METROPOLITAN AIRPORTS COMMISSION

MINNEAPOLIS-ST. PAUL, MINNESOTA

COMPREHENSIVE ANNUAL FINANCIAL REPORT

YEAR ENDED DECEMBER 31, 1987

Minneapolis-St. Paul, Minnesota

Metropolitan Airports Commission 1987

Chairman: Harold W. Greenwood, Jr.

Commissioners:

Precinct 1	Sam Grais
Precinct 2	Virginia Johnson
Precinct 3	Ronald Jerich
Precinct 4	Howard Mueller
Precinct 5	Tim Lovaasen
Precinct 6	Wilfred Viitala
Precinct 7	Robert McNulty
Precinct 8	Burton M. Joseph
City of Minneapolis	Jan DelCalzo
City of St. Paul	Barbara Ashley

Executive Director: Jeffrey W. Hamiel

METROPOLITAN AIRPORTS COMMISSION

MINNEAPOLIS-ST. PAUL, MINNESOTA

COMPREHENSIVE ANNUAL FINANCIAL REPORT

YEAR ENDED DECEMBER 31, 1987

Prepared by:

The Finance Department

Lynn D. Richardson, Jr.
Director of Finance

Table of Contents

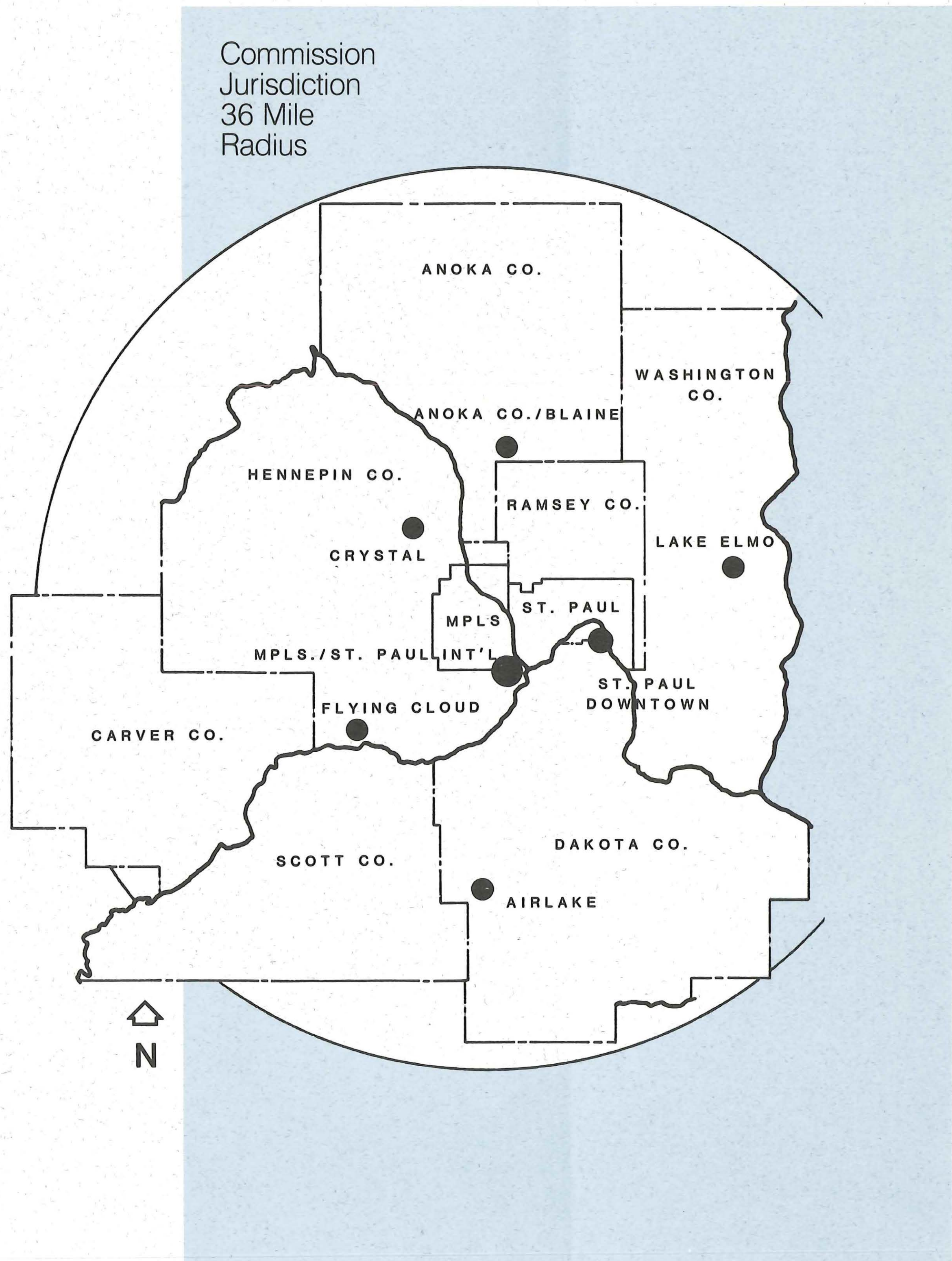
MINNEAPOLIS-ST. PAUL METROPOLITAN AIRPORTS COMMISSION

Introductory Section

MINNEAPOLIS-ST. PAUL METROPOLITAN AIRPORTS COMMISSION

Airport Locations

MINNEAPOLIS-ST. PAUL METROPOLITAN AIRPORTS COMMISSION



Certificate of Achievement

MINNEAPOLIS-ST. PAUL METROPOLITAN AIRPORTS COMMISSION

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Minneapolis-St. Paul Metropolitan Airports Commission, Minnesota

For its Comprehensive Annual Financial Report for the Fiscal Year Ended December 31, 1986

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to governmental units and public employee retirement systems whose comprehensive annual financial reports (CAFR's) are judged to substantially conform to program standards.

Patrick C. Glisson

President

Jeffrey L. Esser

Executive Director

Letter of Transmittal

MINNEAPOLIS-ST. PAUL METROPOLITAN AIRPORTS COMMISSION

Minneapolis • Saint Paul
METROPOLITAN AIRPORTS COMMISSION
P. O. BOX 11700 • TWIN CITY AIRPORT • MINNESOTA 55111
OFFICE OF EXECUTIVE DIRECTOR • PHONE (612) 726-1892

February 26, 1988

Dear Commissioners:

We are pleased to present the Comprehensive Annual Financial Report of the Metropolitan Airports Commission (MAC) for the year ended December 31, 1987. This report was prepared by the Commission's Finance Department. We believe the data, as presented, is accurate in all material aspects; that it is presented in a manner designed to fairly set forth the financial position and results of operations of the Commission as measured by the financial activity of its enterprise fund. In addition, all disclosures necessary to enable the reader to gain the understanding of the Commission's financial affairs have been included.

BACKGROUND

The Metropolitan Airports Commission was created in 1943 by the Minnesota Legislature to provide for efficient development of air transportation facilities in the Metropolitan Area. The purpose of MAC is to promote air navigation and transportation, international, national and local, in and through the State of Minnesota. In addition to promoting the efficient, safe and economical handling of air commerce, MAC has the responsibility of assuring residents of the Metropolitan Area of the minimum environmental impact from air navigation and transportation.

MAC jurisdiction is throughout the Minneapolis-St. Paul Metropolitan Area extending 35 miles out all directions from the Minneapolis and St. Paul City Halls, and including Anoka, Carver, Dakota, Hennepin, Ramsey, Scott, and Washington counties. The Commission owns and operates seven airports in the Metropolitan Area including Minneapolis/St. Paul International Airport (MSP) serving as the primary air carrier facility and the following Reliever Airports serving general aviation:

St. Paul Downtown Airport
Flying Cloud Airport
Crystal Airport
Anoka County/Blaine Airport
Lake Elmo Airport
Airlake Airport

OFFICE LOCATION—6040 28th AVE. SO.—WEST TERMINAL AREA—MINNEAPOLIS-SAINT PAUL INTERNATIONAL AIRPORT

Letter of Transmittal (continued)

MINNEAPOLIS-ST. PAUL METROPOLITAN AIRPORTS COMMISSION

The MAC may, under the Airport Law (Minn. Stat. §473.667), borrow money and issue General Obligation Bonds for the purpose of acquiring property, constructing and equipping new airports, acquiring and equipping existing airports and making capital improvements to any airport constructed or acquired by the Commission. Other powers delegated to the Commission include power to levy taxes against property of the Metropolitan Area in order to pay debt service on bonds issued by the Commission. In addition, the Commission can levy taxes, not in excess of one-third mill in each year, upon the valuation of all property in the Metropolitan Area to meet operation and maintenance costs of airport facilities. The Commission is governed by eleven commissioners. Eight commissioners are appointed by the Governor of the State of Minnesota from designated districts within the Metropolitan Area. The mayors of St. Paul and Minneapolis also have seats on the Commission with the option to appoint a surrogate to serve in their place. The Chairperson of the Commission is appointed by the Governor and may be from anywhere in the state. These appointing authorities, however, do not exercise direct financial oversight; and thus, the Commission is independent for financial reporting purposes.

MAC provides a variety of services at each of its airports. At Minneapolis/St. Paul International (MSP) MAC is responsible for providing buildings and facilities for air carrier activity as well as police, fire protection, maintenance, administrative and planning services, as well as other related services and facilities that are deemed to be necessary.

ACCOUNTING SYSTEM AND BUDGETARY CONTROL

For financial reporting purposes, in conformance with the Governmental Accounting Standards Board pronouncements, MAC is defined as an enterprise fund. Accounting records are maintained on an accrual basis in accordance with generally accepted accounting principles.

Internal accounting controls being used are designed to provide reasonable assurance regarding: a) the safekeeping of assets against loss, unauthorized use or disposition and b) the reliability of financial records for preparing financial statements. The concept of reasonable assurance recognizes that the cost of control procedures are weighed against expected benefits to be derived, and that the evaluation of costs and benefits requires estimates and judgments by management.

