Metropolitan Sports Facilities Commission

Financial Audit
For the Year Ended December 31, 1996

April 1997

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Financial Audit Division
Office of the Legislative Auditor
State of Minnesota

97-22

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STATE OF MINNESOTA
OFFICE OF THE LEGISLATIVE AUDITOR
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JAMES R. NOBLES, LEGISLATIVE AUDITOR

Senator Deanna Wiener, Chair
Legislative Audit Commission

Members of the Legislative Audit Commission

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 Metropolitan Sports Facilities Commission for the year ended December 31, 1996. The primary objective of our audit was to issue an opinion on the financial statements of the commission for the year then ended. Our opinion thereon dated March 28, 1997, is included in the financial section of this report. The following Summary highlights the audit objectives and conclusions. We discuss our conclusions and concerns more fully in the body of this report.

We conducted our audit in accordance with generally accepted government auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. As part of obtaining reasonable assurance about whether the commission's financial statements are free from material misstatement, we performed tests of the commission's compliance with certain provisions of laws, regulations, contracts, and grants. We also obtained an understanding of the commission's internal control structure. Our conclusions on internal control and compliance are included within this report as an *Auditor's Report on the Internal Control Structure* and a *Report on Compliance Based on an Audit of Financial Statements.*

This report is intended for the information of the Legislative Audit Commission and the 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 25, 1997.

James R. Nobles	John Asmussen, CPA
Legislative Auditor	Deputy Legislative Auditor

End of Fieldwork: March 28, 1997

Report Signed On: April 21, 1997

SUMMARY

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Metropolitan Sports Facilities Commission

Financial Audit
For the Year Ended December 31, 1996

Public Release Date: April 25, 1997 No. 97-22

Agency Background

The Metropolitan Sports Facilities commission is a component unit of the Metropolitan Council. Its primary responsibility is the operation of the Hubert H. Humphrey Metrodome sports facility (the Metrodome).

Financial Statement Highlights

The financial statements show total commission assets of over $90 million as of December 31, 1996. Nearly $67 million of property and equipment comprises the largest portion of the commission's assets; cash and investments accounted for most of its other assets. The commission owed total liabilities of about $38 million at December 31, 1996, with about $36.5 million representing principal and accrued interest on its long-term debt. The financial statements show that the commission had equity of $52.6 million: $17 million in contributed capital, $13.4 million of reserved, and $22.2 million of unreserved retained earnings according to its bond covenants. Pursuant to Minn. Stat. Sections 473.551-473.595 and the bond covenants, all revenues and investments of the commission are pledged for the payment of the Sports Facilities Revenue Refunding Bond.

Audit Objectives and Conclusions

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, 1996. We also reviewed the internal control structure of the commission and tested the commission's compliance with significant finance-related legal provisions.

Based on our examination, we concluded that the commission's financial statements were fairly presented in conformity with generally accepted accounting principles. We issued an unqualified opinion on the statements for the year ended December 31, 1996.

We found two areas where the internal control structure needed improvement:

- The commission did not adequately control concession revenue.
- The commission did not enforce certain provisions of its amateur sports consultant contract.

We found no instances of noncompliance with finance-related legal provisions.

Metropolitan Sports Facilities Commission

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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
Joan Haskin, CPA	Auditor-in-Charge
Susan Kachelmeyer	Auditor
Chege Ngigi	Auditor

Exit Conference

This report was discussed with the following staff of the Metropolitan Sports Facilities Commission at the exit conference held on April 17, 1997:

Bill Lester	Executive Director
Roger Simonson	Finance Director
Paul Thatcher	Commission Finance Committee Chair

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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 years ended December 31, 1996 and 1995, 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 audit.

We conducted our audits 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 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, 1996 and 1995, 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 28, 1997, on our consideration of the Metropolitan Sports Facilities Commission's internal control structure and a report dated March 28, 1997, on its compliance with laws and regulations.

