

Metropolitan Sports Facilities Commission*

Financial Audit

For the Year Ended December 31, 1997

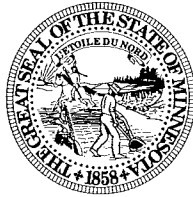
* The Metropolitan Sports Facilities Commission is a component unit of the Metropolitan Council.

April 1998

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**Financial Audit Division
Office of the Legislative Auditor
State of Minnesota**

98-26



STATE OF MINNESOTA
OFFICE OF THE LEGISLATIVE AUDITOR
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, 1997. 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 27, 1998, 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 auditing standards and the standards applicable to financial audits contained in *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 the *Report on Compliance and on Internal Control over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards*.

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 24, 1998.

A handwritten signature in cursive script, reading "James R. Nobles".

James R. Nobles
Legislative Auditor

A handwritten signature in cursive script, reading "Claudia J. Gudvangen".

Claudia J. Gudvangen, CPA
Deputy Legislative Auditor

End of Fieldwork: March 27, 1998

Report Signed On: April 20, 1998

SUMMARY

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Metropolitan Sports Facilities Commission

Financial Audit For the Year Ended December 31, 1997

Public Release Date: April 24, 1998

No. 98-26

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 \$87 million as of December 31, 1997. Nearly \$64 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 financial statements show that the commission had equity of \$52 million as of December 31, 1997: \$17 million in contributed capital, \$13.2 million of reserved retained earnings, and \$21.8 million of unreserved retained earnings.

The commission owed total liabilities of about \$36 million at December 31, 1997, with about \$34.6 million representing principal and accrued interest on its long-term debt. As indicated in the notes to the financial statements, the commission defeased the entire long-term debt amount in March 1998.

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, 1997. 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, 1997. In the area of internal controls, we found that the commission did not have signed contracts with some of its service providers. We found no instances of noncompliance with finance-related legal provisions.

In its response to the audit report, the commission indicated that it agrees with the finding and is working to resolve the issues.

Metropolitan Sports Facilities Commission

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Audit Participation

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

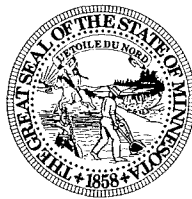
Claudia Gudvangen, CPA	Deputy Legislative Auditor
Jeanine Leifeld, CPA, CISA	Audit Manager
Joan Haskin, CPA, CISA	Auditor-in-Charge
Susan Kachelmeyer, CPA	Auditor
Brad Falteysek	Auditor

Exit Conference

This report was discussed with the following staff of the Metropolitan Sports Facilities Commission at the exit conference held on April 16, 1998:

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

Financial Section



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

Independent Auditor's Report

Mr. Henry Savelkoul, Chair
Metropolitan Sports Facilities Commission

Members of the Metropolitan Sports Facilities Commission

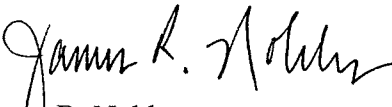
Mr. William Lester, Executive Director
Metropolitan Sports Facilities Commission

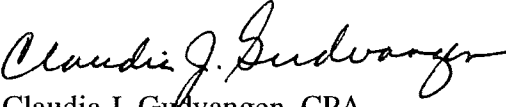
We have audited the accompanying balance sheets of the Metropolitan Sports Facilities Commission, a component unit of the Metropolitan Council, as of and for the years ended December 31, 1997 and 1996, and the related statements of income, retained earnings, and cash flows for the years then ended. These 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 audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *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, 1997 and 1996, 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 our report dated March 27, 1998, on our consideration of the Metropolitan Sports Facilities Commission's internal control over financial reporting and our tests of its compliance with certain provisions of laws and regulations.