All internal control evaluations occur within the above framework. We believe that the Commission's internal accounting controls adequately safeguard assets and provide reasonable assurance of proper recording of financial transactions.

The MAC annually adopts an Operating Budget which is organized by functional responsibility according to costs centers assigned to each airport. A monthly Budget Variance Analysis, as required by Commission by-laws, reports significant variations from the adopted plan and directs management action for correction as required. A system of Purchase Requisitions, Purchase Orders and authorized signature approvals provide the basis for positive management responsibility and control for each of the budget line items.

Significant elements of the Commission's accounting, budgeting and reporting system are established and described in the lease/use agreement between the MAC and the air carriers serving MSP, that was signed in 1962 and amended in 1968. The agreement provides for the definition of eligible costs and methodology for determining rates and charges to be paid by the airlines that are parties to the agreement.

Letter of Transmittal (continued)

MINNEAPOLIS-ST. PAUL METROPOLITAN AIRPORTS COMMISSION

REVENUES AND EXPENDITURES

Operating revenues for the MAC come entirely from user fees that are established for various services and facilities that are provided at all Commission airports. While the Commission has the power to levy taxes to support its operations, it has adopted policies to provide adequate revenues for the system to operate since the late 1960's without general tax support. Revenue sources have been grouped into the following categories in the Statement of Revenues and Expenses:

Traffic—Aircraft landing and parking fees
Commercial:
Concessions—Revenue from food & beverage sales, merchandise sales, auto parking, etc.
Rentals—Fees for ground and building rentals
Utilities—Charges for tenants use of water and sewer
Miscellaneous—Charges for other services provided by MAC

During 1987 MAC operating revenues increased by 6.2% to $59,556,000 from $56,054,000 in 1986. Changes in major categories are summarized below:
(In Thousands)

	1987		1986		DOLLAR	PERCENTAGE
	$	%	$	%	CHANGE	CHANGE
TRAFFIC	$13,258	22.3%	$12,213	21.8%	$1,045	8.6%
COMMERCIAL:						
CONCESSIONS	24,433	41.0	23,425	41.8	1,008	4.3
RENTALS	20,247	34.0	18,854	33.6	1,393	7.4
UTILITIES	1,191	2.0	1,275	2.3	(84)	(6.6)
MISCELLANEOUS	427	.7	287	.5	140	48.8
OPERATING REVENUES	**$59,556**	**100%**	**$56,054**	**100%**	**$3,502**	**6.2%**

The largest increases in operating revenue occurred in the traffic, concessions and rental categories. The Traffic category increased 8.6% between the two years due to increased collections for landing fees. Landing fees are calculated on a breakeven basis, with revenue and expense being equal.

Concession revenue increased by $1,008,000 between the two years. This is due to continued upward trends in activity in the auto rental and parking concession. Rentals increased $1,393,000 because of completion of the south Lindbergh Terminal expansion, increased terminal building rates, and new tenants in the cargo area.

Major investments in facilities for MSP are secured by lease agreements with the airlines using the facilities. Major sections of the agreements include definitions of eligible costs to be included in the formula for determining rates to be charged and procedures for the adjustment or collection of fees due to the Commission. Certain of these agreements which began in the 1960's and 1970's will expire in 1989 requiring new agreements to be negotiated.

In order to promote and encourage the efficient use of facilities at all MAC airports as well as attempting to minimize the environmental impact of MSP on the surrounding community, MAC has implemented a policy of subsidizing its reliever airports by establishing relatively low user charges as an incentive for pilots to use these facilities rather than MSP. In order to maintain this subsidy MAC sets its rates and charges to assure that total system revenues will be sufficient to pay total system expenses.

Letter of Transmittal (continued)

MINNEAPOLIS-ST. PAUL METROPOLITAN AIRPORTS COMMISSION

In 1987 and 1986, net revenues for each airport were as follows: (In Thousands)

	Operating Revenue	Operating Expense	1987 Net Revenue	1986 Net Revenue
MSP	$58,911	$42,163	$16,748	$16,546
St. Paul Downtown	293	1,494	(1,201)	(817)
Flying Cloud	159	427	(268)	(242)
Crystal	70	320	(250)	(218)
Anoka	62	414	(352)	(214)
Lake Elmo	30	195	(165)	(138)
Airlake	31	188	(157)	(137)
TOTAL	**$59,556**	**$45,201**	**$14,355**	**$14,780**

As established by the State of Minnesota, the MAC is limited in its activities to creating, maintaining and operating airport facilities in its jurisdiction. This definition of its activities results in three uses of its funds: a) payment of debt service; b) payment of costs of operations; and c) remodeling or construction of new facilities. In order to disclose the uses of net revenues generated by operations, MAC includes on its Statement of Revenues, Expenses and Changes in Retained Earnings, the amount of interest earned on investments in the Debt Service account that is applied towards the payment of principal and interest on outstanding bonds. Also disclosed is the amount transferred to the MAC special construction account, in order to provide the necessary funds and/or to decrease the amount of additional bond sales.

In 1987 MAC operating expenses increased by 9.5% to $45,201,000 from $41,274,000 in 1986. Changes in major categories are summarized below: (In Thousands)

	1987 $	1987 %	1986 $	1986 %	DOLLAR CHANGE	PERCENTAGE CHANGE
SALARIES, WAGES AND EMPLOYEE BENEFITS	$14,765	32.7%	$12,187	29.5%	$2,578	21.2%
OPERATING SUPPLIES	686	1.5	603	1.5	83	13.8
UTILITIES	3,072	6.8	3,135	7.6	(63)	(2.0)
MAINTENANCE AND REPAIRS	4,471	9.9	4,297	10.4	174	4.0
PARKING MANAGEMENT	2,417	5.3	2,468	6.0	(51)	(2.1)
DEPRECIATION	15,912	35.2	14,517	35.2	1,395	9.6
OTHER	3,878	8.6	4,067	9.8	(189)	(4.6)
OPERATING EXPENSES	**$45,201**	**100%**	**$41,274**	**100%**	**$3,927**	**9.5%**

Salaries, wages, and employee benefits increased approximately $2.6 million from 1986. A number of factors contributed to this 21.2% increase. Late in 1986 and early 1987, a number of management and administrative positions which had been vacant were filled. Also, 1987 was an extraordinary year with regards to self-insured employee health insurance and workers' compensation. In both instances, MAC paid a much greater number of claims than in prior years.

Charges for depreciation increased by approximately $1.4 million between the two years because of completion of two major projects: South Expansion of the Lindbergh Terminal, and the St. Paul Downtown Airport Development Project.

Letter of Transmittal (continued)

MINNEAPOLIS-ST. PAUL METROPOLITAN AIRPORTS COMMISSION

In carrying out its responsibilities MAC has maintained a philosophy of using specialists and consultants to provide some of the wide variety of services that are needed rather than hire additional employees. Most of the concessions facilities at MSP are leased to professional operators who manage the daily activities. MAC has entered into a management agreement to operate its parking facilities in order to maintain control over the service, rates, and expenses. Costs of all parking facilities and the management fee paid are shown under the Parking Management category of expense.

DEBT ADMINISTRATION

The Metropolitan Airports Commission has issued two forms of indebtedness: Airport Revenue Bonds and General Obligation Revenue Bonds. From 1943 to 1975 MAC issued Airport Revenue Bonds to provide funds for its capital improvement program. Since 1976 General Obligation Revenue Bonds which are backed by Commission revenues and the authority to levy any required taxes on the assessed valuation of the seven county Metropolitan Area have been used. The MAC is required by law to maintain Debt Service funds sufficient to bring the balance on hand in the Debt Service Account on October 10 of each year to an amount equal to all principal and interest to become due on all Airport Improvement Bonds and General Obligation Revenue Bonds payable therefrom to the end of the second following year. The required balance as of October 10 in the Debt Service Account for the next five years is as follows:

1988	$29,702,075
1989	$28,495,213
1990	$28,174,065
1991	$27,885,933
1992	$27,630,160

MAC last sold bonds ($30 million) in December, 1986, at which time it received AAA rating from both Moody's and Standard & Poor's rating services. Authority for issuing bonds is obtained from the Minnesota State Legislature. Currently, the authorization permits the issuance of an additional $62 million of bonds.

CAPITAL PROJECTS

Each year the MAC approves capital projects that will start within the next 12 months, and a Capital Improvement Program which covers all projects which are to be started during the second calendar year. In addition, a Capital Improvement Plan which covers an additional 5 years is adopted. These serve as a basis for determining funding requirements and other operational planning decisions. Certain projects which have a metropolitan significance are also submitted to the Metropolitan Council for review and approval. The Metropolitan Council is a regional planning agency responsible for coordination and planning of certain governmental services for the Metropolitan Area.

Funds required for completion of all capital projects come from three sources: a) General Obligation Revenue Bonds, b) state or federal grants, and c) internally generated funds from operations. In order to limit the cost of facilities at the reliever airports, MAC uses only grant funds or retained earnings to finance all construction projects at these airports. Capital improvements at MSP are financed from all three sources as appropriate.

Letter of Transmittal (continued)

MINNEAPOLIS-ST. PAUL METROPOLITAN AIRPORTS COMMISSION

Anticipated projects planned for 1988 and 1989 as well as the extended period 1990-1994 are summarized as follows: (The amounts shown represent the estimated total cost for projects planned to be initiated, but not necessarily completed during that period.)

