Metropolitan Sports Facilities Commission*
Financial Audit
For the Year Ended December 31, 1994

* The Metropolitan Sports Facilities Commission is a component unit of the Metropolitan Council.

April 1995

This document can be made available in alternative formats, such as large print, Braille, or audio tape, by calling 296-1235.

Financial Audit Division
Office of the Legislative Auditor
State of Minnesota

95-19

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, 1994

Public Release Date: April 28, 1995 No. 95-19

Audit Scope

The Metropolitan Sports Facilities Commission is a component unit of the Metropolitan Council. As required by Minn. Stat. Section 473.595, Subd. 5, we have conducted an audit of the commission's financial statements for the year ended December 31, 1994. Based on our examination, we have concluded that the commission's financial statements are fairly stated in compliance with generally accepted accounting principles.

Financial Statement Highlights

The financial statements show total commission assets of over $95 million as of December 31, 1994. The commission expensed $5 million when it disposed of the Met Center building in 1994, as explained in footnote 4 to the financial statements. Nearly $65 million of property and equipment comprises the largest portion of commission assets; cash and investments accounted for most of its other assets. The commission owed total liabilities of about $41.5 million at December 31, 1994, with about $40 million representing principal and accrued interest on its long-term debt. The financial statements show that the commission has equity of $53.6 million: $17 million in contributed capital, $16.9 million reserved according to its bond covenants, and $19.7 million of unreserved retained earnings.

Conclusions

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

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

- The commission did not properly follow certain portions of its internal procurement policy.

We found one issue that affected compliance with finance-related legal provisions:

- As explained further in footnote 5 of the financial statements, during 1994, the commission learned that two of its investments potentially did not meet the standards for legally permitted investments. The commission has since liquidated the two investments, with a negligible effect on net income.

Contact the Financial Audit Division for additional information.
296-1235

Table of Contents

Audit Participation

The following members of the Office of the Legislative Auditor prepared this report:

John Asmussen, CPA	Deputy Legislative Auditor
Jeanine Leifeld, CPA	Audit Manager
Sonya Hill, CPA	Auditor-in-Charge
Jenny Lee	Auditor

Exit Conference

This report was discussed with the following staff of the Metropolitan Sports Facilities Commission at the exit conference held on April 21, 1995:

William Lester	Executive Director
Roger Simonson	Finance Director
Paul Thatcher	Finance Committee Chair
Peter Cooper	Commisson Counsel

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

Mr. Henry Savelkoul, Chair
Metropolitan Sports Facilities Commission

Members of the Metropolitan Sports Facilities Commission

Mr. William Lester, Executive Director
Metropolitan Sports Facilities Commission

We have audited the accompanying balance sheets of the Metropolitan Sports Facilities Commission, a component unit of the Metropolitan Council, as of and for the year ended December 31, 1994 and 1993, and the related statements of income, retained earnings, and cash flows for the year years then ended. These general purpose financial statements are the responsibility of the commission's management. Our responsibility is to express an opinion on these general-purpose financial statements based on our audits.

We conducted our audits in accordance with generally accepted governmental auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from 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, 1994 and 1993, and the results of its operations and its cash flows for the years then ended in conformity with generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued a report dated March 24, 1995 on our consideration of the Metropolitan Sports Facilities Commission's internal control structure and a report dated March 24, 1995 on its compliance with laws and regulations.

James R. Nobles
Legislative Auditor

John Asmussen, CPA
Deputy Legislative Auditor

March 24, 1995

Metropolitan Sports Facilities Commission

Balance Sheet
December 31, 1994 and 1993

ASSETS	1994	1993
Unrestricted current assets: (note 5)		
Cash and cash equivalents	$ 8,713,195	$ 11,308
Investments	0	12,062,143
Accounts receivable	1,808,956	1,560,644
Accrued interest receivable	103,955	400,329
Prepaid insurance expense	67,939	62,850
Total unrestricted assets	$10,694,045	$ 14,097,274
Restricted current assets: (note 5)		
Cash and cash equivalents	$ 7,092,334	$ 0
Cash and cash equivalents with trustee	1,344,446	1,015,024
Investments	3,025,319	9,225,253
Investments with trustee	7,606,280	8,036,797
Prepaid roof fabric expense	22,725	22,725
Accounts receivable, with trustee	52,013	160,689
Accrued interest, with trustee	190,688	189,177
Total restricted assets	$19,333,805	$ 18,649,665
Fixed assets: (note 2)		
Metrodome stadium site	$ 8,700,000	$ 8,700,000
Metrodome stadium building and equipment	94,877,992	93,293,726
Less accumulated depreciation	(41,138,587)	(36,825,331)
Metrodome fixed assets, net	$62,439,405	$ 65,168,395
Met Center site	$ 2,357,830	$ 2,357,830
Site preparation costs (note 4)	372,521	0
Met Center building and equipment (note 4)	0	12,322,919
Less accumulated depreciation	0	(7,148,716)
Met Center fixed assets, net	$ 2,730,351	$ 7,532,033
Total fixed assets, net	$65,169,756	$ 72,700,428
TOTAL ASSETS	$95,197,606	$105,447,367

