
Metropolitan Sports Facilities Commission

Financial Audit

For the Year Ended December 31, 1998

April 1999

Financial Audit Division
Office of the Legislative Auditor
State of Minnesota

99-24

SUMMARY

State of Minnesota
Office of the Legislative Auditor
1st Floor Centennial Building
658 Cedar Street • St. Paul, MN 55155
(651)296-1727 • FAX (651)296-4712
TDD Relay: 1-800-627-3529
email: auditor@state.mn.us
URL: <http://www.auditor.leg.state.mn.us>

Metropolitan Sports Facilities Commission

Financial Audit For the Year Ended December 31, 1998

Public Release Date: April 30, 1999

No. 99-24

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 \$74 million as of December 31, 1998. Nearly \$56 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 have over \$74 million: \$17 million in contributed capital, and \$57 million of unreserved retained earnings. The commission owed total liabilities of about \$695,000 at December 31, 1998. The Commission sold the Met Center property in January 1999 and used the proceeds to defease its outstanding Sports Facilities Revenue Refunding Bonds.

Audit Objectives and Conclusions

As required by Minn. Stat. Section 473.595, Subd. 5, we conducted an audit of the commission's financial statements for the year ended December 31, 1998. 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 audit, we concluded that the commission's financial statements were fairly presented. We issued an unqualified opinion on the statements for the year ended December 31, 1998. We noted no matters involving the internal control over financial reporting that we consider to be reportable conditions. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards* issued by the Comptroller General of the United States.



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

Representative Dan McElroy, 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, 1998. 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 19, 1999, is included in the financial section of this report.

We conducted our audit in accordance with generally accepted 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 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 30, 1999.

/s/ James R. Nobles

James R. Nobles
Legislative Auditor

/s/ Claudia J. Gudvangen

Claudia J. Gudvangen, CPA
Deputy Legislative Auditor

End of Fieldwork: March 19, 1999

Report Signed On: April 26, 1999

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
Terry Hanson	Auditor
Mike Willis	Auditor

Exit Conference

This report was discussed with the following staff of the Metropolitan Sports Facilities Commission at the exit conference held on April 26, 1999:

William Lester	Executive Director
Roger Simonson	Finance Director
Terri Portinen	Assistant to Finance Director
Linda Brennan	Assistant to Finance Director
Terrell Towers	Commission's Finance Committee Chair

Financial Section

Metropolitan Sports Facilities Commission

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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, 1998 and 1997, 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 audit provides 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, 1998 and 1997, and the results of its operations and its cash flows for the years then ended in conformity with generally accepted accounting principles.

The year 2000 supplementary information on page 20 is not a required part of the basis financial statements, but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary

Mr. Henry Savelkoul, Chair
Members of the Metropolitan Sports Facilities Commission
Mr. William Lester, Executive Director
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information. However, we did not audit the information and do not express an opinion on it. In addition, we do not provide assurance that the Metropolitan Sports Facilities Commission is or will become year 2000 compliant, that the commission's year 2000 remediation efforts will be successful in whole or in part, or that parties with which the commission does business are or will become year 2000 compliant.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 19, 1999, on our consideration of the Metropolitan Sports Facilities Commission's internal control over financial reporting and our tests of its compliance with laws and regulations.

/s/ James R. Nobles

James R. Nobles
Legislative Auditor

/s/ Claudia J. Gudvangen

Claudia J. Gudvangen, CPA
Deputy Legislative Auditor

March 19, 1999

Metropolitan Sports Facilities Commission

Balance Sheets December 31, 1998 and 1997

ASSETS	<u>1998</u>	<u>1997</u>
Unrestricted current assets: (note 4)		
Cash and cash equivalents	\$10,800,051	\$ 4,524,037
Investments	5,264,282	0
Accounts receivable	2,446,983	3,361,524
Accrued interest receivable	40,739	39,051
Prepaid insurance expense	<u>65,123</u>	<u>40,539</u>
Total unrestricted assets	<u>\$18,617,178</u>	<u>\$ 7,965,151</u>
Restricted current assets: (note 4)		
Cash and cash equivalents	\$0	\$ 1,367,837
Cash and cash equivalents with trustee	0	1,050,913
Investments	0	5,118,323
Investments with trustee	0	8,032,485
Prepaid roof fabric expense	0	22,725
Accounts receivable	0	68,000
Accounts receivable with trustee	0	135,832
Accrued interest with trustee	<u>0</u>	<u>146,113</u>
Total restricted assets	<u>\$0</u>	<u>\$ 15,942,228</u>
Fixed assets: (note 2)		
Metrodome stadium site	\$ 8,700,000	\$ 8,700,000
Metrodome stadium building and equipment	107,176,060	106,619,384
Less accumulated depreciation	<u>(60,104,035)</u>	<u>(54,821,549)</u>
Metrodome fixed assets, net	<u>\$55,772,025</u>	<u>\$ 60,497,835</u>
Met Center site	\$ 0	\$ 2,357,830
Site preparation costs	<u>0</u>	<u>1,114,111</u>
Met Center fixed assets, net	<u>\$ 0</u>	<u>\$ 3,471,941</u>
Total fixed assets, net	<u>\$55,772,025</u>	<u>\$ 63,969,776</u>
TOTAL ASSETS	<u>\$74,389,203</u>	<u>\$ 87,877,155</u>