	1988	1989	1990-94
MINNEAPOLIS/ST. PAUL INTERNATIONAL:			
FIELD AND RUNWAYS	$ 5,150,000	$ 39,950,000	$ 34,950,000
ENVIRONMENTAL	7,300,000	500,000	0
SELF-LIQUIDATING	45,000,000	16,000,000	0
TERMINAL BUILDING AND OTHERS	59,150,000	8,400,000	12,350,000
ST. PAUL DOWNTOWN AIRPORT	6,350,000	1,400,000	3,550,000
FLYING CLOUD AIRPORT	250,000	0	300,000
CRYSTAL AIRPORT	200,000	250,000	300,000
ANOKA COUNTY AIRPORT	2,350,000	150,000	1,150,000
LAKE ELMO AIRPORT	50,000	0	750,000
AIRLAKE AIRPORT	675,000	0	0
	$126,475,000	$ 66,650,000	$ 53,350,000

CASH MANAGEMENT

Cash temporarily idle during the year is invested according to legal requirements established by the legislature of the State of Minnesota. In accordance with state law, investments are restricted to various United States government securities, certificates of deposits, commercial paper and repurchase agreements. All securities must mature within three years from the date of purchase.

In addition to the legal requirements, the MAC has an investment policy to further enhance the safety of its investments. In accordance with this policy, securities with a maturity of over 7 days are safekept at one institution and purchases can be made only from dealers located in the State of Minnesota. To ensure competitive prices on all purchases, the policy requires bids to be taken from several different dealers.

The Government Accounting Standards Board requires disclosure of types of investments and the safekeeping arrangement in the notes to the financial statements. Custodial agreements are disclosed as three levels of risk. At year end 1987, the majority of the MAC's investment portfolio was being held by a third party agent of the Commission. There were, however, a few securities held by brokers that were not in the Commission's name. In accordance with Commission policy, these were investments that matured within seven days from the date of purchase. Because of their short maturity, we do not feel this arrangement exposes our investment portfolio to unnecessary risk. Total investment earnings for 1987 were $6,653,000. The average yield on investments during the year was 7.25%.

FUTURE PROSPECTS

During 1987 the Metropolitan Airports Commission implemented another significant part of its noise attenuation program by approving voluntary noise reduction agreements with all of the major carriers serving Minneapolis/Saint Paul International Airport. These voluntary agreements call for gradual reductions in noise for the next several years to be achieved at the discretion of each airline through a combination of reduced aircraft operations and the substitution of quieter aircraft. This program has brought about a significant reduction in the noise levels in communities surrounding

Letter of Transmittal (continued)

MINNEAPOLIS-ST. PAUL METROPOLITAN AIRPORTS COMMISSION

the airport. Since the program's approval in June, 1987, noise levels have been significantly below the required levels each month.

The Commission will continue to monitor on a monthly basis the effect of this program while it moves on to other elements of its 27 point program for noise reduction. Work is continuing to gain approval by the Federal Aviation Administration of the Commission's FAA Part 150 Program and analysis is being conducted on other programs which could have beneficial impacts on airport noise. In the future, these efforts will continue to be a major focus for the Commission.

Several long range planning efforts, including an update of the Commission Airport Master Plan and an Airport Adequacy Study sponsored by the Metropolitan Council are scheduled to be completed in late 1988. Both studies deal with the adequacy of Minneapolis/St. Paul International Airport to meet the needs of the community beyond the year 2000. These studies seek to balance the need for air transportation with the environmental impact of that activity on the surrounding communities. These studies have been undertaken in recognition of the importance of the airport as a community resource and the need to assure that adequate facilities are available for future needs. The Commission and the community have also recognized the need to make maximum use of the current airport facility, regardless of the long-term capability of the airport. The Commission's Capital Improvement Plan indicates those facilities necessary to accomplish this goal over the next seven years.

Significant additional facilities are in the planning phase or under construction at several of the Commission's airports. The focus at Minneapolis/St. Paul International Airport is on groundside facilities including a new seven level parking facility to be constructed in 1988-1989. A ground transportation facility under design at present will add significantly to the capability of the airport to accommodate peak ground traffic at the airport and will greatly enhance passenger convenience and comfort. New hangar facilities for Mesaba Airlines and Northwest Airlines will be constructed in 1988. These hangars will greatly enhance the operational capabilities of both locally-based airlines and will generate additional job opportunities. Additional facilities are also underway at several of our reliever airports including the continuation of a major building area project at Saint Paul Downtown airport. This project will provide continued support for the recently completed runway upgrading.

Several of the major lease agreements between MAC and its airport tenants will expire during the next three years, and MAC has begun preliminary discussions with its tenants regarding necessary changes in these leases to assure the Commission that it can maintain and improve its strong financial position and operating flexibility. Providing all of the needed financial resources from users of the airports without tax support remains a prime objective of the Commission.

INDEPENDENT AUDIT

The financial records of the MAC are audited annually by a firm of independent certified public accountants. The audits for the year ended December 31, 1987 and 1986 were performed by Ernst & Whinney. Their opinion on the financial statements is presented in this report.

In conjunction with the annual audit, Ernst & Whinney performs procedures consistent with the Single Audit Act of 1984 (The Act) guidelines in relation to grant award agreements between the MAC and the Federal Aviation Administration (FAA) in progress during the year. Reports are issued as required by the Act. The reports are intended for the use of the MAC and the FAA, do not change in any way the financial statements and have not been included in this report.

Letter of Transmittal (continued)

MINNEAPOLIS-ST. PAUL METROPOLITAN AIRPORTS COMMISSION

In accordance with Minnesota State Law, the Legislative Auditor may conduct a financial audit of the MAC or allow this service to be contracted. The 1987 financial audit has been performed by the firm of Ernst & Whinney. In addition, the Legislative Auditor does periodically conduct a separate audit to examine the Commission's compliance with applicable laws, policies and procedures, as he determines it is necessary.

CERTIFICATE OF ACHIEVEMENT

The Government Finance Officers Association of the United States and Canada (GFOA) awarded the Certificate of Achievement for Excellence in Financial Reporting to the MAC for its Comprehensive Annual Financial Report for the year ended December 31, 1986.

In order to be awarded a Certificate, which is valid for one year, a governmental unit must publish an easily readable and efficiently organized report, the contents of which conform to the program's standards. Such reports must satisfy both generally accepted accounting principles and applicable legal requirements.

We believe that this current report continues to conform to the Certificate of Achievement program's requirements. We are, therefore, submitting it to the GFOA so that they may determine its eligibility for a certificate.

ACKNOWLEDGEMENTS

The preparation of this report, on a timely basis, could not have been accomplished without the efficient and dedicated services of the entire staff of the Finance Department. We express our appreciation to all members of the department who assisted and contributed to its preparation. Appreciation is also extended to each Commissioner for their interest and support in planning and conducting the financial affairs of the MAC in a responsible manner.

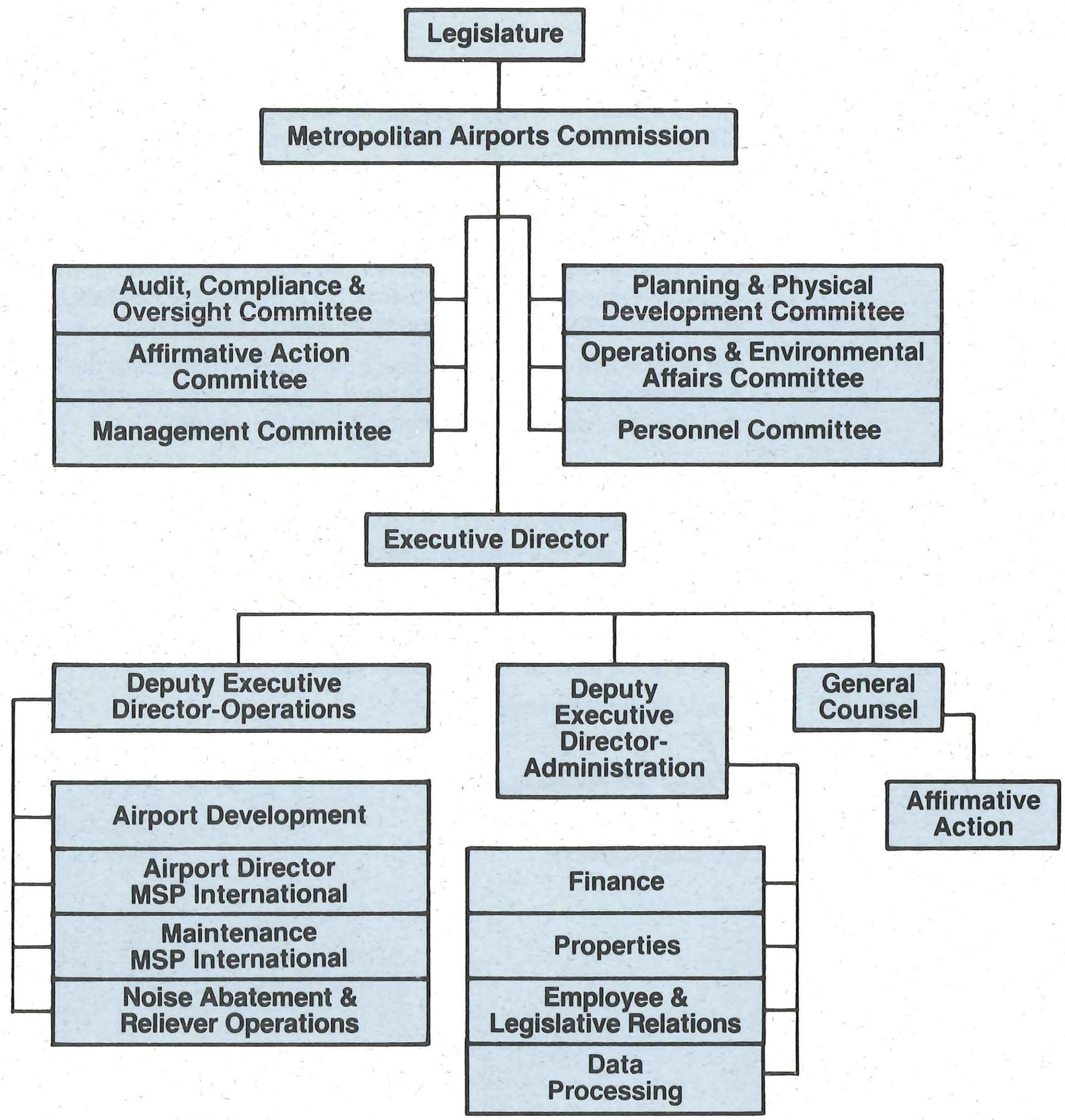
Respectfully submitted,

Jeffrey W. Hamiel
Executive Director

Lynn D. Richardson, Jr.
Director of Finance

Organizational Chart

MINNEAPOLIS-ST. PAUL METROPOLITAN AIRPORTS COMMISSION



Financial Section

MINNEAPOLIS-ST. PAUL METROPOLITAN AIRPORTS COMMISSION

Auditors' Report

MINNEAPOLIS-ST. PAUL METROPOLITAN AIRPORTS COMMISSION

Report of Ernst & Whinney, Independent Auditors

1200 Town Square
445 Minnesota Street
Saint Paul, Minnesota 55101
612/291-1822

Members of the Commission
Minneapolis-Saint Paul Metropolitan
Airports Commission
Saint Paul, Minnesota

