462
Technical consultants	306,418	308,799
Professional services	847,697	428,237
Contractual services	1,730,055	1,166,872
Metropolitan Council services (note 2)	7,451	8,185
Travel and meetings	32,894	42,109
Supplies, repairs, and maintenance	206,736	237,757
Utilities	1,665,707	1,634,525
Insurance	542,968	625,944
Communication	28,930	22,915
Real Estate Taxes	200,000	200,000
Lawsuit settlement (note 5b)	42,799	61,851
Miscellaneous	783,588	170,650
Total expenses before depreciation and amortization	19,250,053	17,730,957
Operating income before depreciation and amortization and disposal of fixed assets	6,148,930	8,224,893
Less: Depreciation and amortization	3,300,127	3,509,610
Condemnation award (note 9)	-0-	3,818,945
Gain (loss) on disposal of fixed assets	(97,919)	-0-
Operating income (loss)	2,750,884	8,534,228
Other income (expense), restricted:		
Interest income	2,095,957	1,722,410
Interest expense on Domed Stadium revenue bonds	(3,601,687)	(3,684,935)
Net other income (loss), restricted	(1,505,730)	(1,962,525)
Net income (loss)	1,245,154	6,571,703
Retained earnings, beginning of year	33,436,343	26,864,640
Retained earnings, end of year	$ 34,681,497	33,436,343

The notes are an integral part of the financial statements.

METROPOLITAN SPORTS FACILITIES COMMISSION

Statements of Cash Flows
Years ended December 31, 1989 and 1988

	1989	1988 *
Cash flows from operating activities:		
Operating income (loss)	$ 2,750,884	$ 8,534,228
Adjustments to reconcile net increase to net cash provided by operating activities:		
Depreciation and amortization	3,300,127	3,509,610
Condemnation award (note 9)	-0-	(3,818,945)
Loss on sale of fixed assets	97,917	-0-
Changes in unrestricted assets and liabilities:		
Decrease (increase) in accounts receivable	(528,924)	(533,090)
Decrease (increase) in accrued interest receivable	(84,832)	(151,242)
Decrease (increase) in prepaid expenses	17,275	5,694
Increase (decrease) in accounts payable	624,136	433,096
Increase (decrease) in salaries payable	26,369	(7,515)
Increase (decrease) in deferred revenues	(500,000)	500,000
Increase (decrease) in settlement payable (note 5)	(257,201)	(238,149)
Net cash provided by operating activities	5,442,751	8,233,687
Cash flows from investing activities:		
Net purchase of unrestricted investments	375,236	(3,192,653)
Purchase of fixed assets	(2,214,446)	(1,965,476)
Proceeds from condemnation award (note 9)	-0-	4,000,000
Decrease (increase) in restricted assets	(723,858)	(4,136,530)
Increase (decrease) in restricted liabilities	(20,413)	(20,945)
Net cash used in investing activities	(2,583,481)	(5,315,604)
Cash flows from capital financing activities:		
Payment of outstanding bonds	(1,150,000)	(1,180,000)
Interest paid on revenue bonds	(3,622,100)	(3,705,880)
Interest income on restricted revenue	2,116,370	1,743,357
Net cash used in financing activities	(2,655,730)	(3,142,523)
Net increase (decrease) in cash	206,540	(224,440)
Cash on January 1	73,107	297,547
Cash on December 31	$ 279,647	73,107

* As adjusted (Note 10).

The notes are an integral part of the financial statements.

NOTES TO FINANCIAL STATEMENTS
December 31, 1989 and 1988

(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, Increaseluding 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.

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 $678,000 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, 1989, the Commission's bank balance for cash was $542,374 and the book balance was $279,547. The bank balance $402,916 was secured by federal depository insurance or by collateral held in the Commission's name. The remaining $139,458 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 1989, the combined insured amount and collateral fell short of the legal requirement on 11 days. The average balance on those days was $603,451.

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, 1989, reimbursed construction costs for leased space totalled $10,641,291. 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.

(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:

(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.

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 5b.)

