Metropolitan Airports Commission
Minneapolis-St. Paul, Minnesota
Comprehensive Annual Financial Report
Year Ended December 31, 1992

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Minneapolis—St. Paul Metropolitan Airports Commission 1992

Chairman:	Hugh Schilling
Commissioners:	
Precinct 1	Patrick O'Neill
Precinct 2	Virginia Lanegran
Precinct 3	Tommy Merickel
Precinct 4	Jack Mogelson
Precinct 5	Tim Lovaasen
Precinct 6	John Himle
Precinct 7	Kenneth Glaser
Precinct 8	Alton Gasper
City of Minneapolis	Jan Del Calzo
City of Saint Paul	Nick Mancini
Representing Greater Minnesota Area:	Mark Brataas
	Laurel Erickson
	Faye Petron
	Clinton Dahl*
Executive Director:	Jeffrey Hamiel

* On March 15, 1993, Paul Rehkamp was appointed by the Governor to represent the Greater Minnesota Area.

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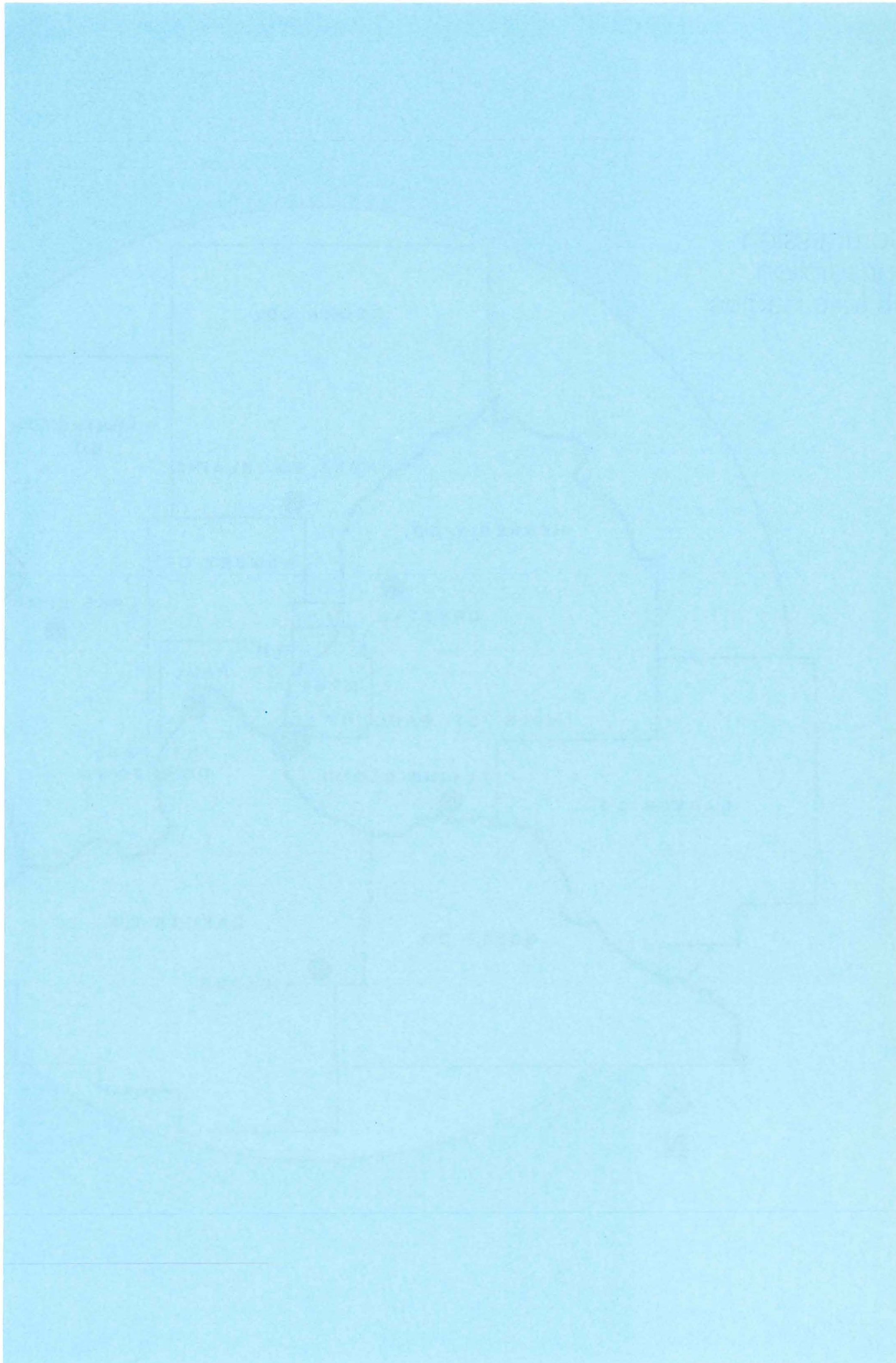
Introductory Section



Airport Locations

MINNEAPOLIS-ST. PAUL METROPOLITAN AIRPORTS COMMISSION

Commission
Jurisdiction
35 Mile Radius

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, 1991

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 (CAFRs) achieve the highest standards in government accounting and financial reporting.

President

Executive Director

MINNEAPOLIS-ST. PAUL METROPOLITAN AIRPORTS COMMISSION

METROPOLITAN AIRPORTS COMMISSION

Minneapolis-Saint Paul International Airport
6040 - 28th Avenue South • Minneapolis, MN 55450-2799
Phone (612) 726-8100 • Fax (612) 726-5296

OFFICE OF EXECUTIVE DIRECTOR • PHONE (612) 726-8100

March 5, 1993

To The Public:

The Comprehensive Annual Financial Report of the Metropolitan Airports Commission, Minneapolis-St. Paul, Minnesota, for the fiscal year ended December 31, 1992, 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 the 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 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 Minneapolis-Saint Paul Metropolitan Airports Commission (MAC) 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, promote the efficient, safe, and economical handling of air commerce, assure the inclusion of the state in national and international programs of air transportation, and to those ends develop the full potentialities of the metropolitan area as an aviation center. It has the responsibility to assure residents of the metropolitan area the minimum environmental impact from air navigation and transportation, promote the overall goals of the state's environmental policies and minimize the public's exposure to noise and safety hazards around airports.

MINNEAPOLIS-ST. PAUL METROPOLITAN AIRPORTS COMMISSION

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 .00806 percent 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

AIRLINE INDUSTRY

1992 was a year that showed record losses for the airline industry. In 1988, the airline industry earnings were at a record $1.7 billion. Since that time, the industry has lost $10 billion. There are a variety of reasons for these significant losses:

- A slow down in traffic growth began in 1989. As U.S. corporations accelerated downsizing programs, business travel was reduced. This put pressure on airline revenues.

- The Gulf War crisis, which initially caused jet fuel prices to reach record levels, affected results in 1990. The war in the Middle East continued to affect traffic and revenues in 1991.
- The fare wars in the summer of 1992 insured the airline industry of a third year of record losses.
- The cost of capital, which has increased as airlines have borrowed to fund their capital spending programs, and their ongoing losses. With the recent downgrade to below investment grade by one of the rating agencies, the cost of capital will be even higher in the future.

It is difficult to predict how the airline industry will perform in the future. Some industry analysts believe there will be a return to profitability in 1993 led by a turnaround in profitability in the United States and Europe. The United States turnaround will mainly be driven by a recovery in revenue growth from the depressed levels in 1991 and 1992, which were caused by fare wars. In Europe the turnaround is based on cost reduction efforts by the air carriers. However, as long as some of the existing airlines are still fighting to either avoid bankruptcy or emerge from bankruptcy, airfares as well as performance will remain unpredictable.

PASSENGERS AND OPERATIONS

Total passengers and operations at MSP increased 10.7% and 8.9%, respectively from 1991 levels. Total MSP passengers for 1992 were 21.4 million and operations were 413,502. The primary reason for the increase in both passengers and operations was due to an airfare price war that occurred during the summer of 1992. Recent forecasts project growth at MSP at 3.2% per year. The top five air carriers in 1992, by enplaned passengers, serving MSP are shown below. The total enplaned passengers for 1992, including connecting, was 10,680,487.

Carrier	Enplaned Passengers	% of Total
Northwest	7,974,779	74.6%
United	413,090	3.9
American	305,732	2.9
Delta	292,833	2.7
Mesaba	251,178	2.4
	9,237,612	86.5%

At the Reliever airports, operations rebounded slightly from the decrease in 1991 to post a modest gain of 1.0% in 1992.

MAJOR INITIATIVES FOR THE YEAR

In 1991, MAC staff developed a series of "areas of emphasis" on which the Commission would focus unusual effort and attention over the following year. Determining these areas of emphasis has been highly beneficial in providing assistance and guidance for staff in developing both Operating and Capital Improvement budgets and providing directions to the various departments in determining their own goals and objectives for the year.

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The staff identified the following 1992 Areas of Emphasis and their status is as follows:

DECISION PROCESS IMPROVEMENT

GOAL:

The MAC committed to four tasks during 1992 to improve its decision making processes. They are:

1) Identify the "critical processes" used by MAC in accomplishing its mission.
2) Identify those processes most in need of immediate improvement.
3) Revise or modify at least two processes in 1992.
4) Establish a more formal mechanism to continue the process improvement effort.

ACHIEVEMENTS:

An extension effort was begun by an employee team to document the way decisions are made and the location of decision making responsibility. This work has become the basis for the analysis and identification of MAC's critical processes.

Activities so far this year have centered upon the processes which are part of the Strategic Information Plan as it develops a new Human Resources Information System. The processes under review include timekeeping, payroll, employee benefits, and hiring. The focus of this effort is to review and improve all of the processes associated with data used by various departments related to our employees.

