METROPOLITAN SPORTS FACILITIES COMMISSION
FINANCIAL STATEMENTS AND MANAGEMENT LETTER
FOR THE YEAR ENDED DECEMBER 31, 1991

APRIL 1992

Financial Audit Division
Office of the Legislative Auditor
State of Minnesota

92-26

Centennial Office Building, Saint Paul, MN 55155 ● 612/296-4708

METROPOLITAN SPORTS FACILITIES COMMISSION

FINANCIAL AUDIT
FOR THE YEAR ENDED DECEMBER 31, 1991

Public Release Date: April 30, 1992 No. 92-26

OBJECTIVES:

- EXAMINE THE COMMISSION'S FINANCIAL STATEMENTS.
- EVALUATE INTERNAL CONTROL STRUCTURE: Cash and investments, revenues and receipts, operating disbursements, 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 the internal control structure to be effective.

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

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

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Metropolitan Sports Facilities Commission

Financial Section

STATE OF MINNESOTA
OFFICE OF THE LEGISLATIVE AUDITOR
CENTENNIAL BUILDING, ST. PAUL, MN 55155 • 612/296-4708
JAMES R. NOBLES, LEGISLATIVE AUDITOR

Independent Auditor's Report

William Hunter, 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, 1991 and 1990, and the related statements of income, 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, 1991 and 1990, 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 3, 1992

Metropolitan Sports Facilities Commission

Balance Sheet

December 31, 1991 and 1990

Assets	1991	1990
Unrestricted current assets (note 3):		
Cash (note 1)	$ 31,524	$ 12,007
Investments, at cost	15,132,328	13,818,390
Accounts receivable	3,197,152	1,761,666
Accrued interest receivable	295,141	327,332
Prepaid expenses and other assets	181,269	106,557
Total unrestricted current assets	$18,837,414	$16,025,952
Restricted assets (note 3):		
Investments, at cost	$13,986,669	$19,020,366
Accounts receivable and accrued interest receivable	112,910	132,226
Total restricted assets	$14,099,579	$19,152,592
Fixed assets (note 5):		
Domed Stadium site	$ 8,700,000	$ 8,700,000
Domed Stadium	85,563,591	82,241,724
Sports Center site	2,357,830	2,357,830
Less accumulated depreciation	(28,973,632)	(25,290,450)
Total property and equipment	$67,647,789	$68,009,104
Met Center property and equipment subject to long-term use agreement (See offsetting reserve account) (note 4)	6,131,568	6,610,251
Total fixed assets	$ 73,779,357	$ 74,619,355
Total Assets	$106,716,350	$109,797,899

Metropolitan Sports Facilities Commission

Balance Sheet

December 31, 1991 and 1990

	1991	1990
Liabilities and Equity		
Current liabilities (payable from unrestricted current assets):		
Accounts payable	$ 1,124,944	$ 1,010,636
Accrued expenses	127,921	109,812
Current portion of long-term debt (note 5b)	0	300,000
	$ 1,252,865	$ 1,420,448
Current liabilities (payable from restricted assets):		
Current portion of long-term debt (note 5a)	$ 1,525,000	$ 1,430,000
Accrued interest	828,433	860,138
	$ 2,353,433	$ 2,290,138
Long-term debt, less current portion (note 5)	$ 42,865,000	$ 44,670,000
Reserve for Met Center property and equipment subject to long-term use agreement (see offsetting asset account) (note 4)	6,131,568	6,610,251
Total liabilities	$ 52,602,866	$ 54,990,837
Contributed Capital	17,069,238	17,069,238
Retained Earnings:		
Restricted for debt service	23,773,099	19,445,370
Unrestricted	13,271,147	18,292,454
Total Retained Earnings	$ 37,044,246	$ 37,737,824
Total Equity	$ 54,113,484	$ 54,807,062
Total Liabilities and Equity	$106,716,350	$109,797,899

The notes are an integral part of the financial statements.

