MINNEAPOLIS-ST.PAUL, MINNESOTA

COMPREHENSIVE ANNUAL FINANCIAL REPORT

YEAR ENDED DECEMBER 31, 1996

METROPOLITAN AIRPORTS COMMISSION

Minneapolis–St. Paul, Minnesota

Metropolitan Airports Commission

Comprehensive Annual Financial Report

Year Ended December 31, 1996

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

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***Commissioners*:**	
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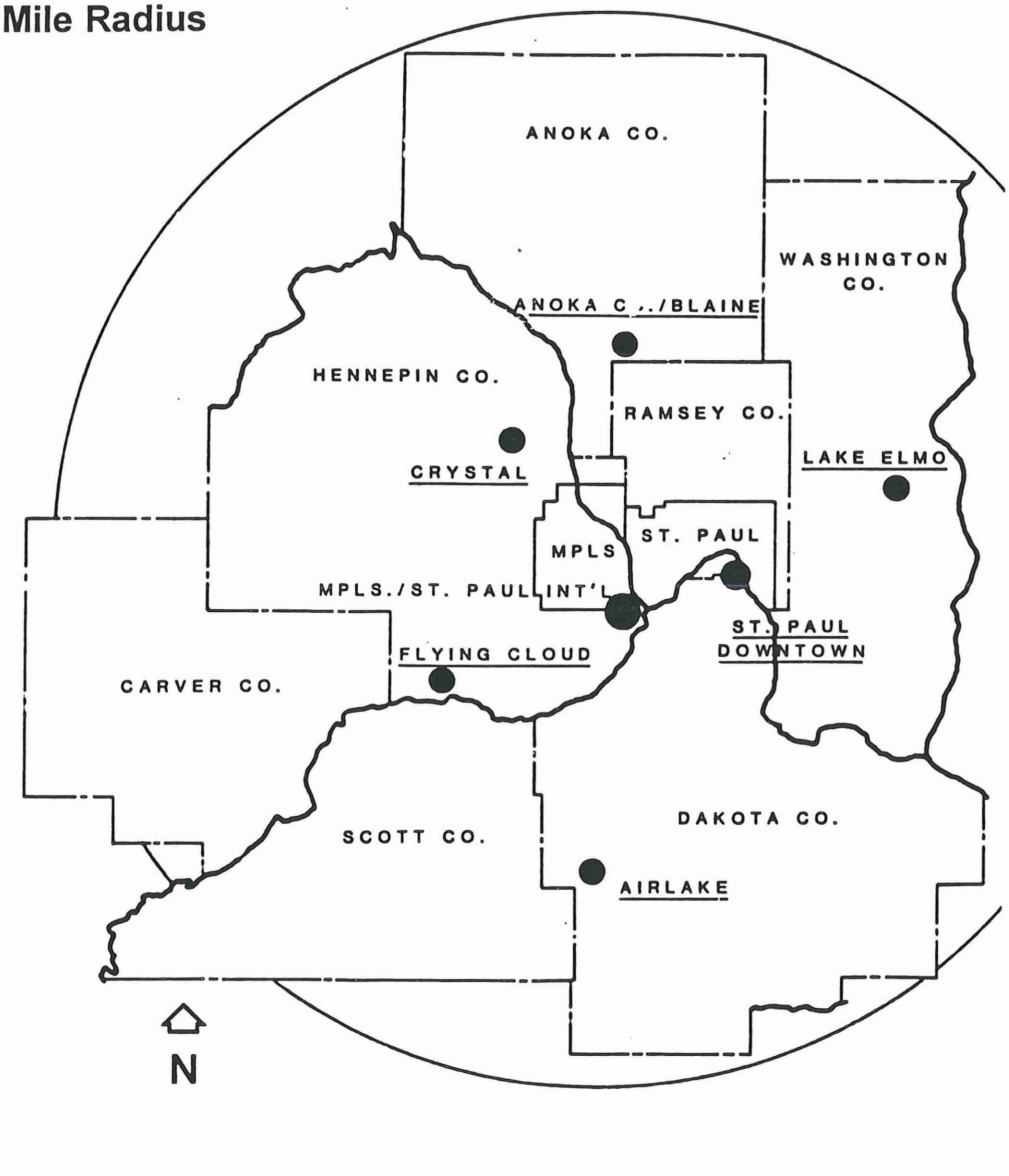
METROPOLITAN AIRPORTS COMMISSION

Introductory Section

Commission Jurisdiction 35 Mile Radius



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OFFICE OF EXECUTIVE DIRECTOR

March 3, 1997

To The Public:

The Comprehensive Annual Financial Report of the Metropolitan Airports Commission, Minneapolis-St. Paul, Minnesota, for the fiscal year ended December 31, 1996, 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 facilities at Airlake, Anoka County/Blaine, Crystal, Flying Cloud, and Lake Elmo are classified as minor use airports. Control towers are operational at Crystal, Anoka County/Blaine and Flying Cloud airports. The St. Paul Downtown airport serves as the primary corporate reliever and is classified as an intermediate airport.

MSP maintains three air-transport-type runways of concrete and bituminous concrete construction, including two northwest-southeast runways and a northeast-southwest runway. The runways provide operational facilities to cover varying wind conditions and are connected by a system of taxiways and aprons. In addition, the runways are equipped with high intensity runway lighting and instrument landing systems which permit continuous operation under almost all weather conditions. The northerly northwest-southeast runway is 8,200 feet long and 150 feet wide. The parallel northwest-southeast runway is 10,000 feet long and 200 feet wide. The northeast-southwest runway, which is provided to cover other wind conditions, is 11,000 feet long and 150 feet wide. The runways, in the opinion of the Commission engineers, have sufficient capacity and are of sufficient strength to permit the operation of the largest existing commercial aircraft. The boundaries of the airport provide sufficient clear area for runway approaches to meet the requirements of the FAA.

The airport complex at MSP consists of the Lindbergh Terminal building, the Hubert H. Humphrey International Charter Terminal, an underground parking garage, a seven-level parking structure which opened in mid 1980 and access roads. The Lindbergh Terminal building was opened for operation in 1962. Major renovations have occurred since then. An additional parking structure adjacent to the Lindbergh Terminal building was completed in 1989 and added 3,000 daily parking spaces.

The Lindbergh Terminal building at MSP is a large four-story structure, designed to permit enplaning passengers to enter the main building from the second level and deplaning passengers to leave through the basement. The main floor or first floor contain ticket counters and concession areas, the second floor contains airline and administrative offices, and the ground floor contains baggage handling facilities as well as other office areas. The basement level has access to ground transportation and valet parking. The seond and basement levels are connected to parking structures via either skyway system (second level) or tunnel (basement level). The concourse layouts have been designed to connect by enclosed bridges on the second floor, to four separate aircraft loading piers.

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 expires. In applying Government Accounting Standards Board (GASB) 14, the MAC and the State of Minnesota have agreed that 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 7.64% from 1995 levels. Total MSP passengers for 1996 were 27.3 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 1996, by enplaned passengers, serving MSP are shown below. The total enplaned passengers for 1996, including connecting, was 13,621,639.