James R. Nobles
Legislative Auditor

John Asmussen, CPA
Deputy Legislative Auditor

March 28, 1997

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Metropolitan Sports Facilities Commission

Balance Sheets
December 31, 1996 and 1995

ASSETS	1996	1995
Unrestricted current assets: (note 5)		
Cash and cash equivalents	$1,664,688	$ 696,107
Investments	3,030,020	6,289,651
Accounts receivable	2,814,089	2,734,020
Accrued interest receivable	61,354	168,301
Prepaid insurance expense	39,578	52,933
Total unrestricted assets	$ 7,609,729	$ 9,941,012
Restricted current assets: (note 5)		
Cash and cash equivalents with trustee	$ 1,142,307	$ 1,082,822
Investments	6,688,649	6,518,878
Investments with trustee	8,000,000	8,000,000
Prepaid roof fabric expense	22,725	22,725
Accounts receivable, with trustee	255,746	170,155
Accrued interest, with trustee	193,707	182,270
Total restricted assets	$ 16,303,134	$ 15,976,850
Fixed assets: (note 2)		
Metrodome stadium site	$ 8,700,000	$ 8,700,000
Metrodome stadium building and equipment	104,367,224	101,285,200
Less accumulated depreciation	(49,532,236)	(44,427,106)
Metrodome fixed assets, net	$ 63,534,988	$ 65,558,094
Met Center site	$ 2,357,830	$ 2,357,830
Site preparation costs (note 4)	1,033,029	875,756
Met Center fixed assets, net	$ 3,390,859	$ 3,233,586
Total fixed assets, net	$ 66,925,847	$ 68,791,680
TOTAL ASSETS	$ 90,838,710	$ 94,709,542

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

Metropolitan Sports Facilities Commission

Balance Sheets
December 31, 1996 and 1995

LIABILITIES and EQUITY	1996	1995
Unrestricted current liabilities:		
Accounts payable	$ 1,020,082	$ 1,110,768
Accrued expenses	194,672	167,420
Total unrestricted current liabilities	$ 1,214,754	$ 1,278,188
Restricted current liabilities:		
Current portion long term debt	$ 1,990,000	$ 1,905,000
Accounts payable	442,185	519,885
Accrued interest expense	510,165	531,597
Total restricted current liabilities	$ 2,942,350	$ 2,956,482
Long term debt, less current portion (note 7)	$34,090,000	$36,080,000
Total liabilities	$38,247,104	$40,314,670
Equity:		
Contributed capital (note 2)	$17,069,238	$17,069,238
Retained earnings: (note 2)		
Reserved	$13,360,784	$13,020,368
Unreserved	22,161,584	24,305,266
Total retained earnings	$35,522,368	$37,325,634
Total equity	$52,591,606	$54,394,872
TOTAL LIABILITIES and EQUITY	$90,838,710	$94,709,542

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

Metropolitan Sports Facilities Commission

Statements of Revenue, Expenses, and Changes in Retained Earnings
Years Ended December 31, 1996 and 1995

	1996	1995
Revenue:		
Concession revenue (note 3)	$12,352,003	$10,879,594
Admission tax	3,788,463	3,562,493
Stadium rents	3,074,074	3,120,226
Advertising fees	1,748,435	1,501,911
Parking fees	193,245	136,974
Plaza concession receipts	336,299	0
Other	809,684	856,424
Total revenue	$22,302,203	$20,057,622
Expenses:		
Concession operating costs (note 3)	$ 6,924,948	$ 5,854,566
Contractual services	3,009,980	2,014,890
Tenants share of concession receipts (note 3)	2,856,053	2,126,957
Personal services	2,712,887	2,337,640
Utilities	1,879,138	1,726,150
Supplies, repairs and maintenance	436,361	348,390
Plaza operating cost	311,412	0
Technical consultants	283,870	568,718
Insurance	276,632	260,559
Professional services	227,545	232,683
Tenants share of plaza receipts	111,763	0
Communication	66,490	70,804
Travel and meeting	61,081	60,587
Miscellaneous	1,197,906	1,153,598
Less - expenses reimbursed by tenants	(1,975,611)	(1,484,345)
Total expenses before depreciation and amortization	$18,380,455	$15,271,197
Operating income before depreciation and amortization and disposal of fixed assets	$ 3,921,748	$ 4,786,425
Depreciation and amortization	(5,130,314)	(4,944,453)
Gain (loss) on disposal of fixed assets	(1,277)	11,291
Operating (loss) income	($1,209,843)	($146,737)

