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METROPOLITAN AIRPORTS COMMISSION

MINNEAPOLIS - ST. PAUL MINNESOTA

COMPREHENSIVE ANNUAL FINANCIAL REPORT

YEAR ENDED DECEMBER 31, 1995

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Pursuant to Minn. Stat. 473.621 Subd. 1a

Minneapolis–St. Paul, Minnesota

Metropolitan Airports Commission

Comprehensive Annual Financial Report

Year Ended December 31, 1995

Prepared by the Finance Department ● Stephen L. Busch, Director of Finance

MINNEAPOLIS/ST. PAUL, MINNESOTA

METROPOLITAN AIRPORTS COMMISSION 1995

***Chairman*:**	Pierson Grieve
***Commissioners*:**	
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District B	Daniel Johnson
District C	John Himle
District D	Alton Gasper
District E	Edward Fiore
District F	Tommy Merickel
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District H	Louis Miller
City of Minneapolis	Steve Cramer
City of Saint Paul	Dick Long
Representing Greater Minnesota Area:	Laurel Erickson
	John Kahler
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	Georgiann Stenerson
Executive Director:	Jeffrey Hamiel

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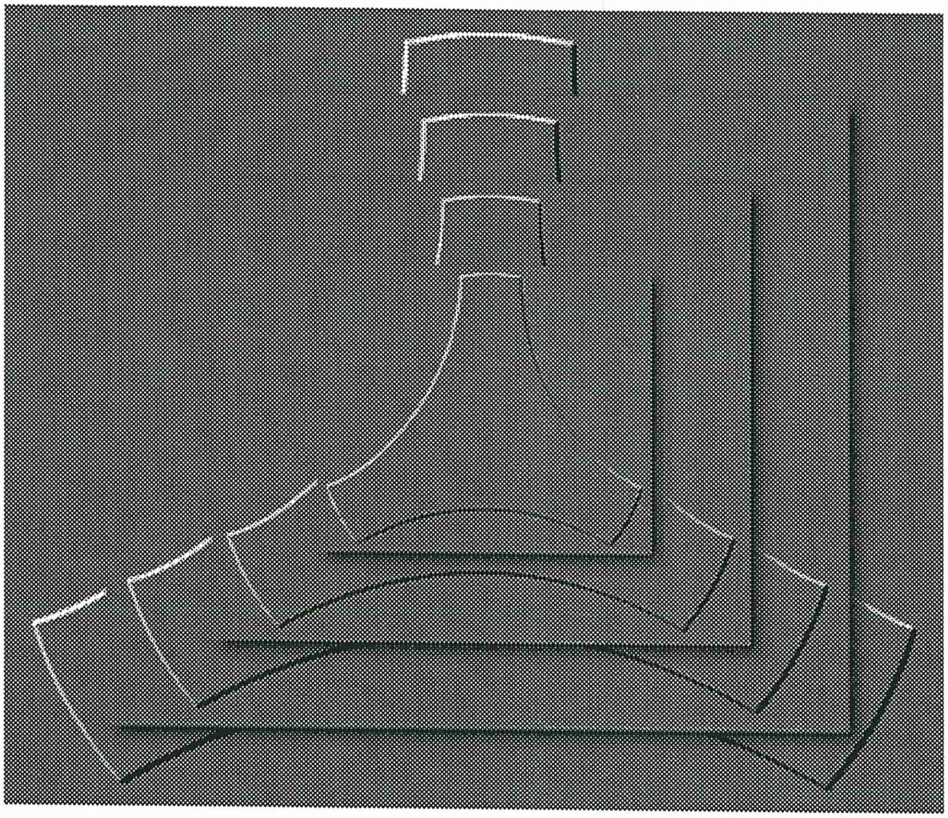

INTRODUCTORY SECTION

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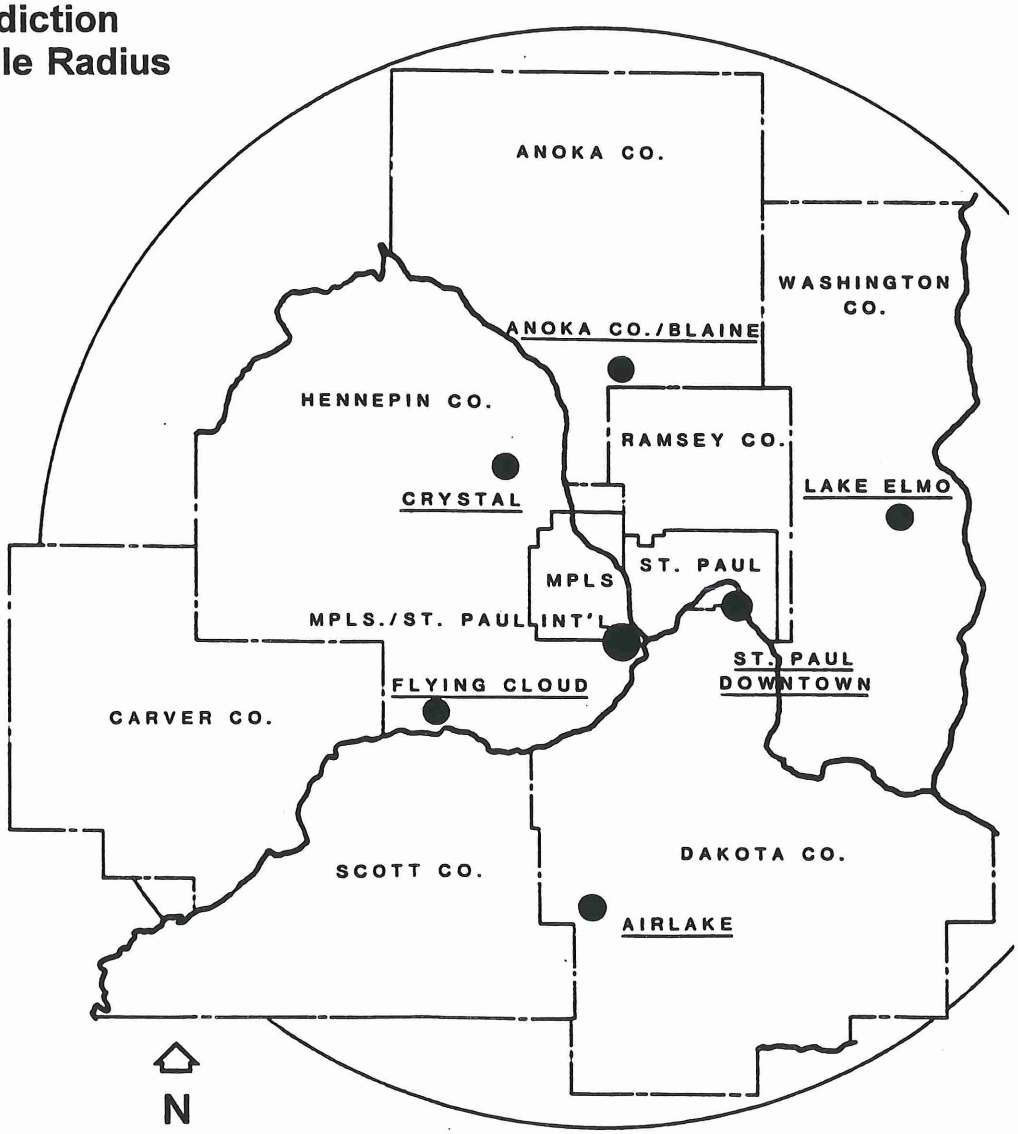

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METROPOLITAN AIRPORTS COMMISSION

Minneapolis–Saint Paul International Airport

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

OFFICE OF EXECUTIVE DIRECTOR

March 5, 1996

To The Public:

The Comprehensive Annual Financial Report of the Metropolitan Airports Commission, Minneapolis-St. Paul, Minnesota, for the fiscal year ended December 31, 1995, is hereby submitted. Responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures rests with the Commission. To the best of our knowledge and belief, the enclosed data is accurate in all material respects and reported in a manner designed to present fairly the financial position and results of operations of various funds and account groups of the Commission. All disclosures necessary to enable the reader to gain an understanding of the Commission's financial activities have been included.

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

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

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	Anoka County/Blaine Airport
Flying Cloud Airport	Lake Elmo Airport
Crystal Airport	Airlake Airport

The MAC may, under the Airport Law, (Minn. Stat. §473.667) borrow money and issue General Obligation Bonds for the purpose of acquiring property, constructing and equipping new airports, acquiring and equipping existing airports and making capital improvements to any airport constructed or acquired by the Commission. Other powers delegated to the Commission include power to levy taxes against property of the Metropolitan Area in order to pay debt service on bonds issued by the Commission. In addition, the Commission can levy taxes, not in excess of .00806 percent in each year, upon the valuation of all taxable property in the Metropolitan Area to meet operation and maintenance costs of airport facilities. The Commission is governed by fifteen Commissioners. Eight Commissioners are appointed by the Governor of the State of Minnesota from designated districts within the Metropolitan Area. The mayors of St. Paul and Minneapolis also have seats on the Commission with the option to appoint a surrogate to serve in their place. The Governor also appoints four Commissioners representing the Greater Minnesota Area (i.e. outside the Metropolitan Area). The Chairperson of the Commission is appointed by the Governor and may be from anywhere in the state. Only the Chairperson can be removed before their term. 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

Passengers

Total passengers at MSP increased 9.73% from 1994 levels. Total MSP passengers for 1995 were 25.3 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 1995, by enplaned passengers, serving MSP are shown below. The total enplaned passengers for 1995, including connecting, was 12,666,417.