Metropolitan Sports Facilities Commission

Statement of Revenues, Expenses and Changes in Retained Earnings

Years Ended December 31, 1991 and 1990

	1991	1990
Revenues:		
Stadium rents	$ 2,320,727	$ 2,005,799
Parking fees	658,703	726,533
Concession revenue (note 4)	15,600,946	12,546,377
Expenses reimbursed by tenants	1,523,599	1,606,358
Admission tax(note 1)	4,669,499	3,846,764
Unrestricted interest income	905,414	1,068,936
Other	938,118	739,755
Total revenue	$26,617,006	$22,540,522
Expenses:		
Personal services	$ 1,956,762	$ 1,813,095
Concession operating costs	6,829,403	5,701,175
Tenants share of concession receipts(note 4)	5,184,163	3,614,946
Technical consultants	316,408	274,062
Professional services	410,847	1,213,892
Contractual services	1,693,476	1,631,126
Metropolitan Council services (note 2)	6,961	21,650
Travel and meetings	35,722	44,779
Supplies, repairs, and maintenance	198,502	183,886
Utilities	1,833,191	1,677,115
Insurance	318,337	433,871
Communication	37,963	42,110
Real Estate Taxes	200,000	200,000
Lawsuit settlement (note 5b)	0	22,223
Special events	495,205	27,794
Miscellaneous	268,410	166,029
Total expenses before depreciation and amortization	$19,785,350	$17,067,753

Metropolitan Sports Facilities Commission

Statement of Revenues, Expenses and Changes in Retained Earnings

Years Ended December 31, 1991 and 1990

(Continued)

	1991	1990
Operating income before depreciation and amortization and disposal of fixed assets	6,831,656	5,472,769
Less: Depreciation and amortization	(3,690,803)	(3,301,967)
Gain (loss) on disposal of fixed assets	(23,124)	(16,465)
Operating income (loss)	$ 3,117,729	$ 2,154,337
Other income, unrestricted:		
Roof Lawsuit settlement (note 9)	0	2,870,000
Viking Real Estate tax refund (note 11)	1,000,000	0
Net other income (loss) unrestricted	$ 1,000,000	$ 2,870,000
Other income (expense), restricted:		
North Star Lawsuit settlement (note 10)	(2,542,258)	0
Interest income	1,142,596	1,547,465
Interest expense on Domed Stadium revenue bonds	(3,411,645)	(3,515,475)
Net other income (loss), restricted	($4,811,307)	($1,968,010)
Net income (loss)	(693,578)	3,056,327
Retained earnings, January 1	37,737,824	34,681,497
Retained earnings, December 31	$37,044,246	$37,737,824

The notes are an integral part of the financial statements.

Metropolitan Sports Facilities Commission

Statement of Cash Flows

Years ended December 31, 1991 and 1990

	1991	1990
Cash flows from operating activities:		
Operating income (loss)	$3,141,964	$2,154,337
Adjustments to reconcile operating income to net cash flows provided by operating activities:		
Depreciation and amortization	3,690,803	3,301,967
Roof Lawsuit Settlement	0	2,870,000
Northstar Lawsuit Settlement	(2,542,258)	0
Viking Real Estate Refund	1,000,000	0
Loss (gain) on sale of fixed assets	23,124	16,465
Changes in unrestricted assets and liabilities:		
Decrease (increase) in change fund	0	200
Decrease (increase) in accounts receivable	(1,435,324)	946,681
Decrease (increase) in accrued interest receivable	32,191	12,341
Decrease (increase) in prepaid expenses	(74,712)	9,329
Decrease (increase) in accounts payable	(114,308)	(493,057)
Decrease (increase) in salaries payable	(18,109)	(4,908)
Decrease (increase) in settlement payable (note 5)	(300,000)	(277,777)
Net cash provided by operating activities	$3,403,371	$8,535,178
Cash flows from investing activities:		
Purchase of unrestricted investments	(1,314,098)	(1,494,580)
Sale of restricted investments	275,385	0
Decrease (increase) in restricted assets	5,053,013	852,664
Increase (decrease) in restricted liabilities	(31,705)	(734,653)
Net cash used in investing activities	$3,982,595	($1,376,569)
Cash flows from capital financing activities:		
Payment of outstanding bonds	(1,710,000)	(1,350,000)
Interest paid on revenue bonds	(3,440,550)	(3,540,450)
Capital expenditures	(3,377,852)	(4,105,500)
Interest income on restricted revenue	1,161,953	1,569,701
Net cash used in capital financing activities	($7,366,449)	($7,426,249)
Net increase (decrease) in cash	19,517	(267,640)
Cash on January 1	12,007	279,647
Cash on December 31	$ 31,524	$ 12,007

The notes are an integral part of the financial statements.

