METROPOLITAN SPORTS FACILITIES COMMISSION
FINANCIAL AUDIT
FOR THE YEAR ENDED DECEMBER 31, 1992

APRIL 1993

Financial Audit Division
Office of the Legislative Auditor
State of Minnesota

93-16

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

SUMMARY

State of Minnesota
Office of the Legislative Auditor
Centennial Office Building • St. Paul, MN 55155
612/296-4708

METROPOLITAN SPORTS FACILITIES COMMISSION

FINANCIAL AUDIT
FOR THE YEAR ENDED DECEMBER 31, 1992

Public Release Date: April 23, 1993 No. 93-16

OBJECTIVES:

- EXAMINE THE COMMISSION'S FINANCIAL STATEMENTS.
- EVALUATE INTERNAL CONTROL STRUCTURE: Cash and investments, operating revenue, operating expenses, and fixed asset inventory.
- 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 no departures from 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, 1992 and 1991, 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, 1992 and 1991, 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 25, 1993

Metropolitan Sports Facilities Commission

Balance Sheet

December 31, 1992 and 1991

	1992	1991
Unrestricted current assets		
Cash (note 1)	$ 60,777	$ 31,524
Investments, at cost	16,705,965	13,036,101
Accounts receivable	1,813,241	3,197,152
Accrued interest receivable	357,283	295,141
Prepaid expenses and other assets	71,609	158,544
Total unrestricted current assets	$ 19,008,875	$ 16,718,462
Restricted assets (note 3):		
Investments with trustee, at cost	$ 9,121,540	$ 13,986,669
Investments, at cost	4,997,537	2,096,227
Prepaid expenses	22,725	22,725
Accounts receivable and accrued interest receivable	240,871	112,910
Total restricted assets	$ 14,382,673	$ 16,218,531
Fixed assets (note 4):		
Domed stadium site	$ 8,700,000	$ 8,700,000
Domed stadium	88,862,339	85,563,591
Sports center site	2,357,830	2,357,830
Less accumulated depreciation	(32,716,574)	(28,973,632)
Total property and equipment	$ 67,203,595	$ 67,647,789
Met Center property and equipment subject to long-term use agreement (See offsetting reserve account) (note 4)	$ 12,322,919	$ 12,322,919
Less accumulated depreciation	(6,670,035)	(6,191,351)
	$ 5,652,884	$ 6,131,568
Total fixed assets	$ 72,856,479	$ 73,779,357
Total Assets	$106,248,027	$106,716,350

Metropolitan Sports Facilities Commission

Balance Sheet

December 31, 1992 and 1991

	1992	1991
Liabilities and Equities		
Current liabilities (payable from unrestricted current assets):		
Accounts payable	$ 581,674	$ 1,124,944
Accrued expenses	136,077	127,921
	$ 717,752	$ 1,252,865
Current liabilities (payable from restricted assets):		
Current portion of long-term debt (note 5)	$ 1,295,000	$ 1,525,000
Accounts payable	61,982	0
Accrued interest	962,540	828,433
	$ 2,319,522	$ 2,353,433
Long-term debt, less current portion (note 5)	$ 41,570,000	$ 42,865,000
Reserve for Met Center property and equipment subject to long-term use agreement (see offsetting asset account) (note 4)	5,652,884	6,131,568
Total liabilities	$ 50,260,158	$ 52,602,866
Contributed Capital	$ 17,069,238	$ 17,069,238
Retained Earnings:		
Restricted for debt service	7,053,892	11,746,146
Restricted for repair and replacement	3,118,952	2,118,952
Restricted for concession reserve	1,890,408	0
Designated pursuant to commission resolution	13,930,277	8,980,358
Unrestricted	12,925,102	14,198,790
Total Retained Earnings	$ 38,918,631	$ 37,044,246
Total Equity	$ 55,987,869	$ 54,113,484
Total Liabilities and Equity	$106,248,027	$106,716,350