James R. Nobles
Legislative Auditor


Claudia J. Gudvangen, CPA
Deputy Legislative Auditor

March 27, 1998

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Minnesota Sports Facilities Commission

Balance Sheets December 31, 1997 and 1996

ASSETS	<u>1997</u>	<u>1996</u>
Unrestricted current assets: (note 4)		
Cash and cash equivalents	\$ 4,524,037	\$ 1,664,688
Investments	0	3,030,020
Accounts receivable	3,361,524	2,814,089
Accrued interest receivable	39,051	61,354
Prepaid insurance expense	<u>40,539</u>	<u>39,578</u>
Total unrestricted assets	<u>\$ 7,965,151</u>	<u>\$ 7,609,729</u>
Restricted current assets: (note 4)		
Cash and cash equivalents	\$ 1,367,837	\$ 0
Cash and cash equivalents with trustee	1,050,913	1,142,307
Investments	5,118,323	6,688,649
Investments with trustee	8,032,485	8,000,000
Prepaid roof fabric expense	22,725	22,725
Accounts receivable	68,000	0
Accounts receivable with trustee	135,832	255,746
Accrued interest with trustee	<u>146,113</u>	<u>193,707</u>
Total restricted assets	<u>\$ 15,942,228</u>	<u>\$ 16,303,134</u>
Fixed assets: (note 2)		
Metrodome stadium site	\$ 8,700,000	\$ 8,700,000
Metrodome stadium building and equipment	106,619,384	104,367,224
Less accumulated depreciation	<u>(54,821,549)</u>	<u>(49,532,236)</u>
Metrodome fixed assets, net	<u>\$ 60,497,835</u>	<u>\$ 63,534,988</u>
Met Center site	\$ 2,357,830	\$ 2,357,830
Site preparation costs	<u>1,114,111</u>	<u>1,033,029</u>
Met Center fixed assets, net	<u>\$ 3,471,941</u>	<u>\$ 3,390,859</u>
Total fixed assets, net	<u>\$ 63,969,776</u>	<u>\$ 66,925,847</u>
TOTAL ASSETS	<u>\$ 87,877,155</u>	<u>\$ 90,838,710</u>

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

Minnesota Sports Facilities Commission

Balance Sheets December 31, 1997 and 1996

LIABILITIES and EQUITY	<u>1997</u>	<u>1996</u>
Unrestricted current liabilities:		
Accounts payable	\$ 895,050	\$ 1,020,082
Accrued expenses	<u>197,568</u>	<u>194,672</u>
Total unrestricted current liabilities	<u>\$ 1,092,618</u>	<u>\$ 1,214,754</u>
Restricted current liabilities:		
Current portion long term debt	\$ 2,085,000	\$ 1,990,000
Accounts payable	215,004	442,185
Accrued interest expense	<u>486,036</u>	<u>510,165</u>
Total restricted current liabilities	<u>\$ 2,786,040</u>	<u>\$ 2,942,350</u>
Long term debt, less current portion (note 10)	<u>\$32,005,000</u>	<u>\$34,090,000</u>
Total liabilities	<u>\$35,883,658</u>	<u>\$38,247,104</u>
Equity:		
Contributed capital (note 2)	<u>\$17,069,238</u>	<u>\$17,069,238</u>
Retained earnings: (note 2)		
Reserved	\$13,156,189	\$13,360,784
Unreserved	<u>21,768,070</u>	<u>22,161,584</u>
Total retained earnings	<u>\$34,924,259</u>	<u>\$35,522,368</u>
Total equity	<u>\$51,993,497</u>	<u>\$52,591,606</u>
TOTAL LIABILITIES and EQUITY	<u>\$87,877,155</u>	<u>\$90,838,710</u>

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

Minnesota Sports Facilities Commission

Statements of Revenue, Expenses, and Changes in Retained Earnings Years Ended December 31, 1997 and 1996