Carrier	Enplaned Passengers	% of Total
Northwest	10,411,526	76.4%
United	476,746	3.5
Mesaba	361,774	2.7
American	343,043	2.5
Express I	282,523	2.1
	11,875,612	87.2%

Operations

Aircraft operations increased 4.32% in 1996. The increase in operations were primarily from the MAC's main carrier Northwest Airlines.

At the Reliever airports, operations increased 4.4% from 1995 levels. In 1995, harsher winter weather contributed to lower than average operations.

MAJOR INITIATIVES FOR THE YEAR

In 1995, the MAC adopted the following goals and objectives for 1996. They include:

- Dual Track Airport Planning Process
- Develop Integrated Noise Methodology
- Negotiate New Airline Use Agreement
- Active Participation in the Airport Rates and Charges Policy Development
- Continued Evaluation of the NWA Collateral
- Develop Strategic Planning Process
- Improve the Effectiveness of MAC's Employee Involvement Efforts
- Develop Method to Improve Decisions Based on Data
- Coordinate a Plan to Educate the Public of the Metro Area and Those Using Our Facilities
- Coordination of Marketing Plan with the Development of Facilities

The status of the goals is as follows:

DUAL TRACK PLANNING PROCESS

- The financial and economic analyses evaluating development of a new airport or expansion of MSP were completed in early 1996. These were used as input into the MAC/Metropolitan Council and legislative decision making process.
- During early 1996, a series of briefing papers and meetings were held jointly between the MAC and Metropolitan Council to provide information and coordinate a series of findings and conclusions between the two agencies. These activities resulted in a consistent recommendation from the two agencies to the Minnesota Legislature in March 1996.
- As part of the activities leading up to the agency recommendation to the Legislature, initial steps in the Federal/State environmental review process were completed. This process included public and agency review of a draft EIS. Comments received on the draft EIS were made available to members of the two agencies and used as part of the input into the development of a recommendation to the Legislature. With the legislative decision precluding development of a new airport, the environmental review process has continued approximately one year ahead of the original schedule and should be completed during 1997.

INTEGRATED NOISE METHODOLOGY

- The Noise Mitigation Committee was formed. Members included: surrounding communities, Northwest, MAC, Metropolitan Council, and MASAC (Metropolitan Airport Sound Abatement Council). MAC provided the Committee technical information from the following sources: the Airport Noise and Operations Monitoring System (ANOMS), the Geographic Information System (GIS) and a portion from the Global Positioning System (GPS).
- Effort to integrate MAC's off-airport noise impact information with operational and land use measures began in MASAC and was folded into the work program of the MSP Noise Mitigation Committee.
- Reports from this committee detail the membership, work program, recommendations and finally, Commission action on a comprehensive noise mitigation program for MSP and integrates all elements of noise mitigation in one document. This program, now adopted by MAC, will provide guidance for staff and the community for all current and future mitigation efforts.

NEGOTIATE NEW AIRLINE USE AGREEMENT

- The existing agreement was extended an additional year from 12/31/96 through 12/31/97 to accommodate the dual track decision. Negotiations are planned to begin during the second quarter of 1997.
- Staff is currently developing goals/objectives, support materials, schedules, and negotiating team.

AIRPORT RATES AND CHARGES

- MAC's involvement in "Airport Rates and Charges" issues was extremely limited in 1996. Staff has monitored several administrative hearings before the United States Department of Transportation involving specific airports as well as litigation challenging the existing policy in the D.C. Circuit Court of Appeals. However, there has been no broad scale review or reconsideration of the existing policy as adopted. We will continue to monitor this issue closely, especially in light of upcoming negotiations on the MSP Airport Use and Lease Agreement.

CONTINUED EVALUATION OF NWA COLLATERAL

- The valuation analysis was completed and reviewed by Commission in August 1996.
- Total collateral value increased by $6.7 million, from $540.7 to $547.4.
- Collateral value currently represents 176.1% of outstanding principal with a minimum of 145% required.
- Reliance on international route values in the collateral package was reduced from 39% to 28% of the total.

STRATEGIC PLANNING PROCESS

- During 1996, the MAC moved ahead with a strategic planning process with the goal of completion of a strategic plan for the organization in mid-1997. The Commission met on three occasions to help establish the mission, vision, critical success factors, core values of the MAC, strengths, opportunities, weaknesses, and threats. In addition, the Strategic Planning Advisory Group and staff spent significant time dealing with each of these areas in preparation for the Commission sessions.

IMPROVE THE EFFECTIVENESS OF MAC'S EMPLOYEE INVOLVEMENT EFFORTS

- MAC employees were involved in the initial stages of our strategic planning process which invited employee groups to identify MAC's strengths, opportunities, weaknesses, and threats, as well as core values of the organization. Information from this employee involvement will be integrated into MAC's overall strategic planning process.
- Various employees were involved with MAC's data driven goal to develop outcome based measurements for areas focusing on finance and safety. Other employees throughout the organization will become involved with this goal as it continues into 1997 and focuses on human resources and customer satisfaction.

- The Cross Functional Team completed its analysis of the 1996 employee survey and made recommendations to senior staff who issued an executive report to all employees. Action items focusing on improving management, leadership and working relationships will continue to be worked on through 1997 and be integrated into the strategic planning process.
- An analysis of teams currently operating is underway as part of our strategic planning process. This study will review all of our teams, their mission statements, membership, and team goals. The purpose of this review is to get a better handle on employee involvement, to improve our team process, to improve internal communications regarding teams, and to design a program to furnish feedback about teams to senior staff.

IMPROVED DECISIONS BASED ON DATA

- The objective is to develop a system wherein data is gathered, analyzed and used to set continuous improvement goals and measure their progress.
- The three-year action plan was completed in mid-1996 by a multi-departmental team of employees.
- Action One: Develop "Key Success Factors/Measures" for two of our six operating philosophies - Safety and Financial Responsibility. "Family of Measures" sets have been completed (12/20/96) by a Finance team and an organization wide Safety team. They are presently being finalized and data collection processes initiated.
- Action Two: Develop and facilitate the learning of a measurement systems process prototype. Deploy it with other functional teams in 1997.
- Integrating the data system with our new strategic plan and developing measures for human resource management and customer satisfaction are in process.

COORDINATE A PLAN TO EDUCATE THE PUBLIC

- The plan's scope includes various elements such as research, media relations, employee communications, crisis prevention and management, communications training, publications, video and speaking engagements, marketing support, and establishment of a web site.
- The plan's key messages are fourfold: 1) Provide safe, convenient and cost-effective service to the traveling public, shippers, tenants, and private pilots. 2) MAC is a responsive public agency, managed like a business. 3) Those who use the airports pay for them. No income, sales or property taxes are levied for MAC operations or improvements. 4) MSP has a major economic impact on the Twin Cities, the state and the region.
- An updated Guide to Roadways, Parking, the Lindbergh and Humphrey Terminals, and Ground Transportation was produced to reflect new service at MSP and the completion of new facilities for international arrivals in the Lindbergh Terminal. Informational brochures in several foreign languages are being developed.
- Public Affairs has continued to expand its still photo and video library for use in public presentations, publications and advertising. Updated video has been used on community television in the Twin Cities as conditions change and new facilities come on-line.