Carrier	Enplaned Passengers	% of Total
Northwest	9,617,386	75.9%
United	474,120	3.7
American	337,069	2.7
Delta	269,982	2.1
Express Air	264,642	2.1
	10,963,199	86.5%

Operations

Aircraft operations increased 2.9% in 1995. The increase in operations were primarily from the MAC's main carrier Northwest Airlines.

At the Reliever airports, operations decreased 9.4% from 1994 levels. Winter weather contributed to the decrease.

MAJOR INITIATIVES FOR THE YEAR

In 1994, the MAC adopted the following goals and objectives for 1995. They include:

- Dual Track Airport Planning Process
- Approve Storm Water Discharge Plan for MSP
- Develop/Improve Integrated Noise Policy for MSP
- Approve Negotiation Objectives for New Airline Use Agreement; Implement Concessions Plan
- Adopt a Process for Developing Multi-Year Organizational Goals and Identifying the Specific Role the Commission Will Play
- Develop and Approve a New Budget Process and Identify the Commission's Role in That Process
- Develop a Comprehensive Marketing Plan for MSP
- Review and Analyze General Aviation Activity and Establish a Plan to Move Appropriate Aircraft and Operations to the Reliever Airports
- Develop a Program to Identify and Improve the Overall Public Perception of the MAC and its Operating Philosophy
- Implement a Continuing Program to Monitor the Airline Industry and Northwest Airlines (NWA) Developments and Trends in Financial Status, Marketing Programs, Technology and Federal Programs

The status of the goals is as follows:

DUAL TRACK PLANNING PROCESS

Major activities completed or nearly complete relating to the Dual Track Planning Process include:
- development of a concept for a potential replacement airport; selection of a development concept for the expansion of MSP;
- completion of a Financial Study;
- completion of an Economic Impact Study;
- completion of a draft Environmental Impact Statement for the Dual Track Process which meets both the state and federal requirements with public comment due by February 13, 1996;
- completion a draft of the report to the Legislature for Commission review;
- completion of an evaluation of the remote runway concept;
- completion of the analysis of site preservation analysis; and participation with the Minnesota Department of Transportation (MnDOT) in an evaluation of ground access issues for both MSP and the proposed new airport.

Still in progress are:

- Commissioner briefing sessions on various aspects of the Dual Track Decision;
- participation with MnDOT in a study of a Supplemental Airport Concept;
- participation in a Federal Aviation Administration (FAA) evaluation of air space optimization for the current airport, and an analysis of changes required by future development of MSP.

APPROVE STORM WATER DISCHARGE PLAN FOR MSP

The following storm water management enhancements for the 1995-96 snow season include:

- installation of 22 storm sewer plugs to contain spent deicing fluid;
- pavement crack sealing in critical areas to prevent loss of deicing fluid;
- snow stockpile management to collect glycol in the snow melt.

Although the current Minnesota Pollution Control Agency (MPCA) permit has expired, we have been informed that the agency will not negotiate a new permit for MSP. Future storm water discharge limitations will remain the same as the last year of the current permit until a new one is issued.

DEVELOP/APPROVE AN INTEGRATED NOISE POLICY FOR MSP

Major activities in this area include:

- Noise Curfews: Nighttime operations and shoulder hours are currently under study by the Metropolitan Aircraft Sound Abatement Council (MASAC) operations committee.
- Runway Use System Practices: The RUS is currently under study by the MASAC Operations Committee, concurrent with nighttime operations and shoulder hours.
- Financing of Various Alternatives: This element is the most difficult to address and also is under review by the MASAC operations committee.
- New Noise Metric for MSP and a New Five-year Plan for Noise Reduction: This was the first MAC noise area objective considered by the MASAC Operations Committee. Work began during the first quarter of 1995 and resulted in the so-called New Noise Management Methodology approved by the Planning and Environment Committee and the Commission in July 1995. Aviation Noise Program staff are now negotiating comparative "baselines" with Northwest Airlines and will recommend this baseline to each airline operating at MSP.

APPROVE OBJECTIVES FOR NEW AIRLINE USE AGREEMENT

With the December Commission meeting, the MAC will complete action respecting preparations for renewing the Airline Agreement at the end of 1996. It was the 1995 goal to research the issues and set objectives for renewing the Airline Agreement which expires December 31, 1996.

- Through August and September MAC staff reviewed the agreement, the environment of airline/airport relations and issues, specifically the Los Angeles rate case, and our specific Dual Track Planning process regarding implications for the airline agreement. The Dual Track decision and Airline Agreement provisions necessary to implement the decision quickly became a determinative issue. The perspective is that there will be a myriad of construction and financing issues, dependent upon the Dual Track decision made to be resolved within the Airline Agreement; therefore, the flexibility to resolve those issues when known became an imperative against which other issues were measured. No other issue rose to a level of importance sufficient to dictate opening negotiation of the Agreement before the Dual Track decision is made.

- MAC staff recommended the Commission act to extend the Airline Operating Agreement to December 31, 1997, to allow for resolution of the Dual Track Planning process. The Commission confirmed that intent on December 20, 1995.

APPROVE IMPLEMENTATION APPROACH FOR TERMINAL SERVICES AND CONCESSION BUSINESS PLAN

The Terminal Services and Concessions Plan, conceptually approved by the Metropolitan Airports Commission in April 1994, which proposes to transform the present concessions environment into an "airport mall," was an object of considerable effort in 1995. The objective was to transform the conceptual plan into an implementation plan.

- Considerable work in determining precise concession concepts as well as preparing unit pro formas and establishing the existing concession program and proposed program economics was accomplished. However, both the efforts of the MAC staff and Host International staff were regularly diverted to the planning and implementation requirements of the new Lindbergh Terminal International Arrivals facility.
- The work of the Concessions Plan stopped and started several times throughout the year. It is, however, still on track though estimated to be three to six months behind as 1995 draws to a close.
- The MAC anticipates completing implementation planning work in the first four to five months of 1996 and yet expend considerable concessions program renovation funds, as in the Capital Improvement Program, in the last half of 1996.

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 Commission involvement and encourage all employees to participate in setting annual organizational goals. Specifically:

- each year the MAC 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, staff will determine the specific administrative requirements, using department expertise needed to achieve those goals.
- Once adopted by the Commission, the organizational 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 IDENTIFY THE COMMISSION'S ROLE IN THAT PROCESS, INCLUDING SETTING MULTI-YEAR TARGETS AND ESTABLISHING STRATEGIES FOR MINIMIZING FINANCIAL DEPENDENCE ON NWA

The budget process was streamlined during the year. Specifically:

- The Budget Task Force set direction for staff by establishing budget targets. Those targets limited expense growth and required that growth in revenue exceed growth in expenses.
- In previous years, the Commission has seen portions of the budget (capital equipment requests, additional personnel, revenue and expense) as they were finished. During 1995, the Budget Task Force reviewed total expenses once they were completed which included additional equipment and personnel requests, and then total revenue.

- Also, numerous improvements were made at the staff level that shortened the length of the process and improved communication with departments.

The Budget Task Force has not formally adopted multi-year targets although discussion has occurred about limiting expense growth to no more than the increase in the Consumer Price Index. The formal establishment of multi-year targets will be discussed at the December meeting of the task force.

A report identifying strategies to reduce the MAC's dependence on NWA was prepared a year ago and presented to the Executive Committee and the Executive Director.

MARKETING FOR INTERNATIONAL FLIGHTS AS RELATED TO AIRPORT FACILITIES

A window of opportunity for MSP to obtain more international flights will be open for a limited time while more liberal aviation bilateral agreements are being negotiated between the U.S. and other nations, and while airline alliances are being forged between U.S. carriers and foreign flag airlines. Special focus areas include:

- Since the first breakthrough April 2, 1991, when KLM initiated three weekly flights between MSP and Amsterdam, 115 new scheduled international flights have been obtained to ten different international destinations in Europe, Japan, Canada and Mexico.
- There are opportunities for additional flights to Europe, Asia, Mexico, the Caribbean and South America, provided adequate facilities are constructed and maintained at MSP.
- Additional international flights will generate increased revenue for MAC, and be a major economic generator for the region served by MSP.
- Identifiable benefits for MAC are:

o Visitor spending in the terminal		$ 210,000
o Passenger Facility Charges (PFC's) paid by enplaning international passengers, originating and connecting		3,570,000
	Total	$ 3,780,000

- Benefits to the local economy are:

o 23 wide-body flights weekly = annual benefits of		$530 million
o 140 narrow-body flights weekly =		300 million
	Total	$830 million

- The key projects required, some of which are already approved and under construction, are:
  - A new state-of-the-art Federal Inspection Facility (FIS) serving five international gates on the Gold Concourse of the Lindbergh Terminal;
  - A 2,700-foot extension of runway 4-22 to 11,000 feet which will enable fully loaded Boeing 747-400s and other wide body aircraft to take off for destinations in Europe and Asia in any kind of weather conditions;
  - An expansion of the Hubert H. Humphrey Terminal to handle more domestic and international charter flights;
  - Completion of the three-year, $70 million Ground Transportation project at the Lindbergh Terminal;
  - Plans are underway for upgrading the Lindbergh Terminal concessions area to better serve the traveling public;
  - New state-of-the-art navigational aids and a new FAA air traffic control tower
  - A new Global Positioning System (GPS) to be installed by Honeywell, using MSP as a pilot airport. GPS is a navigational aid based upon 24 satellites rotating around the earth over set points on the ground which will enable air traffic controllers to direct aircraft with extreme accuracy to landings on all runways at MSP and all of MAC's reliever airports.

