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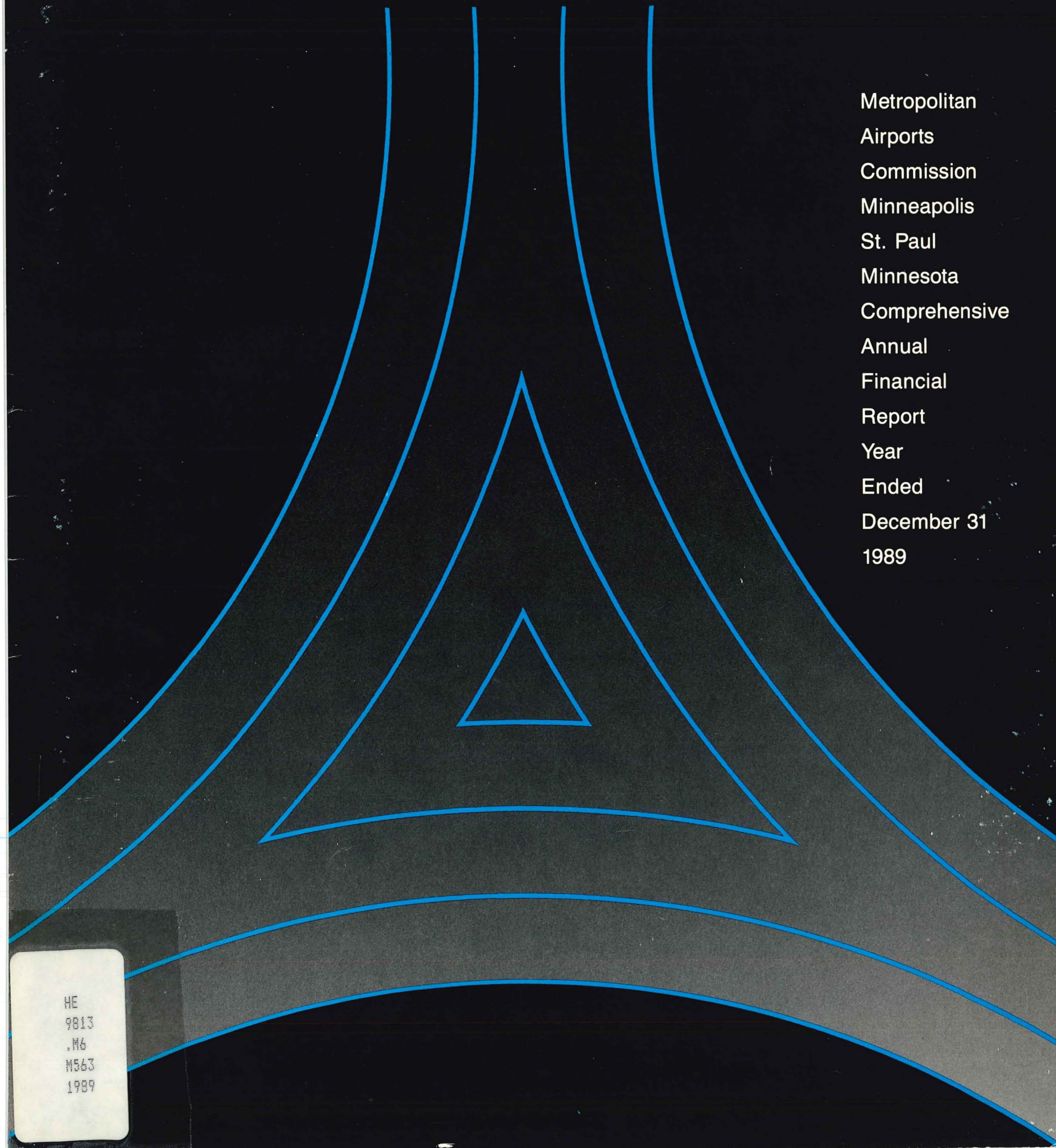

Metropolitan
Airports
Commission
Minneapolis
St. Paul
Minnesota
Comprehensive
Annual
Financial
Report
Year
Ended
December 31
1989

Minneapolis - St. Paul
Metropolitan Airports Commission 1989

Chairman: Thomas Holloran

Commissioners:

Precinct 1	Sam Grais
Precinct 2	Virginia Lanegran
Precinct 3	Ronald Jerich
Precinct 4	Howard Mueller
Precinct 5	Tim Lovaasen
Precinct 6	Wilfred Viitala
Precinct 7	Robert McNulty
Precinct 8	Alton Gasper
City of Minneapolis	Jan Del Calzo
City of St. Paul	Thomas Kayser
Representing Greater Minnesota Area:	Faye Petron
	Thomas A. Vecchi
	Mark Brataas
	Clinton Dahl
Executive Director:	Jeffrey W. Hamiel

Metropolitan Airports Commission Minneapolis St. Paul Minnesota Comprehensive Annual Financial Report Year Ended December 31, 1989

Prepared by:
The Finance Department
Denise A. Kautzer
Director of Finance

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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, 1988

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFR's) achieve the highest standards in government accounting and financial reporting.

GOVERNMENT FINANCE OFFICERS ASSOCIATION OF THE UNITED STATES AND CANADA CORPORATION SEAL CHICAGO

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

March 2, 1990

To The Public:

The Comprehensive Annual Financial Report of the Metropolitan Airports Commission, Minneapolis-St. Paul, Minnesota, for the fiscal year ended December 31, 1989, is hereby submitted. Responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures rests with the Commission. To the best of our knowledge and belief, the enclosed data is accurate in all material respects and reported in a manner designed to present fairly the financial position and results of operations of various funds and account groups of the Commission. All disclosures necessary to enable the reader to gain an understanding of the Commission's financial activities have been included.

The Comprehensive Annual Financial Report is presented in three sections—Introductory, Financial, and Statistical. The Introductory Section includes this Transmittal Letter, the Commission's organization chart, and a list of principal officials. The Financial Section includes the general purpose financial statements and schedules, as well as the Report of Independent Auditors on financial statements. The Statistical Section includes selected financial and activity information generally presented on a multi-year basis.

The Commission is required to undergo an annual single audit in conformity with the provisions of the Single Audit Act of 1984 and the U.S. Office of Management and Budget, Circular A-128, Audits of States and Local Governments. Information related to this single audit including the Schedule of Federal Financial Assistance, findings and recommendation, and auditors report on the internal control structure and compliance with applicable laws and regulations are issued as a separate report.

The Metropolitan Airports Commission (MAC) 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.

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

MAC jurisdiction is throughout the Minneapolis-St. Paul Metropolitan Area radiating 35 miles 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

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 taxable property in the Metropolitan Area to meet operation and maintenance costs of airport facilities. The Commission is governed by fifteen 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 Governor also appoints four Commissioners representing the Greater Minnesota Area, (i.e. outside the Metropolitan Area). 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 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.

