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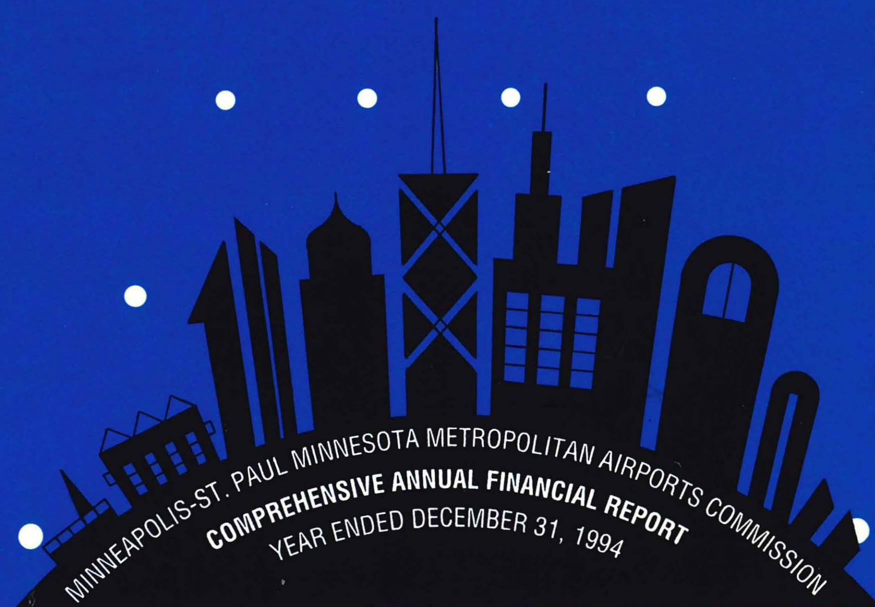
ANNUAL REPORT

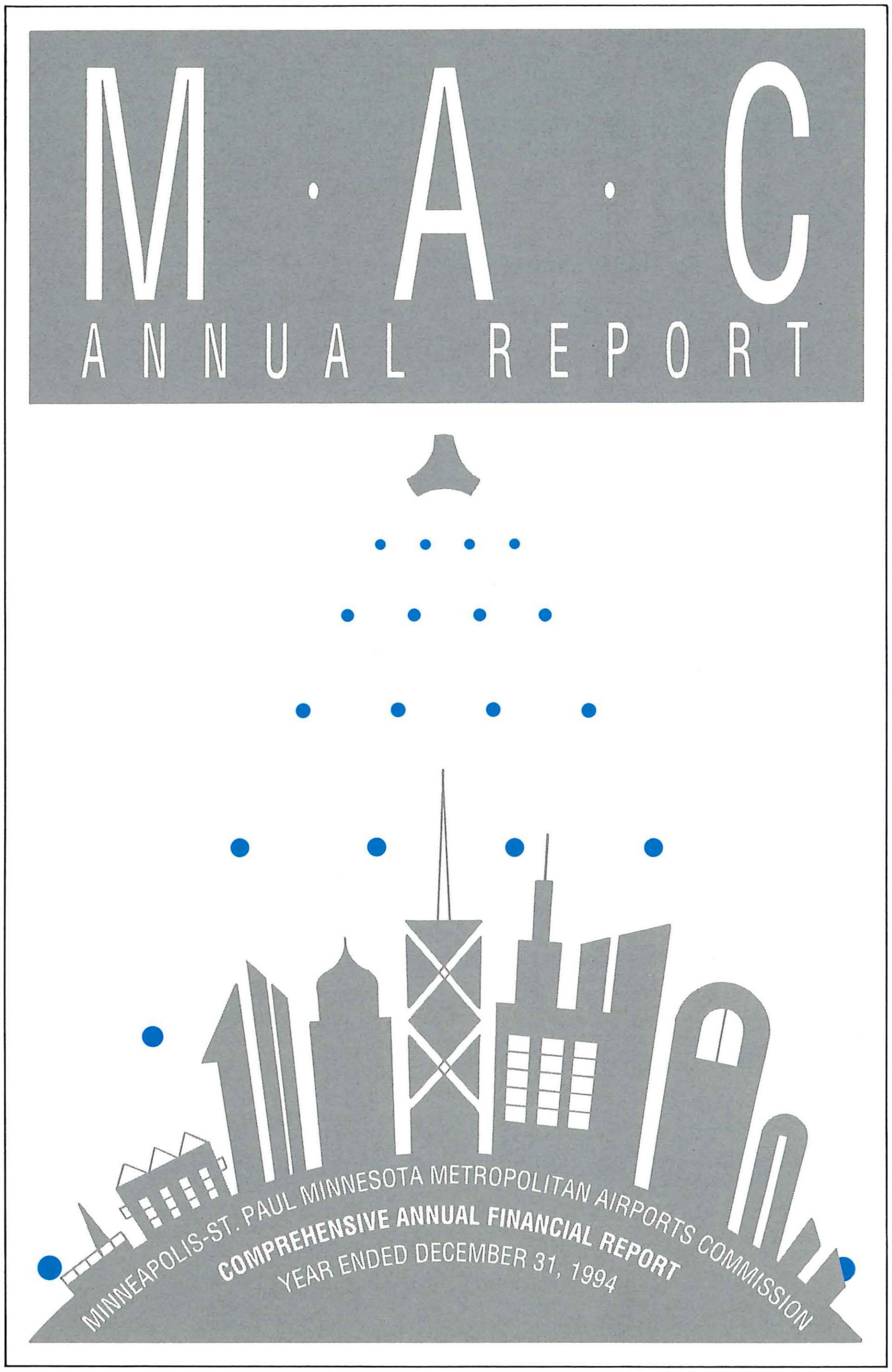


MINNEAPOLIS-ST. PAUL MINNESOTA METROPOLITAN AIRPORTS COMMISSION

COMPREHENSIVE ANNUAL FINANCIAL REPORT

YEAR ENDED DECEMBER 31, 1994

Pursuant to Minn. Stat. 473.621
Subd. 1a



Prepared by The Finance Department • Denise A. Kautzer, Director of Finance

Minneapolis—St. Paul, Minnesota
Metropolitan Airports Commission 1994

Chairman:	Richard Braun *
Commissioners:	
District A	Darcy Hitesman
District B	Daniel Johnson
District C	John Himle
District D	Alton Gasper
District E	Edward Fiore
District F	Tommy Merickel
District G	Patrick O'Neill
District H	Louis Miller
City of Minneapolis	Steve Cramer
City of Saint Paul	Nick Mancini
Representing Greater Minnesota Area:	Mark Brataas
	Laurel Erickson
	Paul Rehkamp
	Georgiann Stenerson
Executive Director:	Jeffrey Hamiel

* Pierson Grieve was appointed Chairman on April 17, 1995 by the Governor of Minnesota

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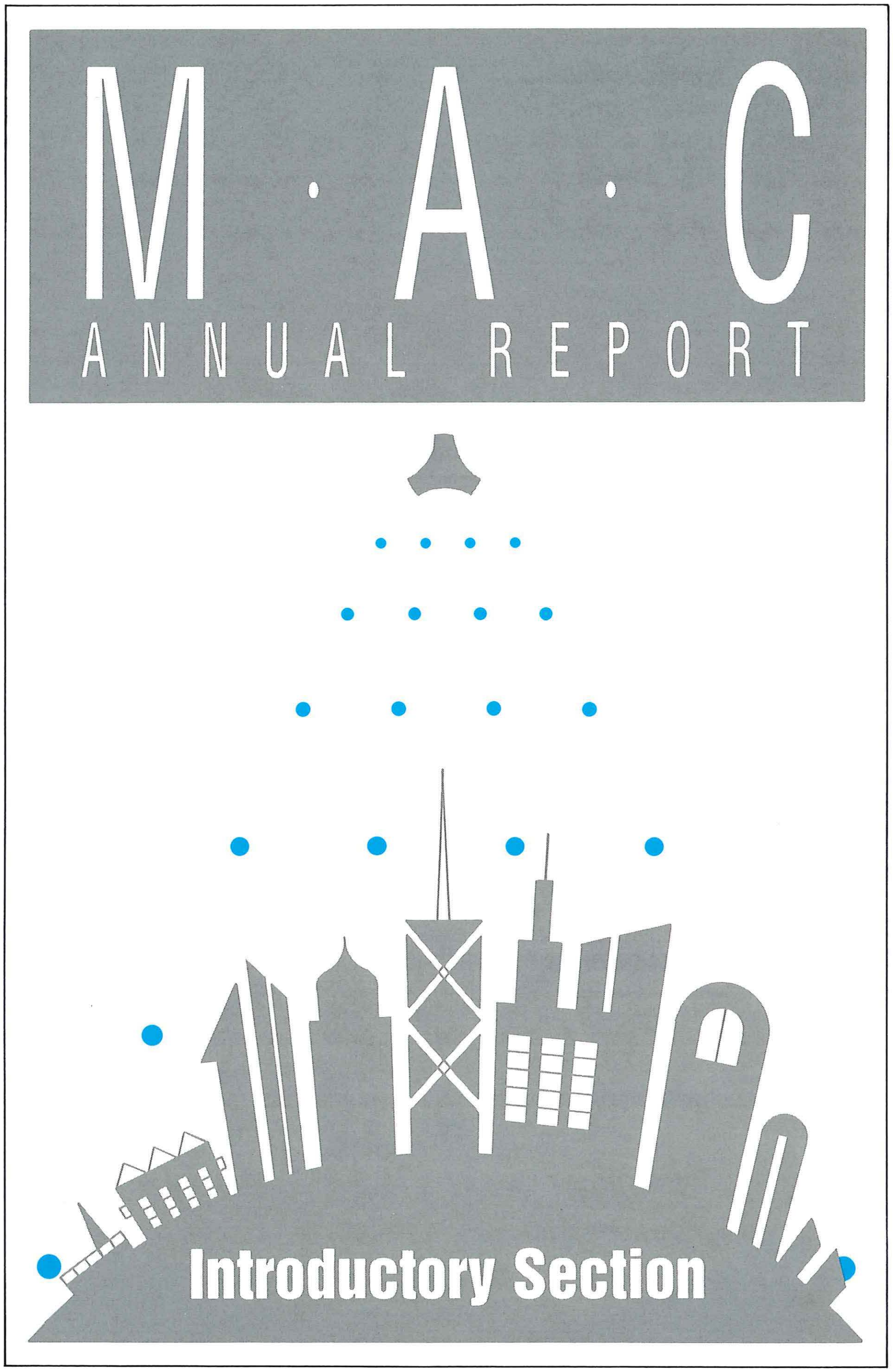
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Introductory Section