Notes to Financial Statements

December 31, 1991 and 1990

(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 Government Accounting Standards Board.

Cash

The Commission cash balance includes only deposits in bank. Certain short-term investments are not considered cash equivalents as defined by Statement No. 9 of the Governmental Accounting Standards Board. These include four repurchase agreements totalling $5,425,000 which mature within 30 days.

Deposits

At December 31, 1991, the Commission's bank balance for cash was $86,222 and the book balance was $31,524. 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 1991, the combined insured amount and collateral fell short of the legal requirement on 34 days. The average uncollateralized balance on those days was $709,787. On March 5, 1991, the Commission increased the pledged collateral of its bank accounts from $350,000 to $500,000.

Investments

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 $814,503 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.

Property and Equipment

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	30 years
Building Improvements	10 to 15 years
Equipment	10 years

Depreciation expense, excluding amounts relating to the Met Center, is reflected in the statement 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, 1991, reimbursed construction costs for leased space totaled $7,515,966. The 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.

Metropolitan Sports Facilities Commission

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;
  (iv) a Debt Service Reserve Account; and
  (v) a Trustee Earnings 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 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 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 Trustee Earnings 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, 1991 and 1990 follows:

	1991	1990
Gross receipts	$15,600,946	$12,546,377
Less: Cost of goods sold and concessionaire's operating expenses	6,085,361	5,185,964
Payment to concession reserve accounts	780,048	627,319
Net Operating Profit	$ 8,735,537	$ 6,733,094
Distribution of Net operating Profits:		
Payments to tenants:		
Minnesota Twins - Regular	$ 3,932,181	$ 2,544,594
Minnesota Twins - Post season	843,092	0
Minnesota Vikings - Regular	231,001	240,880
Timberwolves - Regular	0	589,905
University of Minnesota	166,886	209,931
Others	11,003	29,636
Tenants' share of concession net operating profits	$5,184,163	$3,614,946
Payment to concession management company	436,777	337,884
MSFC share	3,114,597	2,780,264
Total Distribution - Net Operating Profit	$ 8,735,537	$ 6,733,094

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 $309,106 in 1991. 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 1990 and also in 1991 on the Met Center property and equipment is not charged to operations.

(5) Long-Term Debt

Long-term debt at December 31, 1991 and 1990 was as follows:

	1991	1990
7.1% - 7.5% Sports Facilities Revenue Bonds, Series 1979	$44,390,000	$46,100,000
Less: current portion	(1,525,000)	(1,430,000)
	$42,865,000	$44,670,000
Due to Minnesota Vikings as a result of lawsuit settlement	0	300,000
Less: current portion	0	(300,000)
	0	0
Long-term debt, less current portion	$42,865,000	$44,670,000

(a) The annual requirements to amortize all outstanding Sports Facilities Revenue Bonds as of December 31, 1991, including interest payments, are as follows:

Year Ending December 31	Principal Sports Facilities Revenue Bonds	Interest Sports Facilities Revenue Bonds	Total Debt Service Requirement
1992	$1,525,000	$3,313,730	$4,838,730
1993	1,650,000	3,200,880	4,850,880
1994	1,760,000	3,078,780	4,838,780
1995	1,875,000	2,948,540	4,823,540
1996	2,000,000	2,809,790	4,809,790
1997	2,130,000	2,661,790	4,791,790
1998	2,230,000	2,504,170	4,734,170
1999	2,350,000	2,339,150	4,689,150
2000	2,430,000	2,165,250	4,595,250
2001	2,485,000	1,983,000	4,468,000
2002	2,590,000	1,796,625	4,386,625
2003	2,750,000	1,602,375	4,352,375
2004	2,945,000	1,396,125	4,341,125
2005	3,190,000	1,175,250	4,365,250
2006	3,190,000	936,000	4,126,000
2007	3,190,000	696,750	3,886,750
2008	3,190,000	457,500	3,647,500
2009	2,910,000	218,250	3,128,250
	$44,390,000	$35,283,955	$79,673,955

Note: In 1991 the Construction Fund was closed out and proceeds of $280,000 was used to prepay 2009 year bonds.