MARKETING FOR INTERNATIONAL FLIGHTS AS RELATED TO AIRPORT FACILITIES

The marketing efforts during 1996 have been closely coordinated with the airport facilities being constructed and planned. New facilities constructed at MSP which relate to international and domestic marketing include:

- New International Arrivals Facility on the Gold Concourse (November 1996).
- Extension of runway 4/22 to 11,000 feet to facilitate takeoff of fully loaded and fueled wide body aircraft to Europe and Asia (October 1996).
- Completion of new FAA Air Traffic Control Tower (January 1997) and Honeywell installation of Global Positioning System (GPS) (April 1997).
- Completion of Ground Transportation project (July 1996) and new elevators (January 1997).
- Creating a Perishable Goods Center with refrigeration and fumigation facilities to facilitate receiving cut flowers and other produce on direct international flights.

Results:

- International flights have increased, from 61 per week during the first quarter of 1995, to 225 per week currently.
- International destinations have also increased, from 15 to 22, including Osaka, Japan, and six cities in Mexico.
- All major cities in Canada from Montreal west are now served out of MSP.
- Three low cost airlines operate from MSP:
- Charter flights by Sun Country and ATA fly more than 250 low cost flights per week during the winter season.
- The regional economy was increased by at least $800 million from passengers and cargo arriving on international flights.

Summary:

There is no question but that the completion of the new International Arrivals Facility in the Lindbergh Terminal will make MSP one of the more convenient airports for international passengers to enter the U.S., whether to visit Minnesota or connect to other U.S. or Canadian cities. The extension of runway 4/22 to 11,000 feet will enable fully loaded and fueled wide body aircraft to safely depart under any weather conditions for destinations around the world without requiring a fuel stop, or the off-loading of cargo or passengers.

The Commission and staff developed a series of five overall objectives for 1997. These objectives are organizational and are similar to past practice. With the development and implementation of the Strategic Planning process in 1997 it is anticipated that the goals/objectives process for 1998 will be:

- Measurable
- Incorporated into the budget process.
- Developed at the Service Center/Department level.
- Related to the overall organizational goals/objectives.

The five objectives for 1997 are:

MSP DEVELOPMENT

Objective: To prepare an implementation plan for future MSP development.

During the 1996 Legislative session, both the House and Senate took action on the recommendation related to the Dual Track Airport Planning Process. The action taken by the Legislature directs the MAC to implement the Long Term Comprehensive Plan for MSP.

Based on this action, the Commission should determine those activities necessary to ensure that MSP serves the air transportation needs of the Twin Cities Region, the State and the Upper Midwest. This would include a comprehensive implementation plan for the proposed development at MSP including the timing of implementation of the 2010 Long Term Comprehensive Plan, potential staffing changes, marketing of the airport (international, cargo, domestic scheduled), concessions plan implementation, and the airline lease agreement.

CUSTOMER SERVICE AND SATISFACTION

Objective: It is the goal of the organization to effectively manage the relationship with customers and use information gathered from them to improve customer relationships and decision making.

During 1995, the MAC participated in a pilot program in the public sector for the Minnesota Quality Award (MQA). In the follow up report from the MQA a number of areas that require improvement were identified. These include the development of a systematic approach for defining customer expectations, improving the process for gathering customer data, and the determination of short and long term customer requirements. In addition, the need for a coordinated process for determining customer satisfaction throughout the organization and the establishment of comparative measures to other airports and world-class service organizations were identified. During 1997, efforts will be directed towards addressing the concerns raised by the MQA in this area.

STRATEGIC PLANNING IMPLEMENTATION

Objective: To refine the MAC Strategic Plan to reflect changing conditions.

During 1996–1997, a Strategic Plan for the Metropolitan Airports Commission will be developed. It is likely that implementation will take place during 1997. As changes occur over the next year, and as the Commission develops the implementation plan for MSP, the Strategic Plan should be refined to incorporate these changes. Included in this effort will be the development of an integrated process for the continuation of the Strategic Planning process.

COST MANAGEMENT

Objective: It is the goal of the organization to provide required services to our customers in a cost effective and efficient manner.

Monitoring and controlling the cost of services has always been important. This is reflected in the fact that the airline cost per enplanement and operating cost per enplanement compare favorably to the airport industry. It will increase in importance as we begin to expand facilities at the existing airport in order to meet the future aviation needs of the region. As a result, during 1997 the organization will review major categories of expense to determine the most cost effective and efficient method of providing services to our customers.

PERFORMANCE PLANNING AND MANAGEMENT

Objective: To develop an agency-wide management philosophy and process that integrates all major planning and management components.

MAC has in place, or is working on, many of the elements of a performance planning and management process through its efforts in continuous improvement. The 1989 Organizational Effectiveness Study, the 1995 Minnesota Quality Award process and the recommendations of the Cross Functional Team identify the need to develop a process to facilitate improved linkage among key management elements such as leadership, strategic planning, budgeting, performance measurement, and staff development.

Following reorganization, which is designed to improve program alignment, a strategic focus for 1997 should be the development of a formal performance planning and measurement process to better integrate departmental goals with organizational strategies. Performance management is a forward moving philosophy and process through which short and long term organizational and individual goals can be identified, planned for, financed, and measured. To fully develop and implement this system will require a minimum of three years.

POST-RETIREMENT MEDICAL BENEFITS

In August 1996, the Commission approved the recording and funding of the post-retirement medical benefits. The cost of this 20 year program is estimated at $2,375,000 per year, beginning January 1997. Slightly over 50% of this costs will be reimbursed through airline rates and charges.

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 budget for the Commission is prepared on an accrual basis. Budget packages containing personnel information, equipment requests and other operational expenses are distributed to department supervisors in May. Information returned to the Finance Department by the department supervisors is reviewed in June. During July, budgeted expense is completed and the revenue portion of the budget is started. The revenue portion of the budget is based upon the lease agreement with the airlines and various other lease agreements with concessionaires. Because much of what is needed for revenue is determined by expense projections, revenue is calculated after expense.

During September presentations are prepared for the Management and Operations Committee and senior staff. Also, supporting schedules are completed. By mid to late September budget packages are distributed to the airlines and the Management and Operations Committee. The month of October is reserved for staff, commissioners and the airlines.

A commissioner seminar on the Operating Budget is held in early November. With the recommendation from the Management and Operations Committee and the informational meetings held, approval is requested at the November full Commission meeting.

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

General

The Commission has entered into, and receives payment under, different agreements with various air carriers and other parties, including the airline lease agreement relating to landing fees and the leasing of space in terminal buildings, other building leases regarding the leasing of cargo and miscellaneous hangar facilities, concession agreements relating to sale of goods and services at the airport and specific project leases relating to the construction of buildings and facilities for specific tenants.