Metropolitan Sports Facilities Commission

Statements of Revenue, Expenses, and Changes in Retained Earnings
Years Ended December 31, 1996 and 1995

	1996	1995
Non-operating income:		
Net Met Center revenues (note 4)	$ 243,497	$ 389,939
Interest earned	710,318	1,084,866
Interest earned, with trustee	565,531	569,220
Investments revalued or sold	24,470	74,844
Investments revalued or sold, with trustee	83,125	550,640
Investment lawsuit settlement	36,777	540,000
Total non-operating income	$ 1,663,718	$ 3,209,509
Non-operating expense:		
Interest expense domed stadium revenue bonds	$ 2,104,951	$ 2,184,555
Target Center costs	0	129,552
Investments revalued or sold	69,065	25,970
Investments revalued or sold, with trustee	83,125	0
Total non-operating expense	$ 2,257,141	$ 2,340,077
Net income (loss)	($ 1,803,266)	$ 722,695
Retained earnings, January 1	37,325,634	36,602,939
Retained earnings, December 31	$35,522,368	$37,325,634

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

Metropolitan Sports Facilities Commission

Statements of Cash Flows
Years Ended December 31, 1996 and 1995

	1996	1995
Cash flows from operating activities:		
Operating (loss) income	($1,209,843)	($146,737)
Adjustments to reconcile operating income to net cash flows provided by operating activities:		
Depreciation and amortization	5,130,314	4,944,453
Loss (gain) on disposal of fixed assets	1,277	(11,291)
Changes in unrestricted assets and liabilities:		
Decrease (increase) in accounts receivable	(453,434)	(385,064)
Decrease (increase) in prepaid expenses	13,355	15,006
(Decrease) increase in accounts payable	286,220	620,697
(Decrease) increase in wages payable	27,252	12,933
Net cash provided by operating activities	$ 5,004,984	$ 5,049,997
Cash flows from investing activities:		
Gross purchases	($33,595,872)	($69,018,919)
Gross sales	36,820,249	59,284,586
Interest received	847,365	1,002,766
Interest received-trustee	544,094	577,638
Gross purchases with trustee	(4,278,848)	(3,965,743)
Gross sales with trustee	4,278,848	4,122,662
Net cash used for investing activities	$ 4,615,836	($7,997,010)
Cash flows from capital and related financing activities:		
Principal paid on bonds	($1,905,000)	($ 1,825,000)
Interest paid on bonds	(2,126,383)	(2,203,945)
Acquisition of capital assets	(3,695,524)	(8,284,615)
Proceeds from sale of capital assets	0	13,200
Receipts from Met Center operations	343,996	5,879
Target Center costs	0	(129,552)
Net cash used for capital and related financing activities	($7,382,911)	($12,424,033)
Net (decrease) increase in cash and cash equivalents	$ 1,028,066	($15,371,046)
Cash and cash equivalents at beginning of year	1,778,929	17,149,975
Cash and cash equivalents at end of year	$ 2,806,995	$ 1,778,929

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

Notes to Financial Statements
December 31, 1996 and 1995

(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.

Foundation

The Metropolitan Sports Facilities Commission Foundation (Foundation) was incorporated as a Minnesota nonprofit corporation in May, 1995. The Foundation's purpose and activities are exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. The purpose of the Foundation is to promote educational and charitable activities by providing financial and other support for athletic and other activities for underserved youth, and in so doing, promoting and enhancing student education.

The Foundation has no members. The Board of Directors of the Foundation is comprised of the sitting members and chair of the Commission. The Foundation is thus deemed a component unit of the Commission. The Foundation's net assets, changes in net assets and cash flows are not material to the Commission.