	<u>1997</u>	<u>1996</u>
Revenue:		
Concession revenue (note 3)	\$12,357,783	\$12,352,003
Admission tax	4,317,754	3,788,463
Stadium rents	3,483,204	3,074,074
Advertising fees	1,834,458	1,748,435
Plaza concession receipts	274,848	336,299
Parking fees	145,933	193,245
Other	<u>989,654</u>	<u>809,684</u>
Total revenue	<u>\$23,403,634</u>	<u>\$22,302,203</u>
Expenses:		
Concession operating costs (note 3)	\$ 6,960,636	\$ 6,924,948
Personal services	2,854,262	2,712,887
Tenants share of concession receipts (note 3)	2,743,995	2,856,053
Contractual services	2,238,933	2,632,814
Utilities	1,987,931	1,879,138
Supplies, repairs, and maintenance	425,602	436,361
Audio-visual maintenance costs	354,093	377,166
Insurance	236,930	276,632
Plaza concession operating cost	197,288	236,762
Technical consultants	184,860	283,870
Professional services	181,143	227,545
Tenants share of plaza concession receipts	102,064	111,763
Communication	70,351	66,490
Travel and meeting	39,662	61,081
Miscellaneous	1,682,313	1,272,556
Less - expenses reimbursed by tenants	<u>(1,944,453)</u>	<u>(1,975,611)</u>
Total expenses before depreciation and amortization	<u>\$18,315,610</u>	<u>\$18,380,455</u>
Operating income before depreciation and amortization and disposal of fixed assets	\$ 5,088,024	\$ 3,921,748
Depreciation and amortization	(5,289,313)	(5,130,314)
Gain (loss) on disposal of fixed assets	<u>0</u>	<u>(1,277)</u>
Operating (loss) income	<u>(\$201,289)</u>	<u>(\$1,209,843)</u>

Minnesota Sports Facilities Commission

Statements of Revenue, Expenses, and Changes in Retained Earnings Years Ended December 31, 1997 and 1996

	<u>1997</u>	<u>1996</u>
Non-operating income:		
Net Met Center revenues (note 9)	\$ 474,438	\$ 243,497
Interest earned	661,877	740,418
Interest earned with trustee	554,585	565,531
Investments revalued or sold	16,277	24,470
Investments revalued or sold with trustee	83,125	83,125
Investment lawsuit settlement	<u>0</u>	<u>36,777</u>
Total non-operating income	<u>\$1,790,302</u>	<u>\$ 1,693,818</u>
Non-operating expense:		
Interest expense domed stadium revenue bonds	\$2,016,529	\$ 2,104,951
Investments revalued or sold	47,963	69,065
Investments revalued or sold with trustee	83,125	83,125
Arbitrage rebate costs	<u>39,505</u>	<u>30,100</u>
Total non-operating expense	<u>\$2,187,122</u>	<u>\$ 2,287,241</u>
Net income (loss)	(\$ 598,109)	(\$ 1,803,266)
Retained earnings, January 1	<u>35,522,368</u>	<u>37,325,634</u>
Retained earnings, December 31	<u>\$34,924,259</u>	<u>\$35,522,368</u>

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

Minnesota Sports Facilities Commission

Statements of Cash Flows Years Ended December 31, 1997 and 1996

	<u>1997</u>	<u>1996</u>
Cash flows from operating activities:		
Operating (loss) income	(\$201,289)	(\$1,209,843)
Adjustments to reconcile operating income to net cash flows provided by operating activities:		
Depreciation and amortization	5,289,313	5,130,314
Loss (gain) on disposal of fixed assets	0	1,277
Changes in unrestricted assets and liabilities:		
Decrease (increase) in accounts receivable	(614,214)	(453,434)
Decrease (increase) in prepaid expenses	(961)	13,355
(Decrease) increase in accounts payable	(193,239)	286,220
(Decrease) increase in wages payable	<u>2,897</u>	<u>27,252</u>
Net cash provided by operating activities	<u>\$ 4,483,796</u>	<u>\$ 5,004,984</u>
Cash flows from investing activities:		
Gross purchases	(\$23,477,814)	(\$33,595,872)
Gross sales	27,936,497	36,820,249
Interest received	684,180	847,365
Interest received-trustee	602,179	544,094
Gross purchases with trustee	(12,598,678)	(4,278,848)
Gross sales with trustee	<u>12,566,194</u>	<u>4,278,848</u>
Net cash used for investing activities	<u>\$ 5,712,558</u>	<u>\$ 4,615,836</u>
Cash flows from capital and related financing activities:		
Principal paid on bonds	(\$1,990,000)	(\$1,905,000)
Interest paid on bonds	(2,040,658)	(2,126,383)
Acquisition of capital assets	(2,315,702)	(3,695,524)
Proceeds from sale of capital assets	0	0
Receipts from Met Center operations	<u>487,087</u>	<u>343,996</u>
Net cash used for capital and related financing activities	<u>(\$ 5,859,273)</u>	<u>(\$ 7,382,911)</u>
Net (decrease) increase in cash and cash equivalents	\$ 4,135,792	\$ 1,028,066
Cash and cash equivalents at beginning of year	<u>2,806,995</u>	<u>1,778,929</u>
Cash and cash equivalents at end of year	<u>\$ 6,942,787</u>	<u>\$ 2,806,995</u>