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, 1992 and 1991

	1992	1991
Revenue:		
Stadium rents	$ 2,562,042	$ 2,320,727
Parking fees	539,624	658,703
Concession revenue (note 4)	15,840,091	15,600,946
Expenses reimbursed by tenants	1,809,868	1,523,599
Admission tax (note 1)	4,030,799	4,669,499
Interest income	1,031,768	905,414
Other	1,489,526	938,118
Total Revenue	$27,303,718	$26,617,006
Expenses:		
Personal services	$ 2,038,345	$ 1,956,763
Concession operating costs	7,095,800	6,829,403
Tenants share of concession receipts (note 4)	4,904,309	5,184,163
Technical consultants	400,574	316,408
Professional services	250,832	410,847
Contractual services	1,736,758	1,693,476
Metropolitan Council services (note 2)	9,012	6,961
Travel and meetings	55,776	35,722
Supplies, repairs, and maintenance	259,147	198,502
Utilities	1,407,528	1,833,191
Insurance	309,480	318,336
Communication	44,305	37,963
Real estate taxes	0	200,000
Miscellaneous	1,349,216	763,615
Total expenses before depreciation and amortization	$19,861,082	$19,785,350
Operating income before depreciation and amortization and disposal of fixed assets	7,442,636	6,831,656
Less: Depreciation and amortization	3,839,330	3,690,803
Gain (loss) on disposal of fixed assets	(12,625)	(23,124)
Operating income (loss)	$ 3,590,681	$ 3,117,729

Metropolitan Sports Facilities Commission

Statement of Revenues, Expenses and Changes in Retained Earnings
Years Ended December 31, 1992 and 1991
(Continued)

	1992	1991
Other income, unrestricted:		
Viking Real Estate tax refund (note 8)	0	1,000,000
Net other income (loss) unrestricted	$ 0	$ 1,000,000
Other income (expense), restricted:		
Northstar Lawsuit settlement (note 7)	0	(2,542,258)
Interest income	735,914	1,142,596
Interest expense on domed stadium revenue bonds	(3,280,998)	(3,411,645)
Gain on sale of investments	1,257,438	0
Net other income (loss) restricted	($1,287,646)	($4,811,307)
Income before extraordinary item:	2,303,035	(693,578)
Call premium 1979 bonds	(428,650)	0
Net income	1,874,385	(693,578)
Retained earnings, January 1	37,044,246	37,737,284
Retained earnings, December 31	$38,918,631	$37,044,246

The notes are an integral part of the financial statements.

Metropolitan Sports Facilities Commission

Statement of Cash Flows
Years ended December 31, 1992 and 1991

	1992	1991
Cash flows from operating activities:		
Operating income (loss)	$ 3,590,681	$ 3,117,729
Adjustments to reconcile operating income to net cash flows provided by operating activities:		
Depreciation and amortization	3,839,330	3,690,803
Northstar Lawsuit Settlement	0	(2,542,258)
Viking Real Estate Refund	0	1,000,000
Interest Income	(1,031,768)	(905,414)
Loss (gain) on disposal of fixed assets	12,625	23,124
Changes in unrestricted assets and liabilities:		
Decrease (increase) in accounts receivable	1,383,912	(1,435,324)
Decrease (increase) in prepaid expenses	86,935	(74,712)
Increase (decrease) in accounts payable	(203,317)	114,308
Increase (decrease) in salaries payable	8,156	18,109
Increase (decrease) in settlement payable	0	(300,000)
Net cash provided by operating activities	$ 7,686,554	$ 2,706,365
Cash flows from investing activities:		
Net purchases of investments	(6,571,175)	(1,314,097)
Interest on investments	969,627	937,621
Interest on investments with trustee	648,160	1,161,954
Net decrease (increase) in assets with trustee	4,737,168	5,053,013
Net cash used in investing activities	$ (216,220)	$ 5,838,491
Cash flows from capital and related financing activities:		
Proceeds from sale of bonds	42,865,000	0
Refunding of Series 1979 bonds	(42,073,999)	0
Bond issuance costs	(791,001)	0
Principal paid on bonds	(1,525,000)	(1,710,000)
Interest paid on bonds	(3,280,998)	(3,440,550)
Acquisition of capital assets	(2,639,260)	(3,375,796)
Proceeds from sale of capital assets	4,177	1,007
Net cash used for capital and related financing activities	$ (7,441,081)	$(8,525,339)
Net increase (decrease) in cash	29,253	19,517
Cash and cash equivalents at beginning of year	31,524	12,007
Cash and cash equivalents at end of year	$ 60,777	$ 31,524