We have examined the balance sheets of Minneapolis-Saint Paul Metropolitan Airports Commission as of December 31, 1987 and 1986, and the related statements of revenues, expenses and changes in retained earnings, and changes in cash and investments for the years then ended. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements referred to above present fairly the financial position of the Minneapolis-Saint Paul Metropolitan Airports Commission at December 31, 1987 and 1986, and the results of its operations and changes in its financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

Ernst & Whinney

Saint Paul, Minnesota
February 26, 1988

Balance Sheets

MINNEAPOLIS-ST. PAUL METROPOLITAN AIRPORTS COMMISSION

(Dollars in Thousands)

	December 31 1987	December 31 1986
ASSETS		
Cash and investments—Note B:		
Unrestricted	$ 8,017	$ 8,923
Restricted—Notes C and F:		
Debt Service	23,274	24,390
Construction:		
Regular	31,170	30,015
Special	60,717	47,281
Other	20	
	115,181	101,686
	123,198	110,609
Accounts receivable	4,001	5,267
Government grants in aid of construction receivable	1,505	6,188
Airports and facilities—Notes E and F	230,512	218,866
Designated for deferred compensation plans—Note I	2,530	1,880
Other	512	476
TOTAL ASSETS	**$362,258**	**$343,286**
LIABILITIES AND FUND EQUITY		
Accounts payable and accrued expenses	$ 2,376	$ 1,594
Payables from restricted assets:		
Debt service—Note F	23,274	24,390
Construction	2,671	3,606
Employee compensation and payroll taxes	1,901	1,367
Deferred revenue	6,478	6,599
Deferred compensation benefits—Note I	2,530	1,880
Bonds payable—Note F	97,992	104,397
TOTAL LIABILITIES	**137,222**	**143,833**
FUND EQUITY		
Contributed capital	64,544	57,916
Retained earnings:		
Reserved—Note C	89,236	73,690
Unreserved	71,256	67,847
TOTAL FUND EQUITY	**225,036**	**199,453**
CONTINGENT LIABILITY—Note J	—	—
TOTAL LIABILITIES AND FUND EQUITY	**$362,258**	**$343,286**

See notes to financial statements.

Statements of Revenues and Expenses and Changes in Retained Earnings

MINNEAPOLIS-ST. PAUL METROPOLITAN AIRPORTS COMMISSION

(Dollars in Thousands)

	Year Ended December 31 1987	1986
OPERATING REVENUES		
Traffic	$ 13,258	$ 12,213
Commercial:		
Concession	24,433	23,425
Rentals	20,247	18,854
Utilities	1,191	1,275
Miscellaneous	427	287
TOTAL OPERATING REVENUES	**59,556**	**56,054**
OPERATING EXPENSES		
Salaries, wages and employee benefits	14,765	12,187
Operating supplies	686	603
Utilities	3,072	3,135
Maintenance and repairs	4,471	4,297
Parking management	2,417	2,468
Depreciation	15,912	14,517
Other	3,878	4,067
TOTAL OPERATING EXPENSES	**45,201**	**41,274**
OPERATING INCOME	**14,355**	**14,780**
OTHER REVENUES (EXPENSES)		
Interest income	6,653	7,589
Bond interest expense	(5,420)	(6,013)
NET INCOME	**15,588**	**16,356**
Add depreciation of facilities provided by government grants—Note A	3,367	2,774
INCREASE IN RETAINED EARNINGS	**18,955**	**19,130**
Retained earnings—beginning of year	141,537	122,407
RETAINED EARNINGS—END OF YEAR	**$160,492**	**$141,537**
Distribution of net income:		
Net income designated for debt service	$ 1,294	$ 1,372
Net income designated for construction	14,294	14,984
	$ 15,588	**$ 16,356**

See notes to financial statements.

Statements of Changes in Cash and Investments

MINNEAPOLIS-ST. PAUL METROPOLITAN AIRPORTS COMMISSION

(Dollars in Thousands)

	Year Ended December 31 1987	1986
CASH AND INVESTMENTS FROM OPERATIONS		
Net income	$ 15,588	$ 16,356
Add items not requiring cash:		
Depreciation	15,912	14,517
Amortization of bond premium and discount	55	27
	31,555	30,900
Other operating accounts:		
Accounts receivable	1,266	(2,412)
Other assets	(36)	(282)
Accounts payable and accrued expenses	782	(997)
Employee compensation and payroll taxes	534	6
Deferred revenue	(121)	(158)
	2,425	(3,843)
TOTAL CASH AND INVESTMENTS FROM OPERATIONS	**33,980**	**27,057**
FACILITIES		
Payments for airports and facilities	(29,210)	(31,631)
Net book value of disposals of airports and facilities	717	605
	(28,493)	**(31,026)**
FINANCING ACTIVITIES		
Payments on bonds payable	(7,530)	(7,460)
Issuance of bonds		29,438
Receipts of government grants in aid of construction	14,657	6,266
Other	(25)	204
	7,102	28,448
INCREASE IN CASH AND INVESTMENTS	**12,589**	**24,479**
Cash and investments—beginning of year	110,609	86,130
CASH AND INVESTMENTS—END OF YEAR	**$123,198**	**$110,609**

( ) Indicates use of cash and investments.

See notes to financial statements.

Notes to Financial Statements

MINNEAPOLIS-ST. PAUL METROPOLITAN AIRPORTS COMMISSION

December 31, 1987

NOTE A
SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The Minneapolis-Saint Paul Metropolitan Airports Commission (Commission) was created by an act of the Minnesota State Legislature in 1943 as a public corporation. Its purpose is to promote air navigation and transportation, international, national and local, in and through the State of Minnesota. In addition to promoting the efficient, safe and economical handling of air commerce, it has the responsibility of assuring residents of the Metropolitan Area of minimal environmental impact from air navigation and transportation.

The area over which the Commission exercises its jurisdiction is the Minneapolis-Saint Paul Metropolitan Area which includes Anoka, Carver, Dakota, Hennepin, Ramsey, Scott and Washington counties. The Commission controls and operates seven airports within the Metropolitan Area, including the Minneapolis-Saint Paul International Airport, which services scheduled air carriers, and six reliever airports, serving general aviation.

The Commission is governed independently by an eleven member Board of Commissioners that is directly responsible to the Minnesota State Legislature. Certain large capital improvement projects having metropolitan significance must be reviewed by the Metropolitan Council, which is a public agency established by law with powers of regulation over the development of the Metropolitan Area.

The Commission's financial statements include only funds and departments over which the Commission officials exercise oversight responsibility. No other agencies, boards, commissions, or other organizations have been included in the Commission's financial statements.

Oversight responsibility includes such aspects as budget review, approval of property tax levies, outstanding debt secured by the Commission's full faith and credit or revenues, responsibility for funding deficits, and others.

Basis of Accounting

The system of airports operated by the Commission is accounted for as an Enterprise Fund and reported on the accrual basis of accounting. Revenues are recognized when they are earned and expenses are recognized when they are incurred.

Budgeting Process

As required by Minnesota State Statute, the Commission adopts an annual operating and capital expenditures budget for purposes of determination of required taxes, if any, to be levied by counties in its jurisdiction. Budgets are established on a departmental basis using the accrual method of accounting.

Cash

In accordance with Minnesota Statutes, the Commission maintains deposits at those depository banks, which are members of the Federal Reserve System, as authorized by the Commission.

Minnesota Statutes require that all Commission deposits be protected by insurance, surety bond, or collateral. The market value of collateral pledged must equal 110% of the deposits not covered by insurance or bonds (140% of mortgage notes pledged). Authorized collateral

Notes to Financial Statements (continued)

MINNEAPOLIS-ST. PAUL METROPOLITAN AIRPORTS COMMISSION

NOTE A
SIGNIFICANT ACCOUNTING POLICIES—CONTINUED

includes allowable investments as discussed below, certain first mortgage notes, and certain other state or local government obligations. Minnesota Statutes require that securities pledged as collateral be held in safekeeping by the Commission or in a financial institution other than that furnishing the collateral.

Investments

Investments are recorded at cost plus accrued interest and unamortized purchase discounts or premiums.

The Commission invests funds as authorized by Minnesota Statutes in direct obligations or obligations guaranteed by the United States or its agencies, general obligations of the State of Minnesota or any of its municipalities, commercial paper rated A-1 by Standard & Poor's Corporation or P-1 by Moody's, certificates of deposit issued by official depositories of the Commission, and repurchase agreements with financial institutions.