ECONOMIC CONDITION AND OUTLOOK

Changes in the operation and technical requirements of the nation's system of airports and airways continue to occur at a faster pace than that of other types of public works and facilities. Aviation's long-term growth rates have exceeded that of most other industries. Trends in traffic for commercial aviation at MSP have reflected the increased volitility of the market in which it operates. Primarily, as a result of the emergence of MSP as a hub, growth of air traffic at MSP has outpaced national trends. Nationally, enplanements rose by 12 percent over the period 1985 through 1988. Over that same period, MSP enplanements grew by 14 percent—slightly above the national average.

At the reliever airports, the picture is considerably different, between 1980 and 1982 operations at reliever airports actually declined by an average of 13 percent annually; however, since that time, operations have rebounded increasing at an average annual rate of 6 percent. Even with these fluctuations, no single reliever airport has come to dominate the market with the distribution of operations remaining relatively stable over the past 10 years.

The most recent FAA forecast of passenger traffic calls for an average annual growth rate of 5.8 percent for the next two years and 4.5 percent through the end of the century. These trends are somewhat higher than recent years when passenger traffic increased 4.4 percent in 1988 and 5.9 percent average from 1980 through 1987. Recent projections forecast growth at MSP of 4.5 percent per year. Regional airline activity and enplanements are a primary contributor to this projected growth rate.

The financial trends for the MAC suggest a strong and stable financial presence. Even while coping with strong growth at MSP the finances at MAC have remained strong and shown growth.

MAJOR INITIATIVES FOR THE YEAR

During 1989 perhaps more than any other 12-month period in the Commission's history, change was pervasive. It was a pivotal year for the new airport planning process. The 1989 session of the Minnesota State Legislature established the "dual track" planning and development process whereby the MAC and the Metropolitan Council embarked on a program that will continue the development at MSP, while keeping the option open for the development of a new major airport. The planning process will continue through 1996 when the legislature will consider whether or not to construct a new major airport.

Recognizing the importance of the new airport planning process to the entire region and the state, the state legislature added positions for four out-state commissioners to the make-up of the Commission. Governor Perpich appointed Mark Brataas of Rochester, Thomas Vecchi of Duluth, Faye Petron of Little Falls and Clayton Dahl of Jackson to the new posts. In February, a new chairman, Thomas Holloran, also was appointed by the Governor.

A two-phase rehabilitation of Runway 4/22, was completed during the year. The project was split into two phases in order to begin the project in late winter to minimize the noise impact of construction and aircraft noise on surrounding neighborhoods. Noise abatement continued to be one of the busiest programs for the MAC in 1989.

A controversial Runway Use System (RUS) designed to replace the outdated Preferential Runway System (PRS), was approved by the Commission and a recommendation for implementation was sent to the Federal Aviation Administration (FAA). The RUS, when implemented, will provide a few more hours of noise relief each day for residents of South Minneapolis while increasing slightly the use of Runway 4/22.

In September, a major amendment to the Airport Use Agreement between the MAC and the airlines was completed. The agreement covers landing fees, ramp charges and terminal building rentals.

The pact is unique for it imposes a surcharge for each jet aircraft arrival at MSP. The surcharge will be used for off-airport noise abatement costs and is higher for noisier Stage II aircraft than for newer, quieter Stage III aircraft.

Other key provisions of the lease amendment provide:

- Airline payment of 50 percent of new airport planning costs.
- Continued funding of the MAC's entire airport system from MSP concessions and other revenues.
- Simplified calculation of rates and charges, updated allocations of indirect costs, and language pertaining to bankruptcy, discrimination, liability and indemnification.
- "Use it or Share it" provision which assists in controlling and allocating scarce and valuable gates and ramp areas.

In 1989, the Commission's principal tenant, Northwest Airlines (NWA), was purchased by an investment group headed by Alfred Checchi. The acquisition was significant to the Commission in several respects including the planning for future airport needs, continued economic development at MSP, environmental concerns and financial stability.

An immediate impact of the purchase was the reopening of the selection process for NWA's new heavy maintenance base for its A320 aircraft. Previous NWA management had all but excluded MSP from consideration. As one of seven finalists for the maintenance facility, MAC submitted an attractive proposal to NWA which provides for an enterprise zone, tax increment financing, and other major incentives. NWA said it would announce the location for the facility by year end 1990. The heavy maintenance base would cost about $225 million and provide more than 1,200 high paying jobs.

In October, the seven-level auto parking structure was completed. The addition of 2,100 parking spaces brings to 11,000 the number of cars that can be accommodated at one time by MSP parking facilities. In addition, construction is continuing on an aircraft maintenance hangar for NWA, which will house two 747-400 aircraft. These facilities will improve the level of service available to the traveling public and further enhance the economic contribution of air transportation in the community.

FINANCIAL INFORMATION

Management of the MAC is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the Commission are protected from loss, theft, or misuse, and to ensure that adequate accounting data are compiled to allow for the preparation of financial statements in conformity with generally accepted accounting principles. The internal control structure is designed to provide reasonable but not absolute assurance that these objectives are met. The concept of reasonable assurance recognizes that: 1) The cost of a control should not exceed the benefits likely to be derived and 2) The evaluation of costs and benefits requires estimates by management.

For financial reporting purposes and in conformance with the Government Accounting Standards Board Pronouncements, MAC is defined as an enterprise fund. This report includes all funds and account groups of the MAC. Accounting records are maintained on an accrual basis in accordance with generally accepted accounting principles.

BUDGETING CONTROLS

The MAC annually adopts an Operating Budget which is organized by functional responsibility according to cost 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, which was signed in 1989. 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.

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 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 1989 MAC operating revenues increased by 3.5% to $62,000,000 from $59,909,000 in 1988. Changes in major categories are summarized below: (dollars in thousands)

	1989 $	1989 %	1988 $	1988 %	DOLLAR CHANGE	PERCENTAGE CHANGE
TRAFFIC	$14,005	22.6%	$12,872	21.5%	$1,133	8.8%
COMMERCIAL:						
CONCESSIONS	25,062	40.4	23,554	39.3	1,508	6.4
RENTALS	21,712	35.0	21,600	36.0	112	0.5
UTILITIES	607	1.0	1,172	2.0	(565)	(48.2)
MISCELLANEOUS	614	1.0	711	1.2	(97)	(13.6)
OPERATING REVENUES	**$62,000**	**100%**	**$59,909**	**100%**	**$2,091**	**3.5%**

Increases in operating revenue occurred in the traffic, concessions and rental categories. Traffic increased $1,133,000 or 8.8% because of ramp fees. Ramp fees are calculated on a breakeven basis, with revenue and expense being equal. An increase in revenue results from an increase in expense in the ramp cost center. The additional expense in the ramp cost center for 1989 was due to a change in the way some costs (police, fire and administrative) are charged to this area.