DEVELOP A PLAN TO IMPROVE THE IMAGE OF MAC IN THE COMMUNITY

An external communications plan is in effect at the MAC.

- The plan specifies that employees closest to or in charge of the area in need of public or media attention should be the spokesperson for the MAC.
- There are three different parts of the plan, each being implemented by different departments of the MAC and each using different consultants to assist.
  - Parking and Ground Transportation Plan,
  - Dual Track Airport Planning Process Communications Plan,
  - MAC's general public relations and media relations.
- The Properties Department does some public communications by publishing brochures which are designed to assist the traveling public to make the best use of the terminals and the services and concessions located there.

  Each plan attempts to educate MAC's various publics about their aspect of the MAC, inform them of current projects, problems and news relating to the element for which they are responsible, take a proactive approach to meeting potential problems and concerns before they become an issue in the media, and be prepared to handle any emergency situation.

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

During 1995 the Commission spent four consecutive months discussing and updating MAC policies, ordinances and regulations related to the Reliever Airports.

As part of that discussion, a proposal was made to the Management and Operations Committee (M & O) to consider:

- Clarify the current G.A. hangar construction moratorium at MSP. Staff now is meeting with representatives of the parties involved to work out a position that is consistent with the limitations suggested by the M & O Committee.
- A recommendation will be presented to the M & O Committee by year-end for review and approval.

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

During 1995 a series of efforts has been made to provide commissioners with a broader base of industry information to aid in understanding the issues faced by the Commission:

- Public Affairs and the Executive Director have begun mailing relevant articles for industry publication to the Commission.
- A regular series of discussion on special topics has been scheduled as part of each Commission meeting. These are focused primarily on issues related to the Dual Track process and have included discussions by consultants, the public and other airports as appropriate.
- Updates have been provided by our Washington counsel on the status of issues impacting airlines and airports in Congress to provide a foundation for developing a MAC legislative policy on issues in anticipation of future discussions.

The Commission and staff developed a series of seven objectives in 1995 for 1996. In addition, based on MAC's evaluation of the Minnesota Quality Award (MQA) program, three areas of focus were placed on the list. The ten areas and their major points for 1996 are:

DUAL TRACK AIRPORT PLANNING PROCESS

- Complete state and federal environmental review process.
- Complete financial and economic impact analyses.
- Coordinate activities with the Metropolitan Council regarding a March 1996 recommendation to the Legislature.
- Coordinate public review regarding environmental review process and process leading to Legislative recommendation.

INTEGRATED NOISE METHODOLOGY

- Integrate MAC's current off-airport noise impact information with operational and land use measures into one cohesive program.
- Coordinate efforts between MAC's designated noise body (MASAC) and affected communities and residents.

NEGOTIATE NEW AIRLINE USE AGREEMENT

- Determine options available for:
  - extension of current agreement (expires 12/31/96),
  - enter into negotiations for a new agreement,
  - modify a limited number of terms in current agreement.
- Present staff recommendation to Commission taking into account Dual Track Planning decision.
- If current agreement is extended, secure signatures on a contract amendment.
- If new or modified agreement, develop objectives, support material, schedule, and negotiating team.

AIRPORT RATES AND CHARGES

- Active participation in monitoring and shaping federal policy and regulations in this area.
- Original Department of Transportation/Federal Aviation Administration (DOT/FAA) draft policy on Airport Rates and Charges issued in February 1995 was revised in August 1995. Comments were due in October 1995. Extent of involvement could vary considerably depending on DOT/FAA's final decision and airline response.

CONTINUING EVALUATION OF NWA COLLATERAL

- Schedule for April 1996 re-appraisal of Northwest Airlines non real estate assets held by MAC as collateral for their loan.
- Select appraisal firm.
- Items to be appraised include international route authorization, simulators and associated equipment, aircraft and engine parts totalling approximately $560 million.
- Determine adequacy of categories and collateral held.
- Present findings to Commission in June 1996.

STRATEGIC PLANNING

- This comes as a result of the findings of the Minnesota Quality Award application and review.
- Develop a comprehensive approach to strategic planning for the organization.
- Identify factors requiring clarification and/or amplification and communicate these to both staff and commissioners.
- Present findings and plan to staff and Commission in order to incorporate this plan into 1997 Goals and Objectives process (September through November 1996).

IMPROVE THE EFFECTIVENESS OF MAC'S EMPLOYEE INVOLVEMENT EFFORTS

- This is also an area recommended for improvement by the Minnesota Quality Award process.
- Develop ways for all employees to contribute to quality goals and continuous improvement.
- An Employee Involvement Team formed as a result of the MQA process. This team identified three areas for improvement: 1) Management Involvement and Visibility, 2) Front Line Involvement and Improvement, and 3) Accountability. Recommendations are currently being developed and will be reviewed in early 1996.
- A Cross Functional Team was formed to respond to the following issues: 1) Management and Leadership and 2) Working Relationships. Recommendations are currently being developed and will be reviewed in early 1996.
- After review of the Employee Involvement Team and the Cross Functional Team plans, MAC management will identify a team leader to be responsible for implementation of action items and report on results by year end.

IMPROVING DECISIONS BASED ON DATA

- This area was identified as a result of the feedback received from the Minnesota Council for Quality as part of the participation as a pilot organization in the Minnesota Quality Award Program.
- Develop a system where data is gathered and used to anticipate the needs of our customers, make decisions, allocate resources, and measure progress toward goals and continuous improvement.
- Establish an organization wide team to assist and support service centers with their efforts in the information gathering process.
- Develop measurements of our critical process activities and accomplishments.

COORDINATE A PLAN TO EDUCATE THE PUBLIC

- Development of this plan is carried over from the 1995 goals and objectives.
- Work in 1996 will focus on improving brochures and guides regarding location and services offered at the Lindbergh and Humphrey Terminals.
- Provide information and develop MAC's media library for public presentations.

MARKETING FOR INTERNATIONAL FLIGHTS AS RELATED TO AIRPORT FACILITIES

- This goal is also carried over from 1995. With the completion of the new international arrival facility scheduled for late 1996, the Commission will be trying to position itself to increase international activity. The window of opportunity is open and with state-of-the-art facilities in place, MAC's marketing program will be focusing on foreign flag carriers as a potential source for increased international traffic.

FINANCIAL INFORMATION

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

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

BUDGETING CONTROLS

The MAC annually adopts an Operating Budget which is organized by functional responsibility according to 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 EXPENDITURES

<u>Operating Revenue</u>

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:

Airline Rates & Charges	- Revenue from Landing & Ramp Fees, Noise Surcharge and Terminal Building Rates
Concessions	- Revenue from food & beverage sales, merchandise sales, auto parking, etc.
Other Revenues:	
Rental	- Fees for ground and building rentals
Utilities	- Charges for tenants use of water and sewer
Miscellaneous	- Charges for other services provided by MAC

During 1995 MAC operating revenues increased by 14.2% to $87,256,000 from $76,393,000 in 1994. Changes in major categories are summarized below (dollars in thousands):

	1995		1994		Dollar	Percent
	$	%	$	%	Change	Change
Airline Rates & Charges	$35,193	40.3%	$31,960	41.8%	$ 3,233	10.1%
Concessions	41,838	47.9	35,579	46.6	6,259	17.6
Other Revenue:						
Rentals	6,962	8.0	5,601	7.3	1,361	24.3
Utilities	1,271	1.5	1,342	1.8	(71)	(5.3)
Miscellaneous	1,992	2.3	1,911	2.5	81	4.2
Operating Revenues	**$87,256**	**100.0%**	**$76,393**	**100.0%**	**$10,863**	**7.4%**

Airline rates and charges increased $3,233,000 or 10.1% 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 new airport planning and depreciation costs related to capital improvement projects.

Concessions increased $6,259,000 or 17.6% in 1995. The majority of the increase from 1994 levels is in the auto parking concession. This is a result of an increase in the utilization of the MAC's parking facilities coupled with a 15–20% increase in length of stay.

Rentals increased by 24.3% in 1995. This is a result of a nine year operating building lease with a major airline which was entered into during 1995.

Operating Expense

In 1995, MAC operating expenses increased by 6.8% to $74,917,000 from $70,175,000 in 1994. Changes in major categories are summarized below (dollars in thousands):

	1995		1994		Dollar	Percent
	$	%	$	%	Change	Change
Salaries/Wages/Employee Benefits	$24,360	32.5%	$23,293	33.2%	$1,067	4.6%
Administrative Supplies & Expenses	1,003	1.3	839	1.2	164	19.5
Professional Services	5,705	7.6	4,681	6.7	1,024	21.9
Utilities	5,354	7.1	5,287	7.5	67	1.3
Operating Services	8,276	11.0	7,995	11.4	281	3.5
Maintenance	7,236	9.7	6,743	9.6	493	7.3
Depreciation	22,656	30.2	21,048	30.0	1,608	7.6
Other	327	.6	289	.4	38	13.1
Operating Expenses	**$74,917**	**100.0%**	**$70,175**	**100.0%**	**$4,742**	**6.8%**

Professional Services increased 21.9% from 1994 levels. This is a result of new airport planning. During 1995, the MAC accelerated work to be performed on the dual track planning process in order to meet a revised completion date.