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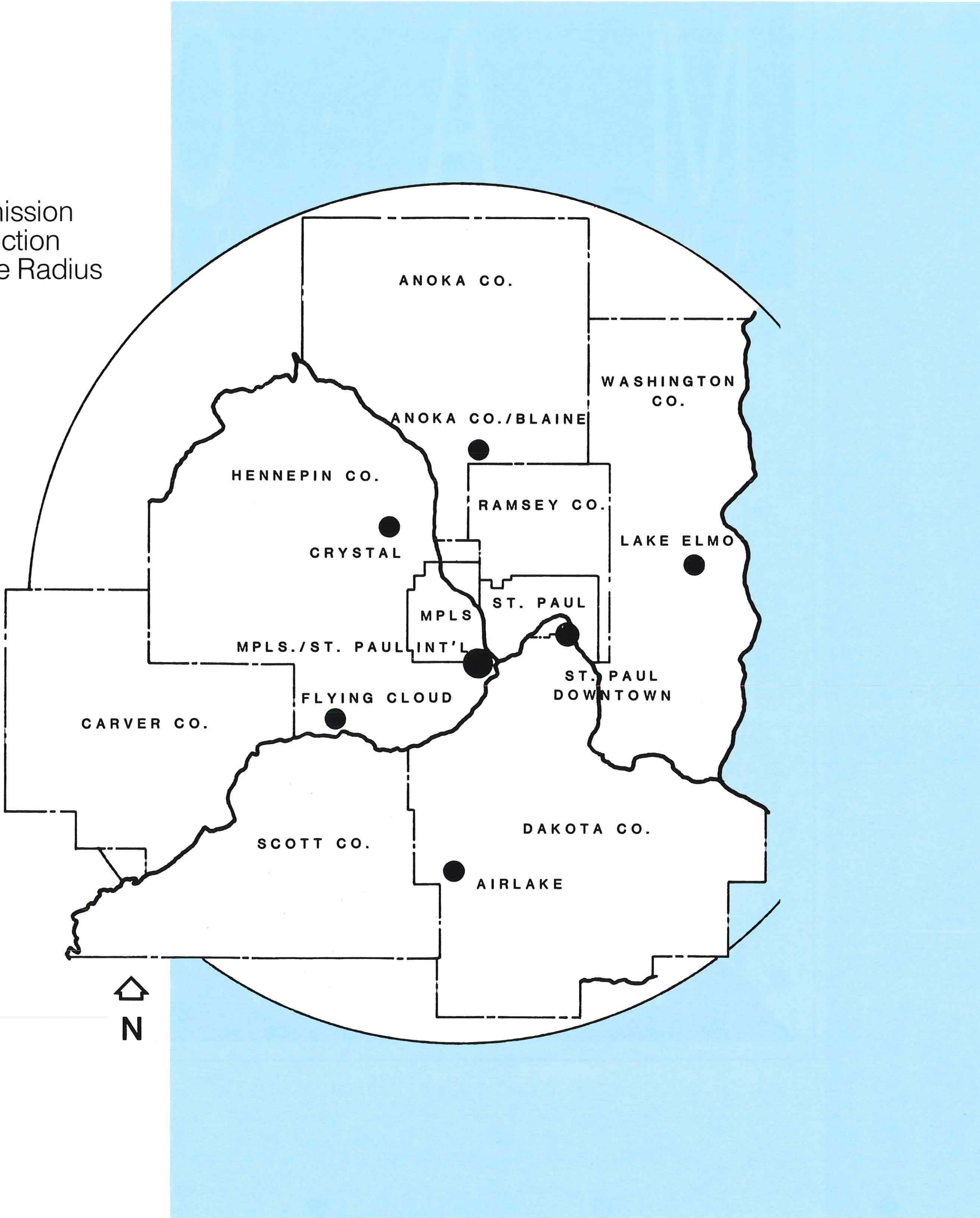

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Minneapolis-St. Paul Metropolitan Airports Commission, Minnesota

For its Comprehensive Annual Financial Report for the Fiscal Year Ended December 31, 1993

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President

Jeffrey L. Esser

Executive Director

Letter of Transmittal

MINNEAPOLIS-ST. PAUL METROPOLITAN AIRPORTS COMMISSION

METROPOLITAN AIRPORTS COMMISSION

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March 10, 1995

To The Public:

The Comprehensive Annual Financial Report of the Metropolitan Airports Commission, Minneapolis-St. Paul, Minnesota, for the fiscal year ended December 31, 1994, 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 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 Independent Auditors' Report 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 audit in conformity with the Single Audit Act of 1984 and the U.S. Office of Management and Budget, Circular A-128, Audits of State and Local Governments. Information related to this single audit includes the Schedule of Federal Financial Assistance, findings and recommendation, and independent auditors' report on the internal control structure and compliance with applicable laws and regulations. The Commission is also required to undergo an audit on the Commission's compliance with the regulations issued by the Federal Aviation Administration of the U.S. Department of Transportation to implement Sections 9110 and 9111 of the Aviation Safety and Capacity Expansion Act of 1990 in relation to Passenger Facility Charge revenues and expenses. These reports are issued separately.

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.

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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

REPORTING ENTITY

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. Only the Chairperson can be removed before their term. These appointing authorities, however, do not exercise direct financial oversight; and thus, the Commission is independent for financial reporting purposes. In applying Government Accounting Standards Board (GASB) 14, the MAC is not financially accountable to any other organization and is considered a stand-alone government unit.

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

INDUSTRY HEALTH

The economic condition of the air carriers continues to have a profound impact on the MAC and its ability to fund both operational activities and capital improvements in 1995 and beyond. Although no major air carriers are currently in bankruptcy, two are perilously close. Northwest Airlines, the largest carrier servicing MSP, recently completed their fifth consecutive profitable quarter.

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The long awaited recovery of the airline industry did not occur during 1994. The airline industry continues to suffer from low fares, increased competition and lower profit margins. As a result, they continue to look for ways of reducing their cost structure. Increasingly, they are turning to airports for reductions in airport rates and charges. The challenge moving forward will be to provide a high level of service to our customers while continuing to control costs.

PASSENGERS

Total passengers at MSP increased 4.6% from 1993 levels. Total MSP passengers for 1994 were 23.1 million. The increase in passengers was a result of additional passengers carried by charter operators and on-line connecting passengers flying with Northwest Airlines. The top five air carriers in 1994, by enplaned passengers, serving MSP are shown below. The total enplaned passengers for 1994, including connecting, was 11,531,945.

Carrier	Enplaned Passengers	% of Total
Northwest	8,595,275	74.5%
United	469,914	4.1
American	312,020	2.7
Delta	272,780	2.4
Express Air	262,975	2.3
	9,912,964	86.0%

OPERATIONS

Aircraft operations were 454,723 in 1994, an increase of 3.85% from 1993 levels. The increase in operations were primarily from the MAC's main carrier Northwest Airlines, as well as modest increases in charter and regional activity.

Reliever airports, operations increased 4.7% from 1993 levels.

MAJOR INITIATIVES FOR THE YEAR

In 1994, the Commission and staff developed a series of 1995 objectives that comprise significant activities that will be undertaken and/or completed during the 1995 calendar year. These objectives were refined from a list of nearly 50 important subjects to which the Commission and staff will devote extraordinary time and resources in 1995.

The 1995 objectives include:

DUAL TRACK SIRPORT PLANNING PROCESS

During 1995 the Metropolitan Airports Commission will move into the final phases of the Dual Track Airport Planning Process. In February, the MAC will select a preferred alternative for continued development of Minneapolis-St. Paul International Airport; in April a similar decision will be made for a potential new airport development concept. This will allow the comparison process of these two options to begin.

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A key element of the comparison is the environmental review process. The MAC will be responsible for completion of State environmental review, acting under the provisions of an Alternative Environmental Review Process approved by the Minnesota EQB. The Federal Aviation Administration will be responsible for compliance with Federal environmental requirements. Coordination meetings will take place between MAC and the FAA in order to prepare a joint environmental review document; this will provide a more understandable process for the interested public. Scoping activities will begin in April with the draft EIS being prepared during the remainder of the year.

Financial and economic issues will also be evaluated during 1995. Costs of the development alternatives are being developed as part of the comprehensive planning process. It will be necessary to determine how these costs will be paid as part of the evaluation process. A financing plan will be developed for both MSP and the potential new airport to assist decision-makers in making a final choice. Costs associated with infrastructure improvements will also be provided, however at a more general level than the on-airport costs. A separate evaluation will also be provided, however at a more general level than the on-airport costs. A separate evaluation will consider economic impacts. The importance of aviation to the economy of the Twin Cities, and state at large will be evaluated. The study will look at the potential impacts of doing nothing, and of MSP expansion or development of a replacement airport.

To provide additional input into the environmental process, the MAC has authorized studies of a Remote Runway concept and of Site Preservation. The Remote Runway Study contemplates a separation between the runways and certain terminal functions, continuing to use the existing terminal building with the runways located within the Search Area in Dakota County. Site Prevention is a concept whereby land for future development would be set aside; the decision to begin development of airport facilities would be made at the time when demand has reached a predetermined level.

Public involvement has been an integral part of the planning process since it was begun in 1989. Regular newsletters for the public and legislators, brochures summarizing major activities, and public hearings and presentations will service to keep interested parties aware of ongoing activities. Community input will also be received through an advisory task force, similar in nature to those that have been in place throughout the various stages of the Dual Track.

APPROVE STORM WATER DISCHARGE PLAN FOR MSP

The National Pollutant Discharge Elimination Systems (NPDES) Permit issued by the Minnesota Pollution Control Agency to the MAC required a 50 percent reduction in the 1993-94 deicing season from the previous year in carbonaceous biochemical oxygen demand (CBOD) from the storm water discharge at MSP. The primary source of CBOD is the glycol used by the airlines to deice aircraft during the winter months. Aircraft deicing is absolutely critical to the safety of flight, and glycol is the only product currently used for that purpose.

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Deicing fluid which has run off the aircraft is collected in the MSP storm sewers which have been plugged to prevent the fluid from flowing into the Minnesota River. The fluid is pumped out of the storm sewers into tanker trucks and transported to holding ponds for metered discharge to the Metropolitan treatment plan. Through this process, the MAC was able to meet its NPDES permit limitation for CBOD discharge by a wide margin. This successful effort is the result of the cooperation of many MAC departments, the airlines, and the MSP deicing task force.

The permit limitation for 1994-95 will be reduced by another 25 percent. Several collection and containment improvements, plus the cooperation of all involved parties, indicate another successful effort in the winter season.