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

Balance Sheet
December 31, 1994 and 1993

LIABILITIES and EQUITY	1994	1993
Unrestricted current liabilities:		
Accounts payable	$ 927,249	$ 571,223
Accrued expenses	154,487	160,421
Total unrestricted current liabilities	$ 1,081,736	$ 731,644
Restricted current liabilities:		
Current portion long term debt	$ 1,825,000	$ 1,760,000
Accounts payable	82,706	203,458
Accrued interest expense	550,987	567,487
Total restricted current liabilities	$ 2,458,693	$ 2,530,945
Long term debt, less current portion (note 7)	$37,985,000	$ 39,810,000
Total liabilities	$41,525,429	$ 43,072,589
Equity:		
Contributed capital (note 2)	$17,069,238	$ 17,069,238
Retained earnings: (note 2)		
Reserved	$16,875,112	$ 16,118,721
Unreserved	19,727,827	29,186,819
Total retained earnings	$36,602,939	$ 45,305,540
Total equity	$53,672,177	$ 62,374,778
TOTAL LIABILITIES and EQUITY	$95,197,606	$105,447,367

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

Metropolitan Sports Facilities Commission

Statement of Revenue, Expenses, and Changes in Retained Earnings
Years Ended December 31, 1994 and 1993

	1994	1993
Revenue:		
Concession revenue (note 3)	$11,743,271	$12,902,575
Admission tax	3,703,678	4,056,916
Stadium rents	2,676,481	$2,905,238
Advertising fees	1,570,330	1,095,590
Parking fees	171,020	318,425
Other	839,069	598,311
Total revenue	$20,703,849	$21,877,055
Expenses:		
Concession operating costs (note 3)	$ 5,833,096	$ 6,361,024
Tenants share of concession receipts (note 3)	2,920,877	3,782,447
Personal services	2,378,667	2,220,070
Contractual services	1,969,321	1,916,203
Utilities	1,701,895	1,609,999
Technical consultants	507,770	526,687
Supplies, repairs and maintenance	318,263	271,521
Insurance	307,949	303,015
Professional services	177,350	112,896
Communication	71,007	41,889
Travel and meeting	60,696	51,216
Metropolitan Council services (note 1)	7,406	12,081
Miscellaneous	661,319	390,129
Less - expenses reimbursed by tenants	(1,466,840)	(1,427,621)
Total expenses before depreciation and amortization	$15,448,776	$16,171,556
Operating income before depreciation and amortization and disposal of fixed assets	$ 5,255,073	$ 5,705,499
Depreciation and amortization	(4,317,561)	(4,330,682)
Gain on disposal of fixed assets	3,755	26,773
Operating income	$ 941,267	$ 1,401,590

Metropolitan Sports Facilities Commission

Statement of Revenue, Expenses, and Changes in Retained Earnings
Years Ended December 31, 1994 and 1993

	1994	1993
Non-operating income:		
Termination of Met Center long-term use agreement (note 4)	$ 0	$ 5,375,249
Net Met Center revenues (note 4)	0	37,880
Interest earned	1,071,511	1,473,879
Interest earned, with trustee	537,814	594,561
Investments revalued or sold	0	149,500
Investments revalued or sold, with trustee	0	83,125
Total non-operating income	$ 1,609,325	$ 7,714,194
Non-operating expense:		
Met Center building and equipment disposal (note 4)	$ 5,093,050	$ 0
Net Met Center expenses (note 4)	5,549	0
Interest expense domed stadium revenue bonds	2,253,445	2,300,052
Target Center costs (note 9)	1,189,887	35,666
Investments revalued or sold (note 5)	2,160,622	393,157
Investments revalued or sold, with trustee	550,640	0
Total non-operating expense	$11,253,193	$ 2,728,875
Net (loss) income	($ 8,702,601)	$ 6,386,909
Retained earnings, January 1	45,305,540	38,918,631
Retained earnings, December 31	$36,602,939	$45,305,540