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

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

DEBT ADMINISTRATION

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

October 10, 1996	$89,569,000
October 10, 1997	$87,213,000
October 10, 1998	$84,387,000
October 10, 1999	$81,171,000
October 10, 2000	$79,347,000

Authority for issuing bonds is obtained from the Minnesota State Legislature. Authorization as of December 31, 1995, permits the issuance of an additional $55 million of bonds. In 1994, the Commission issued $11 million in tax-exempt General Obligation Revenue 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, increased 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. The second application will expire on May 31, 1998. During 1995, the Commission received authority to collect a $3.00 PFC under a third application beginning June 1, 1998 to finance projects totalling $32.7 million. 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 1996 and 1997, as well as the extended period 1998-2002, 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	1996	1997	1998-02
MSP:			
Field and Runways	$ 12,950,000	$ 48,050,000	$144,800,000
Environmental	42,460,000	35,960,000	107,920,000
Self-Liquidating	11,500,000	0	0
Terminal Building and Others	59,550,000	11,350,000	39,800,000
St. Paul Downtown	11,300,000	34,300,000	1,100,000
Flying Cloud	2,080,000	10,420,000	2,360,000
Crystal	450,000	200,000	750,000
Anoka County	700,000	1,315,000	2,510,000
Lake Elmo	250,000	750,000	2,500,000
Airlake	0	450,000	200,000
Totals	**$141,240,000**	**$111,925,000**	**$301,940,000**

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 are safekept at one institution and purchases can be made only from dealers located in the State of Minnesota. To ensure competitive prices on all purchases, the policy requires bids to be taken from several different dealers.

State statutes and Commission policies permit the Commission to use its investments to enter into securities lending transactions–loans of securities to broker-dealers and other entities for collateral with a simultaneous agreement to return the collateral for the same securities in the future. The Commission's securities custodian are agents in lending the Commission's securities for cash collateral of 100 percent plus accrued interest. Contracts with the lending agents require them to indemnify the Commission if the borrowers fail to return the securities (and if the collateral is inadequate to replace the securities lent) or fail to pay the Commission for income distributions by the securities' issuers while the securities are on loan. (Also see Note B.)

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 1995, all of the MAC's investments were being held by a third party agent of the Commission. Total investment earnings for 1995 were $8,498,000. The average yield on investments during the year was 5.96%.

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 audit for the years ended December 31, 1995 and 1994, were performed by Deloitte and Touche LLP. Their opinion on the financial statements is presented in this report.

In conjunction with the annual audit, Deloitte and Touche perform procedures consistent with the Single Audit Act of 1984 (The Act), OMB Circular A-128 and guidelines in relation to grant award agreement between the MAC and FAA in progress during the year. Deloitte and Touche 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 1995, the financial audit has been performed by the firm Deloitte and 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, 1994. For the tenth consecutive year, the Commission has received the prestigious award.

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

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

The Commission also received for the eighth consecutive year the GFOA Award For Distinguished Budget Presentation for its Annual Operating Budget for 1995. 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.

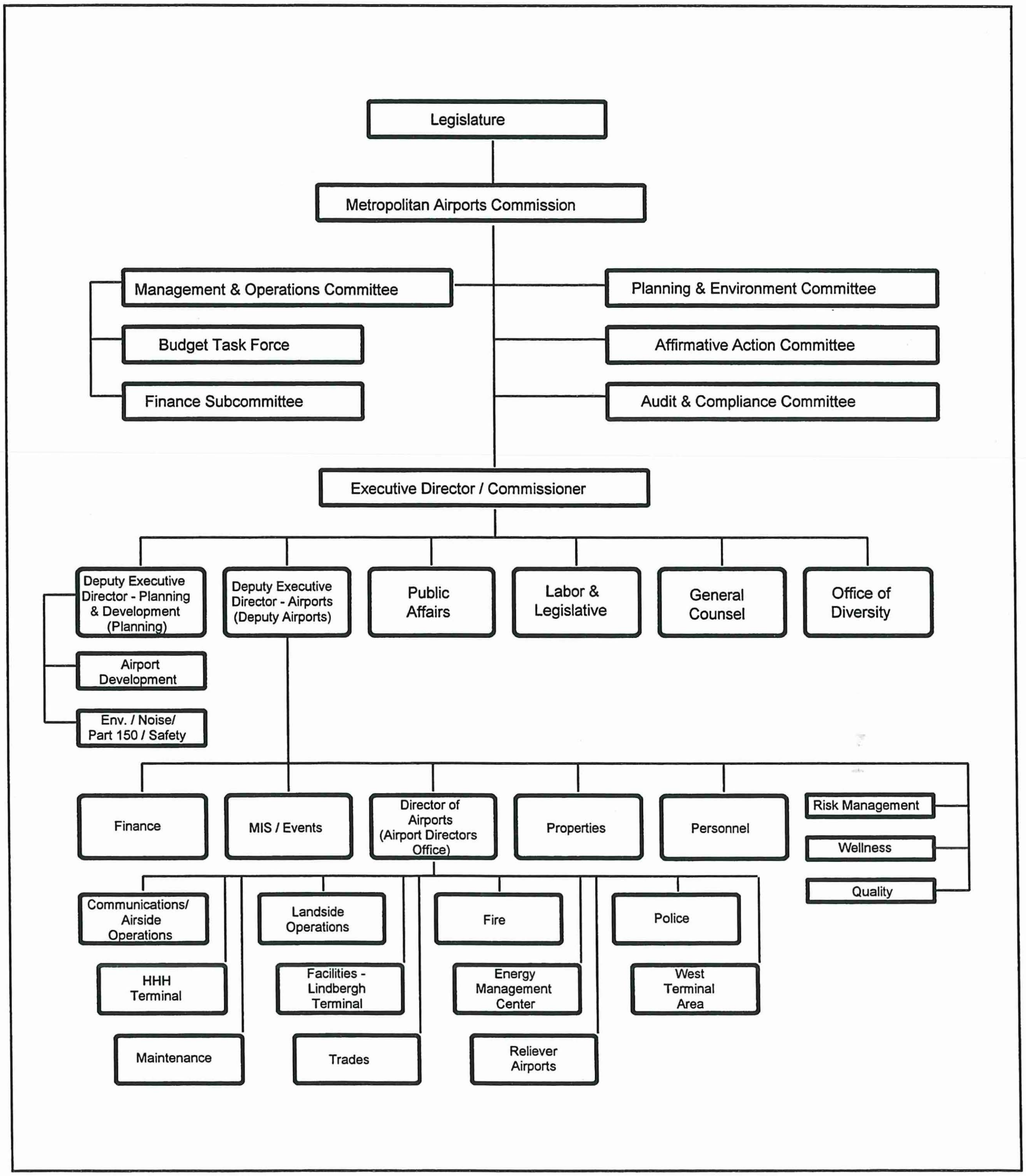
In closing, without the leadership and support of the governing body of the Metropolitan Airports Commission, preparation of this report would not have been possible.

Respectfully submitted,

Jeffrey W. Hamiel
Executive Director

Stephen L. Busch
Director of Finance

ORGANIZATION CHART



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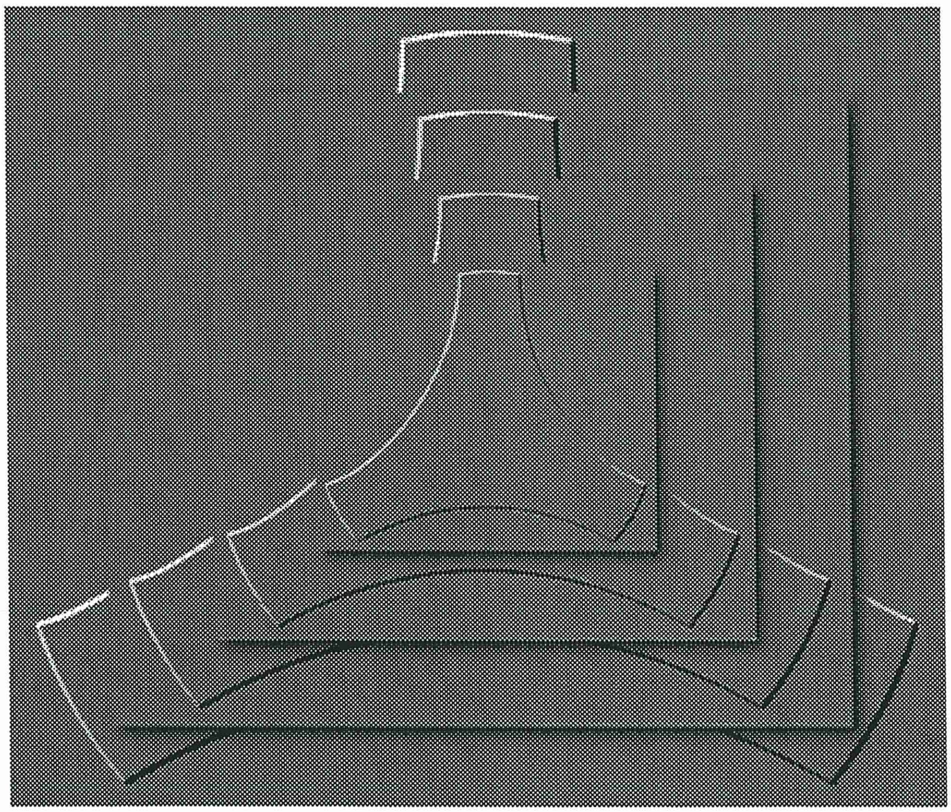


FINANCIAL SECTION

400 One Financial Center
120 South Sixth Street
Minneapolis, Minnesota 55402-1844

Telephone: (612) 397-4000
Facsimile: (612) 397-4450

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, 1995 and 1994 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, 1995 and 1994 and the results of its operations and its cash flows for the years then ended, in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued a report dated March 5, 1996 on our consideration of the Commission's internal control structure and a report dated March 5, 1996 on its compliance with laws and regulations.