DEVELOP/IMPROVE INTEGRATED NOISE POLICY FOR MSP:

In 1994, the MAC committed to develop a New Noise Management Methodology which proposes three basic objectives:

- Provide an overall noise management plan applicable to all carriers serving MSP, streamlining the existing agreements with various carriers and providing continuity to noise programs at MSP.
- Insure that improvements to the noise environment from increased utilization of Stage 3 aircraft remains at least at current levels (no backsliding).
- Formalize for MSP the existing federal provision that after December 31, 1999, only Stage 3 aircraft will be allowed to operate at airports in the United States (Federal Aviation regulartion Part 91.853).

APPROVE NEGOTIATION OBJECTIVES FOR NEW AIRLINE USE AGREEMENT: IMPLEMENT CONCESSIONS PLAN

In 1995, the MAC will begin preparations to renegotiate the operating agreement between the MAC and the airlines. In 1996, MAC will open negotiations with the airlines on the agreement. Over the years, the agreement has changed somewhat, principally in duration. The agreement that expired in 1988 was a 30-year agreement. The last one was only eight years and the next one will likely be for a similar period.

This agreement covers the major airlines serving MSP. Included in the pact are the terms for landing fees, ramp and terminal space rentals, off-airport noise surcharge, etc. The agreement does not cover hangars or ramp spaces away from the terminal building. In 1994, the MAC and Northwest Airlines concluded difficult negotiations on the carrier's original main base lease, which was extended to the year 2002.

The MAC will convert its strategic concessions plan into an implementation plan in 1995. And in 1996 funds will be spent from the MAC's Capital Improvement Program to upgrade concessions space in the Lindbergh terminal.

The 1994 plan outlines the transformation of the present concessions environment into an "airport mall" with significant renovation and re-merchandising aimed at pleasing the millennium air traveller. It projects a 35 percent increase in the revenue-generating capacity of the proposed environment over the current environment. In 1995, both Starbucks and Caribou gourmet coffee shops will be featured at MSP for the first time.

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- The Properties Department will negotiate an agreement with Northwest Airlines documenting construction and specifying how the new Lindbergh Terminal International Arrivals facility on the Gold concourse will be operated. The ability of the MAC to attract new international service to MSP is severely handicapped by arriving passengers having to clear customs at an already overcrowded and inadequate Humphrey Terminal. In addition, those passengers who connect to other flights at the Lindbergh Terminal are faced with riding a bus linking the HHH Terminal and Lindbergh facility to make the connection. Carriers have told staff that the existing HHH facilities are the largest single obstacle to MSP acquiring new international service. Design of the Gold concourse facility is now in progress and bidding documents are being prepared. Contracts will be awarded and construction should be underway before year-end.

ADOPT A NEW PROCESS FOR DEVELOPING MULTI-YEAR ORGANIZATIONAL GOALS AND IDENTIFYING THE SPECIFIC ROLE THE COMMISSION WILL PLAY

The executive director has developed a new process to improve organizational goal-setting. This improved process will allow more formalized commissioner involvement and encourage all employees to participate in setting annual organizational goals. Specifically, each year the Metropolitan Airports Commission will conduct a one-day seminar setting organizational direction and identifying policy priorities for the next three years. Once the Commission has established those priorities, the staff will determine the specific administrative requirements, using departmental expertise, needed to achieve those goals. Once adopted by the Commission the organization goals will be used to determine the annual budget requirements for the coming year, develop Capital Improvement Program priorities for the three-year period and provide direction for future decision-making.

DEVELOP AND APPROVE A NEW BUDGET PROCESS AND THE COMMISSION'S ROLE IN THAT PROCESS.

In 1993, the Commission established the Budget Task Force for the purpose of reviewing and recommending the annual operating budget for approval. In the past, the task force has established annual targets for revenue and expense growth.

In 1995, multi-year targets will be established to assist in planning for periods beyond the current budget cycle.

Additionally, the task force will look at strategies for reducing the financial dependence of the MAC on Northwest Airlines, its major tenant. Northwest is the largest carrier serving MSP with approximately 30 percent of the MAC's operating income and 72 percent of total major airline revenue derived from that source.

DEVELOP A COMPREHENSIVE MARKETING PLAN FOR MSP

The MAC, in 1994, created a Global Task Force, established to assist the MAC in obtaining new international passenger and cargo service at MSP. One of the first topics addressed by the task force was the adequacy of MSP's facilities. The group concluded that it would be virtually impossible to obtain new international service with the crowded facilities at the HHH international arrivals terminal. The group also identified the congested conditions at the Humphrey terminal for charter passengers and for additional length for runway 4/22 to accommodate fully loaded international widebody jets as conditions needing immediate correction.

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The Commission, at the urging of key members of the task force and with the full support of the Twin Cities media, approved major projects for construction of Federal Inspection Facilities on the Gold Concourse for international arrivals and expansion of the Humphrey terminal. The Commission currently is considering approving extension of runway 4/22.

In 1995, the MAC will employ a consultant to determine which international destinations are most in demand by Upper Midwest passengers and shippers and identify those airlines most likely to meet those demands.

Appropriate staff (and perhaps others) then will begin contacts with other carriers to stimulate interest in the Twin Cities market. Northwest and KLM have been strong participants in the task force and have either increased their international service at MSP or have announced service increases scheduled to begin later. Included in those schedule additions are additional flights to Amsterdam (14 flights weekly beginning in spring 1995) and the inauguration of service to Vancouver from MSP via Spokane.

Northwest, with MAC's support, also has applied for new nonstop service to Montreal, Toronto and Vancouver from MSP and award of route authority in two of those markets is anticipated by spring 1995.

REVIEW AND ANALYZE GENERAL AVIATION ACTIVITY AND ESTABLISH A PLAN TO MOVE APPROPRIATE AIRCRAFT AND OPERATIONS TO THE RELIEVER AIRPORTS

The reliever airports, as traffic increases at MSP, are playing an ever-increasing role in meeting the air transportation needs of the region. Without the reliever airports, there would be considerable congestion at MSP and significant delays of scheduled flights at MSP would be routine. One of MAC's policies has been to attract as much general aviation activity as possible from MSP to the relievers to eliminate congestion and delays and to prevent an incompatible mix of aircraft at this commercial hub airport.

In 1995, continued attention will be focused on the reliever airports. Efforts will include implementation of minimum standards, the establishment of new rates and charges for operators and tenants on the reliever airports, the development of a ''MAC reliever airport operating philosophy,'' and the establishment of a Holman Field Use policy.

The MAC has been very active in promoting and obtaining federal Congressional support for the construction of new air traffic control towers at Anoka County/Blaine and St. Paul Downtown Airports. Those efforts, in 1994, paid off and Congress has approved construction of new towers at both MAC airports.

DEVELOP A PROGRAM TO IDENTIFY AND IMPROVE THE OVERALL PUBLIC PERCEPTION OF THE MAC AND ITS OPERATING PHILOSOPHY

In 1995, a number of events involving the MAC and its facilities will take place which will afford the MAC the opportunity to reacquaint the public with the organization, its facilities and objectives, and the impact of those facilities in meeting the economic and transportation needs of the region.

The MAC has enjoyed a strong, positive relationship with the Twin Cities media for several years. That relationship results from several factors. The MAC has an open door policy between the media and those MAC staff members most knowledgeable about the topic of media interest. That policy has been very helpful to reporters who are on a tight deadline and seeking information for a story. It also has been beneficial for the MAC in obtaining positive press coverage and maintaining good press relations.

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A partial list of events that will attract media attention in 1995 includes the construction of new control towers at MSP, St. Paul and Anoka; the updated economic impact study for MSP; updates on the Dual Track process as it nears completion; new construction on the Gold concourse, the HHH terminal, and, possibly, runway 4/22. We will continue to promote special activities, such as Fly-Ins, the Confederate Air Force visit to St. Paul, Airport Days, peak travel periods and other activities of interest on MAC facilities. MAC also will keep the public informed on aircraft noise progress as the use of Stage III aircraft at MSP approaches 50 percent. And the MAC will continue its highly successful editorial board briefings with Star Tribune and Pioneer Press newspapers. For the first time, MAC staff will launch an effort to obtain greater media coverage in outstate Minnesota, particularly related to the Dual Track process and the economic/transportation importance of MSP to the entire state and region.

IMPLEMENT A CONTINUING PROGRAM TO MONITOR THE AIRLINE INDUSTRY AND NWA DEVELOPMENTS AND TRENDS IN FINANCIAL STATUS, MARKETING PROGRAMS, TECHNOLOGY, AND FEDERAL PROGRAMS

The various segments of the aviation industry, including airlines, airports general aviation and government agencies have been characterized by an incredible amount of change over the past several years. That rate of change seems to be increasing each year. As part of MAC's need to stay in touch with the expectations of its customers and to find ways to understand as well as influence these changes, MAC staff plans to schedule quarterly presentations to the Commission and staff by influential industry experts which will provide opportunities to learn about recent developments and trends in a variety of industry segments and to discuss their impact on the MAC.

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 service 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 EXPENSES

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 1994 MAC operating revenues increased by 7.4% to $76,393,000 from $71,129,000 in 1993. Changes in major categories are summarized below (dollars in thousands):

	1994		1993		DOLLAR CHANGE	PERCENT CHANGE
	$	%	$	%		
TRAFFIC	$23,770	31.1%	$21,082	29.6%	$2,688	12.8%
COMMERCIAL:						
CONCESSIONS	35,097	45.9	32,626	45.9	2,471	7.6
RENTALS	15,131	19.8	14,915	21.0	216	1.4
UTILITIES	1,342	1.8	1,116	1.6	226	20.3
MISCELLANEOUS	1,053	1.4	1,390	1.9	(337)	(24.2)
OPERATING REVENUES	**$76,393**	**100.0%**	**$71,129**	**100.0%**	**$5,264**	**7.4%**

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Traffic increased $2,688,000 or 12.8% 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 increased expenses, specifically in the areas of storm water monitoring and depreciation costs related to capital improvements projects.

Concessions increased $2,471,000 or 7.6% in 1994. The majority of the increase from 1993 levels is in the auto parking concession. In 1994, the Commission realized a full year of revenue as a result of a 1993 parking increase. New services and/or renewed agreements with various concessionaires account for the remaining increase.