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

Metropolitan Sports Facilities Commission

Statement of Cash Flows
Years Ended December 31, 1994 and 1993

	1994	1993
Cash flows from operating activities:		
Operating income	$ 941,267	$1,401,590
Adjustments to reconcile operating income to net cash flows provided by operating activities:		
Depreciation and amortization	$4,317,561	$4,330,681
Gain on disposal of fixed assets	(3,755)	(26,773)
Changes in unrestricted assets and liabilities:		
Decrease (increase) in accounts receivable	(248,312)	252,596
Decrease (increase) in prepaid expenses	(377,610)	8,758
Decrease (increase) in accounts payable	343,950	21,317
Decrease (increase) in wages payable	(5,934)	24,344
Net cash provided by operating activities	$ 4,967,167	$6,012,513
Cash flows from investing activities:		
Gross purchases	($188,533,427)	($106,616,659)
Gross sales of investments	204,370,105	106,426,349
Interest income	1,367,885	1,430,832
Interest income with trustee	536,111	255,155
Gross purchases with trustee	(4,828,133)	(794,276)
Gross sales with trustee	4,708,201	2,693,088
Net cash for investing activities	$17,620,742	$3,394,489
Cash flows from capital and related financing activities:		
Principal paid on bonds	($1,760,000)	($1,295,000)
Interest paid on bonds	(2,269,945)	(2,695,105)
Acquisition of capital assets	(1,580,329)	(4,483,986)
Proceeds from sale of capital assets	50,303	30,430
Met Center revenues	109,592	37,880
Target Center costs	(1,013,887)	(35,666)
Net cash used for capital and related financing activities	($6,464,266)	($8,441,447)
Net increase (decrease) in cash and cash equivalents	$16,123,643	$965,555
Cash and cash equivalents at beginning of year	1,026,332	60,777
Cash and cash equivalents at end of year	$17,149,975	$1,026,332

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

Notes to Financial Statements
December 31, 1994 and 1993

(1) Organization and Relationship with the Metropolitan Council

Authorizing Legislation

The Metropolitan Sports Facilities Commission (the Commission) was established under Chapter 89 (the Stadium Act) of Minnesota Laws of 1977 and operates under Minnesota Statutes Chapter 473, as amended. The primary responsibility of the Commission is the operation of the Hubert H. Humphrey Metrodome sports facility (Metrodome). The Commission also owns the site of the former Metropolitan Sports Center (Met Center) (note 4).

The Stadium Act gives the Metropolitan Council (Council) the following powers and duties relating to the Commission:

Debt Issuance
--To provide funds for the acquisition or betterment of sports facilities by the Commission.
--To refund bonds authorized or assumed under the Stadium Act.
--To fund judgments entered by any court against the Commission, or against the Council in matters relating to the Commission's functions.

Budget Approval
Budgets prepared by the Commission are subject to Council review and approval. Additionally, the Council provides the Commission with other services such as review of the liquor tax/hotel-motel tax and legal counsel regarding the bond indenture.

Component Unit

The Commission is a component unit of the Council.

(2) Significant Accounting Policies

Basis of Accounting

The financial activities of the Commission are accounted for as an enterprise fund, and accordingly, the accompanying financial statements are presented on the accrual basis. Enterprise funds account for operations that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or where the governing body had decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes. The Commission's accounting policies conform to generally accepted accounting principles as prescribed by the Government Accounting Standards Board.

Cash and Cash Equivalents

The Commission considers all highly liquid investments purchased with original maturities of three months or less to be cash equivalents. The Commission's cash and cash equivalents consists of deposits in bank and money market funds.

Investments

Commission investments consist principally of debt securities. Investments with the trustee are valued at lower of market or par. Other investments are valued at the lower of cost or market.

In accordance with generally accepted accounting principles, investments are categorized as to credit risk. Credit risk category 1 includes investments that are insured or registered, or for which the securities are held by the Commission or its agent in the Commission's name. Credit risk category 2 includes uninsured and unregistered investments for which the securities are held by the broker's or dealer's trust department or agent in the Commission's name. Credit risk category 3 includes uninsured and unregistered investments for which the securities are held by the broker or dealer or by its trust department or agent but not in the Commission's name.
All Commission investments are included in credit risk category 1.