Concessions increased $1,508,000 or 6.4%. The following concessions make up over 90% of the increase:

CONCESSION	$ INCREASE	REASON FOR INCREASE
Telephone	$383,000	New Lease
Advertising	$222,000	New Lease
Merchandising	$217,000	Increased Facilities
Food	$256,000	Increased Facilities
Auto Parking	$283,000	New Ramp Opened

Utilities decreased from $1,172,000 to $607,000. This reduction was the result of a one-time adjustment to steam and chilled water billings for the period 1985 through 1988. MAC had previously overbilled NWA for this period. Miscellaneous revenue went from $711,000 to $614,000 as a result of reduced parking fines collected and other numerous small dollar items.

Major investments in facilties 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. A new agreement with the airlines was negotiated in 1989.

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.

In 1989 and 1988, net revenues for each airport were as follows: (in thousands)

	Operating Revenue	Operating Expense	1989 Net Revenue	1988 Net Revenue
MSP	$61,261	$(46,471)	$14,790	$14,848
St. Paul Downtown	344	(2,043)	(1,699)	(1,416)
Flying Cloud	179	(642)	(463)	(275)
Crystal	69	(374)	(305)	(373)
Anoka	71	(588)	(517)	(433)
Lake Elmo	34	(275)	(241)	(366)
Airlake	42	(320)	(278)	(156)
TOTAL	**$62,000**	**($50,713)**	**$11,287**	**$11,829**

In 1989 MAC operating expenses increased by 5.5% to $50,713,000 from $48,080,000 in 1988. Changes in major categories are summarized below: (dollars in thousands)

	1989 $	1989 %	1988 $	1988 %	DOLLAR CHANGE	PERCENTAGE CHANGE
SALARIES, WAGES AND EMPLOYEE BENEFITS	$17,551	34.6%	$15,116	31.4%	$2,435	16.1%
ADMINISTRATIVE SUPPLIES & EXPENSES	512	1.0	406	.8	106	26.1
PROFESSIONAL SERVICES	3,229	6.4	3,063	6.4	166	5.4
UTILITIES	3,704	7.3	3,809	7.9	(105)	(2.8)
OPERATING SERVICES	4,272	8.4	3,600	7.5	672	18.7
MAINTENANCE	6,144	12.1	5,451	11.4	693	12.7
DEPRECIATION	15,018	29.6	16,485	34.3	(1,467)	(8.9)
OTHER	283	.6	150	.3	133	88.7
OPERATING EXPENSES	**$50,713**	**100%**	**$48,080**	**100%**	**$2,633**	**5.5%**

Major changes occurred in the expense categories of salaries, wages, and employee benefits, operating services, maintenance and depreciation.

Salaries, wages, and employee benefits are up 16.1% because of increased staffing, wages, and employee insurance. The most significant portion of the increase is employee insurance which was up due to extraordinary cases and overall additional use of health care services by MAC employees.

Operating services increased 18.7% from 1988 to 1989. The majority of this change is due to the Parking Management and Shuttle Bus fees. Parking is up because of higher payroll costs at APCOA and additional overtime required when new short term parking facilities were opened. Shuttle bus fees increased approximately $200,000 in 1989 due to the addition of a new shuttle service. The auto rental shuttle was added to provide service between the Lindbergh Terminal and the Auto Rental Facility.

Maintenance expense for 1989 is approximately $693,000 greater than 1988. The cause of this increase was cleaning services. Additional space created through expanded facilities was added to the cleaning contract.

Depreciation decreased by $1,467,000 or 8.9%. This is the result of some airport facilities that were fully depreciated in 1988. Among those facilities was a portion of the Lindbergh Terminal Building.

DEBT ADMINISTRATION

The MAC 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 from October 10 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:

1990	$37,676,715
1991	$37,355,983
1992	$37,059,810
1993	$36,461,502
1994	$35,881,535

MAC last sold bonds ($51,150,000) in August, 1988, 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 $99 million of bonds.

CAPITAL PROJECTS

Each year the MAC approves capital projects that are planned to 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.

Anticipated projects planned for 1990 and 1991, as well as the extended period 1992-1996, 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.)

AIRPORTS	**1990**	**1991**	**1992-96**
MSP:			
FIELD AND RUNWAYS	$ 17,550,000	$ 26,950,000	$ 55,225,000
ENVIRONMENTAL	8,275,000	3,800,000	19,000,000
SELF-LIQUIDATING	43,200,000	64,000,000	116,000,000
TERMINAL BUILDING AND OTHERS	41,655,000	8,100,000	9,500,000
ST. PAUL DOWNTOWN	3,195,000	3,575,000	900,000
FLYING CLOUD	250,000	360,000	500,000
CRYSTAL	375,000	425,000	600,000
ANOKA COUNTY	2,050,000	375,000	1,650,000
LAKE ELMO	200,000	375,000	600,000
AIRLAKE	730,000	1,100,000	1,150,000
TOTALS	**$117,480,000**	**$109,060,000**	**$205,125,000**

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 1989, 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, this arrangement does not expose our investment portfolio to unnecessary risk. Total investment earnings for 1989 were $9,921,000. The average yield on investments during the year was 8.7%.

INDEPENDENT AUDIT

The financial records of the MAC are audited annually by a firm of independent certified public accountants. The audits for the years ended December 31, 1989, and 1988 were performed by Ernst and Young. Their opinion on the financial statements is presented in this report.

In conjunction with the annual audit, Ernst and Young performs procedures consistent with the Single Audit Act of 1984 (The Act), OMB Circular A-128 and guidelines in relation to grant award agreement between the MAC and FAA in progress during the year. The reports issued as required by the act, are intended for the use of MAC and the FAA, do not change in any way the financial statements and have not been included in this report.

In accordance with Minnesota State Law, the Legislative Auditor may conduct a financial audit of the MAC or allow this service to be contracted. In 1989, the financial audit has been performed by the firm Ernst and Young. In addition, the Legislative Auditor periodically conducts a separate audit to examine the Commission's compliance with applicable laws, policies, and procedures.

AWARDS

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, 1988. For the fourth consecutive year, the Commission has received the prestigious award.

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 report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current Comprehensive Annual Financial Report continues to meet the Certificate of Achievement Program's requirements, and we are submitting it to the GFOA to determine its eligibility for another certificate.