OPERATING EXPENSE

In 1994, MAC operating expenses increased by 5.5% to $70,175,000 from $66,488,000 in 1993. Changes in major categories are summarized below (dollars in thousands):

	1994		1993		DOLLAR	PERCENT
	$	%	$	%	CHANGE	CHANGE
SALARIES, WAGES AND EMPLOYEE BENEFITS	$23,293	33.2%	$22,739	34.2%	$ 554	2.4%
ADMINISTRATIVE SUPPLIES & EXPENSES	839	1.2	966	1.5	(127)	(13.1)
PROFESSIONAL SERVICES	4,681	6.7	4,984	7.5	(303)	(6.1)
UTILITIES	5,287	7.5	4,974	7.5	313	6.3
OPERATING SERVICES	7,995	11.4	5,809	8.7	2,186	37.6
MAINTENANCE	6,743	9.6	7,406	11.1	(663)	(9.0)
DEPRECIATION	21,048	30.0	19,258	29.0	1,790	9.3
OTHER	289	.4	352	.5	(63)	(17.9)
OPERATING EXPENSES	**$70,175**	**100.0%**	**$66,488**	**100.0%**	**$3,687**	**5.5%**

Operating Services increased $2,186,000 from 1993 levels primarily because of storm water monitoring costs. The Commission was required in November 1993 to begin to monitor various elements combined in storm water run-off which are discharged into the Minnesota River and Duck Lake. The run-off must be transported to temporary storage ponds via truck.

Depreciation increased 9.3% in 1994. This is a result of approximately $11 million of terminal building, $15 million of field and runway projects and $15 million in off-airport noise projects that were completed in 1993-1994.

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.

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Net revenues generated by the Commission are designated for construction an 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:

1995	$90,263,000
1996	$89,569,000
1997	$87,213,000
1998	$84,387,000
1999	$81,171,000

Authority for issuing bonds is obtained from the Minnesota State Legislature. Authorization as of December 31, 1994, permits the issuance of an additional $55 million of bonds. In 1994, the Commission issued $11 million in tax-exempt General Obligation Revenue Bonds and Airport Improvement Bonds to advance refund General Obligation Revenue Bond Series 4 and Airport Improvement Bond Series 17 and 19. As a result of the refunding, the Commission reduced its total debt service requirements by $733,831 which resulted in an economic gain (the difference between the present values of the debt service payments on the old and the new debt) in the amount of $550,545. 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 planning decisions. Certain projects which have a metropolitan significance are also submitted to the Metropolitan Council for review and approval. The Metropolitan Council is a regional planning agency responsible for coordination and planning of certain governmental services for the Metropolitan Area.

Funds required for completion of all capital projects come from 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, increase safety, or mitigate noise impacts. On June 1, 1992, the MAC began collecting a $3.00 PFC to finance projects totalling approximately $66,356,000. Collection for the first application expired on August 1, 1994. The Commission received authority to collect a $3.00 PFC under a second application beginning that same day. The total amount of the second application is $113,064,000. 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 1995 and 1996, as well as the extended period 1997-2001, 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	**1995**	**1996**	**1997-01**
MSP:			
FIELD AND RUNWAYS	$ 5,420,000	$ 1,750,000	$185,900,000
ENVIRONMENTAL	28,700,000	21,600,000	134,086,000
SELF-LIQUIDATING	14,410,000	0	1,000,000
TERMINAL BUILDING AND OTHERS	76,389,000	15,970,000	18,900,000
ST. PAUL DOWNTOWN	3,155,000	4,050,000	5,930,000
FLYING CLOUD	1,750,000	10,100,000	2,200,000
CRYSTAL	960,000	150,000	750,000
ANOKA COUNTY	1,950,000	200,000	2,610,000
LAKE ELMO	250,000	2,150,000	900,000
AIRLAKE	1,940,000	200,000	200,000
TOTALS	**$134,924,000**	**$56,170,000**	**$352,476,000**

CASH MANAGEMENT

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

In addition to the legal requirements, the MAC has an investment policy to further enhance the safety of its investments. In accordance with this policy, securities with a maturity of over 7 days are safekept at one institution and purchases can be made only from dealers located in the State of Minnesota. To ensure competitive prices on all purchases, the policy 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 1994, all of the MAC's investments are being held by a third party agent of the Commission. Total investment earnings for 1994 were $7,633,000. The average yield on investments during the year was 4.48%.

MINNEAPOLIS-ST. PAUL METROPOLITAN AIRPORTS COMMISSION

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, 1994 and 1993, were performed by Deloitte & Touche LLP. Their opinion on the financial statements is presented in this report.

In conjunction with the annual audit, Deloitte & Touche LLP 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 & Touche LLP 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 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 1994, the financial audit has been performed by the firm Deloitte & Touche LLP. 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, 1993. For the ninth 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.

MINNEAPOLIS-ST. PAUL METROPOLITAN AIRPORTS COMMISSION

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 eighth consecutive year the GFOA Award For Distinguished Budget Presentation for its Annual Operating Budget for 1994. 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.

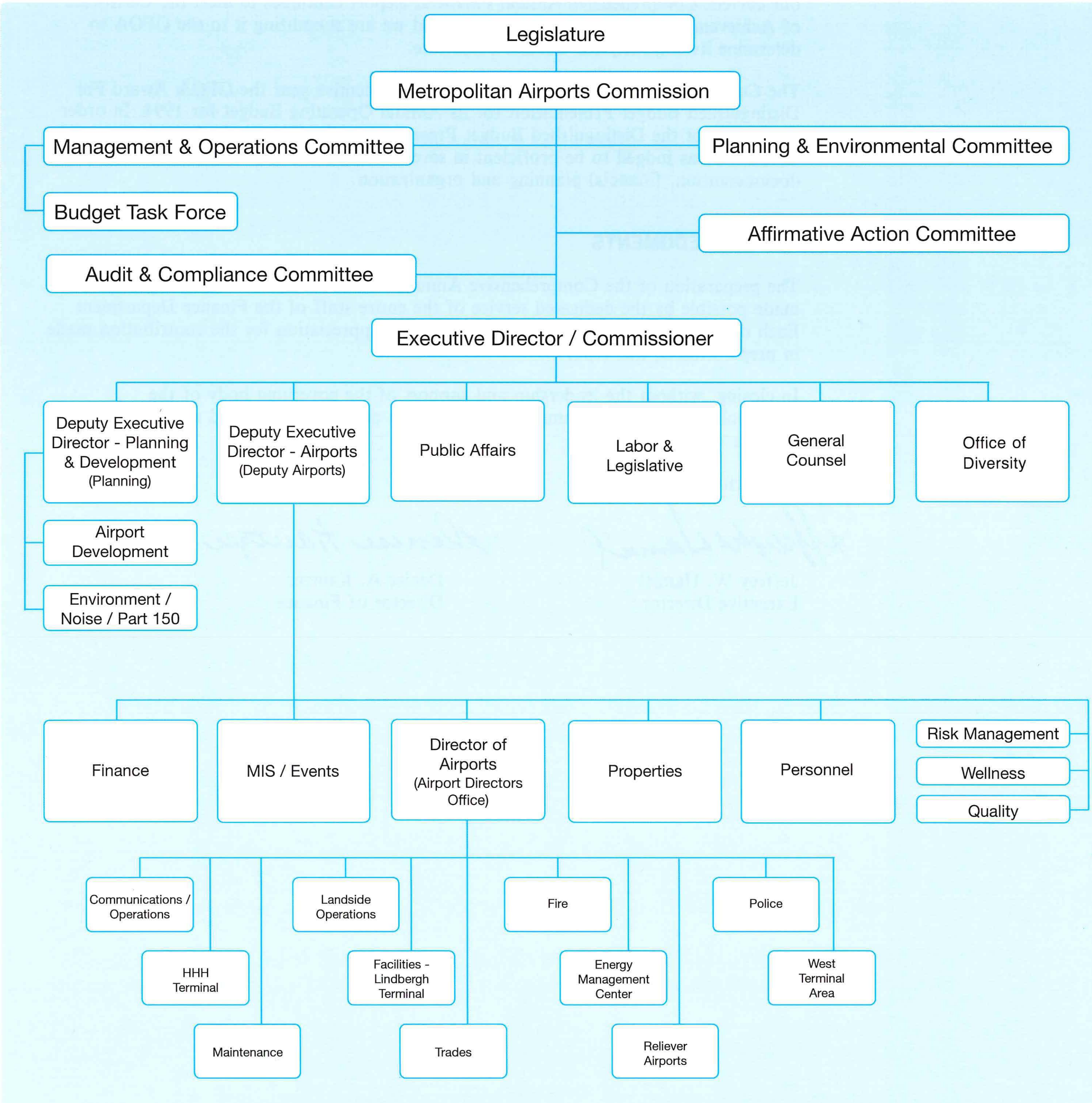
Respectfully submitted,

Jeffrey W. Hamiel
Executive Director

Denise A. Kautzer
Director of Finance

Organization Chart

MINNEAPOLIS-ST. PAUL METROPOLITAN AIRPORTS COMMISSION



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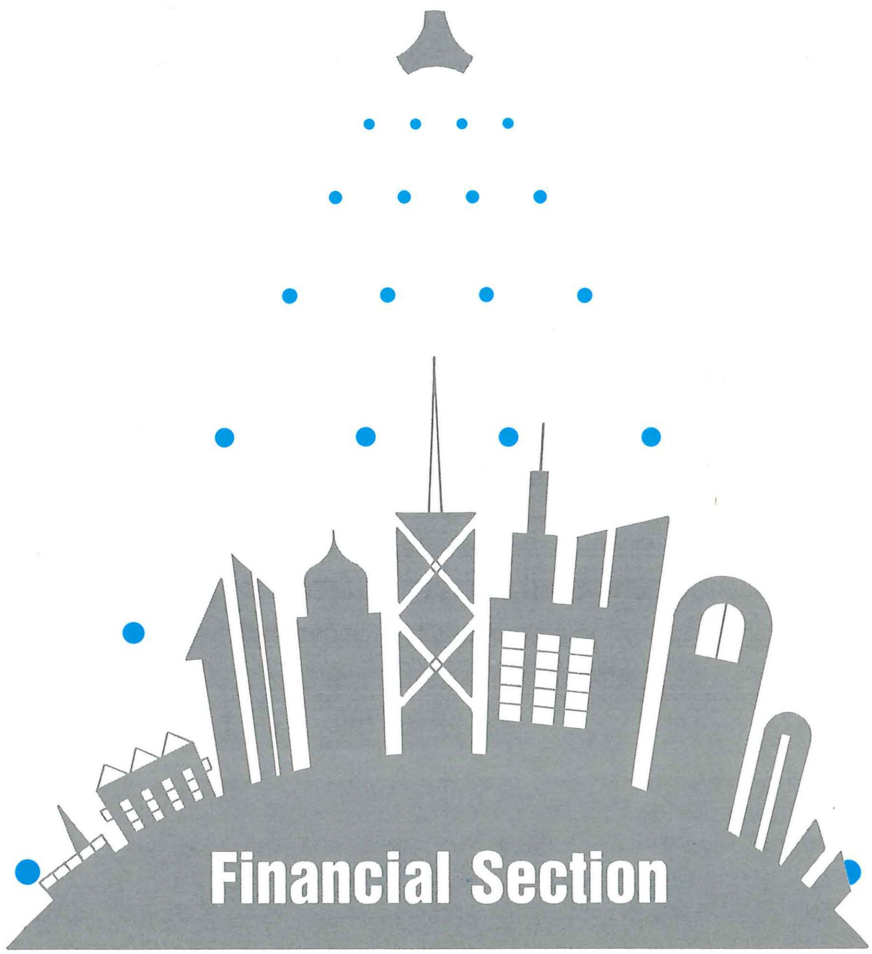
ANNUAL REPORT



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, 1994 and 1993 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 Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the financial position of the Commission at December 31, 1994 and 1993 and the results of its operations and its cash flows for the years then ended in conformity with generally accepted accounting principles.