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	15 to 30 years, or bond life, or the year 2009
Building Improvements	10 to 30 years, or bond life, or the year 2009
Equipment	3 to 10 years

Depreciation expense, including amounts relating to the Met Center for the latter part of 1993 through March 1994, is reflected in the statement of revenue and expenses. Depreciation on the Met Center property and equipment up until the latter part of 1993 was recorded as a charge against the related balance sheet reserve account (note 4).

Admission Tax

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

Contributed Capital

Upon establishment of the Commission through authorizing legislation in 1977, certain contributions were provided to the Commission to commence its operations. This contributed capital amount of $17,069,238 classified as a component of the Commission's equity in the balance sheet, arose from the contributions of (i) various assets by the Commission's predecessor organization (the Metropolitan Sports Area Commission), (ii) the Metrodome stadium site, and (iii) proceeds from the Council related to a metropolitan on-sale liquor tax that was repealed in 1979.

Retained Earnings

The Commission maintains certain accounts in accordance with the Indenture of Trust (Indenture) between the Council and the Trustee, dated as of August 1, 1992 (note 6). Retained earnings are classified as Commission "reserved" or "unreserved". Reserved retained earnings represent net assets held in certain funds and accounts under the Indenture where the Indenture prescribes the amount or imposes a formula for determining the amount, to be held in such fund or account. Unreserved retained earnings represent net fixed assets held in certain funds and accounts under the Indenture where the Commission has some discretion as to the amount to be held, and net fixed assets not specifically held in funds or accounts under the Indenture. Although the Commission presents certain retained earnings as "unreserved", Minn. Stat. Sections 473.551 - 473.595 and the Indenture provide that all revenues and investments of the Commission are pledged for the payment of the Sports Facilities Revenue Refunding Bonds. The components of retained earnings, which include the accounts maintained in accordance with the Indenture, are as follows:

Retained Earnings		
Reserved	1994	1993
Debt service account and reserve	$ 6,765,427	$ 6,913,511
Repair and replacement account	4,006,526	3,107,167
Concession reserve account	2,173,909	2,168,793
Operating reserve account	3,929,250	3,929,250
Total reserved retained earnings	$16,875,112	$16,118,721
Unreserved		
Operating account	$ 3,278,327	$ 3,365,630
Capital improvement account	6,706,503	10,000,000
Fixed assets, net of long-term debt	9,742,997	15,821,189
Total unreserved retained earnings	$19,727,827	$29,186,819
Total retained earnings	$36,602,939	$45,305,540

Reclassification

The 1993 financial statements have been reclassified to conform with the presentation used in 1994. These reclassifications had no impact on 1993 net income or total equity as previously reported.

(3) Operation of the Metrodome

The Commission has entered into use agreements with the Minnesota Twins, Inc., the Minnesota Vikings Football Club, and the University of Minnesota. These agreements contain provisions for, among other things, rental rates, exclusive use space, payment of event-related costs and expenses, private boxes, and sharing of concession revenue. Special events are also held in the Metrodome.

The Commission owns the concessions in the Metrodome. 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 account as required by the concession services agreement. The current agreement allows the management company to retain five percent of net operating profits, the remainder is remitted to the Commission which distributes amounts to the major tenants based upon their respective use agreements. The following table reflects the actual operations of the concessions for the years ended 1994 and 1993.

Summary of Concession Operations
Years Ended December 31, 1994 and 1993

	1994	1993
Gross Concession Revenue	$ 11,743,271	$12,902,575
Concession Operating Costs:		
Cost of goods and concessionaire's operating expenses	5,242,668	5,805,211
Concessionaire management fee	295,672	322,612
Repair and maintenance of concession equipment	294,756	233,201
Total concession operating costs	$ 5,833,096	$ 6,361,024
Net Operating Income	$ 5,910,175	$ 6,541,551
Distribution of Net Operating Income:		
Payments to tenants:		
Minnesota Twins	$ 2,312,482	$ 3,194,105
Minnesota Vikings	301,675	290,574
University of Minnesota	246,364	219,600
Others	60,356	78,168
Tenants share of concession net operating profits	$ 2,920,877	$ 3,782,447
Commission share	2,989,298	2,759,104
Total Distribution - Net Operating Profit	$ 5,910,175	$ 6,541,551