Airline Lease Agreement

The airline lease agreement relates to the use of the airport for air carrier operations, the leasing of space within the terminal buildings of the airport and the establishment of landing fees. Except for rental amounts based primarily upon the square feet rented, the terms, conditions and provisions of each airline lease agreement are substantially the same.

In the airline lease agreement, the Commission has leased to each particular air carrier a certain specified square footage portion of the terminal area in the airport. Annual rents are computed on the basis of various charges per square foot for various types of space within the existing terminal area and, in certain cases, the costs of certain improvements of the existing terminal area. The airline lease agreement also provides that each air carrier is required to pay a basic landing fee. The landing fee is calculated by dividing the cost of operations, maintenance and improvements at the air field (less one-half of the new airport planning costs through 1996) by total landed weight of aircraft utilizing the airport. The airline lease agreement also requires each air carrier leasing gate space at Lindbergh Terminal to pay an aircraft parking ramp fee that is computed on a lineal foot basis. The ramp fee includes the cost of operations, maintenance and improvements to the ramp area surrounding the terminal building gates. The current agreement with the airlines calls for a noise surcharge for off-airport noise projects. Projects included here currently were those for insulation replacement of windows and installation of air conditioning at seven schools.

For the year ended December 31, 1996, the aggregate rentals received by the Commission pursuant to the airline lease agreement were approximately $32,726,000. The annual rentals due under each lease may be adjusted each year to reflect actual costs of the airport. The airline lease agreement will remain in effect until its expiration date of December 31, 1997. The Commission is in the process of developing strategies for negotiation for a new agreement during 1997.

Other Building and Miscellaneous Leases

The other building and miscellaneous leases relate to rentals and other fees associated with the Hubert H. Humphrey International Charter Terminal, miscellaneous hangar facilities, office rentals for tenants located in the West Terminal area, and non-airline tenants in the Lindbergh Terminal. For the year ended December 31, 1996, the aggregate annual rentals under these leases were approximately $7,345,000.

Specific Project Leases

The Commission has constructed various buildings and facilities for specific tenants including a fueling facility for Butler Aviation, and hangars and office buildings for Northwest Airlines and Mesaba Airlines. The specific project leases relate to the use of these buildings and facilities by Butler Aviation, Northwest Airlines and Mesaba Airlines.

If the construction of a facility is financed by bonds issued by the Commission, the lessee is required to pay annual lease payments equal to the debt service requirements on the bonds issued to construct the facility, due in the following year. The lease remains in effect until the total debt service on the bonds has been paid. Bond funds were used to finance the United States Post Office, certain facilities for Northwest Airlines and the extension of the Green Concourse for the former Republic Airlines.

If the construction of a facility is financed from funds the Commission has on hand, the lessee is required to make lease payments equal to the debt service requirements which would have been required if bond funds were used. Commission funds were used to finance facilities for Butler Aviation and certain facilities for Northwest Airlines and the extension of the Gold Concourse and hangar and office space for Mesaba Airlines.

For the year ended December 31, 1996, the aggregate lease payments paid to the Commission under specific project leases were approximately $43,389,000.

Concession Agreements

The Commission has entered into separate concession agreements with various firms to operate concessions inside the terminal buildings at the airport including, among others, food and beverage services, newsstands, advertising, amusements/games, insurance, personal service shops, and telephones. For the year ended December 31, 1996, the aggregate fees paid to the Commission under the existing inside concession agreements were approximately $7,460,000. Such fees are computed on the basis of different percentages of gross sales for the various types of concessions, with the larger concessions guaranteeing a minimum payment each year.

Concession agreements for rental car agencies require such concessionaires to pay fees based on a percentage of their gross revenues and special charges such as parking fees and a per-square-foot land rental. The Commission also has a management contract with a firm for the operation of the airport parking lot and garage facilities. For the year ended December 31, 1996, the aggregate fees paid to the Commission under the existing rental car agreements and parking lot management contract were approximately $38,756,000. Of this amount, parking revenue was approximately $30,291,000 and auto rental revenue was approximately $8,465,000.

Miscellaneous and Reliever Airports

In addition to the above agreements, the Commission enters into various other leases and agreements. These include reliever airport tenant leases, utility charges, ground space rentals, office rentals for commuter airlines and concessionaires, computer and general aviation fees, taxicab licenses, and other miscellaneous amounts. For the year ended December 31, 1996, the revenues from these agreements were approximately $9,619,000.

Operating Revenue

Operating revenues for the MAC come entirely from user fees that are established for various services and facilities that are provided at Commission airports. While the Commission has the power to levy taxes to support its operations, it has adopted policies to provide adequate revenues for the system to operate since 1969 without general tax support. Revenue sources have been grouped into the following categories in the Statement of Revenues and Expenses:

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 1996 MAC operating revenues increased by 20.6% to $105,232,000 from $87,256,000 in 1995. Changes in major categories are summarized below (dollars in thousands):

	1996		1995		Dollar	Percent
	$	%	$	%	Change	Change
Airline Rates & Charges	$ 35,647	33.88%	$35,193	40.33%	$ 454	1.29%
Concessions	47,872	45.49	41,838	47.95	6,034	14.42
Other Revenue:						
Rentals	8,884	8.44	6,962	7.98	1,922	27.61
Operating Lease Settlement	9,326	8.86	0	0.00	9,326	
Utilities	1,584	1.51	1,271	1.46	313	24.63
Miscellaneous	1,919	1.82	1,992	2.28	(73)	(3.66)
Operating Revenues	$105,232	100.00%	$87,256	100.00%	$17,976	20.60%

Concessions increased $6,034,000 or 14.42%. The majority of the increase from 1995 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 an October 1995 price increase and an increase in average length of stay.

Rentals increased primarily as a result of an increase in the ground rental rates for certain tenants. The remainder of the increase is in the leasing of areas that were vacant in prior years and a full years' recognition of rental revenue of a building lease agreement entered into in late 1995.

Operating lease settlement – see Note A to the financial statements.

Utilities increased 24.6% as a result of an increase in consumption in steam and chilled water used to heat and cool the Lindbergh Terminal.

Operating Expense

In 1996, MAC operating expenses increased by 8.43% to $81,232,000 from $74,917,000 in 1995. Changes in major categories are summarized below (dollars in thousands):

	1996		1995		Dollar	Percent
	$	%	$	%	Change	Change
Salaries/Wages/Employee Benefits	$26,341	32.43%	$24,360	32.52%	$1,981	8.13%
Administrative Supplies & Expenses	1,028	1.27	1,003	1.34	25	2.49
Professional Services	4,040	4.97	5,705	7.62	(1,665)	(29.18)
Utilities	6,106	7.52	5,354	7.15	752	14.05
Operating Services	8,705	10.72	8,276	11.05	429	5.18
Maintenance	8,007	9.86	7,236	9.66	771	10.66
Depreciation	26,528	32.66	22,656	30.24	3,872	17.09
Other	477	0.57	327	0.42	150	45.87
Operating Expenses	$81,232	100.00%	$74,917	100.00%	$6,315	8.43%

Salaries, wages and employee benefits increased 8.13% primarily as a result of additional overtime/double time worked due to heavier than normal snowfalls and the occurrence of these snowfalls at night and on weekends.