In addition, the Commission also received for the fourth consecutive year the GFOA Award For Distinguished Budget Presentation for its Annual Operating Budget for 1989. In order to qualify for the Distinguished Budget Presentation, the Commission's budget document was judged to be proficient in several categories, including policy documentation, financial planning and organization.

ACKNOWLEDGMENTS

The preparation of the Comprehensive Annual Financial Report on a timely basis was made possible by the dedicated service of the entire staff of the Finance Department. Each member of the department has our sincere appreciation for the contribution made in preparation of this report.

In closing, without the leadership and support of the governing body of the Metropolitan Airports Commission, preparation of this report would not have been possible.

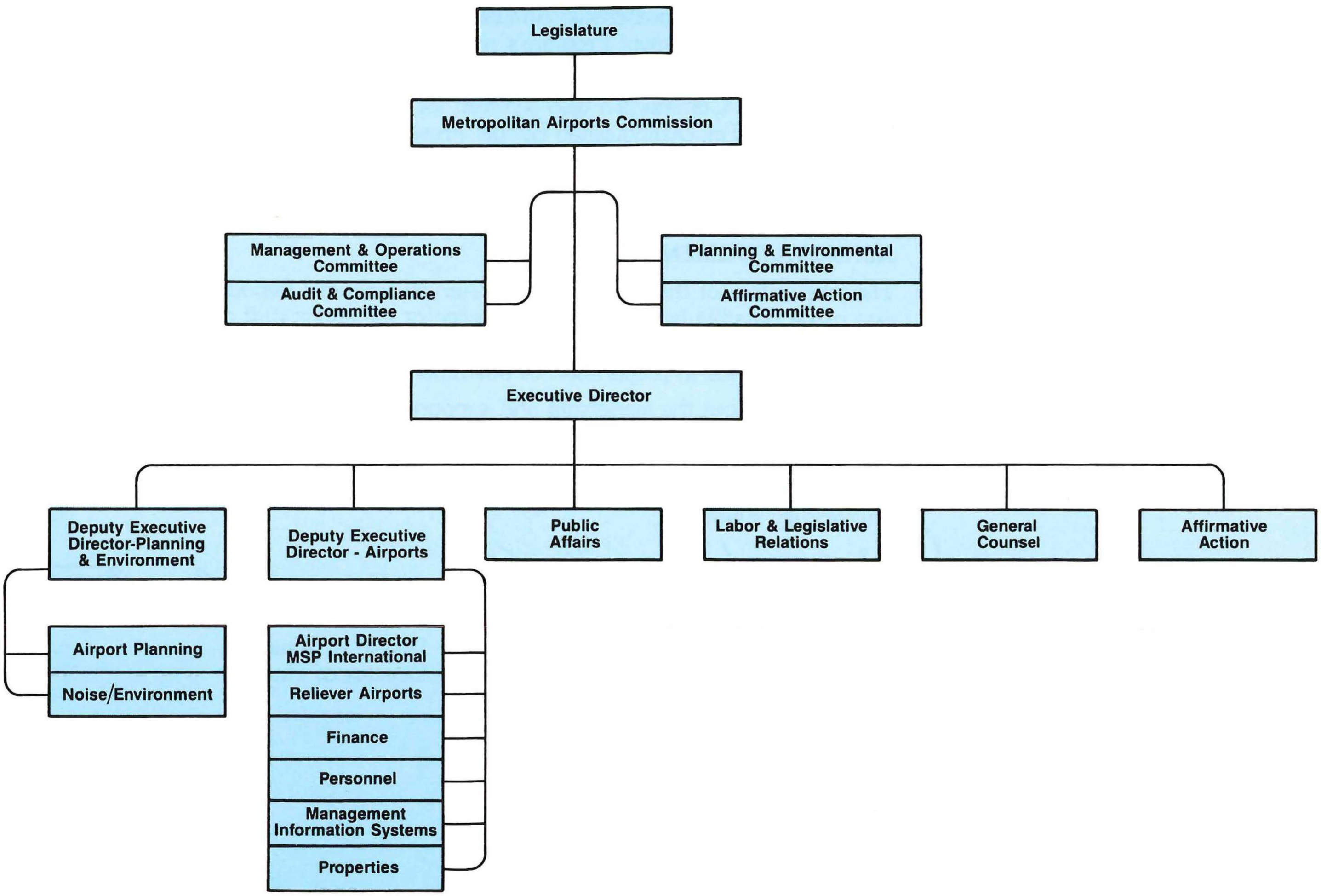
Respectfully submitted,

Jeffrey W. Hamiel
Executive Director

Denise A. Kautzer
Director of Finance

Organizational Chart

MINNEAPOLIS-ST. PAUL METROPOLITAN AIRPORTS COMMISSION



Financial Section

Report of Independent Auditors

Members of the Commission
Minneapolis-Saint Paul Metropolitan
Airports Commission

We have audited the accompanying balance sheets of Minneapolis-Saint Paul Metropolitan Airports Commission as of December 31, 1989 and 1988, and the related statements of revenues and expenses and changes in 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 audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Minneapolis-Saint Paul Metropolitan Airports Commission at December 31, 1989 and 1988, and the results of its operations and its cash flows for the years then ended, in conformity with generally accepted accounting principles.

Ernst + Young

Minneapolis, MN
March 2, 1990

Balance Sheets

MINNEAPOLIS-ST. PAUL METROPOLITAN AIRPORTS COMMISSION

(Dollars in Thousands)

	December 31 1989	December 31 1988
ASSETS		
Cash and investments—Note B:		
Unrestricted:		
Cash and cash equivalents	$ 36	$ 584
Investments	6,863	6,986
Restricted—Note C:		
Cash and cash equivalents	58	22
Investments	105,279	148,808
	105,337	148,830
	112,236	156,400
Accounts receivable	3,276	3,153
Government grants in aid of construction receivable	1,926	980
Airports and facilities—Notes E and F	337,745	266,674
Designated for deferred compensation plans—Note I	3,610	3,027
Other	158	428
TOTAL ASSETS	**$458,951**	**$430,662**
LIABILITIES AND FUND EQUITY		
Accounts payable and accrued expenses	$ 4,640	$ 2,973
Payables from restricted assets:		
Debt service—Note F	27,396	27,307
Construction	7,930	8,093
Other	478	265
Employee compensation and payroll taxes	1,700	1,465
Deferred revenue	11,015	6,194
Deferred compensation benefits—Note I	3,610	3,027
Bonds payable—Note F	128,478	136,262
TOTAL LIABILITIES	**185,247**	**185,586**
FUND EQUITY		
Contributed capital	77,164	66,192
Retained earnings:		
Reserved—Note C	69,533	113,165
Unreserved	127,007	65,719
	196,540	178,884
TOTAL FUND EQUITY	**273,704**	**245,076**
CONTINGENT LIABILITIES—Note J		
TOTAL LIABILITIES AND FUND EQUITY	**$458,951**	**$430,662**