Deloitte + Touche LLP

March 10, 1995
Minneapolis, Minnesota

Balance Sheets

Financial Section

MINNEAPOLIS-ST. PAUL METROPOLITAN AIRPORTS COMMISSION

(Dollars in Thousands)

	December 31 1994	December 31 1993
ASSETS		
Cash and investments—Note B:		
Unrestricted:		
Cash and Cash Equivalents	$ 64	$ 288
Investments	16,044	15,459
	16,108	15,747
Restricted—Note C:		
Cash and Cash Equivalents	27	14
Investments	182,652	137,293
	182,679	137,307
	198,787	153,054
Accounts receivable	2,799	3,217
Government grants in aid of construction receivable	38	687
Restricted Asset:		
Passenger facility charge receivable—Note A	4,062	2,377
Airports and facilities—Notes A, E, F and K	341,134	307,831
Leases receivable—Notes A and J	416,091	422,806
Deferred compensation benefits—Note N	6,517	5,842
Other	271	291
TOTAL ASSETS	**$ 969,699**	**$ 896,105**
LIABILITIES AND FUND EQUITY		
Accounts payable and accrued expenses	$ 4,751	$ 3,754
Payables from restricted assets:		
Debt Service—Note F	92,322	70,749
Construction	6,830	5,481
Other	1,657	1,365
Employee compensation and payroll taxes	3,940	3,836
Deferred revenue—Note N	49,234	49,615
Deferred compensation benefits—Note L	6,517	5,842
Bonds payable—Note F	352,212	362,277
TOTAL LIABILITIES	**$ 517,463**	**$ 502,919**
FUND EQUITY—Note D		
Contributed capital—Note A	$ 106,281	$ 96,060
Retained Earnings:		
Reserved—Note C	85,932	62,089
Unreserved	260,023	235,037
TOTAL FUND EQUITY	**452,236**	**393,186**
TOTAL LIABILITIES AND FUND EQUITY	**$ 969,699**	**$ 896,105**

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 1994	1993
OPERATING REVENUES		
Traffic	$ 23,770	$ 21,082
Commercial:		
Concessions	35,097	32,626
Rentals	15,131	14,915
Utilities	1,342	1,116
Miscellaneous	1,053	1,390
TOTAL OPERATING REVENUES	**76,393**	**71,129**
OPERATING EXPENSES		
Salaries, Wages and Employee Benefits	23,293	22,739
Administrative Supplies and Expenses	839	966
Professional Services	4,681	4,984
Utilities	5,287	4,974
Operating Services	7,995	5,809
Maintenance	6,743	7,406
Depreciation	21,048	19,258
Other	289	352
TOTAL OPERATING EXPENSES	**70,175**	**66,488**
OPERATING INCOME	**6,218**	**4,641**
OTHER REVENUES (EXPENSES)		
Interest Income	41,776	40,572
Passenger Facility Charge Revenue	28,472	28,596
Gain on Sale of Building	448	
Bond Interest Expense	(34,018)	(34,812)
NET INCOME	**42,896**	**38,997**
Add: Depreciation of facilities provided by government grants	5,933	5,328
INCREASE IN RETAINED EARNINGS	**48,829**	**44,325**
Retained Earnings—Beginning of Year	297,126	252,801
RETAINED EARNINGS—END OF YEAR	**$ 345,955**	**$ 297,126**

See notes to financial statements.

Statements of Cash Flows

MINNEAPOLIS-ST. PAUL METROPOLITAN AIRPORTS COMMISSION

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

	Years Ended December 31 1994	1993
Cash flows from operating activities:		
Operating income	$ 6,218	$ 4,641
Adjustments to reconcile net operating income to net cash provided by operating activities:		
Depreciation	21,048	19,258
Change in assets and liabilities:		
Accounts receivable	418	1,973
Other assets	20	49
Accounts payable	(20)	(2,028)
Other restricted liabilities	292	243
Employee compensation and payroll taxes	104	720
Deferred revenue	(381)	(1,045)
NET CASH PROVIDED BY OPERATING ACTIVITIES	**27,699**	**23,811**
Cash flows from capital and related financing activities:		
Payments for airports and facilities	(52,010)	(31,620)
Proceeds from disposal of airports and facilities	916	416
Proceeds from bond issuance	11,227	28,777
Receipt of lease payments	6,907	6,611
Receipt of passenger facility charges	26,787	29,382
Payment to trustee	0	(29,897)
Payment on bonds	(14,205)	(11,195)
Interest paid on bonds	(20,167)	(34,498)
Receipts of government grants in aid of construction	16,803	8,927
NET CASH USED IN CAPITAL AND RELATED FINANCING ACTIVITIES	**(23,742)**	**(33,097)**
Cash flows from investing activities:		
Purchase of investment securities	(280,561)	(353,865)
Proceeds from maturities of investment securities	234,617	322,100
Interest Income	41,776	40,572
NET CASH (USED IN) PROVIDED BY INVESTING ACTIVITIES	**(4,168)**	**8,807**
NET DECREASE IN CASH AND CASH EQUIVALENTS	**(211)**	**(479)**
Cash and cash equivalents—Beginning of year	302	781
CASH AND CASH EQUIVALENTS—END OF YEAR	**$ 91**	**$ 302**

See notes to financial statements.

Non-cash capital financing activities:
During 1994, the Commission entered into a capital lease arrangement. As a result $1,017,000 was recorded as Airport & Facilities, offset by Accounts Payable and Accrued Expenses.

MINNEAPOLIS-ST. PAUL METROPOLITAN AIRPORTS COMMISSION

For the years ended December 31, 1994 and 1993

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.

In apply Government Accounting Standards Board (GASB) 14, the Commission is not financially accountable to any other organization and is considered a stand-alone government unit.

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.

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 Com-

MINNEAPOLIS-ST. PAUL METROPOLITAN AIRPORTS COMMISSION

NOTE A

SIGNIFICANT ACCOUNTING POLICIES-CONTINUED

mission'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. In the first application, the Commission received approval for a $3.00 PFC to finance projects totalling approximately $66,356,000. Collection for the first application expired on August 1, 1994. The Commission received authority to collect a $3.00 PFC under a second application beginning that same day to finance projects totalling $113,064,000.

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 International Airport are charged to user airlines under lease agreements which provide for compensatory rental rates designed to recover agreed-upon portions of costs incurred, including depreciation and interest, in the terminal building, ramp, and runway areas. 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 R 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

Certain prior year amounts have been reclassified to conform with current year's presentation. Such reclassification did not have an effect on net income as previously reported.

NOTE B
CASH AND INVESTMENTS

Cash

Cash balances are insured or collateralized by securities held in the Commission's name by a financial institution (Commission's agent) other than that furnishing the collateral are as follows (in thousands):

	December 31 1994	1993
Financial statement balances	($ 682)	($ 1,182)
Bank balances:	$ 477	$ 220

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.

MINNEAPOLIS-ST. PAUL METROPOLITAN AIRPORTS COMMISSION

Investments

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

The Commission invests funds as authorized by Minnesota Statutes in direct obligations or obligations guaranteed by the United States or its agencies, general obligations of the State of Minnesota or any of its municipalities, commercial paper rated 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, 1994 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.

(In Thousands)	Carrying Amount				
	Credit Risk Category				Market
Type of Security	**1**	**2**	**3**	**Total**	**Value**
December 31, 1994					
U.S. Government and Agencies	$180,722	$		$180,722	$178,370
Commercial Paper	17,922		$	17,922	17,840
	$198,644	$ —	$ —	198,644	196,210
Mutual Funds				825	825
Cash on Hand				(682)	
Total Cash and Investments				$198,787	$197,035

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 aviation, and cumulative interest earned from the investment of such funds. These amounts are used principally for construction at Minneapolis-Saint Paul International Airport.

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

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 1994	1993
Restricted Assets:		
Cash and Investments		
Debt service	$ 92,322	$ 70,749
Construction:		
Regular	33,021	24,730
Special	55,666	40,460
Other	1,670	1,368
Passenger facility charge receivable	4,062	2,377
TOTAL RESTRICTED ASSETS	**186,741**	**139,684**
Less payables to be paid from restricted cash and investments:		
Debt service	92,322	70,749
Construction	6,830	5,481
Other	1,657	1,365
	100,809	77,595
RESERVED RETAINED EARNINGS	**$ 85,932**	**$ 62,089**

MINNEAPOLIS-ST. PAUL METROPOLITAN AIRPORTS COMMISSION

NOTE D

CHANGES IN FUND EQUITY

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

	Contributed Capital	Retained Earnings Reserved	Retained Earnings Unreserved	Total
Balance January 1, 1993	**$ 91,974**	**$30,536**	**$222,265**	**$344,775**
Government grants in aid of construction	9,414	0	0	9,414
Net income for the year	0	0	38,997	38,997
Depreciation of facilities provided by government grants	(5,328)	0	5,328	0
Net change in restricted assets and liabilities	0	31,553	(31,553)	0
Balance December 31, 1993	**96,060**	**62,089**	**235,037**	**393,186**
Government grants in aid of construction	16,154	0	0	16,154
Net income for the year	0	0	42,896	42,896
Depreciation of facilities provided by government grants	(5,933)	0	5,933	0
Net change in restricted assets and liabilities	0	23,843	(23,843)	0
Balance December 31, 1994	**$106,281**	**$85,932**	**$260,023**	**$452,236**

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, 1994	Additions	Transfers In (Out)	Deductions	Balance December 31, 1994
Land	$ 18,090	$ 0	$ 329	$ 0	$ 18,419
Airport improvements and buildings	481,841	79	23,716	(458)	505,178
Moveable equipment	23,996	1,459	1,417	(761)	26,111
Projects-in-progress	23,389	53,281	(25,462)	0	51,208
TOTAL AIRPORTS AND FACILITIES	**547,316**	**54,819**	**0**	**(1,219)**	**600,916**
Accumulated depreciation	(239,485)	(21,048)	0	751	(259,782)
NET AIRPORTS AND FACILITIES	**$ 307,831**	**$33,771**	**$ 0**	**$(468)**	**$341,134**

Airports and Facilities	Balance January 1, 1993	Additions	Transfers In (Out)	Deductions	Balance December 31, 1993
Land	$ 15,081	$ 0	$ 3,009	$ 0	$ 18,090
Airport improvements and buildings	460,154	65	22,065	(443)	481,841
Moveable Equipment	22,429	2,722	890	(2,045)	23,996
Projects-in-progress	19,520	29,833	(25,964)	0	23,389
TOTAL AIRPORTS AND FACILITIES	**517,184**	**32,620**	**0**	**(2,488)**	**547,316**
Accumulated depreciation	(222,299)	(19,258)	0	2,072	(239,485)
NET AIRPORTS AND FACILITIES	**$ 294,885**	**$ 13,362**	**$ 0**	**$ (416)**	**$ 307,831**

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. (Also see Note R.)