(4) Met Center Property

The Met Center was used principally as a hockey venue for the Minnesota Northstars NHL hockey team through April 1993. Upon the departure of the Minnesota Northstars and termination of the long-term use agreement between the Commission and the North Star Financial Corporation in 1993, the reserve established in the Commission's balance sheet of $5,375,249, which represented the net book value of the Met Center building on the date the agreement was terminated, was eliminated and recorded as other income. Subsequent to April 1993, the Met Center hosted a reduced number of events until March 1994 when the Met Center was closed to events and preparation for demolition commenced.

In December 1994, the Met Center building was demolished. Accordingly, the net book value of the Met Center building on the date of demolition of $5,093,050 was written-off as other expense in the statement of revenue and expenses. Costs of demolition and other site preparation costs incurred during 1994 of $372,521 have been capitalized as part of the cost of the Met Center site.

The Commission is currently investigating its options with respect to the sale or lease of the Met Center property. This investigation includes market studies with the assistance of the Commission's real estate consultants and discussions and negotiations with the City of Bloomington regarding zoning.

Upon the eventual disposition of the Met Center property, the proceeds, net of costs of disposal which may include costs incurred by the Commission related to its attempt to acquire the Target Center as a replacement NHL hockey venue (note 9), are pledged to the prepayment and purchase of the Sports Facilities Revenue Refunding Bonds (Bonds) under the Indenture (note 6).

(5) Investments and Deposits

Investments

Investments of the Commission consisted of the following at December 31, 1994 and 1993:

	1994		1993	
Investment Type	Carrying Amount	Market Value	Carrying Amount	Market Value
U.S. Government Obligations	$10,631,599	$10,631,599	$13,564,668	$13,832,788
Mutual funds, principally U.S. Government securities	0	0	15,466,569	15,466,569
Bank Certificates of Deposit	0	0	292,957	292,957
Total Investments	$10,631,599	$10,631,599	$29,324,194	$29,592,314

The Indenture for the Bonds relating to the Metrodome specifies that all revenues of the Commission from the Metrodome and Met Center are pledged for the payment of the Bonds. The Indenture establishes various funds and accounts, which may only be used for certain purposes as specified in the Indenture (note 6).

Prior to the issuance of its financial statements for the year ended December 31, 1993, the Commission experienced a decline in certain of its investments. Two of those investments were liquidated for an aggregate loss of $1,750,241, as disclosed in note 9 of those financial statements. With respect to these losses, the Commission determined that the major portion of the losses were attributable to investments in mutual funds which had substantial positions in collateralized mortgage obligations and certain other securities commonly referred to as derivatives, most notably, the Piper Institutional Government Income Portfolio. These losses were substantially greater than those which occurred in the Commission's customary investments in government fixed income securities. The Commission promptly undertook a comprehensive study of its financial and investment policies and practices aided by a nationally recognized certified public accounting firm. In the course of the ensuing months, the Commission adopted a new written investment policy, supplementing the limitations on Commission investments imposed by state law and the Indenture. Parallel with this effort, the Commission undertook a search for an independent investment advisor, conducted interviews and, at its July 20, 1994, meeting, selected SIT Fixed Income Advisors to manage Commission investments on a discretionary basis, subject to the adopted Commission investment policy. The Commission also solicited proposals for an investments custodian, a process which culminated in the selection of Norwest Bank Minnesota. As part of its review of these issues, the Commission also directed its legal counsel to solicit confirmations from broker-dealers that Commission investments were in compliance with governing Minnesota Statutes and the provisions of the Indenture included with the broker dealer obligations under Minn. Stat. Section 475.66, Subd. 6. Two of those broker-dealers acknowledged their failure to comply with the legal requirements imposed upon them by law and the requirements of the Commission. The two investments were liquidated and did not result in any material net loss. With respect to one additional broker-dealer, the Commission was not satisfied with the response of the broker-dealer, demands were made and ultimately, a settlement was reached with that broker-dealer which resulted in a cash payment of $20,000 in settlement of the Commission's claims and the waiver of liquidation fees. At this date, a cash settlement has been proposed by the Piper Institutional Government Income Portfolio for parties, such as the Commission, which suffered losses in that investment. As publicly reported, Piper has estimated that the proposed class action settlement would return approximately 40 percent of losses to members of the class. The Commission presently has under consideration whether to elect to accept the class action settlement offer (when it is eventually, formally made) or whether to pursue independently its remedies against Piper under special arbitration procedures negotiated earlier in the year between the Commission and Piper. Due to the uncertainty as to the amount the Commission may receive upon settlement of this matter, the Commission has not recorded a receivable in the balance sheet at December 31, 1994. Any proceeds upon settlement will be recorded as income when received.