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 1989	1988
OPERATING REVENUES		
Traffic	$ 14,005	$ 12,872
Commercial:		
Concession	25,062	23,554
Rentals	21,712	21,600
Utilities	607	1,172
Miscellaneous	614	711
TOTAL OPERATING REVENUES	**62,000**	**59,909**
OPERATING EXPENSES		
Salaries, wages and employee benefits	17,551	15,116
Maintenance	6,144	5,451
Professional services	3,229	3,063
Utilities	3,704	3,809
Operating services	4,272	3,600
Administrative supplies and expenses	512	406
Depreciation	15,018	16,485
Other	283	150
TOTAL OPERATING EXPENSES	**50,713**	**48,080**
OPERATING INCOME	**11,287**	**11,829**
OTHER REVENUES (EXPENSES)		
Interest income	9,921	9,587
Gain on sale of airports and facilities		1,081
Bond interest expense	(7,058)	(7,640)
NET INCOME	**14,150**	**14,857**
Add depreciation of facilities provided by government grants—Note A	3,506	3,535
INCREASE IN RETAINED EARNINGS	**17,656**	**18,392**
Retained earnings—beginning of year	178,884	160,492
RETAINED EARNINGS—END OF YEAR	**$196,540**	**$178,884**

See notes to financial statements.

Statements of Cash Flows

MINNEAPOLIS-ST. PAUL METROPOLITAN AIRPORTS COMMISSION

(Dollars in Thousands)

	Year Ended December 31 1989	1988
Cash flows from operating activities:		
Operating income	$ 11,287	$ 11,829
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	15,018	16,485
Changes in operating assets and liabilities:		
Accounts receivable	(123)	848
Other assets	270	84
Accounts payable and accrued expenses	(75)	597
Other restricted liabilities	213	265
Employee compensation and payroll taxes	235	(436)
Deferred revenue	4,821	(284)
NET CASH PROVIDED BY OPERATING ACTIVITIES	**31,646**	**29,388**
Cash flows from capital and related financing activities:		
Payments for airports and facilities	(80,707)	(46,050)
Proceeds from disposal of airports and facilities	115	1,393
Proceeds from issuance of bonds		50,958
Payments on bonds	(7,740)	(8,680)
Interest paid on bonds	(10,931)	(9,102)
Receipts of government grants in aid of construction	13,532	5,708
NET CASH USED IN CAPITAL AND RELATED FINANCING ACTIVITIES	**(85,731)**	**(5,773)**
Cash flows from investing activities:		
Purchase of investment securities	(484,209)	(368,441)
Proceeds from maturities of investment securities	527,463	330,737
Interest on investments	10,319	9,497
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	**53,573**	**(28,207)**
NET DECREASE IN CASH AND CASH EQUIVALENTS	**(512)**	**(4,592)**
Cash and cash equivalents, beginning of year	606	5,198
CASH AND CASH EQUIVALENTS, END OF YEAR	**$ 94**	**$ 606**

See notes to financial statements.

MINNEAPOLIS-ST. PAUL METROPOLITAN AIRPORTS COMMISSION

December 31, 1989

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 a fifteen 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% for mortgage notes pledged). Authorized collateral includes allowable investments as discussed below, certain first mortgage notes, and certain other state

NOTE A
SIGNIFICANT ACCOUNTING POLICIES—CONTINUED

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.

Statement of Cash Flows

The Metropolitan Airports Commission has adopted Governmental Accounting Standards Board Statement No. 9, "Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities that Use Proprietary Fund Accounting," for the year ended December 31, 1989. The 1988 statement is presented on a basis consistent with the current year. For purposes of the statement of cash flows, the Metropolitan Airports Commission considers cash on hand plus overnight investments to be cash equivalents.

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

NOTE A SIGNIFICANT ACCOUNTING POLICIES—CONTINUED

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.

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. Revenues from one major airline account for approximately 39% of operating revenues and 77% of revenues from major airlines.

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.

NOTE B
CASH AND INVESTMENTS

Cash

Cash balances are as follows:

	December 31 1989	December 31 1988
	(In Thousands)	
Financial statement balances	$(546)	$ 99
Bank balances:		
Insured or collateralized by securities held in the Commission's name by a financial institution other than that furnishing the collateral	$ 957	$858

At December 31, 1989, the cash balances at all depositories were adequately insured or collateralized with securities held by the Commission or its agent in the Commission's name.

Investments

The Commission's investments at December 31, 1989 and 1988 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 counterparty'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 counterparty, 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.

NOTE B
CASH AND INVESTMENTS—
CONTINUED

Type of Security	Carrying Amount: Credit Risk Category 1	2	3	Total	Market Value
	(In Thousands)				
December 31, 1989					
U.S. Government and agencies	$ 95,693			$ 95,693	$ 93,181
Commercial paper	12,905		$3,498	16,403	16,318
Repurchase agreements			686	686	686
	$108,598	**$ —**	**$4,184**	**$112,782**	**$110,185**
December 31, 1988					
U.S. Government and agencies	$123,139			$123,139	$119,716
Commercial paper	25,646		$4,576	30,222	29,740
Repurchase agreements			2,940	2,940	2,940
	$148,785	**$ —**	**$7,516**	**$156,301**	**$152,396**

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.

Cash and investments segregated as regular construction funds include amounts received from issuance of

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

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	
	1989	1988
Debt service	$ 27,396	$ 27,307
Construction:		
Regular	13,336	62,920
Special	64,128	58,308
Other	477	295
TOTAL RESTRICTED CASH AND INVESTMENTS	**105,337**	**148,830**
Less payables to be paid from restricted cash and investments:		
Debt service	27,396	27,307
Construction	7,930	8,093
Other	478	265
	35,804	35,665
RESERVED RETAINED EARNINGS	**$ 69,533**	**$113,165**

NOTE D CHANGES IN FUND EQUITY

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

	Contributed Capital	Retained Earnings Reserved	Retained Earnings Unreserved	Total
Balance January 1, 1988	**$64,544**	**$ 89,236**	**$ 71,256**	**$225,036**
Government grants in aid of construction	5,183			5,183
Net income for the year			14,857	14,857
Depreciation of facilities provided by government grants	(3,535)		3,535	
Net change in restricted assets and liabilities		23,929	(23,929)	
Balance December 31, 1988	**66,192**	**113,165**	**65,719**	**245,076**
Government grants in aid of construction	14,478			14,478
Net income for the year			14,150	14,150
Depreciation of facilities provided by government grants	(3,506)		3,506	
Net change in restricted assets and liabilities		(43,632)	43,632	
Balance December 31, 1989	**$77,164**	**$ 69,533**	**$127,007**	**$273,704**