Several other processes are also being reviewed as a result of activities related to 1992 department objectives. The Maintenance department has completed an analysis of its snow removal process and trade department facilities. The Reliever Airports and Finance departments are evaluating the rates and charges process. The Properties department is studying terminal concessions and services.

DUAL TRACK AIRPORT PLANNING PROCESS

GOAL:

The Dual Track Process was established by the legislature in 1989 to determine whether development of MSP or a new airport is needed to meet the region's aviation needs. The plan for MSP was completed in 1991 and work in 1992 focused on the new airport and includes the following activities:

1) Initiate the site selection portion of the work program.
2) Coordinate a community involvement process to receive input from citizen and local, regional, state and federal agencies during the site selection process.
3) Provide information periodically on the program's progress.

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ACHIEVEMENTS:

Significant work was completed on the Dual Track Process during 1992. Site selection work began early in the year. The focus now is on updating, refining and expanding the data base developed early in the year for the Dakota Search Area by the Metro Council. Information regarding the natural environment is being developed by the Minnesota Department of Natural Resources through the agreement approved by the Commission. This work incorporates rare, threatened or endangered flora and fauna, and focuses on identifying biotic communities adjacent to a new airport.

HUMAN RESOURCES

GOAL:

Recruit, develop and maintain a highly trained, motivated and diverse work force within the MAC that is prepared to meet current and future demands on the individual and on the organization. To accomplish that goal, staff will:

1) Establish a formal training assessment program that identifies the training needs of all employees in their present jobs.
2) Develop a catalogue of training and education resources to help employees meet the challenges of a continuously changing, more complex work environment.
3) Make available those resources required to meet the training needs of MAC's employees, provide training opportunities for those employees and establish and maintain records of training activity.
4) Actively seek qualified minority, female and disabled job applicants for the MAC, and develop and maintain a more diverse work force through recruitment career tracking, training and monitoring relationships.

ACHIEVEMENTS:

To achieve Human Resource Development goals and objectives, the following activities were accomplished:

1) A formal training program was established through the performance management process that identifies the training needs of employees in their present positions.
2) The Personnel department expanded its library of training and skill development program materials including audio and video cassette tapes. These resources are available to all employees and have been organized by skill category for easy reference.
3) MAC has actively sought qualified minority, female and disabled job applicants.

ENVIRONMENTAL AFFAIRS

GOAL:

Improve and expand existing environmental programs with particular emphasis on continued improvement of noise abatement programs.

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1) *Implement the Off-Airport Noise and Operations Monitoring System*
Officially titled the Airport Noise and Operations Monitoring System (ANOMS) this project was substantially complete by January 1, 1993. Approval for use of the ARTS III data from the FAA was received in June 1992 and the acceptance testing phase began during the summer. Enhancements to the System are being integrated to include automated complaint handling and a geographic information system link.

2) *Proceed with the FAR 150 Land Use Compatibility Program*
Since the initial Part 150 "design" phase (April 1991-March 1992) was completed, MAC has begun the Sound Insulation and Land Acquisition programs for eligible areas within Minneapolis, Richfield, Bloomington, Eagan, and Mendota Heights. Sound insulation modifcations to 275 homes in Minneapolis, Richfield, Bloomington and Eagan, scheduled for 1992 but delayed because of higher-than-expected bids, will begin in 1993 following modifications to the specifications. The projects originally planned for 1993 should be completed as scheduled.

3) *Develop Noise Abatement Plans for All Reliever Airports*
A noise abatement plan has been implemented at St. Paul Downtown Airport. A noise abatement **rule** becomes an official noise abatement **plan** when the Commission approves the rule. Noise abatement rules are being developed at Flying Cloud and Airlake, but require certain refinements before they are presented to the Commission for approval.

The Reliever Airports department and the Noise Program staff will develop rules and plans at each of the relievers. Full-time noise and operations monitoring was done at Flying Cloud with noise briefings given to both commercial operators and individual pilots. Noise personnel attend reliever airport users groups at St. Paul Downtown Airport and Airlake.

RELIEVER AIRPORTS

GOAL:

1) Formalize relationships with all departments having responsibilities on the reliever airports to improve communication between departments, and between the MAC, its tenants, and airport users.
2) Analyze needs of the reliever airports and identify resources required to meet those needs by incorporating areas identified by staff and surveying airport tenants for their assessment of services and facilities provided.
3) Establish a formal decision process that ensures all parties impacted by those decisions are informed and have input into the process.
4) Develop a plan that promotes the reliever airports and establishes a positive image of those facilities among tenants, potential users of the facilties locally and throughout the nation, and among MAC's employees.

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ACHIEVEMENTS:

1) *Formalize Relationships*
Reliever Airport staff is more intimately and regularly involved with the Airport Development department to establish and determine priorities for capital improvement projects on the reliever airports.

Reliever Airport staff and the Finance department will jointly establish new rates and charges for reliever airport tenants.

Staff helped form the Lake Elmo Pilots' Association which provides both tenant and staff access to information helpful for their mutual concerns. This group resembles other reliever airport groups which greatly improve the communication process between the MAC and its tenants.

2) *Analyze Needs and Identify Resources*
Reliever staff uses tenant associations to help determine equipment and service needs at MAC airports. Staff analysis and tenant input results in improved service by maintenance crews and upgraded NAVAIDS available for tenant use.

A long-term need on the relievers has been minimum standards for commercial tenants. MAC is responsible for establishing high service standards. The Minimum Standards Ordinance became effective in March and helps ensure that quality of service. MAC commercial tenants assisted with the ordinance and are aware of their status and future requirements. A variance process is available to tenants.

The issue of illegal commercial operators is being aggressively attacked. A series of meetings with Fixed Base Operators was held resulting in a plan that was presented to the Commission in April 1992. Follow-up meetings are being held to ensure timely implementation of the plan (badging, education, advertising, etc.) and to resolve the most difficult question of flying clubs and the problems they represent.

Early in 1992 the MSP narcotics interdiction effort was expanded to include the reliever airports. Currently, MAC narcotics officers are working with local law enforcement agencies near the reliever airports and with airport tenants to interdict drug traffic on the reliever system.

3) *Develop a Plan that Promotes the Reliever Airports*
The Public Affairs department and reliever staff has taken an aggressive approach to the marketing of the reliever airports system. Information brochures were developed and distributed for each of the relievers. A national advertising plan was developed, including ads in five national aviation publications. Stories about significant events on the relievers have appeared in both local and national publications. This program played a significant role in the increased awareness of the facilities and services available on the MAC reliever airports, particularly at St. Paul Downtown Airport.

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Northwest Airlines Financing
On April 23, 1992, the Commission issued $270,000,000 of taxable General Obligation Revenue Bonds, Series 9, (''Bonds''). The Bonds were used to acquire and lease back to Northwest Airlines (a) a flight training center consisting of land, a building, flight simulators, and related equipment and (b) certain leasehold interests of Northwest Airlines and certain additional properties located at Minneapolis-Saint Paul International Airport. The lease obligations are secured by Northwest Airlines by a pledge of certain additional collateral consisting of aircraft engine parts and international route authorities. During the term of the Bonds, Northwest Airlines is required to maintain collateral, as determined by periodic independent appraisals, which has a value of at least 145% (reducible to 135% under certain circumstances) of the sum of the principal amount of Bonds outstanding plus the unpaid balance of $45,000,000 supplied by the Commission in support of the debt service requirements and issuance costs of the Bonds. These transactions were accounted for as a capital lease. See Note O for more information.

The State of Minnesota is expected to issue (a) up to $250,000,000 in State bonds to finance the construction of an Airbus repair facility in Duluth, Minnesota, and (b) up to $100,000,000 in State bonds to finance construction of an engine repair facility in Hibbing, Minnesota. Both of these facilities will be leased to Northwest Airlines, Inc. The Commission is not the issuer of the State bonds, and the State bonds do not involve any pledge of the general revenues or assets of the Commission.

Northwest Airlines is one of the largest private employers in the State of Minnesota and MSP is one of Northwest Airlines' three major hubs. Northwest as a part of its agreement with the Commission has agreed to certain public policy convenants such as maintaining its corporate headquarters and certain employment levels, and continuation of its hub operation. In addition, Northwest Airlines has agreed to certain noise covenants.

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.

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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 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 REVENUE

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 1969 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 1992 MAC operating revenues increased by 7.8% to $65,130,000 from $60,439,000 in 1991. Changes in major categories are summarized below (dollars in thousands):

	1992		1991		DOLLAR	PERCENT
	$	%	$	%	CHANGE	CHANGE
TRAFFIC	$19,634	30.1%	$18,481	30.6%	$1,153	6.2%
COMMERCIAL:						
CONCESSIONS	28,882	44.3	26,405	43.7	2,477	9.4
RENTALS	14,228	21.8	13,348	22.1	880	6.6
UTILITIES	1,129	1.7	1,224	2.0	(95)	(7.8)
MISCELLANEOUS	1,257	2.1	981	1.6	276	28.1
OPERATING REVENUES	**$65,130**	**100.0%**	**$60,439**	**100.0%**	**$4,691**	**7.8%**

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Traffic increased $1,153,000 or 6.2% primarily because of landing fees. Landing fees are calculated on a breakeven basis (excluding MAC's portion of new airport planning costs) with revenue and expense being equal, an increase in revenue, therefore, is a result of increased costs in the Field and Runway area. The increase in the Field and Runway cost center can be attributed to the airlines' portion of new airport planning costs, Metropolitan Council fees and depreciation expense on capital improvement projects.

Concessions increased $2,477,000 or 9.4% in 1992. In the summer of 1992 there was an airfare price war, as a result passenger activity increased and the MAC experienced increased revenues in auto parking, auto rental and food and merchandise concessions.

Rental increased by 6.6% in 1992. In 1991-92 the MAC completed some major terminal building projects, which increased the rate base used for determining terminal rental space.