Noncash investing, capital and financing activities:
A pending judgment of $339,954 was included in accounts payable in 1991. This amount pertained to legal expenses for the roof lawsuit settlement and was settled in 1992 at no cost to the Commission.

The notes are an integral part of the financial statements.

Notes to Financial Statements
December 31, 1992 and 1991

(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 had decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes. The Commission's accounting policies conform to generally accepted accounting principles as prescribed by the Government Accounting Standards Board.

Cash

The Commission cash balance includes only deposits in bank.

Deposits

At December 31, 1991, the Commission's bank balance for cash was $60,477 and the book balance was $148,909. 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 statue further require 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 1992, the combined insured amount and collateral fell short of the legal requirement on 4 days. The average uncollateralized balance on those days was $150,976.

Investments

Commission investments consist principally of the debt securities. Investments maturing in a year or less, or which may be liquidated upon demand are valued at cost. Investments maturing later than one year are valued at the lower of cost or market.

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 $9,154,045 which is invested several U. S. government mutual funds. 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).

(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 Refunding Bonds.

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

(a) A Tax Receipts Fund, to be held and administered as a trust fund by the Trustee.

(b) A 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 Prepayment and Purchase Account; and
(iii) a Debt Service Reserve Account.

(c) A Revenue Fund, to be held and administered as a trust fund 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
(v) a Capital Improvement Account
(vi) a Concession account; and
(vii) a Subordinated debt account.

(d) A Rebate Fund, to be held and administered by the Trustee as provided herein.

(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. Thereafter, the Trustee shall allocate all amounts in this fund on a monthly basis in predetermined amounts to the Debt Service Account, the Debt Service Reserve account and the Operating Account. The amounts to be allocated are determined once the decision has been made to impose the Minneapolis tax requirement.

(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 five percent of net operating profits whereas the prior agreement had allowed a ten percent retainage. The remainder is remitted to the Commission which distributes amounts to the major tenants based upon their respective use agreements.

A financial summary of the concession operations for the years ending December 31, 1992 and 1991 follows:

Summary of Concession Operations
Years Ended December 31, 1992 and 1991

	1992	1991
Gross receipts	$15,840,091	$15,600,946
Less: Cost of goods sold and concessionaire's operating expenses	6,478,786	6,085,361
Payment to concession reserve accounts	792,005	780,048
Net Operating Profit	$ 8,569,300	$ 8,735,537
Distribution of Net operating Profits:		
Payments to tenants:		
Minnesota Twins - Regular	$ 4,277,230	$ 3,932,181
Minnesota Twins - Post season	0	843,092
Minnesota Vikings - Regular	262,863	231,001
University of Minnesota	200,091	166,886
Others	164,126	11,003
Tenant's share of concession net operating profits	$4,904,310	$5,184,163
Payment to concession management company	428,465	436,777
MSFC share	3,236,525	3,114,597
Total Distribution - Net Operating Profit	$8,569,300	$8,735,537

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 $244,065 in 1992 and $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.