Professional Services decreased primarily as a result of the completion of the dual track planning process in March 1996.

Maintenance increased over 1995 levels as a result of heavier than normal snow amounts.

Depreciation increased by 17.09% as a result of approximately $163 million of airports and facilities were completed in 1996.

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 (in thousands):

October 10, 1997	$85,073
October 10, 1998	$83,827
October 10, 1999	$80,612
October 10, 2000	$78,816
October 10, 2001	$80,078

Statutory authority for issuing bonds is obtained from the Minnesota State Legislature. Authorization as of December 31, 1996, permits the issuance of an additional $55 million of bonds. In 1996, the Commission issued $5.5 million in tax-exempt General Obligation Revenue Bonds to advance refund General Obligation Revenue Bond Series 5. As a result of the refunding, the Commission reduced its total debt service requirements by $1,150,586 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 $891,902. These Bonds received AAA/Aaa ratings from Standard & Poor's, Moody's and Fitch's rating services.

CAPITAL PROJECTS

Each year the Commission 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 five years is adopted. These serve as a basis for determining funding requirements and other operational planning decisions. Certain projects which have metropolitan significance are also submitted to the Metropolitan Council for review and approval.

Funds required for the completion of all capital projects come from five sources: a) General Obligation Revenue Bonds, b) Revenue Bonds, c) state or federal grants, d) internally generated funds from operations, and e) Passenger Facility Charges (PFCs).

PFCs are fees imposed on enplaned passengers by airport authorities for the purpose of generating revenue for airport projects that increase capacity, increase safety, or mitigate noise impacts. On June 1, 1992, the Commission 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 February 2, 1999. During 1995, the Commission received authority to collect a $3.00 PFC under a third application beginning July 1, 1996 to finance projects totalling $32.7 million. In order to limit the cost of facilities at the reliever airports, the Commission uses only grant funds or retained earnings to finance all construction projects at these airports. Capital improvements at the airport have been financed from all sources as appropriate with the exception of Revenue Bonds, which are new 1996 legislation.

The Commission may issue revenue bonds to fund airports and airport navigation facilities, other capital improvements at airports managed by the Commission, noise abatement and natural resource protection measures, transportation and parking improvements related to airports and to refund any outstanding obligations of the Commission. These bonds will be secured with available revenue in accordance with generally accepted public financial practices under a resolution of the Commission or trust indenture for the bonds. They will not be secured by the full faith and credit of the Commission or a pledge of the taxing authority of the Commission.

Anticipated projects planned for 1997, 1998 and 1999, as well as the extended period 2000-2003, 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 [in thousands]):

CAPITAL IMPROVEMENT PLAN SUMMARY (CIP)
($ = 000)

	1997	1998	1999	2000-2003	Total 1997-2003
Minneapolis/St. Paul Int'l					
Field & Runway	$ 31,580	$116,120	$103,650	$198,350	$449,700
Environmental	28,960	27,760	24,260	13,300	94,280
Self-Liquidating	0	0	0	0	0
Landside	98,900	159,800	28,600	8,200	295,500
Total Minneapolis/St. Paul Int'l	$159,440	$303,680	$156,510	$219,850	$839,480
Reliever Airports					
St. Paul	$ 3,300	$ 3,400	$ 500	600	$ 7,800
Flying Cloud	6,820	11,610	6,100	700	25,230
Crystal	450	300	300	600	1,650
Anoka	900	0	200	2,350	3,450
Lake Elmo	250	250	700	2,300	3,500
Airlake	1,250	100	100	0	1,450
Total Reliever Airports	$ 12,970	$ 15,660	$ 7,900	$ 6,550	$ 43,080
Total All Facilities	$172,410	$319,340	$164,410	$226,400	$882,560

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 1996, all of the MAC's investments were being held by a third party agent of the Commission. Total investment earnings for 1996 were $9,285,000. The average yield on investments during the year was 6.06%.

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. The MAC or its tenants, within limits and with deductibles approved by the MAC, maintain fire insurance coverage on all buildings at the airport. Contractors and lessees are required to carry certain amounts of insurance. A schedule of insurance in force at December 31, 1996, can be found in the Statistical section of this report. 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, 1996 and 1995, 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 1996, 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, 1995. For the eleventh 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 ninth consecutive year the GFOA Award For Distinguished Budget Presentation for its Annual Operating Budget for 1996. 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.

In 1996, the MAC was awarded the Certification of Excellence Award by the Municipal Treasurers' Association of the United States and Canada (MTA US&C) for the MAC's investment policy. The MAC met MTA US&C criteria deemed as necessary components of an investment policy.

ACKNOWLEDGMENTS

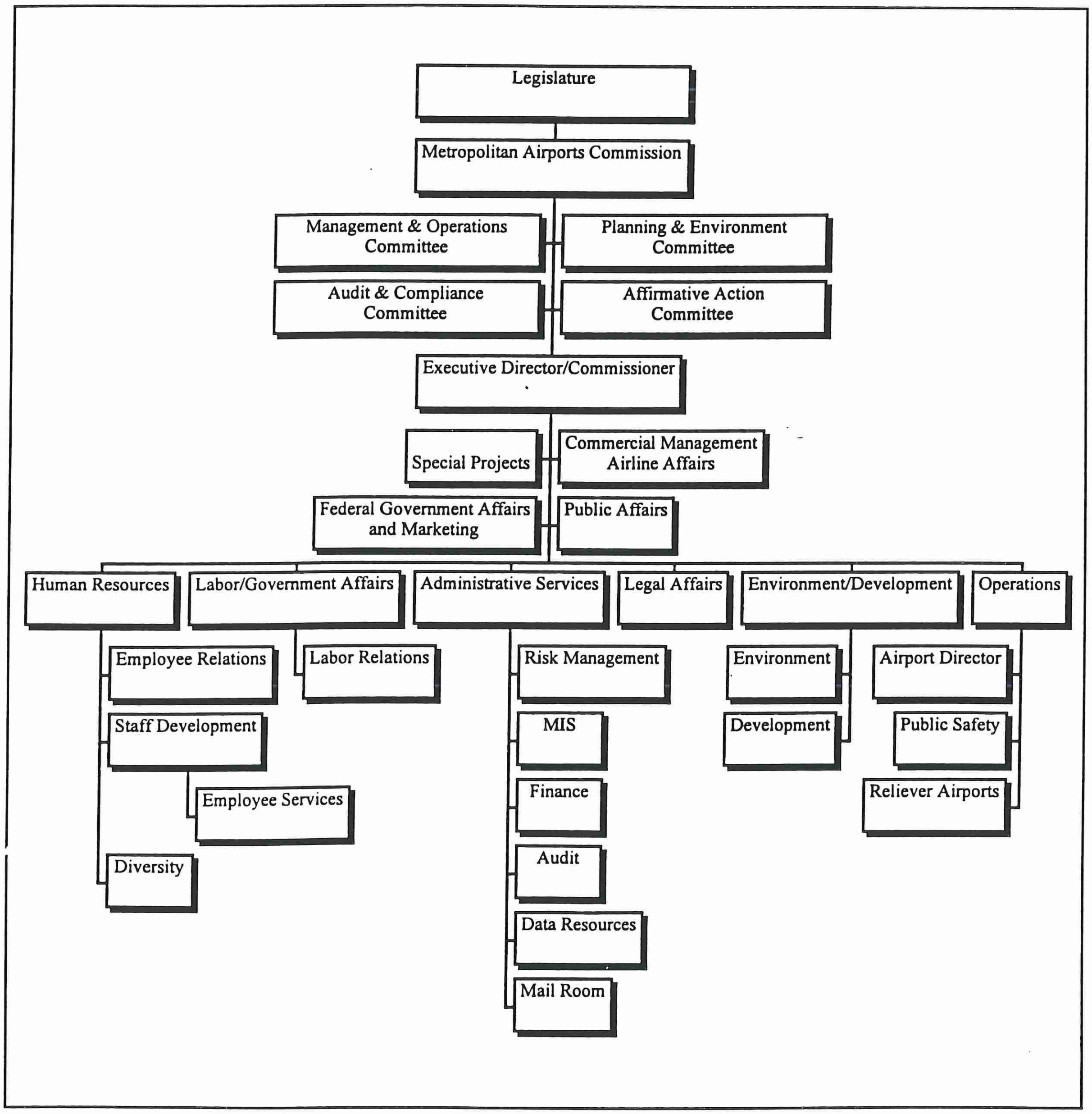
The preparation of the Comprehensive Annual Financial Report on a timely basis was made possible by the dedicated service of the entire staff of the Finance Department. Each member of the department has our sincere appreciation for the contribution made in preparation of this report.