OPERATING EXPENSE

In 1992, MAC operating expenses increased by 8.4% to $63,210,000 from $58,306,000 in 1991. Changes in major categories are summarized below (dollars in thousands):

	1992		1991		DOLLAR	PERCENT
	$	%	$	%	CHANGE	CHANGE
SALARIES, WAGES AND EMPLOYEE BENEFITS	$22,308	35.3%	$21,168	36.3%	$1,140	5.4%
ADMINISTRATIVE SUPPLIES & EXPENSES	923	1.5	668	1.1	255	38.2
PROFESSIONAL SERVICES	4,813	7.6	3,731	6.4	1,082	29.0
UTILITIES	4,412	7.0	3,665	6.3	747	20.4
OPERATING SERVICES	5,907	9.3	5,581	9.6	326	5.8
MAINTENANCE	7,088	11.2	7,003	12.0	85	1.2
DEPRECIATION	17,976	28.4	16,214	27.8	1,762	10.9
OTHER	(217)	(.3)	276	.5	(493)	(178.6)
OPERATING EXPENSES	**$63,210**	**100.0%**	**$58,306**	**100.0%**	**$4,904**	**8.4%**

Salaries, wages and employee benefits are up 5.4% because of pension and workers' compensation costs. The pension costs for the Commission's required contribution to its unfunded pension liability for employees covered under the Minneapolis Employees Retirement Fund increased substantially. This increase is attributed to investment losses incurred by the fund. Also in 1992, the MAC experienced a greater number of workers' compensation claims paid during the year and also established a larger reserve for future claims.

Professional services increased 29% in 1992. This can be attributed to legal/legislative fees and new airport planning costs. The MAC was involved in a number of unanticipated lawsuits relating to noise abatement and to protect MAC's right to collect PFC's from passengers flying on frequent flyer coupons. For new airport planning a number of activities and special requests were approved during 1992 that moved the process ahead at a more rapid pace.

Utilities increased $747,000 from 1991. In 1991, the Public Utilities Commission denied Northern States Power (NSP) a full price increase for the years 1988-1991. As a result, NSP had to rebate to its customers the difference plus interest between the interim rate and the rate set by the Public Utilities Commission. Therefore utilities reported in 1991 were lower than usual.

Operating services increased 5.8% in 1992. The increase can be attributed to Metropolitan Council fees and shuttle bus services. The Metropolitan Council fees increased because of their role in the new airport planning process as well as other services they provide to MAC. Shuttle bus services increased due to an increase in passenger activity during the summer and fall months as a result of this past summers airline fare wars.

Depreciation increased $1,762,000 in 1992. This is a result of approximately $47 million worth of terminal building and $14 million of field and runway projects that were completed in 1991-1992.

The decrease in Other is attributed to reimbursed expense. Reimbursed expense consists of costs which are paid by MAC initially, then billed back to tenants. In 1992, Northwest Airlines' billing for reimbursement of MAC police, fire and administrative services increased over 1991 levels. This is in accordance with a lease agreement with Northwest Airlines. In addition, as a result of legislation passed in 1991, the MAC became eligible in 1992 to apply for state aid for its police officers. This aid payment reimburses a portion of the employers pension liability.

OPERATING REVENUE AND EXPENSE BY AIRPORT

In 1992 and 1991, net revenues for each airport were as follows (in thousands)

	OPERATING REVENUE	OPERATING EXPENSE	1992 NET REVENUE	1991 NET REVENUE
MSP	$64,337	$57,472	$ 6,865	$ 6,943
ST. PAUL DOWNTOWN	377	2,859	(2,482)	(2,368)
FLYING CLOUD	191	1,138	(947)	(898)
CRYSTAL	73	331	(258)	(310)
ANOKA	68	708	(640)	(578)
LAKE ELMO	35	442	(407)	(310)
AIRLAKE	49	260	(211)	(346)
TOTAL	**$65,130**	**$63,210**	**$ 1,920**	**$ 2,133**

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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.

Net revenues generated by the Commission are designated for construction and debt service payments. These net revenues provide the Commission with a portion of the money to meet the funding requirements of its capital improvement program. This reduces the need to issue bonds and, therefore, allows the Commission to avoid the interest expense of additional debt. Net revenues are also required to fund the Commission's October 10 debt service requirement. (See Debt Administration.)

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:

1993	$92,861,623
1994	$92,282,620
1995	$91,656,099
1996	$90,009,612
1997	$87,651,125

Authority for issuing bonds is obtained from the Minnesota State Legislature. Authorization as of December 31, 1992, permits the issuance of an additional $55 million of bonds. In 1992, the Commission issued $270 million in taxable General Obligation Revenue Bonds and $45 million in tax-exempt General Obligation Revenue Bonds. These Bonds received AAA/Aaa ratings from both Standard & Poor's and Moody's rating services.

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

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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 government services for the Metropolitan Area.

Funds required for completion of all capital projects come from four sources: a) General Obligation Revenue Bonds, b) state or federal grants, c) internally generated funds from operations, and d) passenger facility charges (PFC's). PFC's are fees imposed on enplaned passengers by airport authorities for the purpose of generating revenue for airport projects that increase capacity, increased safety, or mitigate noise impacts. On June 1, 1992, the MAC began collecting a $3.00 PFC to finance projects totalling approximately $66,897,000. 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 four sources as appropriate.

Anticipated projects planned for 1993 and 1994, as well as the extended period 1995-1999, 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	**1993**	**1994**	**1995-99**
MSP:			
FIELD AND RUNWAYS	$ 4,025,000	$20,925,000	$93,375,000
ENVIRONMENTAL	23,000,000	25,300,000	52,400,000
SELF-LIQUIDATING	0	0	1,000,000
TERMINAL BUILDING AND OTHERS	37,400,000	23,100,000	28,450,000
ST. PAUL DOWNTOWN	1,585,000	5,000,000	6,800,000
FLYING CLOUD	5,250,000	0	9,310,000
CRYSTAL	600,000	150,000	750,000
ANOKA COUNTY	2,430,000	2,100,000	2,610,000
LAKE ELMO	0	300,000	1,900,000
AIRLAKE	120,000	1,700,000	400,000
TOTALS	**$74,410,000**	**$78,575,000**	**$196,995,000**

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.

MINNEAPOLIS-ST. PAUL METROPOLITAN AIRPORTS COMMISSION

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 required bids to be taken from several different dealers.

The Government Accounting Standards Board requires disclosure of types of investments and safekeeping arrangement in the notes to the financial statements. Custodial agreements are disclosed as three levels of risk. At year end 1992, 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 1992 were $3,580,000. The average yield on investments during the year was 5.16%.

RISK MANAGEMENT

The MAC Risk Department is responsible for administrating the purchase and maintenance of all insurance coverages and related programs. Coverages included are: Airport Liability, including automobile and equipment; Property; Health and Dental; Workers' Compensation; and other miscellaneous coverages.

The Risk Department coordinates claims payment, major claims management, and early intervention where needed in order to promote cost containment and overall claims handling efficiency. Loss Prevention and Wellness Committees, composed of MAC staff and airport community representatives with the Risk Department advisor, endeavor to identify exposures, make recommendations to MAC management and promote wellness and awareness among employees and all MAC facilities. Also, the Risk Department maintains open communication and positive relationships with other departments, brokers, insurance companies to ensure good working relationships and access to competent professional advice. The Risk Department serves as an advisor to public needs, airport tenants, other MAC departments and special action committees.

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, 1992 and 1991, were performed by Deloitte and Touche. Their opinion on the financial statements is presented in this report.

In conjunction with the annual audit, Deloitte and Touche perform 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. Deloitte and Touche also perform procedures for the purposes of the MAC's compliance with the regulations issued by the FAA to implement Sections 9110 and 9111 of the Aviation Safety and Capacity Expansion

MINNEAPOLIS-ST. PAUL METROPOLITAN AIRPORTS COMMISSION

Act of 1990 in relation to Passenger Facility charge revenues and expenses. The reports issued 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 1992, the financial audit has been performed by the firm Deloitte and Touche. 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, 1991. For the seventh 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.

The Commission also received for the seventh consecutive year the GFOA Award For Distinguished Budget Presentation for its Annual Operating Budget for 1992. 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.