(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. In accordance with Governmental Accounting Standard No. 20, the Commission does not apply any pronouncements of the Financial Accounting Standards Board issued after November 30, 1989.

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 consist of bank deposits and commercial paper.

Investments

Commission investments consist principally of debt securities. Investments with the trustee are valued at lower of market or par in accordance with the Indenture of Trust. 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 in custody by its agent in the Commission's name (i.e., the Commission's investment custodian, Norwest Bank Minnesota). 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 is reflected in the statement of revenue and expenses.

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 "reserved" or "unreserved". Reserved retained earnings represent net assets held in certain funds and accounts pursuant to the Indenture in which 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 assets held in certain funds pursuant to 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	1996	1995
Reserved:		
Debt service account and reserve	$ 6,835,849	$ 6,828,496
Repair and replacement account	1,183,517	1,087,516
Concession reserve account	858,305	1,175,106
Operating reserve account	4,483,113	3,929,250
Total reserved retained earnings	$13,360,784	$13,020,368
Unreserved:		
Operating account	$ 1,902,292	$ 2,825,528
Capital improvement account	4,492,682	5,837,296
Fixed assets, net of long-term debt	15,766,610	15,642,442
Total unreserved retained earnings	$22,161,584	$24,305,266
Total retained earnings	$35,522,368	$37,325,634

(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 manage the concessions which was effective until January 31, 1997, and has been extended until January 31, 1998. 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 1996 and 1995.

Summary of Concession Operations
Years Ended December 31, 1996 and 1995

	1996	1995
Gross Concession Revenue	$12,352,003	$10,879,594
Concession Operating Costs:		
Cost of goods and concessionaire's operating expenses	$ 6,254,660	$ 5,235,019
Concessionaire management fee	273,987	255,030
Repair and maintenance of concession equipment	396,301	364,517
Total concession operating costs	$ 6,924,948	$ 5,854,566
Net Operating Income	$ 5,427,055	$ 5,025,028
Distribution of Net Operating Income:		
Payments to tenants:		
Minnesota Twins	$ 2,307,142	$ 1,476,349
Minnesota Vikings	303,823	328,321
University of Minnesota	245,088	308,106
Others	0	14,181
Tenants share of concession net operating profits	$ 2,856,053	$ 2,126,957
Commission share	2,571,002	2,898,071
Total Distribution - Net Operating Profit	$ 5,427,055	$ 5,025,028

In addition to the concession operations inside the Metrodome as provided in the foregoing summary, the Commission operates the concession operations at the Metrodome Plaza on the property west of the Metrodome. The Plaza opened in 1996. The Plaza was constructed at a total cost of $4.4 million. It provides a gathering place, both prior to and following events at the Metrodome. Under agreements with the Commission's principal tenants, all operating profits (consisting of Plaza concession revenues less direct cost of goods and labor costs) are distributed to these principal tenants.

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 the Met Center hosted a reduced number of events until March 1994 when the Met Center was closed to events.

In December 1994, the Met Center building was demolished. Costs of demolition and other site preparation costs incurred during 1995 and 1996 have been capitalized as part of the cost of the Met Center site.

The Commission received net non-operating income in 1996 and 1995 consisting principally from a short-term parking agreement with the Mall of America Company, as reflected in the statement of revenue and expenses.

The Commission is currently proceeding with efforts to sell the Met Center property in Bloomington. As part of these efforts the Commission has worked with the Mall of America partnership, as well as the Metropolitan Airports Commission in an effort to sell the property. If current negotiations with the Metropolitan Airports Commission or the Mall of America are unsuccessful, the Commission intends to solicit offers from other qualified purchasers. Upon the eventual disposition of the Met Center property, the proceeds, net of costs of disposal, are pledged under state law and the Indenture of Trust, to the prepayment and purchase of the Sports Facilities Revenue Refunding Bonds.