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

Metropolitan Sports Facilities Commission

Balance Sheets December 31, 1998 and 1997

LIABILITIES and EQUITY	<u>1998</u>	<u>1997</u>
Unrestricted current liabilities:		
Accounts payable	\$ 540,019	\$ 895,050
Accrued expenses	<u>155,310</u>	<u>197,568</u>
Total unrestricted current liabilities	<u>\$ 695,329</u>	<u>\$ 1,092,618</u>
Restricted current liabilities:		
Current portion long term debt (note 10)	\$ 0	\$ 2,085,000
Accounts payable	0	215,004
Accrued interest expense	<u>0</u>	<u>486,036</u>
Total restricted current liabilities	<u>\$ 0</u>	<u>\$ 2,786,040</u>
Long term debt, less current portion (note 10)	<u>\$ 0</u>	<u>\$32,005,000</u>
Total liabilities	<u>\$ 695,329</u>	<u>\$35,883,658</u>
Equity:		
Contributed capital (note 2)	<u>\$17,069,238</u>	<u>\$17,069,238</u>
Retained earnings: (note 2)		
Unreserved	\$56,624,636	\$21,768,070
Reserved	<u>0</u>	<u>13,156,189</u>
Total retained earnings	<u>\$56,624,636</u>	<u>\$34,924,259</u>
Total equity	<u>\$73,693,874</u>	<u>\$51,993,497</u>
TOTAL LIABILITIES and EQUITY	<u><u>\$74,389,203</u></u>	<u><u>\$87,877,155</u></u>

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, 1998 and 1997

	<u>1998</u>	<u>1997</u>
Revenue:		
Concession revenue (note 3)	\$11,852,795	\$12,357,783
Admission tax	3,923,446	4,317,754
Stadium rents	3,686,506	3,483,204
Advertising fees	1,757,281	1,834,458
Plaza concession receipts	175,364	274,848
Parking fees	132,939	145,933
Other	<u>706,118</u>	<u>989,654</u>
Total revenue	<u>\$22,234,449</u>	<u>\$23,403,634</u>
Expenses:		
Concession operating costs (note 3)	\$6,454,897	\$ 6,960,636
Personal services	2,963,955	2,854,262
Tenants share of concession receipts (note 3)	2,417,619	2,743,995
Contractual services	2,537,945	2,238,933
Utilities	1,939,866	1,987,931
Supplies, repairs, and maintenance	452,076	425,602
Audio-visual maintenance costs	371,126	354,093
Insurance	234,199	236,930
Plaza concession operating cost	112,323	197,288
Technical consultants	236,602	184,860
Professional services	196,134	181,143
Tenants share of plaza concession receipts (note 3)	69,744	102,064
Communication	63,033	70,351
Travel and meetings	58,106	39,662
Miscellaneous	1,639,047	1,682,313
Less - expenses reimbursed by tenants	<u>(2,143,611)</u>	<u>(1,944,453)</u>
Total expenses before depreciation and amortization	<u>\$17,603,061</u>	<u>\$18,315,610</u>
Operating income before depreciation and amortization of fixed assets	\$ 4,631,388	\$ 5,088,024
Depreciation and amortization	(5,467,424)	(5,289,313)
Operating (loss) income	<u>(\$836,036)</u>	<u>(\$201,289)</u>

Metropolitan Sports Facilities Commission

Statements of Revenue, Expenses, and Changes in Retained Earnings Years Ended December 31, 1998 and 1997