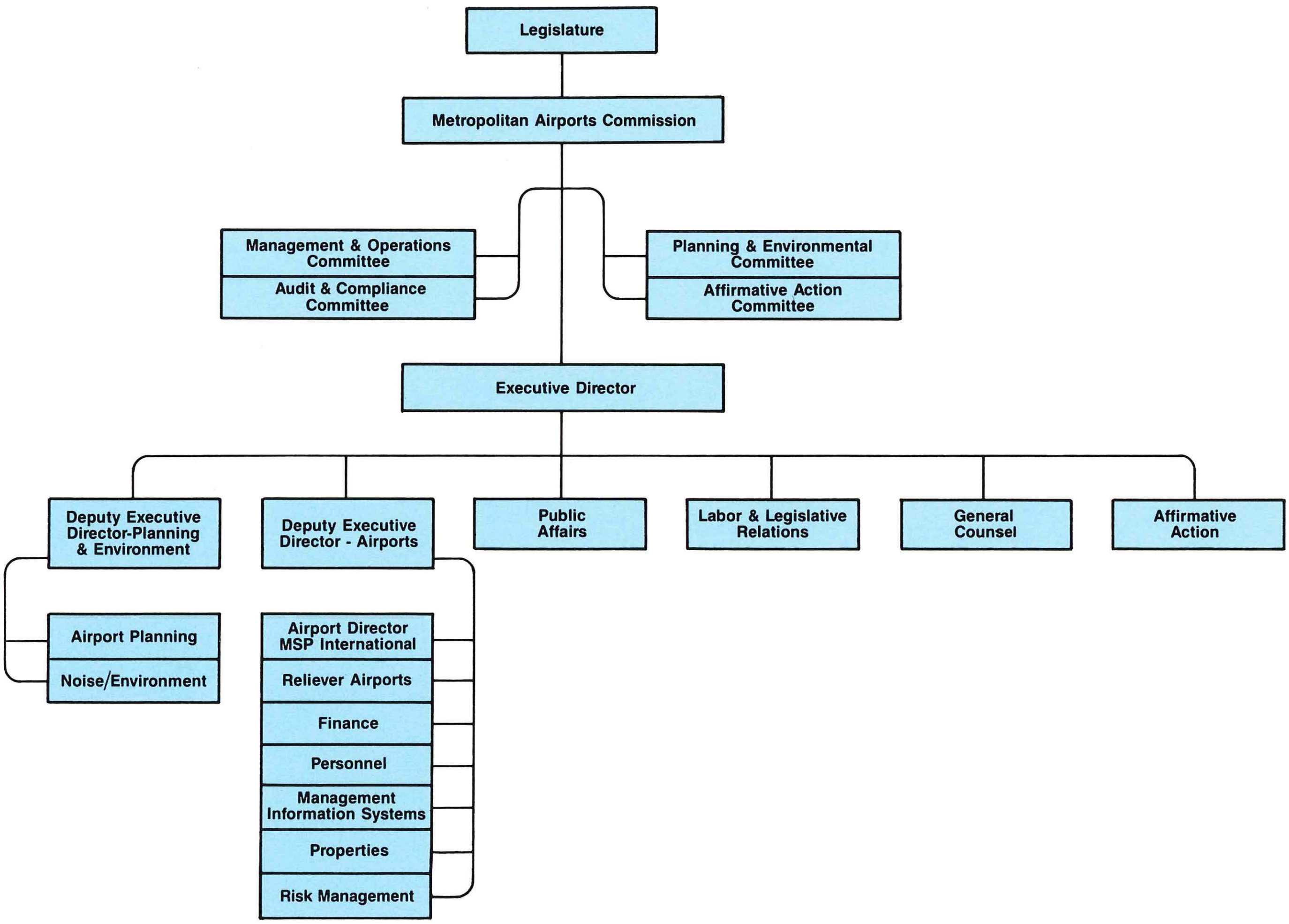
Respectfully submitted,

Jeffrey W. Hamiel
Executive Director

Denise A. Kautzer
Director of Finance

Organization Chart

MINNEAPOLIS-ST. PAUL METROPOLITAN AIRPORTS COMMISSION



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Financial Section

MINNEAPOLIS-ST. PAUL METROPOLITAN AIRPORTS COMMISSION

Independent Auditors' Report

Members of the Commission
Minneapolis-Saint Paul Metropolitan Airports Commission

We have audited the accompanying balance sheets of Minneapolis-Saint Paul Metropolitan Airports Commission (the Commission) as of December 31, 1992 and 1991 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 and Governmental Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the financial position of the Commission at December 31, 1992 and 1991 and the results of its operations and its cash flows for the years then ended in conformity with generally accepted accounting principles.

As discussed in Note O to the financial statements, the Commission has 49% of its total assets in leases and accounts receivable from a major airline which is experiencing financial difficulty.

Deloitte + Touche

March 5, 1993
Minneapolis, Minnesota

Balance Sheets

Financial Section

MINNEAPOLIS-ST. PAUL METROPOLITAN AIRPORTS COMMISSION

(Dollars in Thousands)

	December 31 1992	December 31 1991
ASSETS		
Cash and investments—Note B:		
Unrestricted:		
Cash and Cash Equivalents	$ 738	$ 885
Investments	15,133	6,380
	15,871	7,265
Restricted—Note C:		
Cash and Cash Equivalents	43	28
Investments	105,854	65,630
	105,897	65,658
	121,768	72,923
Accounts receivable	5,190	4,822
Government grants in aid of construction receivable	200	794
Restricted Asset:		
Passenger facility charge receivable—Note A	3,163	0
Airports and facilities—Notes A, E and F	294,885	281,599
Leases receivable—Notes A and H	429,151	116,859
Deferred compensation benefits—Note K	4,672	4,547
Other	340	36
TOTAL ASSETS	**$ 859,369**	**$ 481,580**
LIABILITIES AND FUND EQUITY		
Accounts payable and accrued expenses	$ 5,782	$ 3,844
Payables from restricted assets:		
Debt Service—Note F	72,586	26,664
Construction	4,816	6,528
Other	1,122	1,009
Employee compensation and payroll taxes	3,116	2,688
Deferred revenue—Note A	50,660	10,021
Deferred compensation benefits—Note K	4,672	4,547
Bonds payable—Note F	371,840	112,314
TOTAL LIABILITIES	**$ 514,594**	**$ 167,615**
FUND EQUITY—Note D		
Contributed capital—Note A	$ 91,974	$ 89,369
Retained Earnings:		
Reserved—Note C	30,536	31,457
Unreserved	222,265	193,139
TOTAL FUND EQUITY	**344,775**	**313,965**
TOTAL LIABILITIES AND FUND EQUITY	**$ 859,369**	**$ 481,580**

See notes to financial statements.

Statements of Revenues and Expenses and Changes in Retained Earnings

MINNEAPOLIS-ST. PAUL METROPOLITAN AIRPORTS COMMISSION

(Dollars in Thousands)

	Years Ended December 31 1992	1991
OPERATING REVENUES		
Traffic	$ 19,634	$ 18,481
Commercial:		
Concession	28,882	26,405
Rentals	14,228	13,348
Utilities	1,129	1,224
Miscellaneous	1,257	981
TOTAL OPERATING REVENUES	**65,130**	**60,439**
OPERATING EXPENSES		
Salaries, Wages and Employee Benefits	22,308	21,168
Administrative Supplies and Expenses	923	668
Professional Services	4,813	3,731
Utilities	4,412	3,665
Operating Services	5,907	5,581
Maintenance:		
Building	1,448	1,420
Field	832	1,328
Equipment	1,313	1,306
Cleaning	3,495	2,949
Depreciation	17,976	16,214
Other	(217)	276
TOTAL OPERATING EXPENSES	**63,210**	**58,306**
OPERATING INCOME	**1,920**	**2,133**
OTHER REVENUES (EXPENSES)		
Interest Income	34,238	15,838
Passenger Facility Charge Revenue	14,607	0
Bond Interest Expense	(27,544)	(9,430)
NET INCOME	**23,221**	**8,541**
Add: Depreciation of facilities provided by government grants	4,984	4,690
INCREASE IN RETAINED EARNINGS	**28,205**	**13,231**
Retained Earnings—Beginning of Year	224,596	211,365
RETAINED EARNINGS—END OF YEAR	**$ 252,801**	**$ 224,596**

See notes to financial statements.

Statements of Cash Flows

MINNEAPOLIS-ST. PAUL METROPOLITAN AIRPORTS COMMISSION

Increase (decrease) in cash flows and cash equivalents
(Dollars in Thousands)

	Years Ended December 31 1992	1991
Cash flows from operating activities:		
Operating income	$ 1,920	$ 2,133
Adjustments to reconcile net operating income to net cash provided by operating activities:		
Depreciation	17,976	16,214
Change in assets and liabilities:		
Accounts receivable	(368)	(1,752)
Other assets	(304)	376
Accounts payable	1,938	(895)
Other restricted liabilities	113	230
Employee compensation and payroll taxes	428	201
Deferred revenue	(424)	25
NET CASH PROVIDED BY OPERATING ACTIVITIES	**21,279**	**16,532**
Cash flows from non-capital financing activities:		
Proceeds from bond issuance for Northwest Airlines Inc.	271,464	
Payment to Northwest Airlines, Inc.	(270,000)	
Payment of debt issuance costs	(5,401)	
NET CASH USED IN NON-CAPTIAL FINANCING ACTIVITIES	**(3,937)**	
Cash flows from capital and related financing activities:		
Payments for airports and facilities	(33,921)	(52,472)
Proceeds from disposal of airports and facilities	681	25
Proceeds from bond issuance	44,697	
Receipt of lease payments	5,784	4,686
Receipt of passenger facility charges	11,444	
Payments on bonds	(9,120)	(8,600)
Interest paid on bonds	(29,932)	(9,984)
Receipts of government grants in aid of construction	8,183	8,827
NET CASH USED IN CAPITAL AND RELATED FINANCING ACTIVITIES	**(2,184)**	**(57,518)**
Cash flows from investing activities:		
Purchase of investment securities	(392,263)	(157,677)
Proceeds from maturities of investment securities	342,735	182,717
Interest income	34,238	15,838
NET CASH (USED IN) PROVIDED BY INVESTING ACTIVITIES	**(15,290)**	**40,878**
Net decrease in cash and cash equivalents	(132)	(108)
Cash and cash equivalents—Beginning of year	913	1,021
CASH AND CASH EQUIVALENTS—END OF YEAR	**$ 781**	**$ 913**

See notes to financial statements.

Non-cash non-capital financing activities:
During 1992, the Commission loaned Northwest Airlines, Inc. their portion of the Series 9 Debt Service Requirement. As a result $41,063,000 was recorded as a Lease Receivable, offset by Deferred Revenue. See Note O.

Notes to Financial Statements

MINNEAPOLIS-ST. PAUL METROPOLITAN AIRPORTS COMMISSION

For the years ended December 31, 1992 and 1991

NOTE A

SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The Minneapolis-Saint Paul Metropolitan Airports Commission (the 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, promote the efficient, safe, and economical handling of air commerce, assure the inclusion of the state in national and international programs of air transportation, and to those ends develop the full potentialities of the metropolitan area as an aviation center. It has the responsibility to assure residents of the metropolitan area the minimum environmental impact from air navigation and transportation, promote the overall goals of the state's environmental policies and minimize the public's exposure to noise and safety hazards around airports.