(5) Investments and Deposits

Investments

Investments of the Commission consisted of the following at December 31, 1996 and 1995:

	1996		1995	
Investment Type	Carrying Amount	Market Value	Carrying Amount	Market Value
Unrestricted investments:				
Commercial Paper	$ 3,030,020	$ 3,030,020	$ 6,289,651	$ 6,289,651
Restricted investments:				
US Government Obligation	$ 4,693,668	$ 4,693,668	$ 4,456,513	$ 4,521,733
Commercial Paper	1,994,980	1,994,980	2,062,365	2,062,365
Total Restricted Investments	$ 6,688,648	$ 6,688,648	$ 6,518,878	$ 6,584,098
Restricted investments with Trustee:				
US Government Obligation	$ 8,000,000	$8 ,028,120	$ 8,000,000	$ 8,214,360
Total All Investments	$17,718,668	$17,746,788	$20,808,529	$21,088,109

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).

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" designate those investments held in certain funds and accounts under the Indenture where the Commission has some discretion as to the amount to be held. Although the Commission presents certain retained earnings as "unreserved," Minn. Stat. Section 473.551 through 473.595 and the Indenture of Trust provide that all revenues and investments of the Commission are pledged for the payment of the Sports Facilities Revenue Refunding Bonds.

Deposits

At December 31, 1996, the Commission's bank balance for cash was $247,787 and the book balance was $81,779. 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. The combined insured amount and collateral fell short of the legal requirement on one day each for 1995 and 1996. The uncollateralized balance was $182,763 for 1995 and $82,400 for 1996.

(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) Tax Receipts Fund, to be held and administered as a trust fund by the Trustee.
(b) Bond Fund, to be held and administered as a trust fund by the Trustee, with the following accounts therein:
  (i) Debt Service Account;
  (ii) Prepayment and Purchase Account; and
  (iii) Debt Service Reserve Account.
(c) Revenue Fund, to be held and administered as a trust fund by the Commission, with the following accounts therein:
  (i) Revenue Receipts Account;
  (ii) Operating Account;
  (iii) Operating Reserve Account;
  (iv) Repair and Replacement Account;
  (v) Capital Improvement Account;
  (vi) Concession Account; and
  (vii) Subordinated Debt Account.
(d) Rebate Fund, to be held and administered by the Trustee.
(e) 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, 1996, 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
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
	$36,080,000	$16,313,372	$52,393,372

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 $1,402,403 for 1996 and $1,391,530 for 1995. The payroll for employees covered by PERA plans for the year ended December 31 was $103,874 for 1996 and $97,700 for 1995. Total Commission payroll was $2,244,212 for 1996 and $1,911,071 for 1995.

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 8.05 percent for 1996 and 9.15 percent for 1995. 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 $70,047 for 1996 and $70,274 for 1995. The total employee contributions were $65,627 for 1996 and $64,803 for 1995. Employee contributions for both retirement plans were 4.36 percent of covered payroll for 1996. Employer contributions for both retirement plans were 4.65 percent of covered payroll for 1996.

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, 1996 and 1995 are as shown below:

	(in thousands)	
	1996	1995
Total pension benefit obligations	$3,612,359	$3,339,193
Net assets available for benefits (cost basis)	3,896,040	3,401,803
Unfunded (assets in excess of) pension benefit obligations	($283,681)	($62,610)

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, 1996. 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, 1996, 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) Minnesota Twins - Pending Legislation

The Minnesota Twins have asserted that, under their current Use Agreement, should the Twins achieve less than 80 percent of the American League average ticket sales for the years 1995, 1996, and 1997 or should the team show a cumulative net operating loss for the same three years, they can give notice and terminate their Use Agreement effective after the 1998 baseball season. During the 1997 Legislative Session, legislators are considering a proposal to build a new Twins stadium. The Commission believes that, based on current information and assuming the remaining debt on the Metrodome is paid (primarily from anticipated Met Center sale proceeds pledged to such payment), there would be sufficient future revenues under existing leases with the Vikings and the Gophers to pay the cost of operations for the stadium. Such revenues will not, however, provide sufficient funds for any significant capital improvements proposed for enhancing the football use of the stadium.