Government Grants in Aid of Construction

Government grants in aid of construction represent the estimated portion of construction costs incurred for which airport aid grants are expected to be paid to the Commission by the United States Government and the State of Minnesota. These amounts are recorded as a receivable and as contributed capital. As assets acquired with grants in aid are depreciated, the related contributed capital is transferred to retained earnings (Note D).

Airports and Facilities

As required under Chapter 500, Laws of Minnesota 1943—the law under which the Commission was created—certain properties, classified as airports and facilities, were contributed by the Cities of Minneapolis and Saint Paul. Fee title to the land and improvements remains with the two cities.

Land contributed to the Commission from the cities has been recorded at the cost reported by the cities. Airport improvements and buildings acquired from the cities at the time of the takeover, and similar facilities acquired since that time from United States Government Agencies, have been recorded principally on the basis of replacement cost, less allowance for depreciation, to reflect sound value as of the date of acquisition. Subsequent additions to the property accounts have been recorded at cost.

It is the Commission's policy to amortize the carrying amount of the properties, including those acquired using government grants in aid, over their estimated useful lives on a straight line basis by annual depreciation charges to income. Estimated useful lives on depreciable assets are as follows:

Airport improvements and buildings	20-40 years
Moveable equipment	3-10 years

For facilities constructed and leased under self-liquidating arrangements, depreciation is recorded equal to the bond principal payments.

Costs incurred for major improvements are carried in projects in progress until disposition or completion of the related projects. Costs relating to projects not pursued are expensed, while costs relating to completed projects are capitalized as properties.

Notes to Financial Statements (continued)

MINNEAPOLIS-ST. PAUL METROPOLITAN AIRPORTS COMMISSION

NOTE A
SIGNIFICANT ACCOUNTING POLICIES—CONTINUED

Leases

Substantially all airport improvements and buildings are leased or charged to users under various agreements. Certain facilities are leased under self-liquidating lease agreements which require the lessee to pay annual rentals equal to the debt service requirements of the bonds issued to construct the facilities, or the debt service requirements which would have been required if bond funds were used. Other facilities at Minneapolis-Saint Paul International Airport are charged to user airlines under lease agreements which provide for compensatory rental rates designed to recover agreed upon portions of costs incurred, including depreciation and interest in the terminal building, ramp and runway areas as allocated to and used by the airlines. Other facilities, to the extent they are leased, are leased under conventional agreements, primarily percentage leases. Revenues above costs recovered are used to defray the costs of maintaining reliever airports and public areas at Minneapolis-Saint Paul International Airport.

Capitalized Interest

Interest capitalized on projects funded by internally generated funds is based on the weighted average borrowing rate of the Commission and actual project expenditures during the period of construction. Interest capitalized on projects funded from bond proceeds is the interest cost of the borrowing less interest earned on undisbursed invested funds during the construction period. Interest is not capitalized on project costs that are reimbursed by government grants in aid of construction.

Reclassification

Certain balances from 1986 have been reclassified to conform with the current year's presentation.

Notes to Financial Statements (continued)

MINNEAPOLIS-ST. PAUL METROPOLITAN AIRPORTS COMMISSION

NOTE B
CASH AND INVESTMENTS

Cash

Cash balances are as follows:

	December 31 1987	December 31 1986
	(In Thousands)	
Financial statement balances	$578	$ 845
Bank balances:		
Insured or collateralized by securities held in the Commission's name by a financial institution other than that furnishing the collateral	$719	$ 607
Uncollateralized		1,279
	$719	$1,886

On December 31, 1986, balances at two of the four depositories of the Commission were undercollateralized. In one instance this was due to the effects of an unusual daily cash flow fluctuation. At the other depository, the undercollateralization occurred at various times during the year when the institution failed to increase pledged collateral as required. The institution has since pledged adequate additional collateral.

At December 31, 1987, the cash balances at all depositories were adequately collateralized.

Investments

The Commission's investments at December 31, 1987 and 1986 are categorized below to give an indication of the level of credit risk assumed. Category 1 includes investments that are insured or registered or for which the securities are held by the Commission or its agent in the Commission's name. 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. Category 3 includes uninsured and unregistered investments for which the securities are held by the broker or

Notes to Financial Statements (continued)

MINNEAPOLIS-ST. PAUL METROPOLITAN AIRPORTS COMMISSION

NOTE B
CASH AND INVESTMENTS—
CONTINUED

dealer, or by its trust department or agent but not in the Commission's name. In accordance with Commission policy, Category 3 amounts are securities with a maturity less than seven days from the purchase date.

	Carrying Amount				
	Credit Risk Category				Market
Type of Security	1	2	3	Total	Value
			(In Thousands)		
December 31, 1986					
U.S. Government					
and agencies	$ 96,235	$ 1,555		$ 97,790	$ 96,953
Commercial paper	8,611		$ 3,095	11,706	11,630
Repurchase agreements			268	268	268
	$104,846	**$1,555**	**$3,363**	**$109,764**	**$108,851**
December 31, 1987					
U.S. Government					
and agencies	$ 115,420			$ 115,420	$ 115,210
Commercial paper	5,526		$ 1,174	6,700	6,746
Repurchase agreements			500	500	500
	$120,946	**$ —**	**$1,674**	**$122,620**	**$122,456**

NOTE C
RESTRICTED CASH AND INVESTMENTS AND RESERVED RETAINED EARNINGS FOR FUTURE DEBT SERVICE AND CONSTRUCTION

Minnesota Statutes require the Commission to have a balance on hand in a Debt Service Account on October 10 of every year equal to the total amount of principal and interest due on all outstanding bonds for the next 27 months. Cash and investments to meet this requirement plus interest earned thereon are restricted.

Notes to Financial Statements (continued)

MINNEAPOLIS-ST. PAUL METROPOLITAN AIRPORTS COMMISSION

NOTE C
RESTRICTED CASH AND INVESTMENTS AND RESERVED RETAINED EARNINGS FOR FUTURE DEBT SERVICE AND CONSTRUCTION—CONTINUED

Cash and investments segregated as regular construction funds include amounts received from issuance of Commission bonds, government grants in aid of construction, rental receipts on assets purchased with grants in aid not utilized for aviation, and cumulative interest earned from the investment of such funds. These amounts are used principally for construction at Minneapolis-Saint Paul International Airport.

The Commission also segregates certain amounts from operating cash flows which it designates as restricted in special construction funds for use at secondary airports or additional Minneapolis-Saint Paul International Airport projects that are not funded by bond issues.

Cash and securities segregated and restricted are as follows: (in thousands)

	December 31	
	1987	**1986**
Debt service	$23,274	$24,390
Construction:		
Regular	31,170	30,015
Special	60,717	47,281
Other	20	
TOTAL RESTRICTED CASH AND INVESTMENTS	**115,181**	**101,686**
Less payables to be paid from restricted cash and investments:		
Debt service	23,274	24,390
Construction	2,671	3,606
RESERVED RETAINED EARNINGS	**$89,236**	**$73,690**

Notes to Financial Statements (continued)

MINNEAPOLIS-ST. PAUL METROPOLITAN AIRPORTS COMMISSION

NOTE D
CHANGES IN FUND EQUITY

Changes in fund equity are as follows: (in thousands)

	Contributed Capital	Retained Earnings		Total
		Reserved	Unreserved	
Balance January 1, 1986	**$ 48,638**	**$ 54,498**	**$ 67,909**	**$ 171,045**
Government grants in aid of construction	12,040			12,040
Net income for the year			16,356	16,356
Depreciation of facilities provided by government grants	(2,774)		2,774	
Net change in restricted assets and liabilities		19,192	(19,192)	
Other	12			12
Balance December 31, 1986	**57,916**	**73,690**	**67,847**	**199,453**
Government grants in aid of construction	9,975			9,975
Net income for the year			15,588	15,588
Depreciation of facilities provided by government grants	(3,367)		3,367	
Net change in restricted assets and liabilities		15,546	(15,546)	
Other	20			20
Balance December 31, 1987	**$ 64,544**	**$ 89,236**	**$ 71,256**	**$ 225,036**

Notes to Financial Statements (continued)

MINNEAPOLIS-ST. PAUL METROPOLITAN AIRPORTS COMMISSION

NOTE E
AIRPORTS AND FACILITIES

Changes in airports and facilities by major classification are as follows: (in thousands)

Airports and Facilities	Balance January 1, 1986	Additions	Transfers In (Out)	Deductions	Balance December 31, 1986
Land	$ 13,187		$ 161		$ 13,348
Airport improvements and buildings	304,322	$ 61	26,864		331,247
Moveable equipment	10,988	2,384	795	$ (540)	13,627
Projects-in-progress	16,169	30,127	(27,820)	(601)	17,875
TOTAL AIRPORTS AND FACILITIES	**344,666**	**32,572**	**—**	**(1,141)**	**376,097**
Accumulated depreciation	(143,250)	(14,517)		536	(157,231)
NET AIRPORTS AND FACILITIES	**$ 201,416**	**$ 18,055**	**$ —**	**$ (605)**	**$ 218,866**

Airports and Facilities	Balance January 1, 1987	Additions	Transfers In (Out)	Deductions	Balance December 31, 1987
Land	$ 13,348			$ (697)	$ 12,651
Airport improvements and buildings	331,247	$ 228	$ 35,479		366,954
Moveable equipment	13,627	1,353	834	(168)	15,646
Projects-in-progress	17,875	26,694	(36,313)		8,256
TOTAL AIRPORTS AND FACILITIES	**376,097**	**28,275**	**—**	**(865)**	**403,507**
Accumulated depreciation	(157,231)	(15,912)		148	(172,995)
NET AIRPORTS AND FACILITIES	**$ 218,866**	**$ 12,363**	**$ —**	**$ (717)**	**$ 230,512**

Notes to Financial Statements (continued)

MINNEAPOLIS-ST. PAUL METROPOLITAN AIRPORTS COMMISSION

NOTE F
LONG-TERM DEBT

The acquisition and construction of facilities at the airports operated by the Commission have been substantially financed by the issuance of Airport Improvement Bonds and General Obligation Revenue Bonds. Airport Improvement Bonds are repaid from Commission revenue; however, if the principal and interest cannot be paid from revenue, a tax can be levied on property within the cities of Minneapolis and Saint Paul, Minnesota for debt service. Series 6 of the Airport Improvement Bonds is secured by a Deed of Trust which provides for a mortgage of all of the Commission's property lying within an area at Minneapolis-Saint Paul International Airport leased to Northwest Airlines, Inc. for their main base facilities (approximate original cost $18,000,000).