	<u>1998</u>	<u>1997</u>
Non-operating income (expense):		
Net (loss) gain Met Center revenues (Note 9)	(\$2,818)	\$ 474,438
Investment income	1,068,440	630,191
Investment Income with trustee	0	515,080
Gain Met Center land sale (Note 9)	22,107,849	0
Gain (loss) on disposal of other fixed assets	(5,031)	0
Interest expense domed stadium revenue bonds	<u>(632,027)</u>	<u>(2,016,529)</u>
Total non-operating income (expense)	<u>\$22,536,413</u>	<u>(\$396,820)</u>
Net income (loss)	\$21,700,377	(\$598,109)
Retained earnings, January 1	<u>34,924,259</u>	<u>35,522,368</u>
Retained earnings, December 31	<u>\$56,624,636</u>	<u>\$34,924,259</u>

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

Metropolitan Sports Facilities Commission

Statements of Cash Flows Years Ended December 31, 1998 and 1997

	<u>1998</u>	<u>1997</u>
Cash flows from operating activities:		
Operating (loss) income	(\$836,036)	(\$201,289)
Adjustments to reconcile operating income to net cash flows provided by operating activities:		
Depreciation and amortization	5,467,424	5,289,313
Changes in unrestricted assets and liabilities:		
Decrease (increase) in accounts receivable	1,118,373	(614,214)
Decrease (increase) in prepaid expenses	(1,859)	(961)
(Decrease) increase in accounts payable	(570,035)	(193,239)
(Decrease) increase in wages payable	<u>(42,259)</u>	<u>2,897</u>
Net cash provided by operating activities	<u>\$ 5,135,608</u>	<u>\$ 4,282,507</u>
Cash flows from investing activities:		
Gross purchases	(\$16,456,605)	(\$23,477,814)
Gross sales	15,514,682	27,936,497
Interest received	853,660	684,180
Interest received-trustee	356,456	602,179
Gross purchases with trustee	(32,546,213)	(12,598,678)
Gross sales with trustee	<u>41,820,391</u>	<u>12,566,194</u>
Net cash provided by investing activities	<u>\$ 9,542,371</u>	<u>\$ 5,712,558</u>
Cash flows from capital and related financing activities:		
Principal paid on bonds	(\$34,090,000)	(\$1,990,000)
Interest paid on bonds	(1,118,063)	(2,040,658)
Acquisition of capital assets	(1,193,727)	(2,315,702)
Proceeds from sale of capital assets	25,583,894	0
Receipts from Met Center operations	<u>(2,819)</u>	<u>487,087</u>
Net cash used for capital and related financing activities	<u>(\$ 10,820,715)</u>	<u>(\$ 5,859,273)</u>
Net (decrease) increase in cash and cash equivalents	\$ 3,857,264	\$ 4,135,792
Cash and cash equivalents at beginning of year	<u>6,942,787</u>	<u>2,806,995</u>
Cash and cash equivalents at end of year	<u>\$10,800,051</u>	<u>\$6,942,787</u>

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

Metropolitan Sports Facilities Commission

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Metropolitan Sports Facilities Commission

Notes to Financial Statements December 31, 1998 and 1997

(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.

The Council, on behalf of the Commission, issued Sports Facilities Revenue Refunding Bonds ("Metrodome 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). The Metrodome 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, and 9)

Component Unit

The Commission is a component unit of the Council.

Metropolitan 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.

The Board of Directors of the Foundation has determined to dissolve the Foundation, and dissolution proceedings are under way.

(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.

Metropolitan Sports Facilities Commission

Investments

Commission investments consist principally of debt securities. Prior to January 1, 1998, investments were 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. For the year ended December 31, 1998, the Commission implemented Statement No. 31 of the Governmental Accounting Standards Board (GASB), under which investments are reported at fair value (note 4).

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	12 to 30 years, or bond life, or the year 2009
Building Improvements	12 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 required and available, debt service.

Metropolitan Sports Facilities Commission

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 expired upon the defeasance of the Metrodome Refunding Bonds (note 10).

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 Metrodome Refunding Bonds in March 1998) (note 10), retained earnings were classified as "reserved" or "unreserved." Reserved retained earnings represented 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 represented 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. At the time of the defeasance of the Metrodome Refunding Bonds in March 1998, the Commission by resolution established a system of funds and accounts similar to that previously existing in the Revenue Fund under the Indenture (note 5) for the appropriate deposit, budgeting, accounting, and expenditure functions of the Commission. The components of retained earnings, which include the accounts maintained in accordance with the Indenture, and as of March 1998, the accounts maintained pursuant to Commission resolution, are as follows:

Metropolitan Sports Facilities Commission

Retained Earnings

	<u>1998</u>	<u>1997</u>
Unreserved:		
Operating account	\$ 2,139,305	\$ 2,493,175
Operating reserve account	2,100,000	0
Capital improvement account	11,051,298	4,379,358
Concessions reserve account	197,188	0
Repair and replacement account	2,434,058	0
Fixed assets, net of long-term debt	<u>38,702,787</u>	<u>14,895,537</u>
Total unreserved retained earnings	<u>\$56,624,636</u>	<u>\$21,768,070</u>
Reserved:		
Debt Service and Debt Service Reserve Accounts	\$ 0	\$ 6,658,475
Repair and replacement account	0	1,826,051
Concession reserve account	0	206,878
Operating reserve account	<u>0</u>	<u>4,464,785</u>
Total reserved retained earnings	<u>\$0</u>	<u>\$13,156,189</u>
Total retained earnings	<u>\$56,624,636</u>	<u>\$34,924,259</u>

(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. In 1998, the Use Agreement with the Minnesota Twins was substantially amended (note 7). Financial concessions to the Vikings and Gophers similar to those provided the Twins have been authorized in principle by the Commission but have not yet been negotiated or executed. 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, 1998, 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 1998 and 1997.

Metropolitan Sports Facilities Commission

Summary of Concession Operations Years Ended December 31, 1998 and 1997

	<u>1998</u>	<u>1997</u>
Gross Concession Revenue	<u>\$11,852,795</u>	<u>\$12,357,783</u>
Concession Operating Costs:		
Cost of goods and concessionaire's operating expenses	\$ 5,822,259	\$ 6,354,211
Concessionaire management fee	271,893	269,284
Repair and maintenance of concession equipment	<u>360,745</u>	<u>337,141</u>
Total concession operating costs	<u>\$ 6,454,897</u>	<u>\$ 6,960,636</u>
Net Operating Income	<u>\$ 5,397,898</u>	<u>\$ 5,397,147</u>
Distribution of Net Operating Income:		
Payments to tenants:		
Minnesota Twins	\$ 1,760,878	\$ 2,111,344
Minnesota Vikings	400,032	332,274
University of Minnesota	256,709	284,228
Others	<u>0</u>	<u>16,149</u>
Tenants share of concession net operating profits	\$ 2,417,619	\$ 2,743,995
Commission share	<u>2,980,279</u>	<u>2,653,152</u>
Total Distribution - Net Operating Profit	<u>\$ 5,397,898</u>	<u>\$ 5,397,147</u>

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.

Metropolitan Sports Facilities Commission

(4) *Investments and Deposits*

Investments

Investments of the Commission consisted of the following at December 31, 1998 and 1997:

	<u>1998</u>	<u>1997</u>
	Fair	Fair
	Market	Market
<u>Investment Type</u>	<u>Value</u>	<u>Value</u>
Unrestricted investments:		
US Government Obligation	\$5,264,282	\$ 5,118,323
Restricted investments:		
US Government Obligation	<u>0</u>	<u>8,032,485</u>
Total Investments	<u>\$5,264,282</u>	<u>\$13,150,808</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.

The Commission has implemented GASB Statement No. 31, “Accounting and Financial Reporting for Certain Investments and for External Investment Pools,” for the year ended December 31, 1998, under which investments are reported at fair value and investment income, including changes in the fair value of investments (whether or not realized), is recognized as revenue. Investment amounts reported at the beginning of fiscal year 1998 have not been restated to fair value because the difference between cost and fair value as of December 31, 1997, is not material. The cumulative effect is shown in investment income for fiscal year 1998.

Deposits

At December 31, 1998, the Commission’s bank balance for cash was \$306,743 and the book balance was \$171,023. The bank balances were fully covered by federal depository insurance or collateral throughout 1998 and 1997. 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.

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(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 Metrodome 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

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obtained by writing to the MSRS plan administrator at the Minnesota State Retirement System, 175 West Lafayette Frontage Road, Suite 300, St. Paul, Minnesota 55107.

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 7.73 percent for 1998 and 8.27 percent for 1997. During 1998, the rates were 4.00 percent for employees and 4.00 percent for the Commission. The Commission's contributions to MSRS for the years ending December 31, 1998, 1997, and 1996, were \$93,468, \$90,473, and \$70,047, respectively.

(7) *Minnesota Twins*

In 1997 the Minnesota Twins served notice upon the Commission that their obligation 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. On April 1, 1998, the Commission filed in Hennepin County District Court an action contesting the Twins' termination of the Use Agreement. The Commission sought declaratory and injunctive relief requiring the Twins to continue to play home games at the Metrodome through 2011 and further sought money damages. The parties' views differed as to whether the Twins met either of two conditions specified in the Use Agreement that would allow early termination of the agreement after the 1998 season. The Twins counterclaimed for attorneys' fees and lost revenues of over \$100 million by reason of "abuse of process."