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

Minnesota Sports Facilities Commission

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Minnesota Sports Facilities Commission

Notes to Financial Statements December 31, 1997 and 1996

(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, prior to January 1998, also owned the site of the former Metropolitan Sports Center (Met Center) (note 9).

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 has provided the Commission with other services such as review of the liquor tax/hotel-motel tax and legal counsel regarding the bond indenture.

On August 27, 1992, the Council on behalf of the Commission issued Sports Facilities Revenue Refunding Bonds pursuant to an Indenture of Trust (Indenture) dated as of August 1, 1992, between the Council, the Commission and Norwest Bank Minnesota, National Association, as trustee (Trustee). All of the then-outstanding Sports Facilities Revenue Refunding Bonds were defeased in March, 1998, and the Indenture (and the lien thereof with respect to the special funds and accounts established therein) was discharged by such defeasance (note 10). (See notes 2, 4, 5, 9)

Component Unit

The Commission is a component unit of the Council.

Minnesota Sports Facilities Commission

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 Governmental 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.

Minnesota Sports Facilities Commission

Investments

Commission investments consist principally of debt securities. Investments are valued at the lower of cost or market, except that investments held by the Trustee were valued at lower of market or par under the Indenture.

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 short duration investment custodian, Norwest Bank Minnesota and cash equivalent investment advisor, SIT Investment Fixed Income Advisors, Inc.). 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

Pursuant to Minn. Stat. Section 473.595, the Commission imposes a ten 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 entered into a hotel-motel and liquor tax agreement (Minneapolis Tax Agreement) with the city of Minneapolis, under which the city would provide its hotel-motel tax and liquor tax as a back-up for debt service on bonds and expenses of operation, administration, and maintenance of the Metrodome. The Minneapolis Tax Agreement was terminated in connection with the defeasance of the Sports Facilities Revenue Refunding Bonds (note 10).

Minnesota Sports Facilities Commission

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 maintained certain accounts in accordance with the Indenture (note 5). So long as the Indenture remained in effect (i.e., prior to the defeasance of the Sports Facilities Revenue Refunding Bonds in March 1998) (note 10) retained earnings were 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 prescribed the amount, or imposed 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 had some discretion as to the amount to be held, and net fixed assets not specifically held in funds or accounts under the Indenture. The components of retained earnings, which include the accounts maintained in accordance with the Indenture, are as follows:

<u>Retained Earnings</u>	<u>1997</u>	<u>1996</u>
Reserved:		
Debt service account and reserve	\$ 6,658,475	\$ 6,835,849
Repair and replacement account	1,826,051	1,183,517
Concession reserve account	206,878	858,305
Operating reserve account	<u>4,464,785</u>	<u>4,483,113</u>
Total reserved retained earnings	<u>\$13,156,189</u>	<u>\$13,360,784</u>
Unreserved:		
Operating account	\$ 2,493,175	\$ 1,902,292
Capital improvement account	4,379,358	4,492,682
Fixed assets, net of long-term debt	<u>14,895,537</u>	<u>15,766,610</u>
Total unreserved retained earnings	<u>\$21,768,070</u>	<u>\$22,161,584</u>
Total retained earnings	<u><u>\$34,924,259</u></u>	<u><u>\$35,522,368</u></u>

Minnesota Sports Facilities Commission

(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 an agreement with a management company to manage the concessions, which was effective until January 31, 1997, and has since been extended until January 31, 1999. 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 1997 and 1996.