General Obligation Revenue Bonds are general obligations of the Commission, payments of which are secured by the pledge of all operating revenues of the Commission, subject to the prior pledge of such revenues for the payment of outstanding Airport Improvement Bonds. The Commission has the power to levy property taxes upon all taxable property in the seven county Metropolitan Area in order to pay debt service on outstanding General Obligation Revenue Bonds.

The Commission has not levied taxes for the payment of debt service since 1969. Since then, Commission revenues have been sufficient to pay principal and interest due on Airport Improvement Bonds and General Obligation Revenue Bonds.

Authority for issuing bonds is obtained from the Minnesota State Legislature. Currently the authorization permits the issuance of an additional $62 million of bonds.

General Obligation Revenue Bond Series 6 was issued December 23, 1986 in the face amount of $30,000,000. The proceeds are to be used for the construction of a multi-level parking structure adjacent to the Lindbergh Terminal Building at the Minneapolis-Saint Paul International Airport.

Bonds payable, due serially:

	Final Payment In	Outstanding— December 31 1987	1986
		(In Thousands)	
Airport Improvement Bonds:			
Series 5—2.8%	1988	$ 470	$ 955
Series 6—2.7%	1988	470	955
Series 7—3.7%	1989	440	650
Series 11—3.2%	1987		160
Series 13—3.9%	1989	685	1,005
Series 14—3.5 to 3.95%	1997	8,150	8,810
Series 15—3.5 to 3.9%	1997	480	520
Series 16—4.25 to 4.5%	1998	8,585	9,185
Series 17—5.5 to 7.0%	1999	3,125	3,300
Series 18—6.25%	1988	770	1,490
Series 19—5.5 to 6.3%	1999	7,790	8,210
Series 20—4.5 to 5.0%	2002	3,510	3,660
Series 21—4.6 to 4.8%	1989	795	1,165
		35,270	40,065
General Obligation Revenue Bonds:			
Series 1—6.0 to 7.0%	2005	8,230	8,465
Series 2—4.8 to 5.2%	2002	7,675	8,025
Series 3—5.2 to 5.75%	2000	11,700	12,300
Series 4—6.2 to 6.5%	2002	12,750	13,300
Series 5—8.9 to 9.1%	2002	20,500	21,500
Series 6—5.7 to 6.25%	2006	30,000	30,000
		90,855	93,590
TOTAL BONDS OUTSTANDING		**126,125**	**133,655**
Net unamortized discount		(865)	(919)
Accrued interest		3,569	2,995
		128,829	135,731
Less:			
Prepayments		(7,563)	(6,944)
Payable from restricted cash and investments—debt service		(23,274)	(24,390)
TOTAL BONDS PAYABLE		**$ 97,992**	**$ 104,397**

Notes to Financial Statements (continued)

MINNEAPOLIS-ST. PAUL METROPOLITAN AIRPORTS COMMISSION

NOTE F
LONG-TERM DEBT—CONTINUED

Future debt service requirements after December 31, 1987 are as follows:

Year(s)	Principal	Interest	Total
		(In Thousands)	
1988	$ 7,545	$ 7,586	$ 15,131
1989	8,035	7,135	15,170
1990	7,295	6,689	13,984
1991	7,700	6,250	13,950
1992	7,855	5,793	13,648
1993-1997	44,070	21,357	65,427
1998-2002	34,960	8,278	43,238
2003-2006	8,665	1,076	9,741
	$ 126,125	$ 64,164	$ 190,289

Rental agreements between the Commission and its tenants including the compensatory rental agreement, the self-liquidating agreements and other arrangements, provide for revenues which allow for the above required principal and interest payments. The current compensatory lease agreement with the major airlines expires in 1989. Negotiations are currently in process to arrive at a new agreement. Other Commission revenue to be received under minimum rental revenue provisions are not significant in the aggregate.

NOTE G
CAPITALIZATION OF INTEREST

Total interest costs incurred were $7,862,000 and $6,470,000 for 1987 and 1986, respectively. Interest costs excluded from interest expense and capitalized as part of the costs of constructed assets were $2,442,000 and $457,000 in 1987 and 1986, respectively. During 1987 the $2,442,000 capitalized was further reduced by $1,630,000 of interest earned on the undisbursed invested funds of General Obligation Revenue Bond Series 6.

Notes to Financial Statements (continued)

MINNEAPOLIS-ST. PAUL METROPOLITAN AIRPORTS COMMISSION

NOTE H
PENSION AND RETIREMENT PLANS

All the employees of the Commission are covered by either the basic Minneapolis Municipal Employees Retirement Fund (MERF) or Public Employees Retirement Association (PERA).

Employee membership in MERF was restricted by law to those employees hired prior to July 1, 1978. Employees hired after June 30, 1978 are required to become members of PERA.

MERF and PERA are cost-sharing multiple employer Public Employee Retirement Systems (PERS).

MERF

Plan Description

The Fund is a defined benefit retirement plan established and governed by State Statute. Benefits are based on an average of the highest five years of a member's salary received within the last ten years of employment, and years of creditable service at the date of retirement. In addition, the Fund provides benefits to active members upon disability and to survivors upon death of an active member. Benefits vest after ten years of service.

Employees are eligible for retirement either:

a. With 30 or more years of service at any age; or
b. At age 60 with 10 or more years of service; or
c. At age 65 with less than 10 years of service; or
d. With 20 or more years of service at age 55, if a MERF member prior to June 28, 1987.

The payroll for Commission employees covered by MERF for the years ended December 31, 1987 and 1986 was $5,852,000 and $5,958,000, respectively. The Commission's total payroll was $10,916,000 and $10,365,000 for the years ended December 31, 1987 and 1986, respectively.

Members who leave public service with over five years of service may leave their contributions with the Fund to start receiving retirement benefits at the age of 60. Prior to reaching age 60 these employees may choose to withdraw their contributions with interest. Upon reaching an eligible retirement age, employees must apply for a service retirement and choose the option under which to calculate their monthly benefit.

Contributions Required and Made

Covered employees are required by State Statute to contribute a fixed percentage of their gross earnings to the pension plan. In addition, employees also contribute a percentage of total compensation for survivor benefits.

The Commission makes annual contributions to the pension plan equal to the amount required by State Statutes. Employers contribute the normal cost as reported in the annual actuarial valuation, plus amounts toward covering administrative costs. To fully amortize the unfunded liabilities by the year 2017 as required by Statute, employers also contribute an additional 2.5 percent of covered payroll and an amount totaling $3.9 million annually. Commencing in 1986, the Minneapolis-St. Paul Metropolitan Airports Commission and the Metropolitan Waste Control Commission, in addition to the above contributions, are required to contribute additional support towards the amortization of the unfunded liability.

Current required contribution rates are as follows:

	Employee
Retirement Contributions.......	9.25
Survivor Benefits..............	.50

Total contributions made during fiscal years 1987 and 1986 amounted to $1,755,000 and $1,353,000 of which $1,182,000 and $771,000 was made by the Commission and $573,000 and $582,000

Notes to Financial Statements (continued)

MINNEAPOLIS-ST. PAUL METROPOLITAN AIRPORTS COMMISSION

Employer	Additional Employer
10.45%	2.50%

NOTE H
PENSION AND RETIREMENT PLANS—CONTINUED

was made by the employees, respectively. These contributions represented 20.2%, (Commission) and 9.8% (employees) of the covered payroll for the year ended December 31, 1987.

Funding Status and Progress

The "pension benefit obligation" is a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases and step-rate benefits, estimated to be payable in the future as a result of employee service to date. The measure, which is the actuarial present value of credited projected benefits, is intended to help users assess the MERF's funding status on a going concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparison among Public Employee Retirement Systems and employers. MERF does not make separate measurements of assets and pension benefit obligation for individual employees.

MERF's funding policy provides for periodic employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are adequate to accumulate sufficient assets to pay benefits when due. Level percentage of payroll employer contribution rates are determined using the entry age actuarial funding method. MERF also uses the level percentage of payroll method to amortize the unfunded liability by the year 2017.

MERF complied with the requirements of GASB No. 5 in preparing their financial statements for the year ended June 30, 1987. Previous year statements were not restated and information has, therefore, not been included.

Total unfunded pension benefit obligation of MERF based on actuarial valuations was as follows:

	June 30, 1987 (in millions)
Total pension benefit obligation.........	$877.1
Net assets available for pension benefits, at market...........	656.7
Unfunded pension benefit obligation...	$220.4

The Commission's required contribution to MERF for the year ended June 30, 1987 represents 10.7% of the total current-year actuarially determined contribution requirements for all employers covered by the pension plan.

Ten-year historical trend information is presented in the June 30, 1987 MERF Comprehensive Annual Financial Report. This information is useful in assessing progress made toward the pension plan's accumulation of sufficient assets to pay pension benefits as they become due.

Related Party Investments

MERF held no securities issued by the Commission or related parties during the two years ended December 31, 1987.

PERA

Plan Description

The PERA administers the Public Employees Retirement Fund and the Public Employees Police and Fire Fund, which are defined benefit pension plans.

Commission employees who are Public Employees Retirement Fund members belong to the Coordinated Fund and are covered by Social Security. All police officers, fire fighters, and peace officers who qualify for membership by statute are covered by the Police and Fire Fund. The PERA plans provide pension benefits, deferred annuity, and death and disability benefits. Benefits are established by State statute and vest after ten years of service.