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	Stephen L. Busch
Executive Director	Director of Finance

ORGANIZATION CHART



MINNEAPOLIS-ST.PAUL, MINNESOTA

COMPREHENSIVE ANNUAL FINANCIAL REPORT

YEAR ENDED DECEMBER 31, 1996

METROPOLITAN AIRPORTS COMMISSION

Financial Section

Deloitte & Touche LLP

400 One Financial Plaza
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, 1996 and 1995 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, 1996 and 1995 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 3, 1997 on our consideration of the Commission's internal control structure and a report dated March 3, 1997 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" and 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 3, 1997
Minneapolis, Minnesota

BALANCE SHEETS

(Dollars in Thousands)	December 31, 1996	December 31, 1995
ASSETS		
Cash and Investments – Note B:		
Unrestricted:		
Cash and Cash Equivalents	$ 3,658	$ 1,640
Investments	21,154	22,551
	24,812	24,191
Restricted – Note C:		
Cash and Cash Equivalents	15	19
Investments	262,195	281,962
	262,210	281,981
	287,022	306,172
Accounts receivable	3,706	6,038
Government grants in aid of construction receivable – Note A	376	4,726
Restricted Asset:		
Passenger facility charge receivable – Note A	2,650	4,126
Airports and Facilities – Notes A, E, F, and J	494,558	385,423
Leases receivable – Notes A and I	416,315	409,075
Deferred compensation benefits – Note M	8,464	6,577
Other	131	210
TOTAL ASSETS	**$1,213,222**	**$1,122,347**
LIABILITIES AND FUND EQUITY		
Accounts payable and accrued expenses	$ 6,417	$ 5,668
Security lending agreement	4,787	6,433
Payables from restricted assets:		
Debt Service – Note F	88,927	91,150
Construction	18,664	13,860
Other	1,865	1,862
Security lending agreement	64,670	71,367
Employee compensation and payroll taxes	3,517	3,252
Deferred revenue – Note A	48,728	49,482
Deferred compensation benefits – Note M	8,464	6,577
Bonds payable – Note F	329,730	340,722
TOTAL LIABILITIES	**$ 575,769**	**$ 590,373**
Commitments and Contingencies – Notes P and Q		
FUND EQUITY – Note D		
Contributed capital – Notes A and D	$ 146,627	$ 122,834
Retained Earnings:		
Reserved – Note C	90,734	107,868
Unreserved	400,092	301,272
TOTAL FUND EQUITY	**637,453**	**531,974**
TOTAL LIABILITIES AND FUND EQUITY	**$1,213,222**	**$1,122,347**

See notes to financial statements.

STATEMENTS OF REVENUES AND EXPENSES AND CHANGES IN RETAINED EARNINGS

(Dollars in Thousands)	December 31, 1996	1995
OPERATING REVENUES		
Airline Rates and Charges	$ 35,647	$ 35,193
Concessions	47,872	41,838
Other Revenues:		
Rentals	8,884	6,962
Operating Lease Settlement – Note A	9,326	0
Utilities	1,584	1,271
Miscellaneous	1,919	1,992
TOTAL OPERATING REVENUES	**105,232**	**87,256**
OPERATING EXPENSES		
Salaries, Wages and Employee Benefits	26,341	24,360
Administrative Supplies and Expenses	1,028	1,003
Professional Services	4,040	5,705
Utilities	6,106	5,354
Operating Services	8,705	8,276
Maintenance	8,007	7,236
Depreciation	26,528	22,656
Other	477	327
TOTAL OPERATING EXPENSES	**81,232**	**74,917**
OPERATING INCOME	**24,000**	**12,339**
OTHER REVENUES (EXPENSES)		
Interest Income	45,282	44,946
Gain on Sale of Buildings	418	0
Passenger Facility Charge Revenue	35,892	32,286
Bond Interest Expense	(31,788)	(32,945)
NET INCOME	**73,804**	**56,626**
ADD: Depreciation of facilities provided by government grants	7,882	6,559
INCREASE IN RETAINED EARNINGS	**81,686**	**63,185**
Retained Earnings–Beginning of Year	409,140	345,955
RETAINED EARNINGS–END OF YEAR	**$490,826**	**$409,140**

See notes to financial statements.