Summary of Concession Operations Years Ended December 31, 1997 and 1996

	<u>1997</u>	<u>1996</u>
Gross Concession Revenue	<u>\$12,357,783</u>	<u>\$12,352,003</u>
Concession Operating Costs:		
Cost of goods and concessionaire's operating expenses	\$ 6,354,211	\$ 6,254,660
Concessionaire management fee	269,284	273,987
Repair and maintenance of concession equipment	<u>337,141</u>	<u>396,301</u>
Total concession operating costs	<u>\$ 6,960,636</u>	<u>\$ 6,924,948</u>
Net Operating Income	<u>\$ 5,397,147</u>	<u>\$ 5,427,055</u>
Distribution of Net Operating Income:		
Payments to tenants:		
Minnesota Twins	\$ 2,111,344	\$ 2,307,142
Minnesota Vikings	332,274	303,823
University of Minnesota	284,228	245,088
Others	<u>16,149</u>	<u>0</u>
Tenants share of concession net operating profits	<u>\$ 2,743,995</u>	<u>\$ 2,856,053</u>
Commission share	<u>2,653,152</u>	<u>2,571,002</u>
Total Distribution - Net Operating Profit	<u>\$ 5,397,147</u>	<u>\$ 5,427,055</u>

Minnesota Sports Facilities Commission

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 \$5 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) *Investments and Deposits*

Investments

Investments of the Commission consisted of the following at December 31, 1997 and 1996:

<u>Investment Type</u>	<u>1997</u>		<u>1996</u>	
	<u>Carrying Amount</u>	<u>Market Value</u>	<u>Carrying Amount</u>	<u>Market Value</u>
Unrestricted investments:				
Commercial Paper	\$0	\$0	\$ 3,030,020	\$ 3,030,020
Restricted investments:				
US Government Obligation	\$ 5,118,323	\$ 5,118,323	\$ 4,693,668	\$ 4,693,668
Commercial Paper	<u>0</u>	<u>0</u>	<u>1,994,980</u>	<u>1,994,980</u>
Total Restricted Investments	\$ 5,118,323	\$ 5,118,323	\$ 6,688,648	\$ 6,688,648
Restricted investments with Trustee:				
US Government Obligation	\$ 8,032,485	\$ 8,032,485	\$ 8,000,000	\$ 8,028,120
Total All Investments	<u>\$13,150,808</u>	<u>\$13,150,808</u>	<u>\$17,718,668</u>	<u>\$17,746,788</u>

So long as the Indenture remained in effect (note 10), investments classified as "restricted" were those investments held in certain funds and accounts under the Indenture where the Indenture prescribed the amount, or imposed a formula for determining the amount, required to be held in such fund or account. Investments classified as "unrestricted" designated those investments held in certain funds and accounts under the Indenture where the Commission had some discretion as to the amount to be held.

Deposits

At December 31, 1997, the Commission's bank balance for cash was \$375,110 and the book balance was \$147,017. 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 ten percent more than the amount of 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 in 1996. The uncollateralized balance was \$82,400 for 1996. All 1997 balances were collateralized.

Minnesota Sports Facilities Commission

(5) *Special Funds Under the Indenture*

The following special funds and accounts therein were 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.

The Indenture and the lien thereof with respect to these special funds and accounts were discharged by the defeasance of the Sports Facilities Revenue Refunding Bonds in March, 1998 (note 10).

(6) *Pension Plan*

The following pension disclosures are made to comply with GASB Statement 27, Accounting for Pensions by State and Local Government Employers.

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. MSRS provides retirement benefits, as well as disability benefits to members, and benefits to survivors upon death of eligible members. Minnesota Statutes, Chapter 352 establishes MSRS. MSRS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the MSRS plan administrator at Minnesota State Retirement System, 175 West Lafayette Frontage Road, Suite 300, St. Paul, Minnesota 55107.