(10) Metrodome Capital Improvement Planning

The Metrodome was constructed from 1979 to 1982 using '70s technology. After 15 years and over 46,900,000 attendees, the Metrodome is in need of significant improvements.

The Commission had previously identified the need for approximately $50 million in capital improvements in order to bring the stadium up to contemporary standards. In order to stay competitive with other entertainment venues, it is imperative that the Commission continue to make improvements to the Metrodome. These improvements, which include such amenities as widening concourses and adding restrooms for all patrons, especially women, will allow the stadium to continue to realize existing revenue streams. In addition, the Minnesota Vikings have proposed a $158 million improvement project designed to improve revenues from the stadium for the Vikings.

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Other Auditor Reports

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STATE OF MINNESOTA
OFFICE OF THE LEGISLATIVE AUDITOR
CENTENNIAL BUILDING, 658 CEDAR STREET • ST. PAUL, MN 55155 • 612/296-4708 • TDD RELAY 612/297-5353
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, 1996, and have issued our report thereon dated March 28, 1997.

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 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.

In planning and performing our audit of the financial statements of the Metropolitan Sports Facilities Commission for the year ended December 31, 1996, 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 matters discussed in Findings 1 and 2 involving the internal control structure and its operation that we consider to be reportable conditions 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 assertions of management in the financial statements.

A material weakness is a condition in which the design or operation of one or more of the internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

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 conditions described above are material weaknesses.

We also noted other matters involving the internal control structure and its operation that we have reported orally to the management of the Metropolitan Sports Facilities Commission at an exit conference held on April 17, 1997.

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 28, 1997

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JAMES R. NOBLES, LEGISLATIVE AUDITOR

Auditor's 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 Metropolitan Sports Facilities Commission, as of and for the year ended December 31, 1996, and have issued our report thereon dated March 28, 1997.

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 of 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.

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
Deputy Legislative Auditor

March 28, 1997

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Current Findings and Recommendations

1. The commission did not adequately review the completeness of its concession revenue.

The commission needs to improve internal controls over concession revenue to ensure that financial activity reported by the concession management company is correct. The commission has a contract with a management company to operate concessions at the Metrodome. The management company is responsible for handling receipts and paying operating costs. The commission receives 95 percent of the net operating profits from the management company. The commission also receives five percent of gross concession receipts for its concession reserve account. Total concession revenue for fiscal year 1996 was $12,352,003, with concession operating costs of $6,924,948. The commission distributed $2,856,053 of the net profits to its Metrodome tenants according to their use agreements. The commission's share of concession profits for fiscal year 1996 totaled $2,571,002.

The commission has not actively verified the amount of concession receipts reported to them by the concession management company. The management company provides the commission with financial reports and other supporting documentation. From those reports, the commission analyzes per capita spending trends for reasonableness. The commission stated that it also relies on internal reviews performed by the management company. The management company completed its last internal review of controls over concessions at the Metrodome in 1992. The commission just recently received a copy of that report.

According to the commission's contract with the concessionaire, the commission has the "right to review and to audit all financial records...relating to the concessionaire's management and operation of the concessions." However, the commission has not exercised this right. The commission should implement a periodic process to ensure the completeness of its concession revenue. This process could include a review of internal audit work done by the concession management company or its auditors or an independent review of the management company's procedures and records.

Recommendation

- *The commission should implement a process to ensure that concession financial activity reported is accurate.*

2. The commission did not enforce certain contract provisions of an amateur sports consultant contract.

A consultant hired to assist the commission with procuring amateur sporting events did not remit payments to the commission in accordance with the related contract. In addition, the consultant contract and its subsequent changes were not approved by the commission.