Investments classified as "restricted assets" are those investments held in certain funds and accounts under the Indenture where the Indenture prescribes the amount, or imposes a formula for determining the amount, required to be held in such fund or account. Investments classified as "unrestricted assets" designates those investments held in certain funds and accounts under the Indenture where the Commission has some discretion as to the amount to be held. Pursuant to Minn. Stat. Section 473.551 - 473.595 and the Indenture, all revenues and investments of the Commission are pledged for the payment of the Bonds.

Deposits

At December 31, 1994, the Commission's bank balance for cash was $405,261 and the book balance was $42,429. 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 1994, the combined insured amount and collateral fell short of the legal requirement on 4 days. The average uncollateralized balance on those days was $347,262.

(6) Special Funds Under the Sports Facilities Revenue Bond Trust Indenture

Special funds and accounts, which may only be used for certain specified purposes, are established under the Indenture of Trust between the Council, the Commission, and the Trustee covering the issuance of the Sports Facilities Revenue Refunding Bonds.

The following special funds and accounts therein are established by the 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.
(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 as a component of retained earnings. Inactive accounts and clearing accounts are not reflected in the financial statements.

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

The annual requirements to amortize all outstanding Sports Facilities Revenue Refunding Bonds as of December 31, 1994, including interest payments, are as follows:

Year Ending December 31	Principal Sports Facilities Revenue Refunding Bonds	Interest Sports Facilities Revenue Refunding Bonds	Total Debt Service Requirement
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
	$39,810,000	$20,643,706	$60,453,706

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.

(8) 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 (PERA) who have elected to remain covered under that plan. The payroll for employees covered by MSRS plans for the year ended December 31 was $1,434,376.19 for 1994 and $1,356,274.35 for 1993. The payroll for employees covered by PERA plans for the year ended December 31 was $98,636.70 for 1994 and $93,294.30 for 1993. Total Commission payroll was $1,916,858 for 1994 and $1,808,705 for 1993.

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 8.93 percent for 1994 and 8.93 percent for 1993. The current rates are 4.07 percent for employees and 4.20 percent for the Commission for a total of 8.27 percent. The total employer contributions for the Commission were $71,728 for 1994 and $67,869 for 1993.

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, 1994 and 1993 are as shown below:

	(in thousands)	
	1994	1993
Total pension benefit obligations	$3,376,267	$3,057,914
Net assets available for benefits		
(cost basis)	$3,147,066	$2,846,117
Unfunded (assets in excess of)		
pension benefit obligations	$ 229,201	$ 211,797

Ten-Year Historical Trend Information

Ten year historical trend information is presented in MSRS's Component Unit Financial Report for the year ended June 30, 1994. 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, 1994, 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 a 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.

(9) Target Center

In 1994, the Minnesota Legislature authorized the acquisition by the Commission of the Target Center basketball and hockey arena located in Minneapolis. 1994 Minnesota Laws, Chapter 648. The law directed the Commission to first determine whether to pursue negotiations to acquire the Target Center, and established requirements prior to a final decision by the Commission to acquire the arena.

The law contemplated that, if the Commission's negotiations to acquire the Target Center were successful, the Council would issue tax-exempt revenue bonds to finance the acquisition. The bonds would be repaid, in large part, by a ticket tax and surcharge.

In late December, 1994, the Internal Revenue Service issued proposed rules that were interpreted by the Council's bond counsel as rendering taxable any revenue bonds that depended on a ticket tax for repayment. As a result, acquisition of the Target Center by the Commission was not considered to be economically feasible. Up until the time of this decision, the Commission had incurred expenses for legal, accounting, physical inspection and other consultant services related to the Commission's determination of whether to acquire the Target Center.