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The other financial information listed in the table of contents, which is also the responsibility of the management of the Commission, is presented for purposes of additional analysis and is not a required part of the basic financial statements of the Commission. Such additional information, except for the pages marked "unaudited" on which we express no opinion, has been subjected to the auditing procedures applied in our audits of the basic financial statements and, in our opinion, is fairly presented in all material respects when considered in relation to the basic financial statements taken as a whole.

Deloitte & Touche LLP

March 5, 1996

BALANCE SHEETS

(Dollars in Thousands)

	December 31, 1995	December 31, 1994
ASSETS		
Cash and Investments – Note B:		
Unrestricted:		
Cash and Cash Equivalents	$ 1,640	$ 64
Investments	22,551	16,044
	24,191	16,108
Restricted – Note C:		
Cash and Cash Equivalents	19	27
Investments	281,962	182,652
	281,981	182,679
	306,172	198,787
Accounts receivable	6,038	2,799
Government grants in aid of construction receivable	4,726	38
Restricted Asset:		
Passenger facility charge receivable – Notes A and C	4,126	4,062
Airports and Facilities – Notes A, E, F, and J	385,423	341,134
Leases receivable – Notes A and I	409,075	416,091
Deferred compensation benefits – Note M	6,577	6,517
Other	210	271
TOTAL ASSETS	**$1,122,347**	**$969,699**
LIABILITIES AND FUND EQUITY		
Accounts payable and accrued expenses	$ 5,668	$ 4,751
Security lending agreement	6,433	0
Payables from restricted assets:		
Debt Service – Note F	91,150	92,322
Construction	13,860	6,830
Other	1,862	1,657
Security lending agreement	71,367	0
Employee compensation and payroll taxes	3,252	3,940
Deferred revenue – Note A	49,482	49,234
Deferred compensation benefits – Note M	6,577	6,517
Bonds payable – Note F	340,722	352,212
TOTAL LIABILITIES	**$ 590,373**	**$517,463**
FUND EQUITY – Note D		
Contributed capital – Note A	$ 122,834	$106,281
Retained Earnings:		
Reserved – Note C	107,868	85,932
Unreserved	301,272	260,023
TOTAL FUND EQUITY	**531,974**	**452,236**
TOTAL LIABILITIES AND FUND EQUITY	**$1,122,347**	**$969,699**

See notes to financial statements.

STATEMENTS OF REVENUES AND EXPENSES AND CHANGES IN RETAINED EARNINGS

(Dollars in Thousands)

	December 31, 1995	December 31, 1994
OPERATING REVENUES		
Airline Rates and Charges	$ 35,193	$ 31,960
Concessions	41,838	35,579
Other Revenues:		
Rentals	6,962	5,601
Utilities	1,271	1,342
Miscellaneous	1,992	1,911
TOTAL OPERATING REVENUES	**87,256**	**76,393**
OPERATING EXPENSES		
Salaries, Wages and Employee Benefits	24,360	23,293
Administrative Supplies and Expenses	1,003	839
Professional Services	5,705	4,681
Utilities	5,354	5,287
Operating Services	8,276	7,995
Maintenance	7,236	6,743
Depreciation	22,656	21,048
Other	327	289
TOTAL OPERATING EXPENSES	**74,917**	**70,175**
OPERATING INCOME	**12,339**	**6,218**
OTHER REVENUES (EXPENSES)		
Interest Income	44,946	41,776
Gain on Sale of Buildings	0	448
Passenger Facility Charge Revenue	32,286	28,472
Bond Interest Expense	(32,945)	(34,018)
NET INCOME	**56,626**	**42,896**
ADD: Depreciation of facilities provided by government grants	6,559	5,933
INCREASE IN RETAINED EARNINGS	**63,185**	**48,829**
Retained Earnings–Beginning of Year	345,955	297,126
RETAINED EARNINGS–END OF YEAR	**$409,140**	**$345,955**

See notes to financial statements.

STATEMENTS OF CASH FLOWS

Increase (Decrease) in Cash and Cash Equivalents

(Dollars in Thousands)

	December 31, 1995	December 31, 1994
Cash flows from operating activities:		
Operating income	$ 12,339	$ 6,218
Adjustments to reconcile net operating income to net cash provided by operating activities:		
Depreciation	22,656	21,048
Change in assets and liabilities:		
Accounts receivable	(3,239)	418
Other assets	7	20
Accounts payable	917	(20)
Other restricted liabilities	205	292
Employee compensation and payroll taxes	(688)	104
Deferred revenue	248	(381)
NET CASH PROVIDED BY OPERATING ACTIVITIES	**32,445**	**27,699**
Cash flows from capital and related financing activities:		
Payments for airports and facilities	(59,133)	(52,010)
Proceeds from disposal of airports and facilities	111	916
Proceeds from bond issuance	0	11,227
Receipt of lease payments	7,261	6,907
Receipt of passenger facility charges	32,222	26,787
Payments on bonds	(14,440)	(14,205)
Interest paid on bonds	(32,006)	(20,167)
Receipts of government grants in aid of construction	18,424	16,803
NET CASH USED IN CAPITAL AND RELATED FINANCING ACTIVITIES	**(47,561)**	**(23,742)**
Cash flows from investing activities:		
Purchase of investment securities	(283,520)	(280,561)
Proceeds from maturities of investment securities	255,258	234,617
Interest Income	44,946	41,776
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	**16,684**	**(4,168)**
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**1,568**	**(211)**
Cash and cash equivalents–Beginning of year	91	302
CASH AND CASH EQUIVALENTS–END OF YEAR	**$ 1,659**	**$ 91**

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.

For the years ended December 31, 1995 and 1994

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 applying Government Accounting Standards Board (GASB) 14, the Commission is not financially accountable to any other organization and is considered a stand-alone governmental 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 expenditure 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 Commission's system of airports and all facilities associated with the system of airports. The Executive Director's authority to secure these items shall be subject to the Commission's purchasing procedures and be subject to the line-item budget constraints of the annual budget.

At any time during the fiscal year, the Executive Director may recommend to the full Commission that all or 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 primarily represents advance 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. Additions to the property accounts have been recorded at cost since 1943.

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 pursued 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. The second application will expire on May 31, 1998. During 1995, the Commission received authority to collect a $3.00 PFC under a third application beginning June 1, 1998 to finance projects totalling $32.7 million.

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 Q for additional information regarding transactions with Northwest Airlines, Inc.

Capitalized Interest

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

NOTE B
CASH, INVESTMENTS AND SECURITIES LENDING

Cash

Cash balances which 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):	12/31/95	12/31/94
Financial statement balances	($ 492)	($682)
Bank balances	$1,338	$477

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.

Securities Lending Transactions

State statutes and Commission policies permit the Commission to use its investments to enter into securities lending transactions–loans of securities to broker-dealers and other entities for collateral with a simultaneous agreement to return the collateral for the same securities in the future. The Commission's securities custodian are agents in lending the Commission's securities for cash collateral of 100 percent plus accrued interest. Securities on loan at year end are presented as unclassified in the following schedule of custodial credit risk. At year end, the Commission has no credit risk exposure to borrowers because the amounts the Commission owes the borrowers exceed the amounts the borrowers owe the Commission. Contracts with the lending agents require them to indemnify the Commission if the borrowers fail to return the securities (and if the collateral is inadequate to replace the securities lent) or fail to pay the Commission for income distributions by the securities' issuers while the securities are on loan.

All securities loans can be terminated on demand by either the Commission or the borrower, although the average term of the loans is one week. In lending securities, cash collateral is invested in a money market U.S. Government Treasury mutual fund. The relationship between the maturities of the mutual fund and the Commission's loans is affected by the maturities of the securities loans made by other entities that use the agents fund, which the Commission cannot determine.

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 other state, 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, 1995 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 Thousands)	Carrying Amount Credit Risk Category				Market
Type of Security	**1**	**2**	**3**	**Total**	**Value**
December 31, 1995					
U.S. Government and Agencies	$126,534			$126,534	$127,353
Commercial Paper	22,638			22,638	22,524
Municipal Bonds	1,811	$ 0	$ 0	1,811	1,824
	$150,983	$ 0	$ 0	150,983	151,701
Investments – Not Categorized					
Investments held by broker/dealers under security loans:					
U.S. Government and Agency securities				75,701	76,368
Securities lending - U.S. Treasury Mutual Fund				77,800	77,800
Mutual Funds				2,180	2,180
Cash on Hand				(492)	0
Total Cash and Investments				$306,172	$308,049

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 total amount of principal and interest due on all outstanding bonds for the next 27 months. Cash and investments to meet this requirement plus interest earned thereon are restricted.