Minnesota Sports Facilities Commission

Funding policy

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 8.27 percent for 1997 and 8.05 percent for 1996. During 1997, the rates were 4.07 percent for employees and 4.20 percent for the Commission. The Commission's contributions to MSRS for the years ending December 31, 1997, 1996, and 1995, were \$90,473, \$70,047, and \$70,274, respectively.

(7) *Minnesota Twins*

The Minnesota Twins have served notice upon the Commission that in their view and based upon their view of the facts, the Use Agreement binding the Minnesota Twins to continue to play all home games at the Metrodome through 2011 is terminated under certain provisions of the Use Agreement, effective as of the end of the 1998 baseball season. The Commission has expressed to the Minnesota Twins its view that the invocation of the termination provisions of the Use Agreement are not justified and are invalid. The Commission initiated alternative dispute resolution under the Use Agreement and such proceedings were commenced and concluded before retired Hennepin County District Judge Robert Bowen in March 1998. Judge Bowen found that "sufficient basis" existed to permit the Twins to invoke the escape clause. The finding is not binding on the parties. On April 1, 1998, the Commission filed suit against the Minnesota Twins in Hennepin County District Court. The Commission contends that the Twins do not meet the terms and conditions required to end the Use Agreement. If the court rules in favor of the Minnesota Twins, the Commission would suffer the loss of revenues from the Minnesota Twins in years subsequent to the 1998 baseball season. The substantial decline in Twins' attendance since the 1994 season has materially reduced the Twins contributions to net revenues of the Metrodome. It is difficult to assess, without substantial conjecture, the additional financial implications, if any, of the Twins potential departure as compared to a continuation of Twins play at existing, substantially reduced attendance levels.

During the 1997 Legislative Session, during the 1997 Special Legislative Session called by the Governor solely to address the Twins' demand for a new stadium, and during the 1998 Legislative Session, legislators rejected a number of proposals to build a new Twins stadium.

(8) *Metrodome Capital Improvement Planning*

The Metrodome was constructed from 1979 to 1982 using '70s technology. After 15 years and over 49,600,000 attendees, the Metrodome remains in good condition and usable in accordance with its original design. However, the Commission believes that significant improvements would enhance the Metrodome.

Minnesota Sports Facilities Commission

The Commission has identified certain recommended capital improvements for that purpose. Particularly in view of the availability of new venues, such as the RiverCentre arena for the Wild NHL hockey team, it is imperative for the Commission to continue to make improvements to the Metrodome to increase its competitive position for new and additional events. These improvements include such amenities as widening concourses and adding restrooms for all patrons, especially women. Further analysis is required to determine additional, specific improvements and a method for financing those improvements.

(9) *Subsequent Event - Met Center Property*

The Met Center was used principally as a hockey venue for the Minnesota North Stars NHL hockey team through April 1993. Upon the departure of the Minnesota North Stars, 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.

The Commission received net non-operating income in 1997 and 1996 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's efforts to sell the Met Center property culminated in January 1998, with the closing of the sale of the Met Center property to the Metropolitan Airports Commission for \$25,672,000. As required by the Stadium Act and the Indenture, the net sale proceeds were deposited into the Prepayment and Purchase Account under the Indenture and were applied (together with other Commission funds) to the defeasance of the Sports Facilities Revenue Refunding Bonds in March 1998 (note 10).

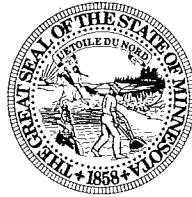
(10) *Subsequent Event - Long-Term Debt*

As of December 31, 1997, Sports Facilities Revenue Refunding Bonds issued by the Council on behalf of the Commission were outstanding in the principal amount of \$34,090,000. In March, 1998, the Council and the Commission entered into an Escrow Agreement with the Trustee pursuant to which all outstanding Sports Facilities Revenue Refunding Bonds were defeased to maturity (October of 2009) in accordance with the provisions of the Indenture relating to such defeasance. Under the Escrow Agreement, the Council and the Commission irrevocably deposited with the Trustee \$35,372,063 (comprised of all funds in the Prepayment and Purchase Account, Debt Service Reserve Account, and Debt Service Account, together with additional funds from the Capital Improvement Account, under the Indenture) with which the Trustee purchased and deposited in the Escrow Fund under the Escrow Agreement United States Treasury obligations in principal amounts, at interest rates and yields, and with maturities such that (together with uninvested cash in the Escrow Fund) amounts in the Escrow Fund from time to time will be sufficient to pay all principal of, redemption premium, if any, and interest on the Sports Facilities Revenue Refunding Bonds to their respective maturities (or scheduled mandatory sinking fund redemption dates).