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, 1994 permits the issuance of an additional $55 million of bonds.

Bonds Payable, due serially (Dollars in thousands):	Issue Date	Original Amount	Final Payment In	Outstanding as of December 31 1994	Outstanding as of December 31 1993
Airport Improvement Bonds:					
Series 14 - 3.5 to 4.9%	7-1-67	$ 17,000	1997	$ 2,775	$ 3,630
Series 15 - 3.5 to 4.9%	7-1-67	1,000	1997	165	215
Series 16 - 4.25 to 5.0%	1-1-68	16,000	1998	3,640	4,460
Series 17 - 5.5 to 7.0%	9-1-69	5,000	1999	0	1,830
Series 19 - 5.5 to 7.0%	3-1-70	12,000	1999	0	4,620
Series 20 - 4.5 to 6.0%	10-1-72	5,000	2002	2,210	2,425
Series 22 - 2.6 to 3.85%	2-1-94	5,625	1999	5,625	0
				14,415	17,180
General Obligation Revenue Bonds:					
Series 2 - 4.25 to 5.2%	12-1-77	10,000	2002	4,775	5,250
Series 3 - 5.2 to 5.75%	1-1-79	15,000	2000	6,375	7,275
Series 4 - 6.2 to 6.5%	1-1-80	15,300	2002	7,400	8,200
Series 5 - 8.9 to 9.1%	1-1-81	24,500	2002	12,000	13,500
Series 7 - 7.80%	8-1-88	51,150	2015	47,650	48,600
Series 8 - 4.25 to 6.60%	2-1-92	45,000	2011	43,450	45,000
Series 9 - 8.60 to 8.95%	4-1-92	270,000	2022	270,000	270,000
Series 10 - 3.60 to 5.00%	5-1-93	29,025	2006	26,745	29,025
Series 11 - 4.60 to 5.30%	10-1-94	5,615	2002	5,615	0
				424,010	426,850
TOTAL BONDS OUTSTANDING				**438,425**	**444,030**
Net unamortized discount				(902)	(1,017)
Deferred loss on refunding—See Note G and H				(1,103)	(1,120)
Accrued interest due				17,084	17,559
				453,504	459,452
Less:					
Prepayments				(8,970)	(26,426)
Payable from restricted assets—debt service				(92,322)	(70,749)
TOTAL BONDS PAYABLE				**$352,212**	**$362,277**

MINNEAPOLIS-ST. PAUL METROPOLITAN AIRPORTS COMMISSION

NOTE F

LONG-TERM DEBT—CONTINUED

Future debt service requirements after December 31, 1994 are as follows (in thousands):

Year/s	Airport Improvement Bonds	General Obligation Revenue Bonds	Total Bonds Outstanding	Interest	Total Principal & Interest
1995	$ 3,065	$ 15,210	$ 18,275	$ 34,032	$ 52,307
1996	3,180	8,095	11,275	33,290	44,565
1997	3,320	9,095	12,415	32,661	45,076
1998	2,400	9,450	11,850	31,980	43,830
1999	1,505	9,885	11,390	31,318	42,708
2000-2022	945	372,275	373,220	428,220	801,440
	$ 14,415	$ 424,010	$ 438,425	$ 591,501	$ 1,029,926

Of the future debt service requirements listed above, $341,308,000 of principal and $552,608,000 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

ADVANCE BOND REFUNDING

On May 1, 1993, the Commission issued $29,025,000 General Obligation Revenue Bond Series 10 to advance refund General Obligation Revenue Bond Series 1 and 6. General Obligation Revenue Bond Series 1 mature on July 1, 2005, and were called on July 1, 1993. General Obligation Revenue Bond Series 6 mature on January 1, 2006, and are callable on January 1, 1995. The net proceeds from the issuance of General Obligation Revenue Bond Series 10 were used to purchase U.S. Government securities and these securities were deposited in an irrevocable trust with an escrow agent to

NOTE G

BOND REFUNDING—CONTINUED

provide debt service payments until all the General Obligation Revenue Bonds are called on January 1, 1995. The advance refunding met the requirements of an in-substance debt defeasance and the General Obligation Revenue Bonds were removed from the Commission's books. At December 31, 1994, $20,604,000 is being held in escrow in order to pay the remaining maturity of $20,000,000 on General Obligation Revenue Bonds Series 6. As a result of the advance refunding, the Commission reduced its total service requirements by $1,799,318 which resulted in an economic gain (the difference between the present values of the debt service payments on the old and the new debt) in the amount of $1,208,410. The Commission also deferred recognition of a $1,167,000 loss incurred in connection with this refunding through early implementation of GASB Statement No. 23 ''Accounting and Financial Reporting for Refunding of Debt Reported by Proprietary Activities'' issued December 1993. As a result, the loss has been deferred and will be amortized to interest expense on a straight line basis through January 1, 2006. At December 31, 1994, the unamortized deferred loss netted against bonds payable equals $1,001,000.

NOTE H

CURRENT BOND REFUNDING

On February 1, 1994, the Commission issued $5,625,000 Airport Improvement Bond Series 22 to refund Airport Improvement Bond Series 17 and 19. Airport Improvement Bond Series 17 and 19 mature on September 1, 1999 and were called March 1, 1994. On October 1, 1994 the Commission issued $5,615,000 General Obligation Revenue Bond Series 11 to refund General Obligation Revenue Bond Series 4. General Obligation Revenue Bond Series 4 mature on January 1, 2002 and will be called on January 1, 1995. As a result of the refundings, the Commission reduced its total debt service requirements by $733,831 which resulted in an economic gain (the difference between the present values of the debt service payments on the old and the new debt) in the amount of $550,545. The Commission also deferred recognition of a $112,966 loss incurred in connection with these refundings according to GASB Statement No. 23. As a result, the loss has been deferred and will be amortized to interest expense on a straight line basis through September 1, 1999 on Airport Improvement Bonds 17 and 19 and January 1, 2002 on General Obligation Revenue Bond Series 4. At December 31, 1994, the unamortized deferred loss netted against bonds payable is $101,522.

NOTE I

CAPITALIZATION OF INTEREST

Total interest costs incurred were $34,018,000 and $35,331,000 in 1994 and 1993, respectively. Interest costs excluded from interest expense and capitalized as part of the costs of constructed assets were $599,000 and $603,000 in 1994 and 1993, respectively. Total interest paid was $20,167,000 and $34,498,000 in 1994 and 1993, respectively.

NOTE J

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)

MINNEAPOLIS-ST. PAUL METROPOLITAN AIRPORTS COMMISSION

NOTE J

LEASES—CONTINUED

	1994	1993
Total minimum lease payments to be received	$ 1,042,314	$ 1,085,945
Less: Allowance for uncollectibles	0	0
Net minimum lease payments receivable	1,042,314	1,085,945
Less: Unearned income	621,553	658,739
Net investment in leases	420,761	427,206
Less: Prepaid principal	4,670	4,400
LEASES RECEIVABLE PER BALANCE SHEET	**$ 416,091**	**$ 422,806**

At December 31, 1994, future minimum lease payments are as follows (in thousands):

Year	Amounts
1995	$ 43,501
1996	$ 43,213
1997	$ 43,112
1998	$ 41,930
1999	$ 41,703
2000-2022	$828,855

NOTE K

CAPITAL LEASE

The Commission is obligated under certain leases, accounted for as capital leases. Assets under capital leases totaled $1,017,000 at December 31, 1994, and accumulated amortization on those assets totaled $48,000. The following is a schedule of future minimum lease payments under capital leases, together with the net present value of the minimum lease payments as of December 31, 1994 (in thousands).

Year Ending December 31	Minimum Lease Payments
1995	$ 154
1996	154
1997	154
1998	125
1999	125
2000-2022	614
Minimum lease payments for all leases	1,326
Less: Amount representing interest at the Commision's incremental borrowing rate of interest	309
Present value of minimum lease payments	$ 1,017

NOTE L

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, 1994 is as follows (in thousands):

	1994
Covered payrolls:	
PERF participants	$ 10,324
PEPFF participants	2,146
Total covered payrolls	**$ 12,470**

The Commission's total payroll was $17,739,538.

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 2.65% 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

MINNEAPOLIS-ST. PAUL METROPOLITAN AIRPORTS COMMISSION

NOTE L

PENSION AND RETIREMENT PLANS—CONTINUED

Subd. 4(g), the date of full funding required for the PERF and the 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%	9.58%
PEPFF	7.90%	11.70%	17.45%

Total contributions made by the Commission for the fiscal year ended December 31, 1994 were as follows (in thousands):

	Contributions		Percentage of Covered Payroll	
	Employee	Employer	Employee	Employer
PERF	$437	$462	4.23%	4.48%
PEPFF	163	245	7.61%	11.42%
Total	$600	$707		

The Commission's contribution for the year ended June 30, 1994 to the PERF represented .4% of total contributions required of all participating entities. For the PEPFF, contributions for the year ended June 30, 1994 represented .8% of total contributions required of all participating entities.

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.