The dispute was settled by a stipulated dismissal approved by the Court on September 1, 1998. Pursuant to the settlement, the Commission and the Twins entered into a new and restated 1998 Baseball Use Agreement. That agreement obligates the Twins to play games at the Metrodome through October 31, 2000; the Twins have the right to remain in the Metrodome office space through December 31, 2000. In addition, the Twins have the right to extend the Use Agreement for three successive one-year periods, the last of which would end on October 31, 2003 (or December 31, 2003, as to office space). All claims and counterclaims for money damages and for other relief were dismissed with prejudice. The Hennepin County District Court will retain jurisdiction to decide any disputes relating to the Settlement Agreement and Mutual Release signed by the parties. The new Use Agreement also provides for allocation to the Twins of certain new Metrodome concessions and advertising revenues attributable to the Twins, as well as an annual facilities costs credit to be reimbursed or paid by the Commission (solely from the general assets of the Commission) in an amount not to exceed the amount of admissions tax received by the Commission for Twins home games during the year.

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,

Metropolitan Sports Facilities Commission

without substantial conjecture, the additional financial implications, if any, of the Twins potential departure upon expiration of the restated Use Agreement.

During the 1997 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 17 years and over 52,100,000 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.

The Commission has identified certain recommended capital improvements for that purpose. Particularly in view of the availability of new venues, such as the new 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 and to satisfy the demands of consumers. 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.

The Commission continues to review the adaptability of the Metrodome for baseball or football only use.

(9) *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 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 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 Metrodome Refunding Bonds in March 1998 (note 10).

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(10) Long-Term Debt

As of December 31, 1997, Metrodome 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 Metrodome 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 Metrodome Refunding Bonds to their respective maturities (or scheduled mandatory sinking fund redemption dates).

Accordingly, as a result of the defeasance, all holders of any Metrodome Refunding Bonds are entitled to payment of principal of, redemption premium, if any, and interest on the Metrodome 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 expired. 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.

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REQUIRED SUPPLEMENTARY INFORMATION

Year 2000 Compliance (unaudited)

The Year 2000 (Y2K) issue is the result of shortcomings in many electronic data-processing systems and other equipment that may adversely affect operations in the year 1999 and beyond. In 1998, the Commission began investigations into and planning for issues regarding Y2K compliance. The Commission took an inventory of all its mission critical computer systems, including those related to the Commission's accounting and administration, as well as those relating to the operations of the Metrodome facility, such as steam and chilled water supply, audio/video equipment, and electronic controls over inflation fans and steam pumps. Based upon the results of this investigation, the Commission has begun upgrading hardware and software to become Y2K compliant by the end of 1999.

The Commission has also contacted the primary utility vendors to the stadium. These vendors similarly have already begun or completed work for Y2K compliance. All of these vendors have indicated that no significant issues exist in regards to Y2K compliance.

The Commission is within the remediation stage of work on its systems. The remediation stage is when the organization actually makes changes to its systems and equipment to make them Y2K compliant. Completion of Y2K remediation work, however, is not a guarantee that the Commission's computer systems and equipment will be Y2K compliant. The Commission is relying on validation testing done by its various vendors to verify the success of its remediation efforts.

As of December 31, 1998, the Commission had no specific contracts outstanding to make computer systems or other electronic equipment Y2K compliant.

Other Auditor Reports

Metropolitan Sports Facilities Commission

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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, 1998 and 1997, and have issued our report thereon dated March 19, 1999. 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, 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 herein 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. We noted no matters involving the internal control over financial reporting and its operation that we consider to be reportable

Mr. Henry Savelkoul, Chair
Members of the Metropolitan Sports Facilities Commission
Mr. William Lester, Executive Director
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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 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 over financial reporting 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.

We 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 26, 1999.

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.

/s/ James R. Nobles

James R. Nobles
Legislative Auditor

/s/ Claudia J. Gudvangen

Claudia J. Gudvangen, CPA
Deputy Legislative Auditor

March 19, 1999

Status of Prior Audit Issues As of March 19, 1999

Most Recent Audit

April 24, 1998, Legislative Audit Report 98-26 reported on the audit of the commission's financial statements for the year ended December 31, 1997. We issued an unqualified opinion on those financial statements. In the area of internal controls, we found that the commission did not have signed contracts with some of its service providers. Our review of this issue during the current audit found that the commission had implemented the recommendations relating to contracts.

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.