Minnesota Sports Facilities Commission

Accordingly, as a result of the defeasance, all holders of any Sports Facilities Revenue Refunding Bonds are entitled to payment of principal of, redemption premium, if any, and interest on the Sports Facilities Revenue Refunding Bonds only from the Escrow Fund under the Escrow Agreement and amounts held therein by the Trustee, the Indenture, and the lien thereof with respect to all funds and accounts established under the Indenture has been discharged, and the Minneapolis Tax Agreement has been terminated. The Commission has established a system of funds and accounts, similar to that previously existing in the Revenue Fund under the Indenture, for the appropriate deposit, budgeting, accounting, and expenditure functions of the Commission.

Other Audit Reports



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

Report on Compliance and Internal Control over Financial Reporting
Based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards*

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 years ended December 31, 1997 and 1996, and have issued our report thereon dated March 27, 1998. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Metropolitan Sports Facilities Commission's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, and noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Metropolitan Sports Facilities Commission's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Metropolitan Sports Facilities

Mr. Henry Savelkoul, Chair
Members of the Metropolitan Sports Facilities Commission
Mr. William Lester, Executive Director
Page 2

Commission's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. We describe a reportable condition in the accompanying section entitled *Current Finding and Recommendations*.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements 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 over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition described above is not a material weakness.

We also noted other matters involving the internal control over financial reporting that we have reported orally to the management of the Metropolitan Sports Facilities Commission at an exit conference held on April 16, 1998.

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



Claudia J. Gudvangen, CPA
Deputy Legislative Auditor

March 27, 1998

Current Finding and Recommendations

1. The Commission did not have signed contracts with some of its service providers.

In two cases, the Commission did not have signed contracts with professional service providers. In addition, the Commission did not have a signed contract with one of its advertisers.

The Commission did not have a signed contract with its investment advisors during fiscal year 1997. The prior agreement with the advisors expired December 31, 1996. In July 1997, the Commission approved a resolution for a new contract with the advisors, establishing them as the depository for the cash equivalent investment account and retaining them as advisors on the short duration investment account. However, as of March 19, 1998, the Commission chair and the investment firm had not yet signed the new contract. The investment advisor was responsible for investing Commission funds totaling \$5.5 million at December 31, 1997. Not having a signed contract increases the monetary and legal risk for the Commission. The Commission may not have adequate recourse if the advisors do not invest the funds properly.

The Commission also did not have a written contract with its amateur sports consultant during 1997. In addition, the Commission did not formally approve the arrangement with the consultant, even though its policies require the Commission members to approve any professional service contracts exceeding \$25,000. The Commission's previous contract with the consultant to "secure, coordinate, supervise and otherwise manage all aspects associated with amateur baseball/softball/football events" in the Metrodome expired on December 31, 1996. During fiscal year 1997, the Commission continued to use the consultant's services. The Commission paid the consultant \$40,579 in management fees during fiscal year 1997.

Finally, the Commission did not have a written contract for certain advertising fees. Commission staff arranged for a pizza vendor to advertise on the JumboTrons during Twins' baseball games and Vikings' football games for a \$50,000 annual advertising fee. However, the Commission did not complete a written contract with the vendor. The vendor paid \$25,000 during 1997 and then notified the Commission that it would like to discontinue the advertising agreement at the end of December 1997. As of March 24, 1998, the vendor had not paid an additional \$25,000 due the Commission. Not having a written contract creates the risk that the Commission may not be able to enforce provisions of the verbal agreement and receive advertising fees due.