The City of Minneapolis and Minneapolis Community Development Agency (MCDA) then commenced public acquisition of the arena by the MCDA, financed, in part, by the issuance of City of Minneapolis general obligation bonds, under legal authority independent of Chapter 648. Chapter 648 provided that upon Commission acquisition of the Target Center the Commission may recover from proceeds of the Council's revenue bonds the expenses incurred by the Commission related to the Commission's determinations of whether to acquire the Target Center, whenever those expenses were incurred. Minn. Stat. 473.599, subd. 4. There was no provision for reimbursement of Commission expenses in the acquisition by the MCDA, nor is there any requirement or authority in Chapter 648 for reimbursement of such costs and expenses of the Commission in the case where, as ultimately resulted, the Commission did first determine to pursue negotiations to acquire the Target Center but for reasons contemplated in the legislation declined to make a final decision for such acquisition.

Commission costs incurred to pursue acquisition of the Target Center were made as necessary to carry out the legislative direction to the Commission. Accordingly, the Commission is evaluating whether it should pursue reimbursement of these costs from the City of Minneapolis, the MCDA or the State of Minnesota. Due to the uncertainty that such costs incurred by the Commission to pursue acquisition of the Target Center will ultimately be reimbursed by any of these parties, the aggregate costs incurred of $1,225,553 ($1,189,887 in 1994 and $35,666 in 1993) have been included as nonoperating expenses in the statement or revenue and expenses. The Commission anticipates that additional costs of approximately $200,000 were or will be incurred in 1995.

In the event that the Commission's costs are not reimbursed by either the City of Minneapolis, the MCDA or the State of Minnesota, the Commission's Operating Account in the Revenue Fund under the Indenture (note 6), from which these funds were spent, may be reimbursed for these costs from the proceeds from the eventual sale of the Met Center property (note 4) as part of the cost to provide a replacement NHL Hockey venue for the Met Center facility.

(10) Metrodome Expansion Planning

The Metrodome was constructed from 1979 to 1982 using '70s technology. After 13 years and over 42,000,000 attendees, the Metrodome is in need of significant improvements. The Commission is currently considering a phased program of improvements. The Commission has approved the first phases of a $42 million renovation. These initial phases will cost about $13 million. The Commission's Capital Planning has not taken into account any net sale proceeds from the Met Center property. All projects will be completed as funds are available.

This page intentionally left blank.

Other Auditor Reports

This page intentionally left blank.

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

Auditor's Report on the Internal Control Structure

Mr. Henry Savelkoul, Chair
Metropolitan Sports Facilities Commission

Members of the Metropolitan Sports Facilities Commission

Mr. William Lester, Executive Director
Metropolitan Sports Facilities Commission

We have audited the financial statements of the Metropolitan Sports Facilities Commission, as of and for the year ended December 31, 1994, and have issued our report thereon dated March 24, 1995.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

The management of the Metropolitan Sports Facilities Commission is responsible for establishing and maintaining an internal control structure. 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, and that transactions, are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles. Because of inherent limitations on 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.

In planning and performing our audit of the financial statements of the Metropolitan Sports Facilities Commission for the year ended December 31, 1994, we obtained an understanding of the internal control structure. With respect to the internal control structure, 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 in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control structure. Accordingly, we do not express such an opinion.

We noted a matter discussed in finding 1 involving the internal control structure and its operation that we consider 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 commission's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

A material weakness is a reportable condition in which the design or operation of one or more 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 general-purpose 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.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we do not believe that the reportable condition described above is a material weakness.

We also noted another matter involving the internal control structure and its operation that we have reported orally to the management of Metropolitan Sports Facilities Commission at an exit conference held on April 21, 1995.

This report is intended for the information of the Metropolitan Sports Facilities Commission management and the Legislative Audit Commission. However, this report is a matter of public record, and its distribution is not limited.

James R. Nobles
Legislative Auditor

John Asmussen, CPA
Deputy Legislative Auditor

March 24, 1995

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

Report on Compliance Based on an Audit of Financial Statements

Mr. Henry Savelkoul, Chair
Metropolitan Sports Facilities Commission

Members of the Metropolitan Sports Facilities Commission

Mr. William Lester, Executive Director
Metropolitan Sports Facilities Commission

We have audited the financial statements of the Metropolitan Sports Facilities Commission, as of and for the year ended December 31, 1994, and have issued our report thereon dated March 24, 1995.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

Compliance with laws, regulations, contracts, and grants applicable to the Metropolitan Sports Facilities Commission is the responsibility of the commission's management. As part of obtaining reasonable assurance about whether the financial statements are free from material misstatement, we performed tests of the commission's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our audit of the financial statements was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion.