Notes to Financial Statements (continued)

MINNEAPOLIS-ST. PAUL METROPOLITAN AIRPORTS COMMISSION

NOTE H
PENSION AND RETIREMENT PLANS—CONTINUED

Retirement benefits for members of the Coordinated Funds are as follows:

(a) When age plus years of service equal 90, the full unreduced normal annuity is payable.

(b) When age plus years of service equal 85, the full unreduced normal annuity is payable. Minimum age is 55. To retire under the Rule of 85, a member must qualify by December 31, 1986, and must retire by June 30, 1987.

(c) As early as age 55 with at least five years of paid service credit; annuity reduced one-fourth percent for each month under age 65.

(d) Any age with at least 30 years, reduced by one-fourth percent for each month under age 62.

(e) Age 65 or older with at least one but less than five years of paid service credit (proportionate annuity). Must terminate service at age 65 or older.

(f) Age 55 with at least five years of paid service credit or any age with at least 30 years representing PERA service combined with other fund coverage.

Retirement benefits for members of the Police and Fire Funds are as follows:

(a) When age plus years of service equal 90, the full unreduced normal annuity is payable.

(b) Age 55 or older with at least five years service credit.

(c) Age 55 or older with at least five years paid service credit representing PERA service combined with other fund coverage.

(d) Age 65 or older with at least one year of paid service credit (proportionate annuity). Must terminate service at age 65 or older.

A member who terminates public service with five or more years of credited allowable service may leave his or her amount in the Fund to qualify for an annuity at retirement age. The annuity as determined under the formula will be increased from the first of the month following date of termination at prescribed interest rates. The former member may accept a refund at any time prior to the date retirement annuity begins.

The Funds also provide various death and disability benefits, whereby the disabled employee or surviving spouse is entitled to receive amounts determined as defined by the funds.

The payroll for Commission employees covered by PERA plans for the year ended December 31, 1987 and 1986 was $4,670,000 and $4,040,000, respectively. The Commission's total payroll was $10,916,000 and $10,365,000 for the years ended December 31, 1987 and 1986, respectively.

Contribution Required and Made

Covered employees are required by State statute to contribute fixed percentages of their gross earnings to the pension plans. The Commission makes annual contributions to the pension plans equal to the amount required by State Statutes. Current required contribution rates for the plans are as follows:

	Employee
Public Employees Retirement Fund:	
Coordinated Fund	4%
Police and Fire Fund	8%

Total contributions made during fiscal years 1987 and 1986 amounted to $466,000 and $407,000 of which $252,000 and $220,000 was made by the Commission and $214,000 and $187,000 was made by employees, respectively. These contributions represented 5.4% (Commission) and 4.6% (employees) of the covered payroll for the year ended December 31, 1987.

Notes to Financial Statements (continued)

MINNEAPOLIS-ST. PAUL METROPOLITAN AIRPORTS COMMISSION

NOTE H
PENSION AND RETIREMENT PLANS—CONTINUED

Funding Status and Progress

The "pension benefit obligation" is a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases and step-rate benefits, estimated to be payable in the future as a result of employee service to date. The measure, which is the actuarial present value of credit projected benefits, is intended to help users assess the PERA's funding status on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among Public Employee Retirement Systems and employers. The PERA does not make separate measurements of assets and pension benefit obligation for individual employers.

The actuarial calculations of annual contributions include amounts that would be required to achieve full (100%) funding by the year 2009.

The pension benefit obligations of the PERA, based on recent actuarial valuations, were as follows:

	June 30 1987		June 30 1986	
	Public Employees Retirement Fund	Public Employees Police and Fire Fund	Public Employees Retirement Fund	Public Employees Police and Fire Fund
	(In Millions)			
Total pension benefit obligation	$2,839	$ 437	$2,590	$402
Net assets available for benefits, at market	2,609	549	2,291	463
Unfunded (excess) pension benefit obligation	$ 230	$(112)	$ 299	$(61)

The Commission's contribution for the year ended June 30, 1987 to PERA plans represented .003% of total contributions required of all participating entities.

Ten-year historical trend information is presented in PERA's State PERS Comprehensive Annual Financial Report for the year ended June 30, 1987. This information is useful in assessing the pension plan's accumulation of sufficient assets to pay pension benefits as they become due.

Related Party Investments

PERA held no securities issued by the Commission or other related parties during the two years ended December 31, 1987.

Employer	Additional Employer
4%	.25%
12%	

Notes to Financial Statements (continued)

MINNEAPOLIS-ST. PAUL METROPOLITAN AIRPORTS COMMISSION

NOTE I
DEFERRED COMPENSATION PLAN

The Commission offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all Commission employees, permits employees to defer up to 25% of salary, limited to $7,500 per year. Amounts deferred are available to employees or beneficiaries only at termination, retirement, death or unforeseeable emergency. Amounts deferred are placed with a trustee for investment purposes. Investments deposited for deferred compensation benefits are valued at fair market value.

All amounts of compensation deferred under the plan, property and rights purchased with those amounts, and income attributable to those amounts, property, or rights are solely the property and rights of the Commission (without being restricted to the provisions of the benefits under the plan), subject only to the claims of the Commission's general creditors (until paid or made available to the employee or other beneficiary). The Commission is responsible only for the prudent administration of the plan and is not responsible for market losses from investments that may result. Participants' rights under the plan are equal to those of general creditors of the Commission in an amount equal to the fair market value of the deferred account for each participant.

It is the opinion of the Commission's legal counsel that the Commission has no liability for losses under the plan but does have the duty of due care that would be required of an ordinary prudent investor. The Commission believes that it is unlikely that it will use the assets to satisfy the claims of general creditors in the future.

NOTE J
CONTINGENT LIABILITY

The Commission is a defendant in actions by certain property owners claiming damages arising from taking of plaintiffs' property through intrusion of noise-effective aircraft passing over and near their properties. The State of Minnesota Supreme Court originally upheld a district court's ruling that class action treatment was not to be accorded the suit. At the same time the Court established the authority and the responsibility of the Commission to pay damages to landowners affected as claimed by these plaintiffs.

To date, only one case has gone to trial, resulting in findings denying plaintiff's claim for damages. On appeal, the State of Minnesota Supreme Court reversed that decision on the grounds that plaintiff was entitled to a jury trial and ordered that a new trial be granted. The Supreme Court has since reaffirmed the denial of class action treatment and three cases are scheduled to go to trial in late 1988.

Liability of the Commission, if any, which may result from these actions is not determinable at this time. In the opinion of the Commission, liability, if any, arising from these claims will not have a significant effect on the operations of the Commission.

Statistical Section

MINNEAPOLIS-ST. PAUL METROPOLITAN AIRPORTS COMMISSION

Total Annual Revenues 1978-1987

MINNEAPOLIS-ST. PAUL METROPOLITAN AIRPORTS COMMISSION

	1978	1979	1980	1981
Traffic	$ 5,660,037	$ 6,575,127	$ 6,433,993	$ 6,671,105
Concessions	9,164,421	10,258,154	11,121,850	12,805,922
Rentals	7,493,238	7,746,978	9,107,390	10,400,101
Other	1,052,206	1,043,160	1,214,026	1,328,795
Total Operating Revenues	**$23,369,902**	**$25,623,419**	**$27,877,259**	**$31,205,923**
Add: Interest Income	3,898,636	6,302,980	8,001,770	9,231,999
Total Revenues	**$27,268,538**	**$31,926,399**	**$35,879,029**	**$40,437,922**

Source: Audit reports for the last ten years.

Total Annual Expenses 1978-1987

	1978	1979	1980	1981
Salaries, Wages & Employee Benefits	$ 6,567,688	$ 7,071,158	$ 7,969,138	$ 8,654,114
Operating Supplies	223,852	232,764	252,476	284,133
Utilities	1,650,641	1,701,157	2,147,960	2,438,805
Maintenance & Repairs	1,711,137	1,997,777	2,176,115	2,585,336
Parking Management	1,351,265	1,906,443	2,101,204	2,085,192
Depreciation	6,842,132	7,020,083	7,771,924	9,167,866
Other	1,052,110	1,795,673	1,261,876	1,214,631
Total Operating Expenses	**$19,398,825**	**$21,725,055**	**$23,680,693**	**$26,430,077**
Add: Interest Expense—1	4,659,948	4,447,712	5,345,750	5,588,855
Loss on Building Disposition	0	0	0	0
Total Expenses	**$24,058,773**	**$26,172,767**	**$29,026,443**	**$32,018,932**

Source: Audit reports for the last ten years.

1—Beginning in 1979, Interest Expense is net of capitalized interest. Also see note G to financial statements.