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

	12/31/95	12/31/94
Restricted Assets		
Cash and Investments		
Debt service	$ 91,150	$ 92,322
Construction:		
Regular	48,352	33,021
Special	69,245	55,666
Other	1,867	1,670
Security lending transactions	71,367	0
Passenger Facility Charge Receivable	4,126	4,062
TOTAL RESTRICTED ASSETS	**286,107**	**186,741**
Less payables to be paid from restricted cash and investments:		
Debt service	91,150	92,322
Construction	13,860	6,830
Other	1,862	1,657
Security lending transactions	71,367	0
	178,239	100,809
RESERVED RETAINED EARNINGS	**$107,868**	**$ 85,932**

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, 1994	**$ 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	(28,843)	0
Balance December 31, 1994	**106,281**	**85,932**	**260,023**	**452,236**
Government grants in aid of construction	23,112	0	0	23,112
Net income for the year	0	0	56,626	56,626
Depreciation of facilities provided by government grants	(6,559)	0	6,559	0
Net change in restricted assets and liabilities	0	21,936	(21,936)	0
Balance December 31, 1995	**$122,834**	**$107,868**	**$301,272**	**$531,974**

NOTE E
AIRPORTS AND FACILITIES

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

Airports and Facilities	Balance January 1, 1995	Additions	Transfers In (Out)	Deductions	Balance December 31, 1995
Land	$ 18,419	$ 0	$ 1,855	$ 0	$ 20,274
Airport improvements and buildings	505,178	8	23,691	(103)	528,774
Moveable equipment	26,111	2,196	375	(602)	28,080
Projects-in-progress	51,208	64,852	(25,921)	0	90,139
TOTAL AIRPORTS AND FACILITIES	**600,916**	**67,056**	**0**	**(705)**	**667,267**
Accumulated depreciation	(259,782)	(22,656)	0	594	(281,844)
NET AIRPORTS AND FACILITIES	**$341,134**	**$44,400**	**$ 0**	**$ (111)**	**$385,423**

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**

NOTE F
LONG-TERM DEBT

The acquisition and construction of facilities at the airports operated by the Commission have been substantially financed by the issuance of Airport Improvement Bonds and General Obligation Revenue Bonds. Airport Improvement Bonds are repaid from Commission revenue; however, if the principal and interest cannot be paid from revenue, a tax can be levied on property within the cities of Minneapolis and Saint Paul, Minnesota for debt service.

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

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, 1995 permits the issuance of an additional $55 million of bonds.

Bonds payable, due serially (in thousands):

	Issue Date	Original Amount	Final Payment In	Outstanding as of December 31 1995	1994
Airport Improvement Bonds:					
Series 14 - 3.5 to 4.9%	7-1-67	17,000	1997	$ 1,885	$ 2,775
Series 15 - 3.5 to 4.9%	7-1-67	1,000	1997	115	165
Series 16 - 4.25 to 5.0%	1-1-68	16,000	1998	2,790	3,640
Series 20 - 4.5 to 6.0%	10-1-72	5,000	2002	1,980	2,210
Series 22 - 2.6 to 3.85%	2-1-94	5,625	1999	4,580	5,625
				11,350	14,415
General Obligation Revenue Bonds:					
Series 2 - 4.25 to 5.2%	12-1-77	10,000	2002	4,275	4,775
Series 3 - 5.2 to 5.75%	1-1-79	15,000	2000	5,475	6,375
Series 4 - 6.2 to 6.5%	1-1-80	15,300	2002	0	7,400
Series 5 - 8.9 to 9.1%	1-1-81	24,500	2002	10,500	12,000
Series 7 - 7.80%	8-1-88	51,150	2015	46,650	47,650
Series 8 - 4.25 to 6.60%	2-1-92	45,000	2011	41,850	43,450
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	24,435	26,745
Series 11 - 4.60 to 5.30%	10-1-94	5,615	2002	5,615	5,615
				408,800	424,010
TOTAL BONDS OUTSTANDING				**420,150**	**438,425**
Net unamortized discount				(825)	(902)
Deferred loss on refunding				(993)	(1,103)
Accrued interest due				16,650	17,084
				434,982	453,504
Less:					
Prepayments				(3,110)	(8,970)
Payable from restricted assets—debt service				(91,150)	(92,322)
TOTAL BONDS PAYABLE				**$340,722**	**$352,212**

Future debt service requirements after December 31, 1995 are as follows (in thousands):

Year/s	Airport Improvement Bonds	General Obligation Revenue Bonds	Total Bonds Outstanding	Interest	Total Principal & Interest
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	300	10,075	10,375	30,646	41,021
2001-2022	645	362,200	362,845	397,574	760,419
	$11,350	**$408,800**	**$420,150**	**$557,469**	**$977,619**

Of the future debt service requirements listed above, $336,390,000 of principal and $523,467,000 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
BOND REFUNDINGS

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 were called on January 1, 1995. As a result of the advance refunding, the Commission reduced its total debt 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, 1995, the unamortized deferred loss netted against bonds payable equals $910,000.

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 were 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, 1995, the unamortized deferred loss netted against bonds payable is $83,000.

NOTE H
CAPITALIZATION OF INTEREST

Total interest costs incurred were $32,945,000 and $34,018,000 in 1995 and 1994, respectively. Interest costs excluded from interest expense and capitalized as part of the costs of constructed assets were $906,000 and $599,000 in 1995 and 1994, respectively. Total interest paid was $32,006,000 and $20,167,000 in 1995 and 1994, respectively.

NOTE I
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):

	1995	1994
Total minimum lease payments to be received	$999,190	$1,042,314
Less: Allowance for uncollectibles	0	0
Net minimum lease payments receivable	999,190	1,042,314
Less: Unearned Income	585,312	621,553
Net investment in leases	413,878	420,761
Less: Prepaid Principal	4,802	4,670
LEASES RECEIVABLE PER BALANCE SHEET	**$409,076**	**$ 416,091**

At December 31, 1995, future minimum lease payments are as follows (in thousands):

Year	Amount
1996	$43,260
1997	$43,158
1998	$41,978
1999	$41,750
2000	$40,031
2001-2022	$789,013

NOTE J
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, 1995, and accumulated amortization on those assets totaled $169,000. 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, 1995 (in thousands).

Year Ending December 31	Minimum Lease Payments
1996	$ 154
1997	154
1998	125
1999	125
2000	125
2001-2004	490
Minimum lease payments for all capital leases	1,173
Less: Amount representing interest at the Commission's incremental borrowing rate of interest	253
Present value of minimum lease payments	$ 920

NOTE K
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. These plans are established and administered in accordance with Minnesota Statutes, Chapters 353 and 356. 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, 1995 is as follows (in thousands):

	1995
Covered payrolls:	
PERF participants	$11,217
PEPFF participants	2,404
Total covered payrolls	**$13,621**

The Commission's total payroll was $18,610,461.

PERA 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 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 for 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. A reduced retirement annuity is also available to eligible members seeking early retirement.

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 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.

The benefit provisions stated in the previous paragraphs of this section are current provisions and apply to active plan participants. Vested, terminated employees who are entitled to benefits but are not receiving them yet, are bound by the provisions in effect at the time they last terminated their public service.

B. Contributions Required and Contributions Made

Minnesota Statutes Chapter 353 sets the rates for employer and employee contributions. The Commission makes annual contributions to the pension plans equal to the amount required by state statutes. According to Minnesota Statutes Chapter 356.215 Subd. 4(g), the date of full funding required for the PERF and the PEPFF is July 1, 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" contribution rate. The required contribution rate consists of (a) normal costs based on entry age normal cost methods, (b) a supplemental contribution for amortizing any unfunded actuarial accrued liability by the date required for full funding, and (c) an allowance for administrative expenses. 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%	9.76%
PEPFF	7.60%	11.40%	19.00%

Total contributions made by the Commission for the fiscal year ended December 31, 1995 were as follows (in thousands):

	Amounts		Percentage of Covered Payroll	
	Employee	Employer	Employee	Employer
PERF	$474	$503	4.23%	4.48%
PEPFF	183	274	7.60%	11.40%
Total	$657	$777		

The Commission's contribution for the year ended June 30, 1995 to the PERF represented .4% of total contributions required of all participating entities. For the PEPFF, contributions for the year ended June 30, 1995 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.

The pension benefit obligation as of June 30, 1995 is shown below (in millions):

	PERF	PEPFF
Total pension benefit obligation	$5,994	$1,113
Net assets available for benefits, at cost	5,074	1,356
Unfunded (assets in excess of) pension benefit obligation	$ 920	$ (243)
Net assets available for benefits, at market	$5,267	$1,445

The measurement of the pension benefit obligation is based on an actuarial valuation at July 1, 1995. Net assets available to pay pension benefits were valued as of June 30, 1995.

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 retirement, 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.

Actuarial 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 1995 legislative session did not include any benefit improvements which would impact funding costs for the PERF and the PEPFF.

3. Changes in Actuarial Assumptions

   Since the July 1, 1994 actuarial valuation, there were no changes in actuarial assumptions of the PERF and the PEPFF which impacted funding costs.