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 15-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 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 Statutes, 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.

The process to amend the budget is set forth in the MAC bylaws, Article III, Section 8(a), and presented below:

"8(a) Establishment of the annual budget setting out anticipated expenditures by type of expenditure and/or upward or downward revision of that budget in the course of the corporation's fiscal year shall constitute prior approval of each type of expenditure. Authorization by vote of the Commission is required for transfer of budgeted amounts between or among line items or to appropriate additional funds for each line item. The Executive Director is directed to provide for the daily operation and management of the Commission within the expediture guidelines of the annual budget. Commission approval of a contract shall constitute prior approval of disbursements made pursuant to terms of the contract within the constraints of the budget for all contract payments, except final construction contract payments which shall require commission approval.

MINNEAPOLIS-ST. PAUL METROPOLITAN AIRPORTS COMMISSION

NOTE A

SIGNIFICANT ACCOUNTING POLICIES-CONTINUED

The Executive Director shall have the responsibility of securing adequate quantities of office, janitorial, maintenance and repair materials and supplies, and the rent of sufficient equipment necessary for the smooth, continuous operation of the Commission's system of airports and all facilities associated with the system of airports. The Executive Director's authority to secure these items shall be subject to the Commission's purchasing procedures and be subject to the line-item budget constraints of the annual budget.

At any time during the fiscal year, the Executive Director may recommend to the full Commission that all of any unencumbered appropriation balances of individual line-items be transferred to those line-items that require additional budgeted funds. In addition, the Executive Director may recommend to the full Commission the appropriation of additional funds above and beyond those approved at the time of budget adoption."

The Commission is not required to demonstrate statutory compliance with its annual operating budget. Accordingly, budgetary data is not included in the basic financial statements. All budgets are prepared in accordance with airport lease and use agreements. Unexpended appropriations lapse at year end.

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.

Statement of Cash Flows

For purposes of the statement of cash flows, the Metropolitan Airports Commission considers cash on hand plus overnight investments to be cash equivalents.

Deferred Revenue

Deferred revenue represents interest payments received from the airlines which will be recognized as interest income over the term of the lease agreement.

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

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

Passenger Facility Charges

On June 1, 1992 the Commission began collecting Passenger Facility Charges (PFC's). PFC's are fees imposed on enplaned passengers by airport authorities for the purpose of generating revenue for airport projects that increase capacity, increase safety, or mitigate noise impacts. The fee can be set at $1.00, $2.00, or $3.00 per enplaning originating and connecting passengers. The Commission has received approval for a $3.00 PFC to finance projects totalling approximately $66,897,000. The following projects have been approved (in thousands):

A. Upper Level Roadway	$18,261
B. Lower Level Roadway	4,051
C. Ground Transportation Center—East/West	10,226
D. Automated People Movement System	18,991
E. Skyways/Vertical Circulation Towers	14,271
F. Taxiway C Reconstruction	1,097
	$66,897

PFC's are recorded as non-operating revenue.

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 payments 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 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. 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. See Note O for additional information regarding transactions with Northwest Airlines, Inc.

Capitalized Interest

Interested 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 or Passenger Facility Charges.

Reclassifications

In 1992, leases with airlines have been separately reported on the balance sheet as "Leases Receivable." Lease amounts for 1991, including related revenues and expenses, have been reclassified to be consistent with the current year presentation. The 1991 reclassification reduced operating income and increased other revenue by $10,063,000 resulting in no change in net income as previously reported.

NOTE B

CASH AND INVESTMENTS

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 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.

NOTE B

CASH AND INVESTMENTS—CONTINUED

Cash

Cash balances are as follows (in thousands):	December 31 1992	December 31 1991
Financial statement balances	($164)	($181)
Bank balances:		
Insured or collateralized by securities held in the Commission's name by a financial institution other than that furnishing the collateral.	$2,781	$5,720

Investments

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

The Commission invests funds as authorized by Minnesota Statues 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 A1 by Standard & Poor's Corporation or P1 by Moody's, Bankers acceptances of United States banks eligible for purchase by the Federal Reserve System, certificates of deposit issued by official depositories of the Commission, and repurchase agreements with financial institutions.

The Commission's investments at December 31, 1992 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.

	Carrying Amount Credit Risk Category				
Type of Security	1	2	3	Total	Market Value
	(In Thousands)				
December 31, 1992					
U.S. Government and Agencies	$102,064	$ 0		$102,064	$102,216
Commercial Paper	17,394		$1,499	18,893	18,823
	$119,458	$ 0	$1,499	120,957	121,039
Mutual Funds				975	975
Cash on Hand				(164)	
Total Cash and Investments				$121,768	$122,014

MINNEAPOLIS-ST. PAUL METROPOLITAN AIRPORTS COMMISSION

NOTE C

RESTRICTED ASSETS 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 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 commission bonds, government grants in aid of construction, Passenger Facility Charges, rental receipts on assets purchased with grants in aid not utilized for avaiation, 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.

The Commission also restricts the amount to be received from Passenger Facility Charges for the approved Airport Improvement projects as discussed in Note A.

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

	December 31	
	1992	**1991**
Restricted Assets:		
Cash and Investments		
Debt service	$ 72,586	$ 26,664
Construction:		
Regular	12,158	4,450
Special	20,029	33,535
Other	1,124	1,009
Passenger facility charge receivable	3,163	0
TOTAL RESTRICTED ASSETS	**109,060**	**65,658**
Less payables to be paid from restricted cash and investments:		
Debt service	72,586	26,664
Construction	4,816	6,528
Other	1,122	1,009
	78,524	34,201
RESERVED RETAINED EARNINGS	**$ 30,536**	**$ 31,457**

MINNEAPOLIS-ST. PAUL METROPOLITAN AIRPORTS COMMISSION

NOTE D

CHANGES IN FUND EQUITY

Changes in fund equity as follows (in thousands):

	Contributed Capital	Retained Earnings Reserved	Retained Earnings Unreserved	Total
Balance January 1, 1991	**$85,776**	**$57,938**	**$153,427**	**$297,141**
Government grants in aid of construction	8,283			8,283
Net income for the year			8,541	8,541
Depreciation of facilities provided by government grants	(4,690)		4,690	
Net change in restricted assets and liabilities		(26,481)	26,481	
Balance December 31, 1991	**89,369**	**31,457**	**193,139**	**313,965**
Government grants in aid of construction	7,589			7,589
Net income for the year			23,221	23,221
Depreciation of facilities provided by government grants	(4,984)		4,984	
Net change in restricted assets and liabilities		(921)	921	
Balance December 31, 1992	**$91,974**	**$30,536**	**$222,265**	**$344,775**

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, 1992	Additions	Transfers In (Out)	Deductions	Balance December 31, 1992
Land	$ 13,928	$ 489	$ 666	$ (2)	$ 15,081
Airport improvements and buildings	414,613	244	48,466	(3,169)	460,154
Moveable equipment	20,983	1,691		(245)	22,429
Projects-in-progress	36,608	32,044	(49,132)		19,520
TOTAL AIRPORTS AND FACILITIES	**486,132**	**34,468**	**—**	**(3,416)**	**517,184**
Accumulated depreciation	(204,533)	(17,976)		210	(222,299)
NET AIRPORTS AND FACILITIES	**$ 281,599**	**$16,492**	**$ —**	**$(3,206)**	**$294,885**

Airports and Facilities	Balance January 1, 1991	Additions	Transfers In (Out)	Deductions	Balance December 31, 1991
Land	$ 13,132	$	$ 796	$	$ 13,928
Airport improvements and buildings	382,363	132	32,963	(845)	414,613
Moveable Equipment	18,534	2,643	330	(524)	20,983
Projects-in-progress	18,629	52,068	(34,089)		36,608
TOTAL AIRPORTS AND FACILITIES	**432,658**	**54,843**	**—**	**(1,369)**	**486,132**
Accumulated depreciation	(188,818)	(16,214)		499	(204,533)
NET AIRPORTS AND FACILITIES	**$ 243,840**	**$ 38,629**	**$ —**	**$ (870)**	**$ 281,599**

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 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. Authorization as of December 31, 1992 permits the issuance of an additional $55 million of bonds.

	Final Payment in	Outstanding as of December 31, 1992	1991
Airport Improvement Bonds:			
Series 14 - 3.5 to 4.0%	1997	$ 4,450	$ 5,250
Series 15 - 3.5 to 4.0%	1997	265	310
Series 16 - 4.4 to 4.5%	1998	5,240	5,915
Series 17 - 5.5 to 6.375%	1999	2,080	2,315
Series 19 - 5.5 to 6.3%	1999	5,230	5,810
Series 20 - 4.5 to 5.0%	2002	2,630	2,825
		19,895	22,425
General Obligation Revenue Bonds:			
Series 1 - 6.0 to 6.4%	2005	6,800	7,125
Series 2 - 4.9 to 5.2%	2002	5,700	6,125
Series 3 - 5.3 to 5.75%	2000	8,100	8,925
Series 4 - 6.2 to 6.5%	2002	9,000	9,800
Series 5 - 8.9 to 9.1%	2002	15,000	16,250
Series 6 - 5.7 to 6.25%	2006	23,200	24,900
Series 7 - 7.80%	2015	49,500	50,350
Series 8 - 4.25 to 6.60%	2011	45,000	0
Series 9 - 8.60 to 8.95%	2022	270,000	0
		432,300	123,475
TOTAL BONDS OUTSTANDING		**452,195**	**145,900**
Net unamortized discount		(1,227)	(815)
Accrued interest due		17,832	4,735
		468,800	149,820
Less:			
Prepayments		(24,374)	(10,842)
Payable from restricted assets—debt service		(72,586)	(26,664)
TOTAL BONDS PAYABLE		**$371,840**	**$112,314**

MINNEAPOLIS-ST. PAUL METROPOLITAN AIRPORTS COMMISSION

NOTE F

LONG-TERM DEBT—CONTINUED

Future debt service requirements after December 31, 1992 are as follows (in thousands):

Year/s	Airport Improvement Bonds	General Obligation Revenue Bonds	Total Bonds Outstanding	Interest	Total Principal & Interest
1993	$ 2,715	$ 6,520	$ 9,235	$ 35,831	$ 45,066
1994	2,850	8,245	11,095	35,221	46,316
1995	3,000	8,395	11,395	34,555	45,950
1996	3,145	8,720	11,865	33,858	45,723
1997	3,305	8,875	12,180	33,131	45,311
1998-2022	4,880	391,545	396,425	493,184	889,609
	$ 19,895	$432,300	$452,195	$ 665,780	$ 1,117,975

Of the future debt service requirements listed above, $350,423,000 of principal and $612,498,000 of interest are leased under agreements with Northwest Airlines, Inc. These lease agreements require the lessee to make annual payments equal to the debt service requirements of the bonds.