A financial summary of the concession operations for the years ending December 31, 1989 and 1988 follows:

SUMMARY OF CONCESSION OPERATIONS
Years Ended December 31, 1989 and 1988

	1989	1988
Gross Receipts	$14,548,938	$15,682,846
Less: Cost of goods sold and concessionaire's operating expenses	6,062,208	6,280,566
Payment to concession reserve accounts	727,447	784,142
Net Operating Profit	$ 7,759,283	$ 8,618,138
Distribution of Net Operating Profits:		
Payments to tenants:		
Minnesota Twins - Regular	$ 3,435,847	$ 3,935,035
Minnesota Vikings - Regular	249,754	228,722
Minnesota Vikings - Post season	-0-	27,255
Timberwolves - Regular	357,002	-0-
University of Minnesota	191,802	221,301
Others	80,100	1,149
Tenant's share of concession net operating profits	4,314,505	4,413,462
Payment to concession management company	387,962	430,907
MSFC share	3,056,816	3,773,769
Total Distribution - Net Operating Profit	$ 7,759,283	8,618,138

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.

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 $126,881 in 1989. 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 $478,683 in 1989 and $491,561 in 1988 on the Met Center property and equipment is not charged to operations.

(5) LONG-TERM DEBT

Long-term debt at December 31, 1989 and 1988 was as follows:

	1989	1988
7.1% - 7.5% Sports Facilities Revenue Bonds, Series 1979	$47,450,000	$48,600,000
Less current portion	(1,350,000)	(1,150,000)
	46,100,000	47,450,000
Due to Minnesota Vikings as a result of lawsuit settlement	$ 577,777	834,978
Less current portion	(300,000)	(300,000)
	277,777	534,978
Long-term debt, less current portion	$46,377,777	$47,984,978

(5) LONG-TERM DEBT (continued)

(a) The annual requirements to amortize all outstanding Sports Facilities Revenue Bonds as of December 31, 1989, including interest payments, are as follows:

YEAR ENDING DECEMBER 31	PRINCIPAL Sports Facilities Revenue Bonds	INTEREST Sports Facilities Revenue Bonds	TOTAL DEBT SERVICE REQUIREMENT
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
	$47,450,000	$42,642,955	$ 90,082,955

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:

- 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 1989 the Commission expensed $42,799 for interest on the second installment payment of $300,000 and the present value of future payments of $277,777.

(6) 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 $53,243 in 1989 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, 1989, MSFC employees represented less than one percent of active MSRS plan participants. At June 30, 1989, the date of the latest actuarial valuation available, net assets available for benefits was $1,824,416,000 for the MSRS plan. Historical trend information should be available through MSRS after the fiscal year ended June 30, 1989.

(7) 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.

(8) LEASE COMMITMENTS

The Commission leases various equipment under a noncancellable operating lease agreement extending through 1992. Future mimimum lease commitments as of December 31, 1989 are as follows:

Year Ending December 31	
1990	$365,719
1991	306,239
1992	1,469
Total Minimum Lease Payments	$673,427

Rental expense for all operating leases, including the above commitment, was $365,078 in 1989.

(9) 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 $393,165 interest revenue in 1989 and $167,924 in 1988. The gain on condemnation award is calculated as follows:

Condemnation Award	$4,000,000
Cost Basis of Land	181,055
Gain on Condemnation Award	$3,818,945

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.

(10) The Statement of Cash Flows for 1988 has been adjusted to reflect the standards for cash flow reporting established by Statement No. 9 of the Governmental Accounting Standards Board.

METROPOLITAN SPORTS FACILITIES COMMISSION
MANAGEMENT LETTER SECTION

STATE OF MINNESOTA
OFFICE OF THE LEGISLATIVE AUDITOR
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Mr. William Lester, Executive Director
Metropolitan Sports Facilities Commission

Audit Scope

We have audited the financial statements of the Metropolitan Sports Facilities Commission as of and for the year ended December 31, 1989, and issued our report thereon dated April 10, 1990. We have also made a study and evaluation of the internal control structure of the Metropolitan Sports Facilities Commission in effect at December 31, 1989.

We conducted our audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial activities attributable to the transactions of the Metropolitan Sports Facilities Commission are free of material misstatements.

As part of our examination of the financial statements and our study and evaluation of the internal control structure, we performed tests of Metropolitan Sports Facilities Commission's compliance with certain provisions of laws, regulations, contracts, and grants. However, our objective was not to provide an opinion on overall compliance with such provisions.

Management Responsibilities

The management of the Metropolitan Sports Facilities Commission is responsible for establishing and maintaining an internal control structure. This responsibility includes compliance with applicable laws, regulations, contracts, and grants. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that:

- assets are safeguarded against loss from unauthorized use or disposition;
- transactions are executed in accordance with applicable legal and regulatory provisions, as well as management's authorization; and
- recorded properly on the statewide accounting system in accordance with Department of Finance policies and procedures.

Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

Internal Control Structure

For purposes of this report, we have classified the significant internal control structure policies and procedures in the following categories:

- cash and investments,
- revenue and receipts,
- operating disbursements,
- payroll disbursements, and
- fixed asset inventory control

For all of the internal control structure categories listed above, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk.

Conclusions

Our study and evaluation disclosed the condition discussed in finding 1, involving the internal control structure of Metropolitan Sports Facilities Commission. We consider this condition to be a reportable condition under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in financial statements.

A material weakness is a reportable condition in which the design or operation of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities 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 do not believe the reportable condition described in finding 1 is a material weakness.

We also noted other matters involving the internal control structure and its operation that we reported to the management of the Metropolitan Sports Facilities Commission in a meeting held on April 17, 1990.

The results of our tests indicate that, with respect to the items tested, the Metropolitan Sports Facilities Commission complied, in all material respects, with the provisions referred to in the audit scope paragraphs. With respect to items not tested, nothing came to our attention that caused us to believe that the Metropolitan Sports Facilities Commission had not complied, in all material respects, with those provisions.

This report is intended for the information of the Legislative Audit Commission and management of the Metropolitan Sports Facilities Commission. This restriction is not intended to limit the distribution of this report, which was released as a public document on April 27, 1990.

James R. Nobles
Legislative Auditor

John Asmussen, CPA
Deputy Legislative Auditor

END OF FIELDWORK: March 19, 1990

REPORT SIGNED ON: April 23, 1990

CURRENT FINDING AND RECOMMENDATION

PRIOR FINDING PARTIALLY RESOLVED: The Minnesota Sports Facilities Commission does not sufficiently control its equipment.

The commissioner has developed an asset identification system to label each piece of equipment with an assigned number. However, these labels have not been affixed to the assets. These labels are necessary to identify and compare individual items to the master inventory list the commission maintains. This asset identification system provides management with the ability to control its equipment. Without this identification system, the commission can not effectively locate and identify assets during physical inventory. Also disputes concerning equipment ownership could arise.

The cost of equipment owned by the commission at December 31, 1989 (excluding the Metrodome building and property) was over $2.3 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, such as portable radios and cameras, which are more subject to pilferage. Second, the commission cannot limit access to its equipment. Employees, tenants, concessionaire staff, and the public attending events all have access to the commission's equipment. Finally, without adequate control, it is difficult to distinguish commission property from personal or tenant property on the premises.

Finally, a periodic verification of the physical existence and location of commission assets is an important step in controlling fixed assets. At the current time, a complete physical inventory or periodic spotchecks of commission assets has not been completed. According to commission policy, fixed assets are to be inventoried and inspected on an annual basis. Delegating the primary responsibility for custody and control of assets and equipment to the various area supervisors, with monitoring by a central inventory coordinator, is an efficient and effective method. This would ensure that all items exist and are properly recorded on the commission's inventory system. The periodic inventory would also detect when property or equipment is stolen or missing.

RECOMMENDATION

The commission should improve fixed asset control by:

- **labelling equipment with individual identification numbers; and**

- **performing periodic spotchecks or a complete annual physical inventory by comparison of equipment on hand to fixed asset records.**

METRODOME

Metropolitan Sports Facilities Commission
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Phone 612/332-0386

April 18, 1990

James R. Nobles
Legislative Auditor
Office of the Legislative
Auditor
Veterans Service Building
St. Paul, MN 55155

Dear Mr. Nobles:

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, 1989. The Commission is pleased that you have issued an unqualified opinion on the Metropolitan Sports Facilities Commission's financial statements for 1989.

Regarding your Current Findings and Recommendations, page 18 of your report, please be assured that the Metropolitan Sports Facilities Commission has indeed established a fixed assets system and has proper accounting records establishing asset acquisition and depreciation schedules. We will incorporate placement of identification label numbers and implement a physical inventory schedule during the year 1990.

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.

Further, the Commission must continue to pursue other major athletic and other events for the Metrodome. Such events include the NCAA Final Four Basketball Tournament, 1992 Super Bowl, 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,

William J. Lester

William J. Lester
Executive Director

BL/ts
cc: Margaret Jennings - Legislative Audit Manager
Brad White - Auditor in Charge
Roger Simonson - MSFC