   Potential changes in the actuarial assumptions used for PEPFF may be made in the future. Results of an experience study for the fund during the four year period ending June 30, 1994, disclosed (a) retirees are living longer; (b) the expected active member death rate is declining; (c) the trend toward earlier retirement continues; and (d) the pattern of salary increases varies substantially by ages, with a strong merit and seniority component evident at the younger ages. Based on these results, PERA will soon consider revising the actuarial assumptions for retirement age, mortality, payroll growth, and individual salary increases. These changes, if adopted within fiscal year 1996, will significantly impact the July 1, 1996 actuarial valuation of the PEPFF.

D. Ten-Year Historical Trend Information

Ten year historical trend information is presented in PERA's Comprehensive Annual Financial Report for the year ended June 30, 1995. 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, 1995 and for the fiscal year ended December 31, 1995 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, 1995 is as follows (in thousands):

	1995
Covered payrolls:	
MERF participants	$4,546

The Commission's total payroll for the year ended December 31, 1995 was $18,610,461.

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 or more years of service at age 55, if a MERF member prior to June 28, 1973.

The defined retirement benefits are based on the average of the highest five years salary within the last ten years of employment. The member will receive a benefit amount of 2% of that average salary for each of the first ten years of service and 2.5% of that salary for each year over ten years of service. The formulas used in calculating pension benefit increases are contained in Minnesota State Law. Increases may only be paid from investment earnings which exceed the actuarial assumption of a 5% return set for Minnesota public employment retirement funds. The annual increase for MERF is calculated from information supplied by the consulting actuary who determines the reserves required to maintain MERF as an actuarially and financially sound pension fund. Increases in pension benefits are permanent and guaranteed because they are fully funded, that is, the amount 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 consulting actuary for the fund determines the unfunded liability at the end of the fiscal year. By using a 6% interest assumption rate, an annual contribution to provide full funding by June 30, 2020 is determined. That amount is reduced by the employers 2.5% of payroll and further reduced by the $3.9 million and the additional contributions made by the Minneapolis-St. Paul Metropolitan Airports Commission and others. If the balance exceeds the amount of the State maximum contribution, the excess is contributed by the employers.

Current required contribution 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, 1995 are as follows (in thousands):

1995	Contributions	Percentage of Covered Payroll
Employer	$1,310	28.81%
Employee	443	9.75%

The Commission's contribution for the year ended June 30, 1995 represented 7.06% of the total contributions required of all participating entities.

C. Funding Status and Progress

Pension Benefit Obligation

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

The pension benefit obligation as of June 30, 1995 is shown below (in millions):

	1995
Total pension benefit obligation	$1,195
Net assets available for benefits, at cost	864
Unfunded pension benefit obligation	$ 331
Net assets available for benefits, at market	$1,042

The measurement of the pension benefit obligation is based on an actuarial valuation as of June 30, 1995. Net assets available to pay pension benefits were valued as of June 30, 1995.

No changes in actuarial assumption that would significantly affect the valuation of the pension benefit obligation occurred during 1995.

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, 1995. 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, 1995 and for the fiscal year ended December 31, 1995, MERF held no securities issued by the Commission or other related parties.

NOTE L
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 eligible dependent(s) until becoming eligible for Medicare, Part A or B, or both. The Commission 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 Part 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, 1995 and 1994 is presented below:

	1995	1994
Health Insurance Cost	$595,000	$615,000
Number of Retired Employees	130	126

NOTE M
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 their salary, limited to $7,500 per year. Amounts deferred are available to employees or beneficiaries only at termination, retirement, death, or unforeseeable emergency. Amounts deferred are placed with a trustee for investment purposes. Investments deposited for deferred compensation benefits are valued at fair market value.

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

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

NOTE N
ARBITRAGE

Every five years, the Commission is required to rebate arbitrage profits earned in relation to certain General Obligation Revenue 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 at December 31, 1995 and 1994 of $35,547 and $86,699, respectively.

NOTE O
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, 1995, as well as an estimate of claims incurred but not reported.

NOTE P
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 $55,653,000 at December 31, 1995.

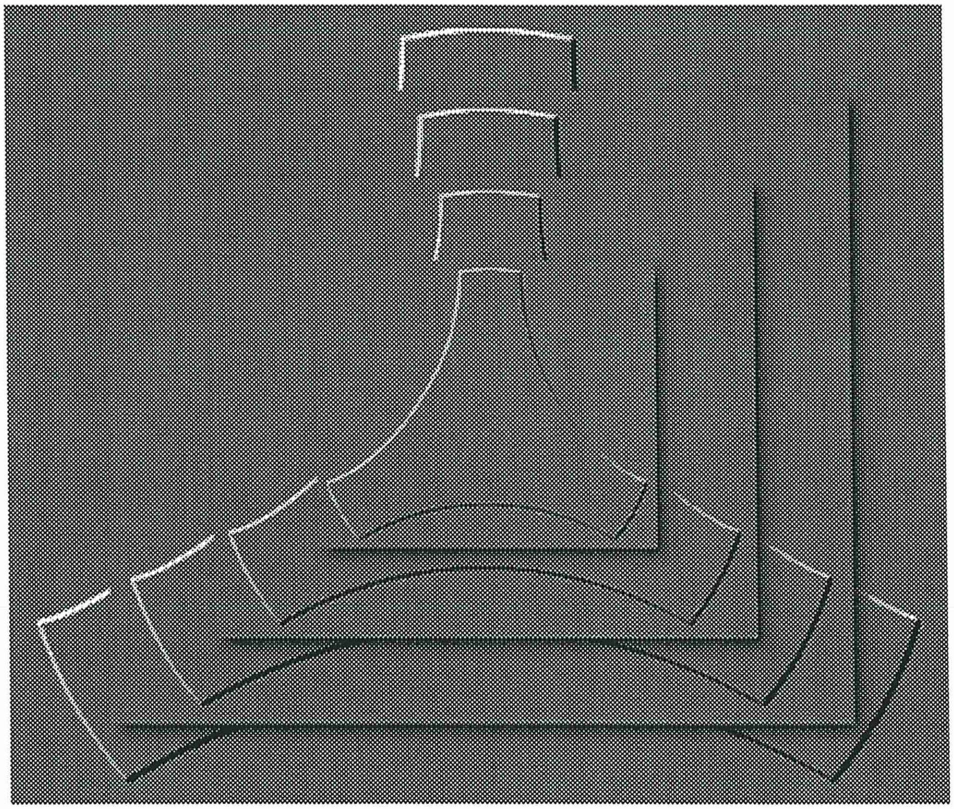
NOTE Q
MAJOR CUSTOMER

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 was acquired 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 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 28% 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-Saint 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 least 145% (reducible to 135% under certain circumstances) of the sum of the principal amount of Bonds outstanding plus the unpaid balance of $45,000,000 supplied by the Commission in support of the debt service requirements and issuance costs of the Bonds. These transactions were accounted for as a capital lease.

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 36% of the Commission's total assets at December 31, 1995.

For the years ended December 31, 1995, and December 31, 1994, the Northwest entities and NWA Corp. had audited consolidated net income respectively of approximately $392 million and $296 million. On December 31, 1995, the Northwest entities' and NWA Corp.'s audited total consolidated assets were $8.412 billion and their total audited consolidated liabilities were $9.231 billion, resulting in the Northwest entities' and NWA Corp.'s audited consolidated net deficit of $819 million. 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.



STATISTICAL SECTION

TOTAL ANNUAL REVENUES 1986–1995

(Dollars in Thousands)	1986	1987	1988
Airline Rates and Charges	$ 16,932	$ 19,211	$ 20,888
Concessions	23,425	24,433	23,554
Other	5,588	5,850	5,773
Total Operating Revenues	**$ 45,945**	**$ 49,494**	**$ 50,215**
Add: Interest Income	13,398	13,933	15,257
Passenger Facility Charge Revenue			
Gain on Sale of Airports and Facilities			1,081
Total Revenues	**$ 59,343**	**$ 63,427**	**$ 66,553**

Source: Audit reports for the last ten years.

TOTAL ANNUAL EXPENSES 1986–1995

(Dollars in Thousands)	1986	1987	1988
Salaries, Wages and Employee Benefits	$ 12,217	$ 14,784	$ 15,116
Administrative Supplies and Expenses	76	414	406
Professional Services	2,014	2,193	3,063
Utilities	3,134	3,072	3,809
Operating Expenses	4,048	3,281	3,600
Maintenance	4,742	4,814	5,451
Depreciation	10,217	11,500	12,461
Other	526	731	150
Total Operating Expenses	**$36,974**	**$40,789**	**$44,056**
Add: Interest Expense[1]	6,013	7,050	7,640
Total Expenses	**$ 42,987**	**$ 47,839**	**$ 51,696**

Source: Audit reports for the last ten years.

[1] Interest expense is net of capitalized interest. See Note H to financial statements.