Recommendations

- *The Commission should approve and complete written contracts for all professional services exceeding \$25,000.*
- *The Commission should complete written contracts for all advertising arrangements.*

Minnesota Sports Facilities Commission

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Status of Prior Audit Issues As of March 27, 1998

Most Recent Audit

April 25, 1997, Legislative Audit Report 97-22 was an audit of the Commission's financial statements for the year ended December 31, 1996. We issued an unqualified opinion on those financial statements. 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.

The first finding noted that the Commission needed to improve internal controls over concession revenue to ensure that financial activity reported by the concession management company was correct. The Commission took several steps to review the internal controls over the management of concession operations. First, the Commission requested and reviewed an internal control review done by the concession management's internal auditors in April 1997. Second, the Commission received the concession management's response and corrective actions taken in reaction to the internal control review findings. Third, the Commission has requested and will review other documents relating to concession management's financial operations. On the basis of these actions, we feel that the Commission has implemented an adequate process to ensure that reported concession financial activity is accurate.

The second finding stated that the amateur sports consultant did not remit payments to the Commission in accordance with the related contract. In addition, the Commission did not approve the consultant contract and its subsequent changes. The timeliness of the contractor's payments to the Commission improved significantly in fiscal year 1997. The Commission received payments on a quarterly schedule, with only one payment significantly late (30 days). However, we found that again this year, the Commission failed to approve the managerial fees paid to the consultant. We also found that the contract with the consultant expired on December 31, 1996. We have included this issue in Finding 1 in the current audit report.

State of Minnesota Audit Follow-Up Process

The Department of Finance, on behalf of the Governor, maintains a quarterly process for following up on issues cited in financial audit reports issued by the Legislative Auditor. The process consists of an exchange of written correspondence that documents the status of audit findings. The follow-up process continues until Finance is satisfied that the issues have been resolved. It covers entities headed by gubernatorial appointees, including most state agencies, boards, commissions, and Minnesota state colleges and universities. It is not applied to audits of the University of Minnesota and quasi-state organizations, such as the metropolitan agencies or the State Agricultural Society, the state constitutional officers, or the judicial branch.

Minnesota Sports Facilities Commission

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April 17, 1998

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Mr. James R. Nobles
Legislative Auditor

Ms. Claudia J. Gudvangen, CPA
Deputy Legislative Auditor
First Floor, Centennial Building
658 Cedar Street
St. Paul, MN 55155

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, 1997. 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, or grants applicable to the Commission.

In the section labeled "Current Findings and Recommendations," you discussed two instances where the Commission did not have signed contracts with professional service providers. In addition, the Commission did not have a signed contract with one of its advertisers.

Investment Advisor.

Please be advised that the Commission approved a resolution to amend its contract with the investment advisor effective August 1, 1997. The written terms of the amendment were approved by the parties in August 1997 and the parties have performed in accordance with those terms since then. These facts are sufficient, according to counsel, to constitute the formation of a contract. However, through an oversight, the written amendment was not actually executed until April 10, 1998, although it reconfirmed the effective date of August 1, 1997.

Amateur Sports Consultant.

The Commission did not enforce certain contract provisions of our amateur sports consultant contract, as recommended in your 1996 Audit of Current Findings; however, please be advised the Commission concurs with your recommendation and staff has requested proposals for those services and has submitted a recommendation to the Commission and the Commission has approved the recommendation at its April 15, 1998 meeting.

Advertising Fees.

The Commission has been unable to obtain a signed agreement with a pizza advertiser in the Metrodome. This contract period is from April 1, 1997 to

HUBERT H. HUMPHREY
METRODOME

METROPOLITAN SPORTS
FACILITIES COMMISSION

AFFIRMATIVE ACTION/
EQUAL OPPORTUNITY EMPLOYER

March 31, 1998, with four installments of \$12,500 due quarterly. Please be advised that the Commission has received \$37,500 as of April 15, 1998. The Commission will collect the remainder of the advertising contract and attempt to execute a signed contract.

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 and community 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,

A handwritten signature in black ink, appearing to read "William J. Lester". The signature is fluid and cursive, with the first name "William" and last name "Lester" clearly distinguishable.

William J. Lester
Executive Director

WJL:nm