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 $29,913,000 and $9,966,000 in 1992 and 1991, respectively. Interest costs excluded from interest expense and capitalized as part of the costs of constructed assets were $2,258,000 and $598,000 in 1992 and 1991, respectively. Total interest paid was $29,932,000 and $9,984,000 in 1992 and 1991, respectively.

MINNEAPOLIS-ST. PAUL METROPOLITAN AIRPORTS COMMISSION

NOTE H

LEASES

The Commission leases certain facilities to tenants under self-liquidating lease agreements. Self-liquidating lease agreements 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. These leases are classified as direct financing leases and expire at various intervals until the year 2022. The following lists the components of the Commission's leases as of December 31 (in thousands)

	1992	1991
Total minimum lease payments to be received	$ 1,129,538	$ 242,363
Less: Allowance for uncollectibles	0	0
Net minimum lease payments receivable	1,129,538	242,363
Less: Unearned income	696,127	121,364
Net investment in leases	433,411	120,999
Less: Prepaid principal	4,260	4,140
LEASES RECEIVABLE PER BALANCE SHEET	**$ 429,151**	**$ 116,859**

At December 31, 1992, future minimum lease payments are as follows (in thousands):

Year	Amounts
1993	$ 43,780
1994	$ 43,605
1995	$ 43,501
1996	$ 43,212
1997	$ 43,104
1998-2022	$912,336

NOTE I

PENSION AND RETIREMENT PLANS

All full-time and certain part-time employees of the Commission participate in the Minneapolis Employees Retirement Fund (MERF) (participation restricted to employees hired prior to July 1, 1978) or the Public Employees Retirement Association (PERA). Both are cost-sharing, multiple-employer retirement plans.

1. PUBLIC EMPLOYEES RETIREMENT ASSOCIATION

A. Plan Description

All full-time and certain part-time employees of the Commission (hired after June 30, 1978) are covered by defined benefit pension plans administered by the Public Employees Retirement Association of Minnesota (PERA). PERA administers the Public Employees Retirement Fund (PERF) and the Public Employees Police and Fire Fund (PEPFF), which are cost-sharing, multiple-employer retirement plans. PERF members belong to the Coordinated Plan. Coordinated members are covered by social security. All police officers, fire fighters, and peace officers who qualify for membership by statute are covered by the PEPFF. The payroll for employees covered by PERF and PEPFF for the year ended December 31, 1992 is as follows (in thousands):

	1992
Covered payrolls:	
PERF participants	$ 9,116
PEPFF participants	1,877
Total covered payrolls	**$ 10,993**

The Commission's total payroll was $16,394,124.

PERA provides retirements benefits as well as disability benefits to members and benefits to survivors upon death of eligible members. Benefits are established by state statute and vest after three years of credited service. The defined retirement benefits are based on a member's average salary for any five successive years of allowable service, age, and years of credit at termination of service. Two methods are used to compute benefits for coordinated members. The retiring member receives the higher of step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a coordinated member is 1% of average salary for each of the first ten years and 1.5% for each remaining year. Using Method 2, the annuity accrual rate is 1.5% of average salary coordinated members. For PEPFF members, the annuity accrual rate is 2.5% for each year of service. For PERF members whose annuity is calculated using Method 1, and for all PEPFF members, a full annuity is available when age plus years of service equal 90.

There are different types of annuities available to members upon retirement. A normal annuity is a lifetime annuity that ceases upon the death of the retiree. No survivor annuity is payable. There are also various type of joint and survivor options available which will reduce the monthly normal annuity amount, because the annuity is payable over joint lives. Members may also leave their contribution in the fund upon termination of public service, in order to qualify for a deferred annuity at retirement age. Refunds of contributions are available at any time to members who leave public service but before retirement benefits begin.

B. Contributions Required and Contributions Made

Minnesota Statutes Chapter 353 sets the rates for employer and employee contributions. The Commission makes annual contributions to the pension plans equal to the amount required by state statutes. According to Minnesota Statutes Chapter 356,215 Subd. 4(g), the date of full funding required for the PERF and the

MINNEAPOLIS-ST. PAUL METROPOLITAN AIRPORTS COMMISSION

NOTE I

PENSION AND RETIREMENT PLANS—CONTINUED

PEPFF is the year 2020. As part of the annual actuarial valuation, PERA's actuary determines the sufficiency of the statutory contribution rates towards meeting the required full funding deadline. The actuary compares the actual contribution rate to a "required" contributions rate. Current combined statutory contribution rates and actuarially required contribution rates for the plans are as follows:

	Statutory Rates		Required
	Employee	Employer	Rates
PERF (Coordinated Plan)	4.23%	4.48%	9.95%
PEPFF	8.00%	12.00%	18.60%

Total contributions made by the Commission for the fiscal year ended December 31, 1992 were as follows (in thousands):

	Amounts		Percentage of Covered Payroll	
	Employee	Employer	Employee	Employer
PERF	$386	$408	4.23%	4.48%
PEPFF	150	225	8.00%	12.00%
Total	$536	$633		

The Commission's contribution for the year ended June 30, 1992 to the PERF represented .4% of total contributions required of all participating entities. For the PEPFF, contributions for the year ended June 30, 1992 represented .8% of total contributions required of all participating entities.

NOTE I

PENSION AND RETIREMENT CONTINUED

C. Funding Status and Progress

1. Pension Benefit Obligation

The "pension benefit obligation" is a standard 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 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 Employees Retirement Systems and among employers. PERA does not make separate measurements of assets and pension benefit obligations for individual employers.

The measurement of the pension benefit obligation is based on an actuarial valuation as of June 30, 1992. Net assets available to pay pension benefits were values as of June 30, 1992.

2. Changes in Benefit Provisions

Effective for the June 30, 1992, valuation, legislative activity since the last actuarial valuation resulted in some minor changes in benefit provision for the two funds. these changes did not have a significant impact on the PERF or the PEPFF.

D. Ten-Year Historical Trend Information

Ten year historical trend information is presented in PERA's Comprehensive Annual Financial Report for the year ended June 30, 1992. This information is useful in assessing the pension plan's accumulation of sufficient assets to pay pension benefits as they become due.

E. Related-Party Investments

As of June 30, 1992 and for the fiscal year ended December 31, 1992, PERA held no securities issued by the Commission or other related parties.

2. MINNEAPOLIS EMPLOYEES RETIREMENT FUND

A. Plan Description

All full-time and certain part-time employees of the Commission (hired before July 1, 1978) are covered by a defined benefit pension plan administered by the Minneapolis Employees Retirement Fund (MERF). MERF is a cost-sharing, multiple-employer retirement plan. The payroll for employees covered by MERF for the year ended December 31, 1992 is as follows (in thousands):

	1992
Covered payrolls:	
MERF participants	$5,086

The Commission's total payroll for the year ended December 31, 1992 was $16,394,124.

MERF provides retirement benefits as well as disability benefits to members and benefits to survivors upon death of eligible members. Benefits are established by state statute, and vest after ten years of credited service. Members are eligible for service retirement either:

The pension benefit obligation as of June 30, 1992 is shown below (in millions):

	PERF	PEPFF
Total pension benefit obligation	$4,868	$ 822
Net assets available for benefits, at cost (Market Value: $5,081)	3,933	964
Unfunded (assets in excess of) pension benefit obligation	$ 935	$ (142)

MINNEAPOLIS-ST. PAUL METROPOLITAN AIRPORTS COMMISSION

NOTE I

PENSION AND RETIREMENT—CONTINUED

A) With 30 or more years of service at any age; or
B) At age 60 with ten or more years of service; or
C) At age 65 with less than ten years of service; or
D) With 20 more more years of service at age 55, if a MERF member prior to June 28, 1973.

The defined retirement benefits are based on the average of the highest five years salary within the last ten years of employment. The member will receive a benefit amount of 2% of that average salary for each of the first ten years of service and 2.5% of that salary for each year over ten years of service. The formulas used in calculating pension benefit increases are contained in Minnesota State Law. Increases may only be paid from investment earnings which exceed the actuarial assumption of a 5% return set for Minnesota public employment retirement funds. The annual increase for MERF is calculated from information supplied by the consulting actuary who determines the reserves required to maintain MERF as an actuarially and financially sound pension fund. Increases in pension benefits are permanent and guaranteed because they are fully funded, that is, the amount of necessary to sustain the increase has been set aside.

There are different types of annuities available to members upon retirement. A normal annuity is a lifetime annuity that ceases upon the death of the retiree. No survivor annuity is payable. There are also various types of joint and survivor annuity options available which will reduce the monthly normal annuity amount, because the annuity is payable over joint lives. Members leaving public service any time before retirement and before age 60 may receive a refund of all personal contributions, with interest, except for the survivor benefit contribution which is the equivalent of a non-refundable term insurance non-refundable term insurance premium. Employees who leave public service after age 60 may not withdraw personal contributions with interest unless they have worked under ten years and do not qualify for monthly retirement benefits. The survivor benefits contribution is nonrefundable.