POPULATION OF SEVEN COUNTY METROPOLITAN AREA 1986–1995

1986	1987	1988
2,118,445	2,153,533	2,200,321

Source: Metropolitan Council
N/A – Not Available

1989	1990	1991	1992	1993	1994	1995
$ 20,230	$ 21,812	$ 25,385	$ 27,223	$ 29,115	$ 31,960	$ 35,193
25,062	26,206	26,405	28,882	32,627	35,579	41,838
7,175	8,927	8,649	9,242	9,387	8,854	10,225
$ 52,467	**$ 56,945**	**$ 60,439**	**$ 65,347**	**$ 71,129**	**$ 76,393**	**$ 87,256**
16,243	15,744	15,838	34,238	40,572	41,776	44,946
			14,607	28,596	28,472	32,286
					448	
$ 68,710	**$ 72,689**	**$ 76,277**	**$114,192**	**$140,297**	**$147,089**	**$164,488**

1989	1990	1991	1992	1993	1994	1995
$ 17,551	$ 19,153	$ 21,168	$ 22,308	$ 22,739	$ 23,293	$ 24,360
512	715	668	923	966	839	1,003
3,229	3,043	3,731	4,813	4,984	4,681	5,705
3,704	4,070	3,665	4,412	4,974	5,287	5,354
4,272	5,074	5,581	5,907	5,809	7,995	8,276
6,144	6,763	7,003	7,088	7,406	6,743	7,236
11,807	14,662	16,214	17,976	19,258	21,048	22,656
283	566	276		352	289	327
$ 47,502	**$ 54,046**	**$ 58,306**	**$ 63,427**	**$ 66,488**	**$ 70,175**	**$ 74,917**
7,058	7,943	9,430	27,544	34,812	34,018	32,945
$ 54,560	**$ 61,989**	**$ 67,736**	**$ 90,971**	**$101,300**	**$104,193**	**$107,862**

1989	1990	1991	1992	1993	1994	1995
2,240,850	2,288,721	2,318,532	2,352,121	2,383,725	2,415,207	N/A

OPERATING RATIO[1] 1986–1995

(Dollars in Thousands)	1986	1987	1988
Operating Expense[2]	$ 26,757	$ 29,289	$ 31,595
Operating Revenues	45,945	49,494	50,215
Operating Ratio	58%	59%	63%

[1] Operating ratio is operating expense net of depreciation divided by total operating revenue.

[2] Operating expense excludes depreciation.

REVENUE AVAILABLE FOR DEBT SERVICE 1986–1995

(Dollars in Thousands)	1986	1987	1988
Operating Revenue	$ 45,945	$ 49,494	$ 50,215
Interest Income[1]	13,398	13,933	15,257
Lease Principal Payments	3,877	3,976	3,540
Operating Expense[2]	(26,757)	(29,289)	(31,595)
Revenue Available for Debt Service	$ 36,463	$ 38,114	$ 37,417
Debt Service	$ 13,930	$ 15,422	$ 16,672
Coverage of Debt Service	2.62	2.47	2.24

[1] Does not include interest income earned on Passenger Facility Charges.

[2] Operating expense excludes depreciation.

RATIO OF ANNUAL DEBT SERVICE TO TOTAL EXPENSES 1986–1995

(Dollars in Thousands)	1986	1987	1988
Principal	$ 7,460	$ 7,545	$ 7,545
Interest[1]	6,470	7,892	9,127
Total Debt Service	$ 13,930	$ 15,437	$ 16,672
Total Expenses	$ 42,987	$ 47,839	$ 51,696
Ratio of Debt Service to Total Expenses	32%	32%	32%

[1] Does include capitalized interest.

1989	1990	1991	1992	1993	1994	1995
$ 35,695	$ 39,384	$ 42,092	$ 45,451	$ 47,230	$ 49,127	$ 52,261
52,467	56,945	60,439	65,347	71,129	76,393	87,256
68%	69%	70%	70%	66%	64%	60%

1989	1990	1991	1992	1993	1994	1995
$ 52,467	$ 56,945	$ 60,439	$ 65,347	$ 71,129	$ 76,393	$ 87,256
16,243	15,744	15,838	34,222	40,317	40,595	42,725
2,821	4,016	4,686	5,784	6,611	6,907	7,261
(35,695)	(39,384)	(42,092)	(45,451)	(47,230)	(49,127)	(52,261)
$ 35,836	$ 37,321	$ 38,871	$ 59,902	$ 70,827	$ 74,768	$ 84,981
$ 19,010	$ 17,776	$ 18,466	$ 38,618	$ 44,221	$44,413	$ 44,670
1.89	2.10	2.11	1.55	1.60	1.68	1.90

1989	1990	1991	1992	1993	1994	1995
$ 8,035	$ 7,295	$ 8,500	$ 8,705	$ 8,890	$ 10,395	$ 11,725
10,975	10,481	9,966	29,913	35,331	34,018	32,945
$ 19,010	$ 17,776	$ 18,466	$ 38,618	$ 44,221	$ 44,413	$ 44,670
$ 54,560	$ 61,989	$ 67,736	$ 90,971	$101,300	$104,193	$107,862
35%	29%	27%	42%	44%	43%	41%

ACTIVITY STATISTICS FOR MINNEAPOLIS–ST. PAUL INTERNATIONAL AIRPORT 1986–1995

	1986	1987	1988
Total Passengers[1]	17,073,605	17,858,984	17,733,837
Aircraft Operations[2]	389,012	373,660	373,851
Mail and Cargo Volumes (Metric Tons)	199,319	206,799	246,734

Source: Metropolitan Airports Commission Activity Report

[1] Passengers include on-line connecting. (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.

[3] In 1995, general aviation activity is not included.

AIRCRAFT OPERATIONS[1] AT THE RELIEVER AIRPORTS 1986–1995

	1986	1987	1988
St. Paul Downtown Airport	124,786	135,397	151,869
Flying Cloud Airport	191,350	209,423	186,699
Crystal Airport	162,773	165,367	172,074
Anoka County/Blaine Airport	165,000	180,000	200,000
Lake Elmo Airport	70,000	63,000	65,000
Airlake Airport	40,000	52,000	64,000
Total Aircraft Operations at Reliever Airports	743,909	805,187	839,642

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

SCHEDULE OF AIRLINE RATES AND CHARGES 1986–1995

	1986	1987	1988
Landing Fee/1,000 lbs.	$ 0.55	$ 0.65	$ 0.62
Ramp Fees/Lineal Foot	$ 178.83	$ 177.01	$ 186.48
Terminal Building Rentals:			
Common Use/Square Foot	$ 13.79	$ 15.15	$ 16.06
Finished/Square Foot	11.84	12.68	14.06
Finished Janitored/Square Foot	16.68	18.32	18.76
Unfinished/Square Foot	11.38	12.24	13.56

Source: Compensatory Rental Report

1989	1990	1991	1992	1993	1994	1995
18,346,095	19,167,427	19,336,533	21,407,415	22,070,715	23,095,510	25,342,179
364,030	379,785	382,017	413,502	439,990	454,723	415,685[3]
241,725	266,824	272,328	302,201	320,893	357,909	362,770

1989	1990	1991	1992	1993	1994	1995
166,436	190,333	168,450	152,378	132,531	145,834	133,686
207,661	227,408	186,496	198,306	218,745	238,838	216,313
177,679	189,910	173,150	179,546	183,554	185,991	171,478
212,000	215,000	195,650	195,650	195,650	199,000	181,866
65,000	66,950	69,950	69,950	69,950	71,000	64,887
66,000	67,980	74,745	81,087	81,087	82,500	75,397
894,776	957,581	868,441	876,917	881,517	923,163	843,627

1989	1990	1991	1992	1993	1994	1995
$ 0.58	$ 0.65	$ 0.77	$ 0.77	$ 0.79	$ 0.87	$ 0.95
$ 310.20	$ 306.76	$ 317.97	$ 300.06	$ 333.76	$ 344.96	$ 366.41
$ 17.39	$ 17.60	$ 19.49	$ 20.46	$ 21.78	$ 20.39	$ 21.61
17.39	17.60	19.49	20.46	21.78	20.39	21.61
22.22	22.24	24.89	27.51	27.78	25.78	26.48
17.39	17.60	19.49	20.46	21.78	20.39	21.61

SCHEDULE OF INSURANCE COVERAGE

Insurer	Expiration	Coverage	Policy Limits (Thousands of Dollars)
Arkwright Insurance	1-1-97	Blanket Fire and Extended coverage on building and contents. Heavy equipment, boiler, machinery and Builder's Risk.	$326,500
Self-Insured O.H.M.S. Third Party Admin.	3-1-97	Statutory Workers' Compensation	$100/500/100
Fidelity & Deposit Company of Maryland	3-1-97	Comprehensive Crime Employee Bond	$1,000
Associated Aviation Underwriters	12-23-96	General Aviation Liability including personal injury	$300,000
Chubb	1-1-97	Auto Liability and physical coverage and hired automobiles.	$1,000 Per Occurrence
Chubb	1-1-97	Garage keepers liability	$5,000
Chubb	1-1-97	Valet parking	$5,000
Chubb	1-1-97	Fleet physical damage	Values over $50

SCHEDULED AND COMMUTER AIRLINE SERVICE

At the end of 1995, major scheduled airlines serving the Twin Cities were:

- Air Canada
- America West
- American Airlines
- Business Express
- Continental Airlines
- Delta Airlines
- Express One International
- Frontier
- KLM
- Northwest Airlines
- Pacific International
- TWA
- United Airlines
- USAir
- Vanguard

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 1995 were:

- Bemidji Airlines
- ComAir
- Express I
- Great Lakes Aviation
- Mesaba Airlines

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

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