NOTE E
AIRPORTS AND FACILITIES

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

Airports and Facilities	Balance January 1, 1989	Additions	Transfers In (Out)	Deductions	Balance December 31, 1989
Land	$ 12,601	$ 280			$ 12,881
Airport improvements and buildings	391,728	1,228	$64,396		457,352
Moveable equipment	16,109	1,527		$ (311)	17,325
Projects-in-progress	35,470	83,169	(64,396)	(55)	54,188
TOTAL AIRPORTS AND FACILITIES	**455,908**	**86,204**	**—**	**(366)**	**541,746**
Accumulated depreciation	(189,234)	(15,018)		251	(204,001)
NET AIRPORTS AND FACILITIES	**$266,674**	**$71,186**	**$ —**	**$ (115)**	**$337,745**

Airports and Facilities	Balance January 1, 1988	Additions	Transfers In (Out)	Deductions	Balance December 31, 1988
Land	$ 12,651			$ (50)	$ 12,601
Airport improvements and buildings	366,954	$ 699	$24,219	(144)	391,728
Moveable equipment	15,646	822	(100)	(259)	16,109
Projects-in-progress	8,256	51,438	(24,119)	(105)	35,470
TOTAL AIRPORTS AND FACILITIES	**403,507**	**52,959**	**—**	**(558)**	**455,908**
Accumulated depreciation	(172,995)	(16,485)		246	(189,234)
NET AIRPORTS AND FACILITIES	**$230,512**	**$36,474**	**$ —**	**$ (312)**	**$266,674**

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.

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. Current authorization permits the issuance of an additional $99 million of bonds.

Bonds payable, due serially:

	Final Payment In	Outstanding— December 31 1989	1988
		(In Thousands)	
Airport Improvement Bonds:			
Series 7			$ 220
Series 13			350
Series 14—3.5 to 4.0%	1997	$ 6,760	7,470
Series 15—3.5 to 4.0%	1997	400	440
Series 16—4.25 to 4.5%	1998	7,305	7,955
Series 17—5.5 to 6.375%	1999	2,745	2,940
Series 19—5.5 to 6.3%	1999	6,860	7,340
Series 20—4.5 to 5.0%	2002	3,185	3,350
Series 21			410
		27,255	30,475
General Obligation Revenue Bonds:			
Series 1—6.0 to 6.6%	2005	7,715	7,980
Series 2—4.9 to 5.2%	2002	6,950	7,325
Series 3—5.25 to 5.75%	2000	10,425	11,100
Series 4—6.2 to 6.5%	2002	11,400	12,200
Series 5—8.9 to 9.1%	2002	18,500	19,500
Series 6—5.7 to 6.25%	2006	28,300	30,000
Series 7—7.8%	2015	51,150	51,150
		134,440	139,255
TOTAL BONDS OUTSTANDING		**161,695**	**169,730**
Net unamortized discount		(938)	(999)
Accrued interest		5,175	5,053
		165,932	173,784
Less:			
Prepayments		(10,058)	(10,215)
Payable from restricted cash and investments—debt service		(27,396)	(27,307)
TOTAL BONDS PAYABLE		**$128,478**	**$136,262**

NOTE F
LONG TERM DEBT—CONTINUED

Future debt service requirements after December 31, 1989 are as follows:

Year(s)	Principal	Interest	Total
		(In Thousands)	
1990	$ 7,295	$ 10,679	$ 17,974
1991	8,500	10,240	18,740
1992	8,705	9,720	18,425
1993	9,235	9,173	18,408
1994	9,545	8,598	18,143
1995-1999	49,570	33,722	83,292
2000-2004	31,315	19,469	50,784
2005-2015	37,530	17,910	55,440
	$161,695	$119,511	$281,206

Rental agreements between the Commission and its tenants, including the compensatory rental agreement, the self-liquidating agreements and other arrangements, are intended to provide for revenues which allow for the above required principal and interest payments. Other Commission revenue to be received under minimum rental revenue provisions is not significant in the aggregate.

NOTE G
CAPITALIZATION OF INTEREST

Total interest costs incurred were $10,975,000 and $9,127,000 in 1989 and 1988, respectively. Interest costs excluded from interest expense and capitalized as part of the costs of constructed assets were $3,917,000 and $1,487,000 in 1989 and 1988, respectively.

NOTE H
PENSION AND RETIREMENT PLANS

All the employees of the Commission participate in either the Minneapolis Municipal Employees Retirement Fund (MERF) (participation restricted to employees hired prior to July 1, 1978) or Public Employees Retirement Association (PERA). Both are cost-sharing multiple employer Public Employee Retirement Systems.

Plan Description

MERF is a defined benefit retirement plan which provides retirement benefits based on the highest five years member salary in the last ten years of employment and credited years of service at retirement. All benefits vest after ten years of service. Employees are eligible for retirement at various dates depending on years of service.

PERA administers the Public Employees Retirement Fund (Coordinated Fund) and the Public Employees Police and Fire Fund, which are both defined benefit pension plans. Benefits are established by State statutes and vest after three years of service. Commission employees participate in the respective plan, within PERA, as determined by their job functions. Employees may retire with full benefits when their age and years of service total 90 years. Reduced retirement benefits are available at various retirement dates with varying years of credited service.

Members of either plan who leave public service with at least three years of service may leave their contributions with the plan until retirement or withdraw them at an earlier date with interest. Both plans provide member disability and survivor death benefits.

Contributions

Covered employees are required by State statute to contribute a fixed percentage of their gross earnings to the pension plans. For MERF participants, the Commission is required by State statute to contribute the annual actuarially determined normal cost plus administrative costs, an additional 2.5% of covered payroll, and amounts sufficient to amortize the unfunded liability by the year 2017. For PERA participants, the Commission makes contributions in amounts required by State statutes which will fully fund the plan by the year 2009.

NOTE H
PENSION AND RETIREMENT PLANS—CONTINUED

Information with respect to required contributions is as follows:

		PERA	
	MERF	Coordinated Fund	Police & Fire Fund
Required payroll contribution rates:			
Employee-retirement	9.25%	4.23%	8.00%
-survivor benefit	.50%		
Employer-retirement	10.38%	4.23%	12.00%
-additional retirement	2.50%	.25%	

Information with respect to covered payrolls and contributions made for years ended December 31, 1989 and 1988 is as follows:

	1989	1988
	(In Thousands)	
Covered payrolls:		
MERF participants	$ 5,845	$ 5,928
PERA participants	6,815	5,802
Total covered payrolls	**$12,660**	**$11,730**
Contributions made:		
MERF—employee contributions	$ 570	$ 578
MERF—employer contributions	753	768
Total contributions to MERF	**$ 1,323**	**$ 1,346**
PERA—employee contributions	$ 312	$ 263
PERA—employer contributions	359	302
Total contributions to PERA	**$ 671**	**$ 565**
Contribution as a percentage of covered payrolls:		
MERF—employee	9.8%	9.8%
MERF—employer	13.0%	13.0%
PERA—employee	4.6%	4.5%
PERA—employer	5.3%	5.2%

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 credited projected benefits, is intended to help users assess the Plan'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 and PERA do not make separate measurements of assets and pension benefit obligations for individual employers.