During 1994, the commission conducted a comprehensive study of its investment policies and practices. As part of its study, the commission's legal counsel asked broker-dealers to confirm that commission investments were legally allowable. Commission investment are restricted by Minn. Stat. Section 475.66 governing investing by various public bodies, as well as by the Indenture of Trust between the Metropolitan Council and Norwest Bank Minnesota. Two broker-dealers identified commission investments that did not comply with these legal provision.

As of January 1, 1994, the commission held an investment of $61,255 in the Fidelity Institutional Cash Portfolios - Class A - Money Market Portfolio. By June 6, 1994, the commission had increased its investment in this interest bearing money market account to over $2 million. In a letter dated June 8, 1994, the broker-dealer notified the commission that the investment did not comply with the legal restrictions governing commission investments. However, due to a problem with its internal communications, the commission continued to place additional significant funds in this investment, accumulating over $14.7 million in the account. Finally, on August 26, 1994, the commission directed the broker-dealer to sell its interest in this money market account. Upon liquidation, the commission recovered its full investment and earned a modest amount of interest income.

In January 1994, the commission purchased a $1.4 million investment in the Fortress Government Income Securities, Inc. (GISI). On May 20, 1994, the broker-dealer indicated that GISI contained some investment in put and call options and futures contracts. The broker-dealer further acknowledged that Minnesota Statutes did not authorize the commission to hold such investments. The commission sold this investment on May 24, 1994 at a net loss of about $48,000.

Except for the instances described in the preceding two paragraphs, the results of our tests disclosed no instances of noncompliance that are required to be reported herein under *Government Auditing Standards*.

This report is intended for the information of the Metropolitan Sports Facilities Commission management and the Legislative Audit Commission. However, this report is a matter of public record and its distribution is not limited.

James R. Nobles
Legislative Auditor

John Asmussen, CPA
Deputy Legislative Auditor

March 24, 1995

Current Finding and Recommendation

1. The Commission did not properly follow certain portions of its internal procurement policy.

Some commission employees do not have their purchases reviewed and approved before proceeding with the purchase.

Some commission employees routinely complete purchase orders only after completing the purchasing process. This practice does not comply with the commission procurement policies. The employees' supervisors and the executive director are not approving and authorizing these purchases in advance. Employees did not prepare purchase orders for six of the 49 purchases we reviewed. To avoid the risk of unauthorized purchases of goods and services, employees should adhere to purchasing policy provisions.

Recommendation

- *The Commission should enforce its purchasing policies and procedures.*

This page intentionally left blank.

METRODOME

900 SOUTH 5TH STREET
MINNEAPOLIS, MN
55415

TELEPHONE
612.332.0386

FACSIMILE
612.332.8334

April 24, 1995

James. R. Nobles, Legislative Auditor
John Asmussen, CPA, Deputy Legislative Auditor
First Floor, Centennial Office Building
658 Cedar Street
St. Paul, Minnesota 55105

Dear Gentlemen:

Please accept this letter as a formal response to your financial and compliance audit of the Metropolitan Sports Facilities Commission (Commission) for the year ending December 31, 1994. The Commission is pleased you have issued unqualified opinion on the Metropolitan Sports Facilities Commission's financial statements for the year in question.

In the section labeled "Current Finding and Recommendations", you list the following:

1. The Commission did not properly follow certain portions of its internal procurement policy. In your finding you note that employees did not prepare purchase orders for 6 of the 49 purchases which were reviewed by the staff of the Legislative Auditor. As you also note, we have made significant improvement in this area after it was previously called to our attention. It is the nature of our business that we occasionally must purchase items for the conduct of that business without first completing the purchase order process with its appropriate authorizations. In 1995 we intend to review our procedures and make any necessary changes in the purchasing procedures to reflect this aspect of the stadium business. We are also currently reviewing the Commission's purchasing procurement functions and may decide to revise our current process.

As part of our response, I would like to call your attention to the unique mission of the 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 are crucial to our success.

Further, the Commission must continue to pursue other major athletic and other events for the Metrodome. Such events include the 2001 NCAA Final Four Basketball Tournament, 2000 Alcoholics Anonymous World Conference, 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 compliance audit was conducted. If you have any further questions, please do not hesitate to contact me.

Sincerely,

William L. Lester
Executive Director

WJL/lp