B. Contributions Required and Contributions Made

Employee Contributions: Minnesota Statute Sections 422A.010 and 422A.25 require members to contribute 9.75% of their earnings to MERF which includes .5% for survivor benefits.

Employer Contributions: Required employer contributions are established by Minnesota Statute Section 422A.101 and include the normal cost, as reported in the annual actuarial valuation, plus an amount to cover administrative costs. Employers also contribute an additional 2.5% of covered employees payroll and an annual total of $3.9 million which is required by Minnesota statutes to be applied against the unfunded liability. Commencing in 1986, the Commission is required to make additional contributions towards the unfunded liability. This contribution was previously made by the State of Minnesota.

State of Minnesota Contributions: Minnesota Laws of 1991 provide for a maximum $10,455,000 annual contribution to MERF for the purpose of eliminating the unfunded liability by June 30, 2020. The consulting actuary for the fund determines the unfunded liability at the end of the fiscal year. By using a 6% interest assumption rate, an annual contribution to provide full funding by June 30, 2020 is determined. That amount is reduced by the employers 2.5% of payroll and further reduced by the $3.9 million and the additional contributions made by the Minneapolis-St. Paul Metropolitan Airports Commission and others. If the balance exceeds the amount of the State maximum contribution, the excess is contributed by the employers.

MINNEAPOLIS-ST. PAUL METROPOLITAN AIRPORTS COMMISSION

Current required contributed rates are as follows:

	Employee	Employer	Additional Employer
Retirement	9.25%	8.71%	2.50%
Survivor Benefits	.50%		

Total contributions made by the Commission for the fiscal year ended December 31, 1992 are as follows (in thousands):

1992	Contributions	Percentage of Covered Payroll
Employer	$570	11.21%
Employee	$496	9.75%

The Commission's contribution for the year ended June 30, 1992 represented 3.1% of the total contributions required of all participating entities.

C. Funding Status and Progress

Pension Benefit Obligation

The "pension benefit obligation" is a standard 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 MERF'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 Employees Retirement Systems and among employers. MERF does not make separate measurements of assets and pensions benefit obligations for individual employers.

The pension benefit obligation as of June 30, 1992 is shown below (in millions):

The measurement of the pension benefit obligation is based on an actuarial valuation as of June 30, 1992. Net assets available to pay pension benefits were valued as of June 30, 1992.

No changes in actuarial assumption that would significantly affect the valuation of the pension benefit obligation occurred during 1992.

D. Ten-year Historical Trend Information

Ten year historical trend information is presented in MERF's Comprehensive Annual Financial Report for the year ended June 30, 1992. This information is useful in assessing the pension plan's accumulation of sufficient assets to pay pension benefits as they become due.

E. Related-Party Investments

As of June 30, 1992 and for the fiscal year ended December 31, 1992, MERF held no securities issued by the Commission or other related parties.

	1992
Total pension benefit obligation	$988
Net assets available for benefits, at lower of cost or market value: $842	801
Unfunded pension benefit obligation	$187

MINNEAPOLIS-ST. PAUL METROPOLITAN AIRPORTS COMMISSION

NOTE J

POST-EMPLOYMENT BENEFITS

The Commission provides health insurance benefits for retired employees. Active employees who retire from the Commission and who have become vested in either the Minneapolis Employees Retirement Fund (MERF) or the Public Employees Retirement Association (PERA), and who do not participate in any other health benefits program providing coverage similar to that herein described, will be eligible to continue coverage with respect to both themselves and their eligible dependent(s) under the Commission's health benefits program. The Commission will make contributions toward required premiums at the same percentages applicable to active employees and their eligible dependent(s) until becoming eligible for Medicare, Part A or B, or both. The Commision will then pay 100% of the premium for the retired employee, spouse over age 65, and legal dependents, provided that the retired employee is receiving benefits from either MERF or PERA, and is enrolled in Medicare A and B as their primary health insurance. As of January 1, 1992, all employees hired by the Commission will only be able to participate in the Commission medical plan up to age 65. The Commission recognizes its portion of the cost of providing these benefits by expensing claims when paid. The total cost of health insurance benefits for retired employees for the years December 31, 1992 and 1991 is presented below (in thousands):

	1992	1991
Health Insurance	$461	$382
Retired Employees	109	100

NOTE K

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 under the plan, property, and rights purchases 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 L

ARBITRAGE

Every five years, the Commission is required to rebate arbitrage profits earned in relation to General Obligation Revenue Bond Series 6, 7 and 8. Arbitrage profits are earned when investment income relating to these issues exceeds the yield on the bonds. The Commission has recorded a liability in accrued expenses for the years ended December 31, 1992 and 1991 of $645,369 and $820,697, respectively.

NOTE M

RISK MANAGEMENT

It is the policy of the Commission to act as a self-insurer for workers' compensation and health/dental claims. The liability recorded under Employee Compensation and Payroll Taxes by the Commission includes estimated settlements for claims reported but not settled as of December 31, 1992, as well as an estimate of claims incurred but not reported.

NOTE N

CONTINGENT LIABILITIES AND COMMITMENTS

There are several lawsuits pending in which the Commission is involved. The Commission's legal counsel has indicated that existing and pending lawsuits and claims are either billable to airport users or would not materially affect the financial statements of the Commission.

Contractual obligations for construction were approximately $7,730,393 at December 31, 1992.

NOTE O

MAJOR CUSTOMER

Northwest Airlines, Inc. ("NAI") is a Minnesota corporation in the business of transporting by air, passengers, mail and property. Northwest Aerospace Training Corporation ("NATCO") is a Minnesota corporation in the business of pilot training. Both NAI and NATCO are wholly owned by NWA Inc., a Delaware corporation ("NWA"). In July 1989, NWA acquired was by Wings Holdings Inc., a Delaware corporation ("Wings"). NAI is the fourth largest airline in the United States and is one of the largest private employers in the State of Minnesota. NAI operates both domestic and international air route systems. Minneapolis-St. Paul International Airport is one of NAI's three major hubs. Revenues from NAI account for approximately 31% of operating revenues and 79% of total revenues from major airlines.

On April 23, 1992, the Commission issued $270,000,000 of taxable General Obligation Revenue Bonds, Series 9, ("Bonds"). The Bonds were used to acquire and lease back (a) a flight training center in Eagan, Minnesota, owned by NATCO, NAI and NWA (collectively "the Northwest entities"), consisting of land, a building, flight simulators, and related equipment and (b) certain leasehold interests of the Northwest entities and certain additional properties located at Minneapolis-St. Paul International Airport (collectively "the Leased Facilities"). The lease obligations are secured by the Leased Facilities, by guaranties of the Northwest entities and Wings and by a pledge of certain additional collateral consisting of aircraft engine parts and international route authorities. During the term of the Bonds, the Northwest entities are required to maintain collateral, as determined by periodic independent appraisals, (which has a value based upon use of the assets by an airline) of at last 145% (reducible to 135% under certain circumstances) of the sum of the principal amount of Bonds outstanding plus the unpaid balance of $45,000,000 supplied by the Commission in support of the debt service requirements and issuance costs of the Bonds. These transactions were accounted for as a capital lease.

The financial condition of Wings and Northwest entities on a consolidated basis is material to the ability to perform their rental and other payment obligations to the Commission under various agreemtns. Leases and accounts receivable from the Northwest entities represent 49% of the Commission's total assets at December 31, 1992.

For the years ended December 31, 1992 and December 31, 1991, the Northwest entities and Wings had unaudited consolidated net losses respectively of approximately $1.079 billion and $320 million. On December 31, 1992, the Northwest entities' and Wings' unaudited total consolidated assets were $7.545 billion, its total unaudited consolidated liabilities were $9.277 billion, resulting in the Northwest entities' and Wings' unaudited consolidated net deficit of $1.732 billion. In the event that the Northwest entities or Wings are unable to meet their lease commitments, the Commission has the authority to levy property taxes to support the debt obligations on the Bonds.

Statistical Section

MINNEAPOLIS-ST. PAUL METROPOLITAN AIRPORTS COMMISSION

Total Annual Revenues 1983-1992

MINNEAPOLIS-ST. PAUL METROPOLITAN AIRPORTS COMMISSION

(Dollars in Thousands)

	1983	1984	1985
Traffic	$ 7,775	$ 9,176	$ 11,330
Concessions	15,713	18,582	21,555
Rentals	6,909	7,552	8,281
Other	1,649	1,139	1,223
Total Operating Revenues	**32,046**	**36,449**	**42,389**
Add: Interest Income	14,548	14,836	13,248
PFC Revenue			
Gain on sale of Airports and Facilities			
Total Revenues	**$ 46,594**	**$ 51,285**	**$ 55,637**

Source: Audit reports for the last ten years.

Total Annual Expenses 1983-1992

(Dollars in Thousands)

	1983	1984	1985
Personnel	$ 10,162	$ 10,671	$ 12,430
Administrative Supplies and Expenses	249	252	762
Professional Services	776	1,141	1,339
Utilities	2,831	3,089	3,308
Operating Services	2,618	3,346	3,899
Maintenance:			
Building	987	1,106	1,408
Field	1,044	952	1,426
Equipment	428	362	569
Cleaning	1,256	1,370	1,521
Depreciation	7,198	8,624	9,297
Other	50	(92)	273
Total Operating Expenses	**27,599**	**30,821**	**36,232**
Interest Expense—1	7,443	6,932	5,889
Loss on Building Disposition			452
Total Expenses	**$35,042**	**$37,753**	**$42,573**

Source: Audit reports for the last ten years.