The pension benefit obligations of the plans based on recent valuations are as follows: (in millions):

		PERA	
	MERF	Coordinated Fund	Police & Fire Fund
June 30, 1989:			
Total pension benefit obligation	$1,006	$3,714	$ 582
Net assets available for benefits, at market	807	3,801	694
Unfunded (excess) pension benefit obligation	$ 199	$ (87)	$(112)
June 30, 1988:			
Total pension benefit obligation	$ 944	$3,334	$ 513
Net assets available for benefits, at market	717	2,749	585
Unfunded (excess) pension benefit obligation	$ 227	$ 585	$ (72)

The Commission's required contribution for the year ended June 30, 1989 as a percent of the total actuarially determined contribution requirement for all employers covered by the plans was 12.6% and .3% for MERF and PERA, respectively.

NOTE H
PENSION AND RETIREMENT PLANS—CONTINUED

Ten year historical trend information is presented in the respective June 30, 1989 MERF Comprehensive Annual Financial Report and PERA's State PERS Comprehensive Annual Financial Report. This information is useful in assessing the pension plans' accumulations of sufficient assets to pay pension benefits as they become due.

Related Party Investments

MERF and PERA held no securities issued by the Commission or related parties during the two years ended December 31, 1989.

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 LIABILITIES

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.

The claims of three of the multiple plaintiffs proceeded to trial in District Court in early 1989. These cases were tried by a jury and a verdict was rendered in favor of the Commission. Plaintiffs' counsel has appealed this ruling to the Minnesota Court of Appeals which refused to grant a new trial. Following potential appeal of the decision to the Minnesota Supreme Court, the claims of five additional plaintiffs are scheduled for trial in District Court.

NOTE J
CONTINGENT LIABILITIES—
CONTINUED

On April 25, 1988, the Minnesota Pollution Control Agency (MPCA) notified the Commission that contaminants were present in the groundwater underlying the Lake Elmo Airport. While the Commission has confirmed that indeed the groundwater immediately beneath its property is contaminated, they have been unable, at this point, to connect any activity on the property with that contamination. However, the MPCA is unwilling to abandon its presumption that the Commission is responsible until they identify the source. These positions, if maintained, will likely lead to an administrative action by the MPCA attempting to force the Commission to conduct additional testing and/or possible cleanup activities.

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

Total Annual Revenues 1980-1989

MINNEAPOLIS-ST. PAUL METROPOLITAN AIRPORTS COMMISSION

(Dollars in Thousands)

	1980	1981	1982	1983
Traffic	$ 6,434	$ 6,671	$ 6,850	$ 7,775
Concessions	11,122	12,806	13,538	15,713
Rentals	9,107	10,400	11,419	14,863
Other	1,214	1,329	1,310	1,649
Total Operating Revenues	**$27,877**	**$31,206**	**$33,117**	**$40,000**
Add: Interest Income	8,002	9,232	10,514	10,700
Add: Gain on sale of Airports and Facilities				
Total Revenues	**$35,879**	**$40,438**	**$43,631**	**$50,700**

Source: Audit reports for the last ten years.

Total Annual Expenses 1980-1989

(Dollars in Thousands)

	1980	1981	1982	1983
Personnel	$ 7,981	$ 8,666	$ 9,467	$10,162
Administrative Supplies & Expenses	201	180	190	249
Professional Services	731	705	618	776
Utilities	2,148	2,439	2,924	2,831
Operating Expenses	2,416	2,514	2,367	2,618
Maintenance:				
Building	612	810	1,144	987
Field	447	490	690	1,044
Equipment	208	295	124	428
Cleaning	1,068	1,201	1,269	1,256
Depreciation	7,772	9,168	9,661	11,304
Other	97	(38)	52	50
Total Operating Expenses	**$23,681**	**$26,430**	**$28,506**	**$31,705**
Add: Interest Expense -1	5,346	5,589	5,539	7,443
Loss on Building Disposition				
Total Expenses	**$29,027**	**$32,019**	**$34,045**	**$39,148**

Source: Audit reports for the last ten years.

1—Interest Expense is net of capitalized interest. See Note G to financial statement.

1984	1985	1986	1987	1988	1989
$ 9,176	$11,330	$12,213	$13,258	$12,872	$14,005
18,582	21,555	23,425	24,433	23,554	25,062
14,798	15,649	18,854	20,247	21,600	21,712
1,139	1,223	1,562	1,618	1,883	1,221
$43,695	$49,757	$56,054	$59,556	$59,909	$62,000
11,223	9,827	7,589	8,283	9,587	9,921
				1,081	
$54,918	**$59,584**	**$63,643**	**$67,839**	**$70,577**	**$71,921**

1984	1985	1986	1987	1988	1989
$10,671	$12,430	$12,217	$14,784	$15,116	$17,551
252	762	76	414	406	512
1,141	1,339	2,014	2,193	3,063	3,229
3,089	3,308	3,134	3,072	3,809	3,704
3,346	3,899	4,048	3,281	3,600	4,272
1,106	1,408	1,405	1,542	1,813	1,732
952	1,426	1,256	1,134	971	980
362	569	481	348	515	980
1,370	1,521	1,600	1,790	2,152	2,452
12,257	13,244	14,517	15,912	16,485	15,018
(92)	273	526	731	150	283
$34,454	**$40,179**	**$41,274**	**$45,201**	**$48,080**	**$50,713**
6,932	5,889	6,013	7,050	7,640	7,058
	452				
$41,386	**$46,520**	**$47,287**	**$52,251**	**$55,720**	**$57,771**

Ratio of Annual Debt Service to Total Expenses 1980-1989

MINNEAPOLIS-ST. PAUL METROPOLITAN AIRPORTS COMMISSION

(Dollars in Thousands)

	1980	1981	1982	1983
Principal	$ 5,155	$ 5,190	$ 5,190	$ 6,415
Interest - 1	6,019	8,011	7,822	7,511
Total Debt Service	$11,174	$13,201	$13,012	$13,926
Total Expenses	$29,027	$32,019	$34,045	$39,148
Ratio of Debt Service to Total Expenses	**38%**	**41%**	**38%**	**36%**

1—Does include capitalized interest.