Metropolitan Sports Facilities Commission

The commission had an agreement with an independent consultant to "secure, coordinate, supervise, and otherwise manage all aspects associated with amateur baseball/softball/football events" that took place in the Metrodome. In fiscal year 1996, the commission paid the consultant $26,600 for these services. The agreement also stated that the consultant would be available to "provide supervisory and management services" for Metrodome events separate from the amateur events. The consultant provided services for some of the larger events held at the Metrodome, such as Billy Graham and the Promise Keepers. The commission paid $10,988 for these services in 1996.

The consultant did not remit the stadium rents to the commission promptly. According to the contract, the consultant negotiates use agreements with various amateur sports organizations and collects the related stadium rents. The consultant collected a total of $96,710 in stadium rents during 1996. The consultant contract required that the contractor remit payments of stadium rent quarterly. However, the consultant did not remit any of these 1996 payments to the commission until December 1996. As a result, the consultant was able to use those funds for the entire year. The commission should require these rent payments to be submitted promptly. The commission should consider having the consultant deposit receipts directly into a commission bank account or have payments remitted directly to the commission.

In addition, the commission did not approve the amateur sports consultant contract. According to commission procurement policies, the commission must approve all contracts exceeding $25,000. Commission staff stated that they did not take formal action because they did not think the payments for these services would exceed $25,000. We also found that the compensation rates shown in the original contract had been changed. The consultant initialed the change. The employee that had signed the original contract told us that he was aware of the change to the compensation rate and should have signed the change. However, we found no documentation that the commission had approved these changes.

Recommendations

- *The commission should review the amateur sports consulting contract.*
- *The commission should formally approve any changes made to a contract.*
- *The commission should change the payment plan to require that it obtains all remittances for amateur sports immediately.*

METRODOME

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April 18, 1997

Mr. James R. Nobles
Legislative Auditor
John Asmussen CPA
Deputy Legislative Auditor
First Floor, Centennial Building
658 Cedar Street
St. Paul, MN 55155

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 ended December 31, 1996. The Commission is pleased that you have issued an unqualified opinion on the Metropolitan Sports Facilities Commission's financial statements for the year in question and that your audit disclosed no instances of non-compliance with laws, regulations, contracts or grants applicable to the Commission.

In the section labeled "Current Findings and Recommendations," you discussed two matters involving the Commission's internal control structure.

1. Volume Services has been the Commission's concessionaire since opening in 1982. In your remarks you noted that the Commission relies on internal reviews performed by the concessionaire's management company. There are internal controls in place and they have functioned appropriately. You correctly noted that the Commission only recently received a copy of the management company's internal control review done in 1992. The Commission has, however, since received an updated management company review completed in April, 1997. The Commission has already initiated an independent review of the management company's procedures and records. It should be noted that the Commission relies on the significant revenues produced through its concessions operation. Total concession revenue for fiscal year 1996 was $12,571,002. The Commission has long been satisfied with the performance and internal controls of Volume Services as a concessionaire. In February, 1996 the Commission elected to extend a ten-year contract with Volume Services by one year. Thus, while satisfied with the performance of the concessionaire and internal controls in place, we will implement a process to insure the concession financial activity reported is accurate and appropriate.

2. The Commission did not enforce certain contract provisions of an amateur sports consultant contract. The Commission has had a contract with the

HUBERT H. HUMPHREY
METRODOME

METROPOLITAN SPORTS
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same consultant since 1985. With the marked increase of amateur baseball, softball and football events, the fees paid during 1996 exceeded $25,000. With increased activity in all amateur events to ensure maximum usage of the Metrodome, the coordination of those events will likely continue to exceed $25,000. Consistent with the Commission's policy, the staff will request proposals for these services and submit a recommendation to the Commission for approval. Finally, you recommend the Commission change the payment plan to require that it obtains all remittances for amateur sports immediately. The Commission concurs with your recommendation and this will be implemented immediately.

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 continued financial stability.

Further, the Commission must continue to pursue all other events, both athletic and non-athletic, 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. A further requirement, albeit self imposed, is expanded opportunities for non-professional sports users of the facility. 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 audit was conducted. We seek to perform at only the highest levels and your input, this year as in other years, has been extremely valuable.

Sincerely,

William J. Lester
Executive Director