MINNEAPOLIS-ST. PAUL METROPOLITAN AIRPORTS COMMISSION

NOTE L

PENSION AND RETIREMENT
CONTINUED

The pension benefit obligation as of June 30, 1994 is shown below (in millions):

	PERF	PEPFF
Total pension benefit obligation	$5,626	$1,021
Net assets available for benefits, at cost (Market Value: PERF = $5,688; PEPFF = $1,237)	4,734	1,230
Unfunded (assets in excess of) pension benefit obligation	$ 892	$ (209)

The measurement of the pension benefit obligation is based on an actuarial valuation as of June 30, 1994. Net assets available to pay pension benefits were valued as of June 30, 1994.

For the PERF, significant actuarial assumptions used in the calculation of the pension benefit obligation include: (a) a rate of return on the investment of present and future assets of 8.5 percent per year, compounded annually, prior to retirment, and 5 percent per year, compounded annually, following retirement; (b) projected salary increases taken from a select and ultimate table; (c) payroll growth at 6 percent per year, consisting of 5 percent for inflation and 1 percent due to growth in group size; (d) post-retirement benefit increases that are accounted for by the 5 percent rate of return assumption following retirement; and (e) mortality rates based on the 1983 Group Annuity Mortality Table set forward one year for retirement members and set back five years for each active member.

Acturial assumptions used in the calculation of the PEPFF include: (a) a rate of return on the investment of present and future assets of 8.5 percent per year, compounded annually, prior to retirement, and 5 percent per year, compounded annually, following retirement; (b) projected salary increases of 6.5 percent per year, compounded annually, attributable to the effects of inflation; (c) post-retirement increases that are accounted for by the 5 percent rate of return assumption following retirement; and (d) mortality rates based on the 1971 Group Annuity Mortality Table projected to 1984 for males and females.

2. Changes in Benefit Provisions

   The 1994 legislative session did not include any benefit improvements which would impact funding costs for the PERF and the PEPFF.

3. Changes in Actuarial Assumptions

   Prior to fiscal year 1994, the salary increase assumption and the mortality tables used in the calculation of pension benefit obligation for the PERF were the same as those specified for the PEPFF. For the July 1, 1994 actuarial valuation, PERA's board of trustees approved new mortality rates updated to the 1983 Group Annuity Mortality Table, salary increases which were changed to a select and ultimate table and a new payroll growth assumption which was changed from 6.5 percent to 6 percent. These changes were made to reflect actual experience of the plan.

   With the adoption of the actuarial assumption changes and the new mortality tables for the PERF, the pension benefit obligation increased $56,596,000. The actuarial assumption changes also necessitated an

NOTE L

PENSION AND RETIREMENT—CONTINUED

$81,201,000 transfer from the PERF Benefit Reserve to the PERF Minnesota Post Retirement Investment Fun (MPRIF) Reserve to finance the increase obligation for future retirement benefits. The change in the mortality rate assumption increased the PERF's costs because pensioners are living longer than assumed previously. The change in the salary increase assumption, however, offset some of the additional costs because lower salary increases generally translate into lower benefit liabilities in the future.

Potential changes in the assumptions used for the PEPFF may be made in the future after completion of a special experience study for that fund. Completion of the PEPFF experience study is expected by February 1, 1995.

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, 1994. 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, 1994 and for the fiscal year ended December 31, 1994, 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, 1994 is as follows (in thousands):

	1994
Covered payrolls:	
MERF participants	$4,718

The Commission's total payroll for the year ended December 31, 1994 was $17,739,538.

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:

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. In-

MINNEAPOLIS-ST. PAUL METROPOLITAN AIRPORTS COMMISSION

NOTE L

PENSION AND RETIREMENT—CONTINUED

creases 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 nonrefundable 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 con-

Current required contributed rates are as follows:

	Employee	Employer	Additional Employer
Retirement Contribution	9.25%	9.32%	2.50%
Survivor Benefits	.50%		

Total contributions made by the Commission for the fiscal year ended December 31, 1994 are as follows (in thousands):

1994	Contributions	Percentage of Covered Payroll
Employer	$1,246	26.40%
Employee	$460	9.75%

The Commission's contribution for the year ended June 30, 1994 represented 6.40% of the total contributions required of all participating entities.

MINNEAPOLIS-ST. PAUL METROPOLITAN AIRPORTS COMMISSION

NOTE L
PENSION AND RETIREMENT
CONTINUED

sulting 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.

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, 1994 is shown below (in millions):

	1994
Total pension benefit obligation	$1,170
Net assets available for benefits, at lower of cost or market value: $925 = Cost	799
Unfunded pension benefit obligation	$ 371

The measurement of the pension benefit obligation is based on an actuarial valuation as of June 30, 1994. Net assets available to pay pension benefits were valued as of June 30, 1994.

No changes in actuarial assumption that would significantly affect the valuation of the pension benefit obligation occurred during 1994.

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, 1994. 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, 1994 and for the fiscal year ended December 31, 1994, MERF held no securities issued by the Commission or other related parties.

NOTE M

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 (as specified in union agreements or the Commission's personnel policy) toward required premiums at the same percentages applicable to active employees and their

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NOTE M

POST-EMPLOYMENT BENEFITS CONTINUED

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, 1991, 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, 1994 and 1993 is presented below (in thousands):

	1994	1993
Health Insurance Cost	$615	$429
Number of Retired Employees	126	117

NOTE N

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 O

ARBITRAGE

Every five years, the Commission is required to rebate arbitrage profits earned in relation to certain General Obligation Revenue Bond and Airport Improvement Bond issues. 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, 1994 and 1993 of $86,699 and $97,759, respectively.

NOTE P

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, 1994, as well as an estimate

MINNEAPOLIS-ST. PAUL METROPOLITAN AIRPORTS COMMISSION

NOTE P

RISK MANAGEMENT CONTINUED

of claims incurred but not reported.

NOTE Q

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 $16,797,284 at December 31, 1994.

NOTE R

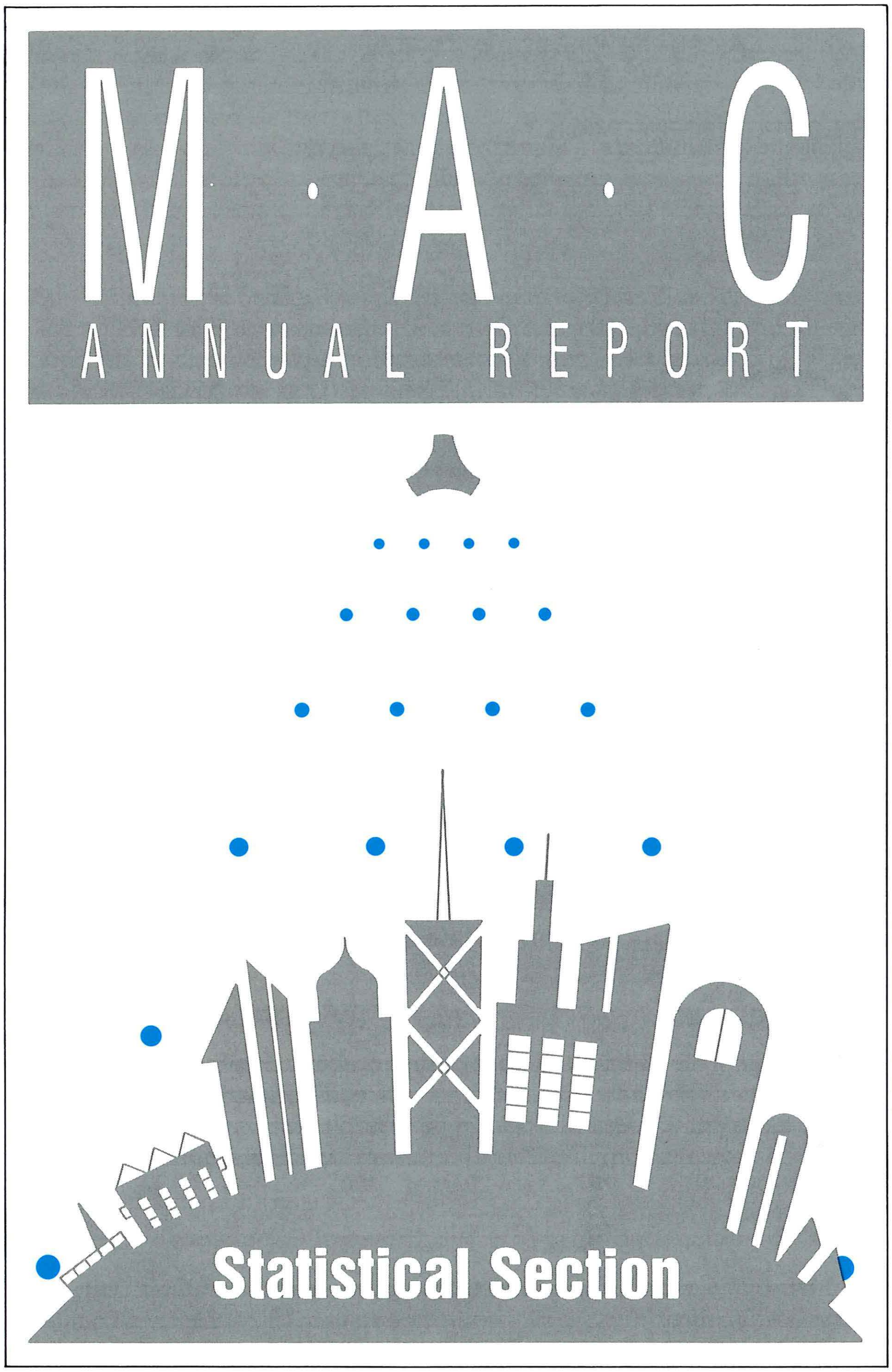
MAJOR CUSTOMER

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''). In December 1993, Wings changed its corporate name to Northwest Airlines Corporation (''NWA Corp.''). NAI is the fourth largest airline in the United States and is one of the largest 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 30% of operating revenues and 72% 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 NWA Corp. 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 NWA Corp. and the Northwest entities on a consolidated basis is material to the ability to perform their rental and other payment obligations to the Commission under various agreements. Leases and accounts receivable from the Northwest entities represent 42% of the Commission's total assets at December 31, 1994.

For the years ended December 31, 1994 and December 31, 1993, the Northwest entities and NWA Corp. had audited consolidated net income (loss) approximately $296 million and ($115) million. On December 31, 1994, the Northwest entities' and NWA Corp.'s audited total consolidated assets were $8.070 billion and their total audited consolidated liabilities were $9.441 billion, resulting in the Northwest entities' and NWA Corp.'s audited consolidated net deficit of $1.371 billion. In the event that the Northwest entities or NWA Corp. are unable to meet their lease commitments, the Commission has the authority to levy property taxes to support the debt obligations on the Bonds.