STATEMENTS OF CASH FLOWS

Increase (Decrease) in Cash and Cash Equivalents

(Dollars in Thousands)

	December 31, 1996	December 31, 1995
Cash flows from operating activities:		
Operating income	$ 24,000	$ 12,339
Adjustments to reconcile net operating income to net cash provided by operating activities:		
Depreciation	26,528	22,656
Operating lease settlement	(9,326)	0
Change in assets and liabilities:		
Accounts receivable	2,332	(3,239)
Other assets	79	7
Accounts payable	749	917
Other restricted liabilities	3	205
Employee compensation and payroll taxes	265	(688)
Deferred revenue	(754)	248
NET CASH PROVIDED BY OPERATING ACTIVITIES	**43,876**	**32,445**
Cash flows from capital and related financing activities:		
Payments for airports and facilities	(135,063)	(59,133)
Proceeds from disposal of airports and facilities	547	111
Proceeds from bond issuance	5,505	0
Receipt of lease payments	7,718	7,261
Receipt of passenger facility charges	37,368	32,222
Payments on bonds	(18,775)	(14,440)
Interest paid on bonds	(33,290)	(32,006)
Receipts of government grants in aid of construction	36,025	18,424
NET CASH USED IN CAPITAL AND RELATED FINANCING ACTIVITIES	**(99,965)**	**(47,561)**
Cash flows from investing activities:		
Purchase of investment securities	(340,463)	(283,520)
Proceeds from maturities of investment securities	353,284	255,258
Interest income	45,282	44,946
NET CASH PROVIDED BY INVESTING ACTIVITIES	**58,103**	**16,684**
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**2,014**	**1,568**
Cash and cash equivalents–Beginning of year	1,659	91
CASH AND CASH EQUIVALENTS–END OF YEAR	**$ 3,673**	**$ 1,659**

See notes to financial statements.

For the years ended December 31, 1996 and 1995

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. The Governor of the State of Minnesota appoints thirteen Commissioners. The Mayors of Minneapolis and St. Paul also have seats on the Commission with the option to appoint a surrogate to serve in their place. 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) No. 14, the State of Minnesota and the Commission have agreed that 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. The Commission has applied GASB Statement No. 20, "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting." Under GASB Statement No. 20, the Commission applies all applicable GASB pronouncements and all FASB Statements and Interpretations, Accounting Principles Board (APB) Opinions and Accounting Research Bulletins (ARB) issued on or before November 30, 1989, unless they conflict with or contradict GASB pronouncements.

Budgeting Process

As required by Minnesota State Statutes, the Commission adopts an annual operating and capital expenditures budget for purposes of determining 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. This transaction occurred in 1943, the fair market value on the land can not be determined. However, it is the Commission's belief that the difference between the cost and the fair market value in 1943 is immaterial. 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 (PFCs). PFCs 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. During 1995, the Commission received authority to collect a $3.00 PFC under a third application beginning June 1, 1996 to finance projects totalling $32.7 million. The second and third applications will expire on February 28, 1999.

PFCs are recorded as non-operating revenue at the time of ticket sale.

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.

Deferred Loss on Refundings

The Commission defers recognition of losses incurred with refundings according to GASB Statement No. 23. The losses incurred in refundings will be amortized on a straight line basis over the lesser of the original remaining life of the original bonds or the life of the new bonds.

Operating Lease Settlement

The 1996 financial statements reflect the financial impact of an extension of an operating lease agreement with Northwest Airlines. Previously this lease expired on June 30, 1991. The new lease agreement calls for an escalation of rent payments from $1,000,000 per year to $4,575,000 per year in 2002. Because the amount of the lease payments and term was not determinable until finalization of the lease agreement, the Commission had not previously recognized rent revenue. The amounts recorded in 1996, thus represents the rent as computed on a straight line basis over the ten year term of the lease from the beginning of the lease term in 1991 through 1995.

Reclassifications

Certain prior year amounts have been reclassified to conform with the 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):	12/31/96	12/31/95
Financial statement balances	($1,334)	($ 492)
Bank balances	$5,907	$1,338

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% plus accrued interest. Securities on loan at year end are classified 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 securities authorized by Minnesota statutes, generally with maturities between one week and three months.

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 in the highest category by at least two nationally recognized rating agencies, 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, 1996 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				
Type of Security	**1**	**2**	**3**	**Total**	**Market Value**
December 31, 1996					
U.S. Government and Agencies	$193,949	$ 0	$ 0	$193,949	$194,015
Repurchase Agreements	30,243	0	0	30,243	30,243
Commercial Paper	56,963	0	0	56,963	56,859
Municipal Bonds	1,815	0	0	1,815	1,828
	$282,970	$ 0	$ 0	282,970	282,945
Investments – Not Categorized					
Deferred Compensation				8,464	8,464
Mutual Funds				5,386	5,386
Cash on Hand				(1,334)	0
Total Cash and Investments				$295,486	$296,795

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 to the end of the second following year. 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):

	12/31/96	12/31/95
Restricted Assets		
Cash and Investments		
Debt service	$ 88,927	$ 91,150
Construction:		
Regular	55,829	48,352
Special	50,899	69,245
Other	1,885	1,867
Security lending transactions	64,670	71,367
Passenger Facility Charge Receivable	2,650	4,126
TOTAL RESTRICTED ASSETS	**264,860**	**286,107**
Less payables to be paid from restricted cash and investments:		
Debt service	88,927	91,150
Construction	18,664	13,860
Other	1,865	1,862
Security lending transactions	64,670	71,367
	174,126	178,239
RESERVED RETAINED EARNINGS	**$ 90,734**	**$107,868**

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, 1995	**$106,281**	**$ 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**
Government grants in aid of construction	31,675	0	0	31,675
Net income for the year	0	0	73,804	73,804
Depreciation of facilities provided by government grants	(7,882)	0	7,882	0
Net change in restricted assets and liabilities	0	(17,134)	17,134	0
Balance December 31, 1996	**$146,627**	**$ 90,734**	**$400,092**	**$637,453**

NOTE E
AIRPORTS AND FACILITIES

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

Airports and Facilities	Balance January 1, 1996	Additions	Transfers In (Out)	Deductions	Balance December 31, 1996
Land	$ 20,274	$ 48	$ 24,472	$ 0	$ 44,794
Airport improvements and buildings	528,774	83	163,131	(379)	691,609
Moveable equipment	28,080	2,742	602	(908)	30,516
Projects-in-progress	90,139	132,919	(188,205)	0	34,853
TOTAL AIRPORTS AND FACILITIES	**667,267**	**135,792**	**0**	**(1,287)**	**801,772**
Accumulated depreciation	(281,844)	(26,528)	0	1,158	(307,214)
NET AIRPORTS AND FACILITIES	**$385,423**	**$109,264**	**$ 0**	**$ (129)**	**$494,558**

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**

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.

The Commission has statutory authority for issuing general obligation revenue bonds. The present statutory general obligation bonding limit as of December 31, 1996, would permit the issuance of an additional $55 million of general obligation revenue bonds.