1—Interest expense is net of capitalized interest. See note G to financial statements.

1986	1987	1988	1989	1990	1991	1992
$ 12,213	$ 13,258	$ 12,872	$ 14,005	$ 16,176	$ 18,481	$ 19,634
23,425	24,433	23,554	25,062	26,206	26,405	28,882
8,745	10,185	11,906	12,179	12,330	13,348	14,228
1,562	1,618	1,883	1,221	2,233	2,205	2,386
45,945	**49,494**	**50,215**	**52,467**	**56,945**	**60,439**	**65,130**
13,398	13,933	15,257	16,243	15,744	15,838	34,238
						14,607
		1,081				
$ 59,343	**$ 63,427**	**$ 66,553**	**$ 68,710**	**$ 72,689**	**$ 76,277**	**$113,975**

1986	1987	1988	1989	1990	1991	1992
$ 12,217	$ 14,784	$ 15,116	$ 17,551	$ 19,153	$ 21,168	$ 22,308
76	414	406	512	715	668	923
2,014	2,193	3,063	3,229	3,043	3,731	4,813
3,134	3,072	3,809	3,704	4,070	3,665	4,412
4,048	3,281	3,600	4,272	5,074	5,581	5,907
1,405	1,542	1,813	1,732	1,906	1,420	1,448
1,256	1,134	971	980	941	1,328	832
481	348	515	980	1,142	1,306	1,313
1,600	1,790	2,152	2,452	2,774	2,949	3,495
10,217	11,500	12,461	11,807	14,662	16,214	17,976
526	731	150	283	566	276	(217)
36,974	**40,789**	**44,056**	**47,502**	**54,046**	**58,306**	**63,210**
6,013	7,050	7,640	7,058	7,943	9,430	27,544
$42,987	**$47,839**	**$51,696**	**$54,560**	**$61,989**	**$67,736**	**$90,754**

Operating Ratio 1983-1992

MINNEAPOLIS-ST. PAUL METROPOLITAN AIRPORTS COMMISSION

(Dollars in Thousands)

	1983	1984	1985
Operating Expense—2	$20,401	$22,197	$26,935
Operating Revenues	32,046	36,449	42,389
Operating Ratio	64%	61%	64%

1—Operating ratio is operating expense net of depreciation divided by total operating revenue.
2—Operating expense excludes depreciation.

Revenue Available for Debt Service 1983-1992

(Dollars in Thousands)

	1983	1984	1985
Operating Revenue	$ 32,046	$ 36,449	$ 42,389
Interest Income	14,548	14,836	13,248
Operating Expense—1	(20,401)	(22,197)	(26,935)
Revenue available for debt service	$ 26,193	$ 29,088	$ 28,702
Debt service	$ 13,926	$ 13,997	$ 13,892
Coverage of debt service	1.88	2.08	2.07

1—Operating expense excludes depreciation.

Ratio of Annual Debt Service to Total Expenses 1983-1992

(Dollars in Thousands)

	1983	1984	1985
Principal	$ 6,415	$ 6,830	$ 7,080
Interest—1	7,511	7,167	6,812
Total Debt Service	$13,926	$13,997	$13,892
Total Expenses	$35,042	$37,753	$42,573
Ratio of Debt Service to Total Expenses	40%	37%	33%

1—Does include capitalized interest.

1986	1987	1988	1989	1990	1991	1992
$ 26,757	$ 29,289	$ 31,595	$ 35,695	$ 39,384	$ 42,092	$ 45,234
45,945	49,494	50,215	52,467	56,945	60,439	65,130
58%	59%	63%	68%	69%	70%	69%

1986	1987	1988	1989	1990	1991	1992
$ 45,945	$ 49,494	$ 50,215	$ 52,467	$ 56,945	$ 60,439	$ 65,130
13,398	13,933	15,257	16,243	15,744	15,838	34,238
(26,757)	(29,289)	(31,595)	(35,695)	(39,384)	(42,092)	(45,234)
$ 32,586	$ 34,138	$ 33,877	$ 33,015	$ 33,305	$ 34,185	$ 54,134
$ 13,930	$ 15,422	$ 16,672	$ 19,010	$ 17,776	$ 18,466	$ 38,618
2.34	2.21	2.03	1.74	1.87	1.85	1.40

1986	**1987**	**1988**	**1989**	**1990**	**1991**	**1992**
$ 7,460	$ 7,545	$ 7,545	$ 8,035	$ 7,295	$ 8,500	$ 8,705
6,470	7,892	9,127	10,975	10,481	9,966	29,913
$ 13,930	$ 15,437	$ 16,672	$ 19,010	$ 17,776	$ 18,466	$ 38,618
$ 42,987	$ 47,839	$ 51,696	$ 54,560	$ 61,989	$ 67,736	$ 90,754
32%	32%	32%	35%	29%	27%	43%

Activity Statistics for Minneapolis—St. Paul International Airport 1983-1992

MINNEAPOLIS-ST. PAUL METROPOLITAN AIRPORTS COMMISSION

	1983	1984	1985
Total Passengers—1	11,134,919	12,039,411	14,803,833
Aircraft Operations—2	307,801	337,838	372,911
Mail and Cargo Volumes (Metric Tons)	117,316	139,859	144,925

Source: Metropolitan Airports Commission Activity Report.

1—Statistical reporting requirements were revised as follows:
—In 1986, on-line connecting passengers were included in the totals. 1983-1985 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 1983-1992

	1983	1984	1985
St. Paul Downtown Airport	97,118	103,118	112,019
Flying Cloud Airport	166,266	165,542	176,246
Crystal Airport	136,314	140,704	143,665
Anoka County/Blaine Airport	140,000	145,000	160,000
Lake Elmo Airport	90,000	92,000	82,000
Airlake Airport	20,000	23,000	35,000
Total Aircraft Operations at the Reliever Airports	649,698	669,364	708,930

Source: Metropolitan Airports Commission Activity Report.

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

1986	1987	1988	1989	1990	1991	1992
17,073,605	17,858,984	17,733,837	18,346,095	19,167,427	19,336,533	21,407,415
389,012	373,660	373,851	364,030	379,785	382,017	413,502
199,319	206,799	246,734	241,725	266,824	272,328	304,102

1986	1987	1988	1989	1990	1991	1992
124,786	135,397	151,869	166,436	190,333	168,450	152,378
191,350	209,423	186,699	207,661	227,408	186,496	198,306
152,773	165,367	172,074	177,679	189,910	173,150	179,546
165,000	180,000	200,000	212,000	215,000	195,650	195,650
70,000	63,000	65,000	65,000	66,950	69,950	69,950
40,000	52,000	64,000	66,000	67,980	74,745	81,087
743,909	805,187	839,642	894,776	957,581	868,441	876,917

Schedule of Airline Rates and Charges 1983-1992

Statistical Section

MINNEAPOLIS-ST. PAUL METROPOLITAN AIRPORTS COMMISSION

	1983	1984	1985
Landing Fee/1000 lbs.	$ 0.47	$ 0.47	$ 0.57
Ramp Fees/Lineal Foot	$169.15	$185.07	$185.64
Terminal Building Rentals:			
Common Use/Square Foot	$ 13.35	$ 13.10	$ 14.13
Finished/Square Foot	11.61	11.39	12.30
Finished Janitored/ Square Foot	15.92	15.57	16.89
Unfinished/Square Foot . .	11.08	10.90	11.82

Source: Compensatory Rental Report.

Population of Seven County Metropolitan Area 1983-1992

1983	1984	1985
2,033,080	2,057,157	2,086,356

Source: Metropolitan Council
N/A—Not Available

1986	1987	1988	1989	1990	1991	1992
$ 0.55	$ 0.65	$ 0.62	$ 0.58	$ 0.65	$ 0.77	$ 0.77
$178.83	$177.01	$186.48	$310.20	$306.76	$317.97	$300.06
$ 13.79	$ 15.15	$ 16.06	$ 17.39	$ 17.60	$ 19.49	$ 20.46
11.84	12.68	14.06	17.39	17.60	19.49	20.46
16.68	18.32	18.76	22.22	22.24	24.89	27.51
11.38	12.24	13.56	17.39	17.60	19.49	20.46

1986	1987	1988	1989	1990	1991	1992
2,118,445	2,153,533	2,200,321	2,240,850	2,288,721	2,318,532	N/A

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Insurance Coverage

MINNEAPOLIS-ST. PAUL METROPOLITAN AIRPORTS COMMISSION

Insurer	Expiration	Coverage	Policy Limits (Thousands of Dollars)
Arkwright Insurance	1-3-94	Blanket Fire and Extended coverage on buildings and contents. Heavy equipment, boiler, machinery and Builder's Risk.	$274,600
Self-Insured Sedgwick-James Third Party Admin.	3-1-93	Statutory Workers' Compensation	$100/500/100
Fidelity & Deposit Company of Maryland	3-1-93	Comprehensive Crime Employee Bond	$1,000
Associated Aviation Underwriters	12-23-93	General Aviation Liability including personal injury	$300,000
Chubb	1-1-94	Auto Liability and physical coverage and hired automobiles.	$1,000 Per Occurrence
Chubb	1-1-94	Garage keepers liability	$5,000
Chubb	1-1-94	Valet parking	$5,000
Chubb	1-1-94	Fleet physical damage	Values over $50

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MINNEAPOLIS-ST. PAUL METROPOLITAN AIRPORTS COMMISSION

At the end of 1992, major scheduled airlines serving the Twin Cities were:

America West
American Airlines
Continental Airlines
Delta Airlines
KLM Royal Dutch Airlines
Northwest 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 1992 were:

Bemidji Airlines
Express I
Great Lakes Aviation
GP Express
Mesaba Airlines
Time Air

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 at a regular basis.

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