In 1993, the North Stars, currently owned by Norm Green, exercised their rights under the Use Agreement and announced their intention to move to Dallas, Texas. There are no rights retained by the North Stars to the property. The Commission has not yet formally decided on the ultimate disposition of the property, including the Met Center. In the near term, the Commission will keep the building until such time as a decision is made on the possibility of an existing or expansion NHL franchise playing in the facility. Barring this, the Commission has the option of selling the property and the Met Center, similar to the sale of the remaining portion of the land which was formerly used for the Met Stadium. Funds from the sale are dedicated towards the outstanding debt of the Metrodome as directed by the Bond Indenture of Trust between the Met Council and Norwest Bank (Trustee).

The Met Center building and equipment fixed assets were last recorded by the Commission in 1988. If there were any new additions between the years 1988 and 1992, the Commission has been unable to verify such acquisitions. It is unknown or uncertain as to the value of any new additional assets that may have been acquired by the Minnesota North Stars since 1988. This information has not been made available by the Met Center to the Commission despite various requests.

The Commission is in litigation with the North Stars with respect to the ownership of fixtures and personal property within the Met Center and Sports Area. The Commission's position is that it owns fixtures on the property by virtue of its ownership of the underlying property. In addition, the Commission's position is that it owns substantially all of the fixtures and personal property within the Met Center and Sports Area by virtue of contracts with the North Stars providing for nominal or below-market consideration for the North Stars use of the Met Center in return for the North Stars purchasing and conveying to the Commission personal property and fixtures.

The total fixed assets recorded by the Commission through 1988 is $12,322,919, depreciation accumulated to December 31, 1992 totals $6,670,035, leaving a net book value of $5,652,884.

(5) Long-Term Debt

On August 27, 1992, the Commission issued $42,865,000 in Sports Facilities Revenue Refunding Bonds with an average interest rate of 5.7009 percent to advance refund

$42,865,000 of outstanding 1979 Series bonds with an average interest rate of 7.4861 percent. The net proceeds were used to call and redeem the 1979 Series outstanding bonds.

The advanced refunding resulted in the recognition of an accounting loss of $428,650 for the year ended December 31, 1992, due to a one percent call premium paid by the Commission on the 1979 series bonds. The Commission advance refunded the 1979 Series bonds to reduce its total debt service payments by almost $4.1 million over the next 17 years and obtained an economic gain (difference between the present values of the old and new debt service payments) of $4.15 million.

The annual requirements to amortize all outstanding Sports Facilities Revenue Bonds as of December 31, 1992, including interest payments, are as follows:

	Principal	Interest	
Year Ending December 31	Sports Facilities Revenue Refunding Bonds	Sports Facilities Revenue Refunding Bonds	Total Debt Service Requirement
1993	$1,295,000	$2,695,110	$3,990,110
1994	1,760,000	2,269,948	4,029,948
1995	1,825,000	2,203,948	4,028,948
1996	1,905,000	2,126,386	4,031,386
1997	1,990,000	2,040,660	4,030,660
1998	2,085,000	1,944,144	4,029,144
1999	2,190,000	1,838,852	4,028,852
2000	2,305,000	1,726,066	4,031,066
2001	2,425,000	1,603,900	4,028,900
2002	2,560,000	1,472,950	4,032,950
2003	2,700,000	1,332,150	4,032,150
2004	2,850,000	1,180,950	4,030,950
2005	3,010,000	1,018,500	4,028,500
2006	3,195,000	837,900	4,032,900
2007	3,385,000	646,200	4,031,200
2008	3,585,000	443,100	4,028,100
2009	3,800,000	228,000	4,028,000
	$42,865,000	$25,608,764	$68,473,764

Under the Indenture of Trust, the Sports Facilities Revenue Refunding Bonds bear interest ranging from 3.1 percent to 6.0 percent annually with interest payable semiannually on April 1 and October 1 of each year.