1982	1983	1984	1985	1986	1987
$ 6,850,095	$ 7,774,814	$ 9,175,762	$11,329,510	$12,213,329	$13,258,423
13,537,913	15,713,054	18,582,583	21,555,429	23,424,563	24,432,716
11,419,158	14,863,178	14,797,868	15,648,645	18,853,612	20,247,488
1,310,443	1,648,818	1,138,856	1,223,187	1,562,229	1,617,854
$33,117,609	**$39,999,864**	**$43,695,069**	**$49,756,771**	**$56,053,733**	**$59,556,481**
10,514,138	10,699,709	11,222,880	9,827,413	7,589,280	6,652,907
$43,631,747	**$50,699,573**	**$54,917,949**	**$59,584,184**	**$63,643,013**	**$66,209,388**

1982	1983	1984	1985	1986	1987
$ 9,459,467	$10,156,550	$10,649,333	$12,412,199	$12,186,971	$14,765,309
312,039	399,913	512,954	662,619	603,731	686,221
2,923,553	2,830,955	3,088,500	3,308,273	3,133,923	3,071,586
3,002,448	3,401,662	3,422,719	4,348,294	4,297,351	4,470,827
2,011,730	2,028,580	2,472,786	2,445,593	2,467,942	2,416,766
9,661,208	11,304,417	12,257,349	13,243,924	14,516,539	15,911,671
1,135,906	1,583,307	2,050,379	3,758,872	4,067,257	3,878,329
$28,506,351	**$31,705,384**	**$34,454,020**	**$40,179,774**	**$41,273,714**	**$45,200,709**
5,538,540	7,443,385	6,931,911	5,889,079	6,013,628	5,419,971
0	0	0	451,723	0	0
$34,044,891	**$39,148,769**	**$41,385,931**	**$46,520,576**	**$47,287,342**	**$50,620,680**

Ratio of Annual Debt Service to Total Expenses 1978-1987

MINNEAPOLIS-ST. PAUL METROPOLITAN AIRPORTS COMMISSION

	1978	1979	1980	1981
Principal	$ 4,860,000	$ 4,680,000	$ 5,155,000	$ 5,190,000
Interest—1	4,659,948	5,264,312	6,018,745	8,011,577
Total Debt Service	$ 9,519,948	$ 9,944,312	$11,173,745	$13,201,577
Total Expenses	$24,058,773	$26,172,767	$29,026,443	$32,018,932
Ratio of Debt Service to Total Expenses	**40%**	**38%**	**38%**	**41%**

1—Includes capitalized interest.

Revenue Available for Debt Service 1978-1987

	1978	1979	1980	1981
Operating Revenue	$23,369,902	$25,623,419	$27,877,259	$31,205,923
Interest Income	3,898,636	6,302,980	8,001,770	9,231,999
Operating Expense—1	(12,556,693)	(14,704,972)	(15,908,769)	(17,262,211)
Revenue available for debt service	$14,711,845	$17,221,427	$19,970,260	$23,175,711
Debt service	$ 9,519,948	$ 9,944,312	$11,173,745	$13,201,577
Coverage of debt service	**1.55**	**1.73**	**1.79**	**1.76**

1—Operating expense excludes depreciation.

1982	1983	1984	1985	1986	1987
$ 5,190,000	$ 6,415,000	$ 6,830,000	$ 7,080,000	$ 7,460,000	$ 7,530,000
7,821,673	7,510,573	7,166,764	6,812,091	6,469,781	7,862,027
$13,011,673	$13,925,573	$13,996,764	$13,892,091	$13,929,781	$15,392,027
$34,044,891	$39,148,769	$41,385,931	$46,520,576	$47,287,342	$50,620,680
38%	**36%**	**34%**	**30%**	**29%**	**30%**

1982	1983	1984	1985	1986	1987
$33,117,609	$39,999,863	$43,695,069	$49,756,771	$56,053,733	$59,556,481
10,514,138	10,699,709	11,222,880	9,827,413	7,589,280	6,652,907
(18,845,143)	(20,400,967)	(22,196,671)	(26,935,850)	(26,757,175)	(29,289,038)
$24,786,604	$30,298,606	$32,721,278	$32,648,334	$36,885,838	$36,920,350
$13,011,673	$13,925,583	$13,996,764	$13,892,091	$13,929,781	$15,392,027
1.90	**2.18**	**2.34**	**2.35**	**2.65**	**2.40**

Activity Statistics for Minneapolis St. Paul International Airport 1978-1987

MINNEAPOLIS-ST. PAUL METROPOLITAN AIRPORTS COMMISSION

	1978	1979	1980	1981
Total Passengers—1	9,357,998	9,982,510	8,938,487	7,732,828
Aircraft Operations—2	263,461	284,764	282,027	264,914
Mail and Cargo Volumes (Metric Tons)	113,269	129,777	107,762	109,467

Source: Metropolitan Airports Commission Activity Report

1—Statistical reporting requirements were revised as follows:
- In 1981, non-revenue passengers were no longer included in the totals. (Non-revenue passengers are airline employees and their relatives who fly for a minimal charge.)
- In 1986, on-line connecting passengers were included in the totals. 1982-1985 were restated to reflect this change. (On-line connecting passengers are passengers that change to another flight on the same carrier.)

2—Aircraft operations represents the total number of takeoffs and landings at the airport.

Aircraft Operations at the Reliever Airports 1978-1987

	1978	1979	1980	1981[1]
St. Paul Downtown Airport	145,551	154,871	134,286	107,305
Flying Cloud Airport	246,767	244,243	218,975	194,229
Crystal Airport	200,896	192,717	183,840	154,436
Anoka County/Blaine Airport	190,000	190,000	190,000	150,000
Lake Elmo Airport	100,000	95,000	100,000	90,000
Airlake Airport				
Total Aircraft Operations at the Reliever Airports	**883,214**	**876,831**	**827,101**	**695,970**

Source: Metropolitan Airports Commission Activity Report

1—Due to the FAA/PATCO labor dispute, FAA control tower hours varied greatly. The reduction in hours has had a significant effect on the recording of operations data.

2—Aircraft operations represents the total number of takeoffs and landings at the airport.

Schedule of Airline Rates and Charges 1978-1987

	1978	1979	1980	1981
Landing Fee/1000 lbs.	$ 0.47	$ 0.44	$ 0.44	$ 0.46
Ramp Fees/Lineal Foot	$120.83	$124.40	$122.92	$135.13
Terminal Building Rentals:				
Common Use/Square Foot	$ 8.80	$ 8.96	$ 10.09	$ 11.08
Finished/Square Foot	8.16	8.12	8.67	9.47
Finished Janitored/Square Foot	10.46	10.64	12.11	13.44
Unfinished/Square Foot	7.70	7.67	8.22	8.98

Source: Compensatory Rental Report

Population of Seven County Metropolitan Area 1978-1987

1978	1979	1980	1981
1,999,760	1,991,140	1,973,862	1,993,400

Source: Metropolitan Council

1982	1983	1984	1985	1986	1987
9,727,913	11,134,919	12,039,411	14,803,833	17,073,605	17,858,984
252,151	307,801	337,838	372,911	389,012	373,660
106,752	117,316	139,859	144,925	199,319	206,799

1982	1983	1984	1985	1986	1987
77,509	97,118	103,118	112,019	124,786	135,397
145,718	166,266	165,542	176,246	191,350	209,423
123,577	136,314	140,704	143,665	152,773	165,367
150,000	140,000	145,000	160,000	165,000	180,000
90,000	90,000	92,000	82,000	70,000	63,000
	20,000	23,000	35,000	40,000	52,000
586,804	**649,698**	**669,364**	**708,930**	**743,909**	**805,187**

1982	1983	1984	1985	1986	1987
$ 0.47	$ 0.47	$ 0.47	$ 0.57	$ 0.55	$ 0.65
$152.26	$169.15	$185.07	$185.64	$178.83	$177.01
$ 13.16	$ 13.35	$ 13.10	$ 14.13	$ 13.79	$ 15.15
11.36	11.61	11.39	12.30	11.84	12.68
15.78	15.92	15.57	16.89	16.68	18.32
10.83	11.08	10.90	11.82	11.38	12.24

1982	1983	1984	1985	1986	1987
2,002,000	2,033,080	2,057,157	2,086,356	2,118,445	2,153,533

Insurance Coverage

MINNEAPOLIS-ST. PAUL METROPOLITAN AIRPORTS COMMISSION

Policy Number	Insurer	Inception	Expiration	Coverage	Policy Limits (Thousands of Dollars)
PL024701	Self-Insured	11/03/87	11/03/88	Directors' and Officers' liability insurance	N/A
Binders	Arkwright Insurance	01/01/88	01/01/89	Blanket fire & extended coverage on building and contents 90% co-insurance. Heavy equipment, boiler, and machinery, and builder's risk. (subject to 1988 appraisal)	$215,000
Self-Insured	Fred S. James— Third Party Admin.	03/01/87	03/01/88	Statutory workers' compensation	100/500/100
Binder	Fidelity & Deposit Company of Maryland	03/01/87	03/01/88	Comprehensive crime employee bond	1,000
Binder	Associated Aviation Underwriters	12/23/87	12/23/88	General Aviation liability including personal injury	200,000
Binder	Lloyds of London	12/23/87	12/23/88	Excess Liability	100,000
BA8777483188	Chubb	01/01/88	01/01/89	Auto liability and physical coverage and hired automobiles	$1,000 Per Occurrence
BA8777483188	Chubb	01/01/88	01/01/89	Garage keepers liability	120
Binder	Chubb	01/01/88	01/01/89	Fleet physical damage	Values Over $50,000

Scheduled and Commuter Airline Service

MINNEAPOLIS-ST. PAUL METROPOLITAN AIRPORTS COMMISSION

At the end of 1987, major scheduled airlines serving the Twin Cities were:

- American Airlines
- Braniff Airlines
- Continental Airlines
- Delta Airlines
- Eastern Airlines
- Midway Airlines
- Northwest Orient Airlines
- PanAm Airlines
- Piedmont Airlines
- TWA
- United Airlines
- USAir

Commuter service offers an extensive feeder route system to MSP International for connecting flights. Regional/Commuter airlines serving Minneapolis/Saint Paul at the end of 1987 were:

- Austin Airways
- Bemidji Airlines
- Great Lakes Aviation
- Mesaba Airlines
- Midwest Aviation
- Time Air (formerly Norcanair)
- Express I (formerly Republic Express)
- Simons

Three branches of United States Armed Forces are represented at Minneapolis/Saint Paul International Airport; the Air Force Reserve 934th Tactical Airlist Group, the Marine Air Reserve Training Detachment, and the Naval Air Reserve—Twin Cities Center. Also at MSP is the Minnesota Air National Guard 133rd Tactical Airlift Group. At Saint Paul Downtown the Army maintains a dozen support helicopters and the National Guard bases its Fixed Wing Squadron. Training flights, servicing, and simulated emergencies are conducted on a regular basis.