Revenue Available for Debt Service 1980-1989

(Dollars in Thousands)

	1980	1981	1982	1983
Operating Revenue	$ 27,877	$31,206	$ 33,117	$40,000
Interest Income	8,002	9,232	10,514	10,700
Operating Expense - 1	(15,909)	(17,262)	(18,845)	(20,401)
Revenue available for debt service	$ 19,970	$ 23,176	$24,786	$30,299
Debt Service	$ 11,174	$ 13,201	$ 13,012	$ 13,926
Coverage of debt service	**1.79**	**1.76**	**1.90**	**2.18**

1—Operating expense excludes depreciation.

Schedule of Airline Rates and Charges 1980-1989

	1980	1981	1982	1983
Landing Fee/1000 lbs.	$ 0.44	$ 0.46	$ 0.47	$ 0.47
Ramp Fees/Lineal Foot	$122.92	$135.13	$152.26	$169.15
Terminal Building Rentals:				
Common Use/Square Foot	$ 10.09	$ 11.08	$ 13.16	$ 13.35
Finished/Square Foot	8.67	9.47	11.36	11.61
Finished Janitored/Square Foot	12.11	13.44	15.78	15.92
Unfinished/Square Foot	8.22	8.98	10.83	11.08

Source: Compensatory Rental Report

1984	1985	1986	1987	1988	1989
$ 6,830	$ 7,080	$ 7,460	$ 7,530	$ 7,545	$ 8,035
7,167	6,812	6,470	7,892	9,127	10,975
$13,997	$13,892	$13,930	$15,422	$16,672	$19,010
$41,386	$46,520	$47,287	$52,251	$55,720	$57,771
34%	**30%**	**29%**	**30%**	**30%**	**33%**

1984	1985	1986	1987	1988	1989
$43,695	$49,757	$56,054	$59,556	$59,909	$62,000
11,223	9,827	7,589	8,283	9,587	9,921
(22,197)	(26,935)	(26,757)	(29,289)	(31,595)	(35,695)
$32,721	$32,649	$36,886	$38,550	$37,901	$36,226
$13,997	$13,892	$13,930	$15,422	$16,672	$19,010
2.34	**2.35**	**2.65**	**2.50**	**2.27**	**1.91**

1984	1985	1986	1987	1988	1989
$ 0.47	$ 0.57	$ 0.55	$ 0.65	$ 0.62	$ 0.58
$185.07	$185.64	$178.83	$177.01	$186.48	$310.20
$ 13.10	$ 14.13	$ 13.79	$ 15.15	$ 16.06	$ 17.39
11.39	12.30	11.84	12.68	14.06	17.39
15.57	16.89	16.68	18.32	18.76	22.22
10.90	11.82	11.38	12.24	13.56	17.39

Activity Statistics for Minneapolis-St. Paul International Airport 1980-1989

MINNEAPOLIS-ST. PAUL METROPOLITAN AIRPORTS COMMISSION

	1980	1981	1982	1983
Total Passengers - 1	8,938,487	7,732,828	9,727,913	11,134,919
Aircraft Operations - 2	282,027	264,914	252,151	307,801
Mail and Cargo Volumes (Metric Tons)	107,762	109,467	106,752	117,316

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 1980-1989

	1980	1981[1]	1982	1983
St. Paul Downtown Airport	134,286	107,305	77,509	97,118
Flying Cloud Airport	218,975	194,229	145,718	166,266
Crystal Airport	183,840	154,436	123,577	136,314
Anoka County/Blaine Airport	190,000	150,000	150,000	140,000
Lake Elmo Airport	100,000	90,000	90,000	90,000
Airlake Airport				20,000
Total Aircraft Operations at the Reliever Airports-2	**827,101**	**695,970**	**586,804**	**649,698**

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.

Population of Seven County Metropolitan Area 1980-1989

1980	1981	1982	1983
1,973,862	1,993,400	2,002,000	2,033,080

Source: Metropolitan Council

1984	1985	1986	1987	1988	1989
12,039,411	14,803,833	17,073,605	17,858,984	17,733,837	18,346,095
337,838	372,911	389,012	373,660	373,851	364,030
139,859	144,925	199,319	206,799	246,734	242,483

1984	1985	1986	1987	1988	1989
103,118	112,019	124,786	135,397	151,869	166,436
165,542	176,246	191,350	209,423	186,699	207,661
140,704	143,665	152,773	165,367	172,074	177,679
145,000	160,000	165,000	180,000	200,000	212,000
92,000	82,000	70,000	63,000	65,000	65,000
23,000	35,000	40,000	52,000	64,000	66,000
669,364	**708,930**	**743,909**	**805,187**	**839,642**	**894,776**

1984	1985	1986	1987	1988	1989
2,057,157	2,086,356	2,118,445	2,153,533	2,200,321	2,240,850

Insurance Coverage

MINNEAPOLIS-ST. PAUL METROPOLITAN AIRPORTS COMMISSION

Policy Number	Insurer	Inception	Expiration	Coverage	Policy Limits (Thousands of Dollars)
240392	Arkwright Insurance	01/01/89	01/01/93	Blanket Fire & extended coverage on building & contents 90% co-insurance. Heavy equipment, boiler and machinery, and builder's risk.	$219,000
Self-Insured	Sedgwick-James Third Party Admin.	03/01/90	03/01/91	Statutory Workers' Compensation	$100/$500/$100
60195113	Fidelity & Deposit Company of Maryland	03/01/90	03/01/91	Comprehensive crime employee bond	$1,000
1APL-21441	Associated Aviation Underwriters	12/23/89	12/23/90	General Aviation Liability including personal injury	$300,000
AD8701194C	Lloyds of London	12/23/89	12/23/90	Excess Liability	$100,000
7748-31-90	Chubb	01/01/90	01/01/91	Auto Liability and physical coverage and hired automobiles	$1,000 per Occurrence
7748-31-90	Chubb	01/01/90	01/01/91	Garage keepers liability	$120
7748-31-90	Chubb	01/01/90	01/01/91	Fleet physical damage	Values Over $50

Scheduled and Commuter Airline Service

MINNEAPOLIS-ST. PAUL METROPOLITAN AIRPORTS COMMISSION

At the end of 1989, major scheduled airlines serving the Twin Cities were:

- America West
- American Airlines
- Continental Airlines
- Delta Airlines
- Midway Airlines
- Northwest Airlines
- PanAm 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 1989 were:

- Bemidji Airlines
- Great Lakes Aviation
- Mesaba Airlines
- Midwest Aviation
- Time Air
- Express I

Three branches of United States Armed Forces are represented at Minneapolis/Saint Paul International Airport; the Air Force Reserve 934th Tactical Airlift 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.