(6) Pension Plan

Plan Description

All employees are covered by the Minnesota State Retirement System (MSRS) multiple employer cost sharing pension plan except for those employees previously covered by the Public Employees Retirement Association Plan who have elected to remain covered under that plan. The payroll for employees covered by MSRS plans for the year ended December 31 was $1,171,265 for 1992 and $1,200,947 for 1991. The payroll for employees covered by PERA plans for the year ended December 31 was $85,721.41 for 1992 and $80,578.98 for 1991. Total Commission payroll was $2,038,345 for 1992 and $1,956,763 for 1991.

MSRS provides retirement benefits as well as disability benefits to members, and benefits to survivors upon death of eligible members. Benefits are established by state statute and vest after three years of credited service. The defined retirement benefits are based on a member's average salary from the five highest successive years of covered salary, age, and length of service at termination of service.

Two methods are used to compute benefits, the Step formula and the Level formula. Under the Step formula the annual accrual is 1 percent of average salary for the first 10 years of service and 1.5 percent for each remaining year. Under the Level formula, the annual accrual amount is 1.5 percent for each year of service. For MSRS members whose annuity is calculated with the Step formula, a full annuity is available when age plus years of service equals 90.

There are two types of annuities available to members upon retirement. The Single-life annuity is a lifetime annuity that ceases on the death of a member. The Optional annuity provides joint and survivor annuity options that reduce monthly annuity payments because the annuity is payable over joint lives. Members may also leave their contributions in the fund upon termination of public service in order to qualify for a deferred annuity at retirement age. Refunds of contributions are available to members who leave public service, but before retirement benefits begin.

Contributions Required and Contributions Made

Minnesota Statutes, Chapter 352 sets the rate for employee and employer contributions. Contributions are made to the fund by employees and the Commission based on a percentage of gross salary. The actuarially determined required contribution rates were 7.86 percent for 1992 and 8.17 percent for 1991. The current rates are 3.99 percent for employees and 4.12 percent for the Commission for a total of 8.11 percent. The total employer contributions for the Commission were $60,912 for 1992 and $60,983 for 1991.

Funding Status and Progress

The "pension benefit obligation" is a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases and step-rate benefits, estimated to be payable in the future as a result of employee service to date. The measure, which is the actuarial present value of credited projected benefits, is intended to help users assess MSRS's funding status on an ongoing basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among Minnesota Retirement Systems and among employers.

The pension benefit obligations of the MSRS for the State Employees Plan as of July 1, 1992 and 1991 are as shown below:

	(in thousands) 1992	1991
Total pension benefit obligations	$2,472,278	$2,520,042
Net assets available for benefits (cost basis)	2,576,920	2,267,368
Unfunded (assets in excess of) pension benefit obligations	(104,642)	252,674

Ten-Year Historical Trend Information

Ten year historical trend information is presented in MSRS's Comprehensive Annual Report for the year ended June 30, 1992. This information is useful in assessing the pension plans accumulation of sufficient assets to pay pension benefits as they become due.

Related Party Investments

As of December 31, 1992, and for the fiscal year then ended, MSRS held no securities issued by the Commission or other related parties.

Deferred Compensation

All Commission full-time employees are eligible to participate in the Deferred Compensation Plan offered through Aetna Insurance Company. Deferred compensation is a plan that allows employees to place a portion of their earnings into a tax deferred investment program for long term savings to supplement retirement and other benefits.

(7) Northstar Settlement

A payment of $2,542,258 to the Northstar 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 Northstar 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 Northstar 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 Northstar Corporation, and the court vacated its order of July 1990.

(8) 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
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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, 1992, and issued our report thereon dated March 25, 1993. We have also made a study and evaluation of the internal control structure of the Metropolitan Sports Facilities Commission in effect at December 31, 1992.

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, management's authorization and recorded properly.

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,
- operating revenue,
- operating expenses, 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, 1992, 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.

However, we noted certain 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 12, 1993.

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 23, 1993.

James R. Nobles
Legislative Auditor

John Asmussen, CPA
Deputy Legislative Auditor

End of Fieldwork: March 25, 1992

Report Signed On: April 16, 1993