Under the Indenture of Trust, the Sports Facilities Revenue Bonds bear interest 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 that 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 1990 the Commission expensed $22,223 for interest on the fourth installment payment of $300,000. The final payment of $300,000 was completed in 1991.

(6) Pension Plan

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 Plan who have elected to remain covered under that plan. MSRS requires contributions by employers and employees equal to 4.29 percent and 4.15 percent of gross salary, respectively. Pension expense included in the statement of income was $ 59,385 in 1990 and $60,983 in 1991.

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, 1991, MSFC employees represented less than one percent of the active MSRS plan participants. At June 30, 1991, the date of the latest actuarial valuation available, net assets available for benefits was $2,268,701,000 for the MSRS plan. Historical trend information should be available through MSRS after the fiscal year ended June 30, 1991.

(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) Roof Lawsuit Settlement

Other income in 1991 totalling $2,870,000 resulted from a lawsuit settlement. The Commission recovered damages arising from the defective design and construction of the Metrodome's roof and mechanical systems, and for property damage incurred in 1982 and 1983 deflations of the Metrodome's air supported roof.

A counterclaim was filed against the Commission for reimbursement of legal expenses pertaining to this lawsuit. A pending judgement of $339,954 has been accrued as a liability by the Commission.

(9) North Star Settlement

A payment of $2,542,258 to the North Star Financial Corporation occurred during 1991 as a result of a lawsuit settlement. In 1988 the City of Bloomington condemned approximately four acres of the Metropolitan Sports Center parking lot. The North Star Corporation claimed that the Use Agreement provided for a leasehold interest in the condemnation and was entitled to compensation. In 1990 the Hennepin County District Court stated that the North Star Corporation has a right to share in the condemnation award. In an agreement in July, 1991, MSFC assigned 50 percent of the award plus accrued interest to the North Star Corporation, and the court vacated its order of July 1990.

(10) Refund of Taxes

The MSFC is entitled to a refund of $1,000,000 in real estate taxes paid to Hennepin County as a result of a decision by the supreme court in December,1991. MSFC reimbursed the Minnesota Vikings $200,000 for five years for taxes on space included in their use agreement based upon a Hennepin County tax assessment. This tax assessment was upheld by the Minnesota Tax Court. However, the Minnesota Supreme Court reversed this decision and granted a refund of the tax payments.

Metropolitan Sports Facilities Commission

Management Letter Section

STATE OF MINNESOTA
OFFICE OF THE LEGISLATIVE AUDITOR
CENTENNIAL BUILDING, ST. PAUL, MN 55155 • 612/296-4708
JAMES R. NOBLES, LEGISLATIVE AUDITOR

Representative Ann West, Chair
Legislative Audit Commission

Members of the Legislative Audit Commission

Mr. William Hunter, 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 audited the financial statements of the Metropolitan Sports Facilities Commission as of and for the year ended December 31, 1991, and issued our report thereon dated April 3, 1992. We have also made a study and evaluation of the internal control structure of the Metropolitan Sports Facilities Commission in effect at December 31, 1991.

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

- transactions are recorded properly on the commission's accounting system in accordance with the Metropolitan Sports Facilities Commission 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,
- building improvement 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

In our opinion, the internal control structure of the Metropolitan Sports Facilities Commission in effect at December 31, 1991, taken as a whole, was sufficient to meet the objectives stated above insofar as those objectives pertain to the prevention or detection of errors and irregularities in amounts that would be material in relation to the financial activities attributable to transactions of the Metropolitan Sports Facilities Commission.

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 30, 1992.

James R. Nobles
Legislative Auditor

John Asmussen, CPA
Deputy Legislative Auditor

End of Fieldwork: March 27, 1992

Report Signed On: April 22, 1992