M · A · C
ANNUAL REPORT
Statistical Section

Total Annual Revenues 1985-1994

MINNEAPOLIS-ST. PAUL METROPOLITAN AIRPORTS COMMISSION

(Dollars in Thousands)

	1985	1986	1987
Traffic	$ 11,330	$ 12,213	$ 13,258
Concessions	21,555	23,425	24,433
Rentals	8,281	8,745	10,185
Other	1,223	1,562	1,618
Total Operating Revenues	**42,389**	**45,945**	**49,494**
Add: Interest Income	13,248	13,398	13,933
PFC Revenue			
Gain on sale of Airports and Facilities			
Total Revenues	**$ 55,637**	**$ 59,343**	**$ 63,427**

Source: Audit reports for the last ten years.

Total Annual Expenses 1985-1994

(Dollars in Thousands)

	1985	1986	1987
Personnel	$ 12,430	$ 12,217	$ 14,784
Administrative Supplies and Expenses	762	76	414
Professional Services	1,339	2,014	2,193
Utilities	3,308	3,134	3,072
Operating Services	3,899	4,048	3,281
Maintenance	4,924	4,742	4,814
Depreciation	9,297	10,217	11,500
Other	273	526	731
Total Operating Expenses	**36,232**	**36,974**	**40,789**
Interest Expense—1	5,889	6,013	7,050
Loss on Building Disposition	452		
Total Expenses	**$42,573**	**$42,987**	**$47,839**

Source: Audit reports for the last ten years.

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

Population of Seven County Metropolitan Area 1985-1994

1985	1986	1987
2,086,356	2,118,445	2,153,533

Source: Metropolitan Council
N/A—Not Available

1988	1989	1990	1991	1992	1993	1994
$ 12,872	$ 14,005	$ 16,176	$ 18,481	$ 19,634	$ 21,082	$ 23,770
23,554	25,062	26,206	26,405	28,882	32,626	35,097
11,906	12,179	12,330	13,348	14,228	14,915	15,131
1,883	1,221	2,233	2,205	2,603	2,506	2,395
50,215	**52,467**	**56,945**	**60,439**	**65,347**	**71,129**	**76,393**
15,257	16,243	15,744	15,838	34,238	40,572	41,776
				14,607	28,596	28,472
1,081						448
$ 66,553	**$ 68,710**	**$ 72,689**	**$ 76,277**	**$ 114,192**	**$ 140,297**	**$ 147,089**

1988	1989	1990	1991	1992	1993	1994
$ 15,116	$ 17,551	$ 19,153	$ 21,168	$ 22,308	$ 22,739	$ 23,293
406	512	715	668	923	966	839
3,063	3,229	3,043	3,731	4,813	4,984	4,681
3,809	3,704	4,070	3,665	4,412	4,974	5,287
3,600	4,272	5,074	5,581	5,907	5,809	7,995
5,451	6,144	6,763	7,003	7,088	7,406	6,743
12,461	11,807	14,662	16,214	17,976	19,258	21,048
150	283	566	276	0	352	289
44,056	**47,502**	**54,046**	**58,306**	**63,427**	**66,488**	**70,175**
7,640	7,058	7,943	9,430	27,544	34,812	34,018
$51,696	**$54,560**	**$61,989**	**$67,736**	**$90,971**	**$101,300**	**$104,193**

1988	1989	1990	1991	1992	1993	1994
2,200,321	2,240,850	2,288,721	2,318,532	2,352,121	2,383,725	N/A

Operating Ratio 1985-1994

MINNEAPOLIS-ST. PAUL METROPOLITAN AIRPORTS COMMISSION

(Dollars in Thousands)

	1985	1986	1987
Operating Expense—2	$ 26,935	$ 26,757	$ 29,289
Operating Revenues	42,389	45,945	49,494
Operating Ratio	64%	58%	59%

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

Revenue Available for Debt Service 1984-1994

(Dollars in Thousands)

	1985	1986	1987
Operating Revenue	$ 42,389	$ 45,945	$ 49,494
Interest Income	13,248	13,398	13,933
Operating Expense—1	(26,935)	(26,757)	(29,289)
Revenue available for debt service	$ 28,702	$ 32,586	$ 34,138
Debt service	$ 13,892	$ 13,930	$ 15,422
Coverage of debt service	2.07	2.34	2.21

1—Operating expense excludes depreciation.

Ratio of Annual Debt Service to Total Expenses 1985-1994

(Dollars in Thousands)

	1985	1986	1987
Principal	$ 7,080	$ 7,460	$ 7,545
Interest—1	6,812	6,470	7,892
Total Debt Service	$ 13,892	$ 13,930	$ 15,437
Total Expenses	$ 42,573	$ 42,987	$ 47,839
Ratio of Debt Service to Total Expenses	33%	32%	32%

1—Does include capitalized interest.

1988	1989	1990	1991	1992	1993	1994
$ 31,595	$ 35,695	$ 39,384	$ 42,092	$ 45,451	$ 47,230	$ 49,127
50,215	52,467	56,945	60,439	65,347	71,129	76,393
63%	68%	69%	70%	70%	66%	64%

1988	1989	1990	1991	1992	1993	1994
$ 50,215	$ 52,467	$ 56,945	$ 60,439	$ 65,347	$ 71,129	$ 76,393
15,257	16,243	15,744	15,838	34,238	40,572	41,776
(31,595)	(35,695)	(39,384)	(42,092)	(45,451)	(47,230)	(49,127)
$ 33,877	$ 33,015	$ 33,305	$ 34,185	$ 54,134	$ 64,471	$ 69,042
$ 16,672	$ 19,010	$ 17,776	$ 18,466	$ 38,618	$ 44,221	$ 44,413
2.03	1.74	1.87	1.85	1.40	1.46	1.55

1988	1989	1990	1991	1992	1993	1994
$ 7,545	$ 8,035	$ 7,295	$ 8,500	$ 8,705	$ 8,890	$ 10,395
9,127	10,975	10,481	9,966	29,913	35,331	34,018
$ 16,672	$ 19,010	$ 17,776	$ 18,466	$ 38,618	$ 44,221	$ 44,413
$ 51,696	$ 54,560	$ 61,989	$ 67,736	$ 90,971	$101,300	104,193
32%	35%	29%	27%	42%	44%	43%

Activity Statistics for Minneapolis—St. Paul International Airport 1985-1994

MINNEAPOLIS-ST. PAUL METROPOLITAN AIRPORTS COMMISSION

	1985	1986	1987
Total Passengers—1	14,803,833	17,073,605	17,858,984
Aircraft Operations—2	372,911	389,012	373,660
Mail and Cargo Volumes (Metric Tons)	144,925	199,319	206,799

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. 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 1985-1994

	1985	1986	1987
St. Paul Downtown Airport .	112,019	124,786	135,397
Flying Cloud Airport	176,246	191,350	209,423
Crystal Airport	143,665	152,773	165,367
Anoka County/Blaine Airport	160,000	165,000	180,000
Lake Elmo Airport	82,000	70,000	63,000
Airlake Airport............	35,000	40,000	52,000
Total Aircraft Operations at the Reliever Airports.....	708,930	743,909	805,187

Source: Metropolitan Airports Commission Activity Report.

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

Schedule of Airline Rates and Charges 1985-1994

	1985	1986	1987
Landing Fee/1000 lbs.	$ 0.57	$ 0.55	$ 0.65
Ramp Fees/Lineal Foot	$185.64	$178.83	$177.01
Terminal Building Rentals:			
Common Use/Square Foot .	$ 14.13	$ 13.79	$ 15.15
Finished/Square Foot......	12.30	11.84	12.68
Finished Janitored/ Square Foot	16.89	16.68	18.32
Unfinished/Square Foot....	11.82	11.38	12.24

Source: Compensatory Rental Report.

1988	1989	1990	1991	1992	1993	1994
17,733,837	18,346,095	19,167,427	19,336,533	21,407,415	22,070,715	23,095,510
373,851	364,030	379,785	382,017	413,502	439,990	454,723
246,734	241,725	266,824	272,328	302,201	320,893	378,241

1988	1989	1990	1991	1992	1993	1994
151,869	166,436	190,333	168,450	152,378	132,531	145,834
186,699	207,661	227,408	186,496	198,306	218,745	238,838
172,074	177,679	189,910	173,150	179,546	183,554	185,991
200,000	212,000	215,000	195,650	195,650	195,650	199,000
65,000	65,000	66,950	69,950	69,950	69,950	71,000
64,000	66,000	67,980	74,745	81,087	81,087	82,500
839,642	894,776	957,581	868,441	876,917	881,517	923,163

1988	1989	1990	1991	1992	1993	1994
$ 0.62	$ 0.58	$ 0.65	$ 0.77	$ 0.77	$ 0.79	$ 0.87
$186.48	$310.20	$306.76	$317.97	$300.06	$333.73	$344.96
$ 16.06	$ 17.39	$ 17.60	$ 19.49	$ 20.46	$ 21.78	$ 20.39
14.06	17.39	17.60	19.49	20.46	21.78	20.39
18.76	22.22	22.24	24.89	27.51	27.78	25.78
13.56	17.39	17.60	19.49	20.46	21.78	20.39

Schedule of Insurance Coverage

MINNEAPOLIS-ST. PAUL METROPOLITAN AIRPORTS COMMISSION

Insurer	Expiration	Coverage	Policy Limits (Thousands of Dollars)
Arkwright Insurance	1-1-96	Blanket Fire and Extended coverage on buildings and contents. Heavy equipment, boiler, machinery and Builder's Risk.	$319,800
Self-Insured O.H.M.S. Third Party Admin.	3-1-95	Statutory Workers' Compensation	$100/500/100
Fidelity & Deposit Company of Maryland	3-1-95	Comprehensive Crime Employee Bond	$1,000
Associated Aviation Underwriters	12-23-95	General Aviation Liability including personal injury	$300,000
Chubb	1-1-96	Auto Liability and physical coverage and hired automobiles.	$1,000 Per Occurrence
Chubb	1-1-96	Garage keepers liability	$5,000
Chubb	1-1-96	Valet parking	$5,000
Chubb	1-1-96	Fleet physical damage	Values over $50

Scheduled and Commuter Airline Service

MINNEAPOLIS-ST. PAUL METROPOLITAN AIRPORTS COMMISSION

At the end of 1994, major scheduled airlines serving the Twin Cities were:

America West
American Airlines
Continental Airlines
Delta 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 1994 were:

Bemidji Airlines
ComAir
Express I
Great Lakes Aviation
Mark Air
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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