Bonds payable, due serially (in thousands):

	Issue Date	Original Amount	Final Payment In	Outstanding as of December 31 1996	1995
Airport Improvement Bonds:					
Series 14 – 3.5 to 4.0%	7-1-67	17,000	1997	$ 960	$ 1,885
Series 15 – 3.5 to 4.0%	7-1-67	1,000	1997	60	115
Series 16 – 4.25 to 4.5%	1-1-68	16,000	1998	1,900	2,790
Series 20 – 4.5 to 5.0%	10-1-72	5,000	2002	1,740	1,980
Series 22 – 2.6 to 3.85%	2-1-94	5,625	1999	3,510	4,580
				8,170	11,350
General Obligation Revenue Bonds:					
Series 2 – 4.25 to 5.2%	12-1-77	10,000	2002	3,750	4,275
Series 3 – 5.2 to 5.75%	1-1-79	15,000	2000	4,500	5,475
Series 5 – 8.9 to 9.1%	1-1-81	24,500	2002	9,000	10,500
Series 7 – 7.80%	8-1-88	51,150	2015	45,550	46,650
Series 8 – 4.25 to 6.60%	2-1-92	45,000	2011	40,150	41,850
Series 10 – 3.60 to 5.00%	5-1-93	29,025	2006	22,140	24,435
Series 11 – 4.60 to 5.30%	10-1-94	5,615	2002	5,615	5,615
Series 12 – 4.20 to 4.55%	11-1-96	5,525	2002	5,525	
Special NWA Financing Secured by Facilities, Parts, Routes, Simulators:					
Series 9 – 8.60 to 8.95% – Note Q	4-1-92	270,000	2022	270,000	270,000
				406,230	408,800
TOTAL BONDS OUTSTANDING				**414,400**	**420,150**
Net unamortized discount				(712)	(825)
Deferred loss on refunding				(939)	(993)
Accrued interest due				16,422	16,650
				429,171	434,982
Less:					
Prepayments				(10,514)	(3,110)
Payable from restricted assets—debt service				(88,927)	(91,150)
TOTAL BONDS PAYABLE				**$329,730**	**$340,722**

Future debt service requirements after December 31, 1996 are as follows (in thousands):

Year/s	Airport Improvement Bonds	General Obligation Revenue Bonds	Total Bonds Retired Outstanding	Interest	Total Principal & Interest
1997	$ 3,320	$ 16,595	$ 19,915	$ 32,481	$ 52,396
1998	2,400	7,950	10,350	31,608	41,958
1999	1,505	9,885	11,390	31,054	42,444
2000	300	9,975	10,275	30,454	40,729
2001	315	8,985	9,300	29,915	39,215
2002-2022	330	352,840	353,170	367,499	720,669
	$ 8,170	$406,230	$414,400	$523,011	$937,411

Of the future debt service requirements listed above, $336,911,000 of principal and $493,473,000 of interest are leased under agreements with Northwest Airlines, Inc. The General Obligation Revenue Bond Series 9 represent $270,000,000 of principal and $450,159,000 of interest of the Northwest Airlines debt service requirements. These lease agreements require the lessee to make annual payments equal to the debt service requirements of the bonds.

As mentioned in Note Q, in respect to the General Obligation Revenue Bond Series 9, Northwest Airlines is required to maintain collateral. The value of the collateral is determined by periodic independent appraisals. The value (based upon use of the assets by an airline) of the collateral must be at least 145% (reducible to 135% under certain circumstances) of the prinicipal amount of the General Obligation Revenue Bond Series 9.

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 November 1, 1996, the Commission issued $5,525,000 General Obligation Revenue Bond Series 12 to refund General Obligation Revenue Bond Series 5. General Obligation Revenue Bond Series 5 matures on January 1, 2002, and will be called on January 1, 1997. As a result of the refunding, the Commission reduced its total debt service requirements by $1,150,586 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 $891,902. The Commission also deferred recognition of a $57,702 loss incurred in connection with this refunding 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 January 1, 2002. At December 31, 1996, the unamortized deferred loss netted against bonds payable is $55,840.

NOTE H
CAPITALIZATION OF INTEREST

Total interest costs incurred were $31,788,000 and $32,945,000 in 1996 and 1995, respectively. Interest costs excluded from interest expense and capitalized as part of the costs of constructed assets were $1,498,000 and $906,000 in 1996 and 1995, respectively. Total interest paid was $33,290,000 and $32,006,000 in 1996 and 1995, 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):

	1996	1995
Total minimum lease payments to be received	$973,169	$999,190
Less: Allowance for uncollectibles	0	0
Net minimum lease payments receivable	973,169	999,190
Less: Unearned Income	551,864	585,312
Net investment in leases	421,305	413,878
Less: Prepaid Principal	4,990	4,802
LEASES RECEIVABLE PER BALANCE SHEET	**$416,315**	**$409,076**

As of December 31, 1996, future minimum lease payments are as follows (in thousands):

Year	Amount
1997	$43,266
1998	$43,327
1999	$43,767
2000	$42,423
2001	$42,391
2002-2022	$757,995

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, 1996, and accumulated amortization on those assets totaled $291,000. 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, 1996 (in thousands).

(In Thousands)

Year Ending December 31	Minimum Lease Payments
1997	$ 154
1998	125
1999	125
2000	125
2001	125
2002-2004	365
Minimum lease payments for all capital leases	1,019
Less: Amount representing interest at the Commission's incremental borrowing rate of interest	202
Present value of minimum lease payments	$ 817

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, 1996 is as follows (in thousands):

	1996
Covered payrolls:	
PERF participants	$12,126
PEPFF participants	2,702
Total covered payrolls	**$14,828**

The Commission's total payroll was $20,216,985.

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 equals 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%	9.60%
PEPFF	7.60%	11.40%	19.00%

Total contributions made by the Commission for the fiscal year ended December 31, 1996 were as follows (in thousands):

	Amounts		Percentage of Covered Payroll	
	Employee	Employer	Employee	Employer
PERF	$513	$543	4.23%	4.48%
PEPFF	205	308	7.60%	11.40%
Total	$718	$851		

The Commission's contribution for the year ended June 30, 1996 to the PERF represented .4% of total contributions required of all participating entities. For the PEPFF, contributions for the year ended June 30, 1996 represented .85% 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, 1996 is shown below (in millions):

	PERF	PEPFF
Total pension benefit obligation	$ 6,609	$ 1,243
Net assets available for benefits, at cost	5,702	1,593
Unfunded (assets in excess of) pension benefit obligation	$ 907	$ (350)
Net assets available for benefits, at market	$ 5,955	$ 1,714

The measurement of the pension benefit obligation is based on an actuarial valuation at July 1, 1996. Net assets available to pay pension benefits were valued as of June 30, 1996.

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 1996 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, 1995 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 1997, will significantly impact the July 1, 1997 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, 1996. 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, 1996 and for the fiscal year ended December 31, 1996, 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, 1996 is as follows (in thousands):

		1996
Covered payrolls:	MERF participants	$4,875

The Commission's total payroll for the year ended December 31, 1996 was $20,216,985.

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%	9.09%	2.50%
Survivor Benefits	.50%		

Total contributions made by the Commission for the fiscal year ended December 31, 1996 are as follows (in thousands):

1996	Contributions	Percentage of Covered Payroll
Employer	$1,232	25.27%
Employee	475	9.75%

The Commission's contribution for the year ended June 30, 1996 represented 6.24% 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, 1996 is shown below (in millions):

	1996
Total pension benefit obligation	$1,232
Net assets available for benefits, at cost	916
Unfunded pension benefit obligation	$ 316
Net assets available for benefits, at market	$1,148

The measurement of the pension benefit obligation is based on an actuarial valuation as of June 30, 1996. Net assets available to pay pension benefits were valued as of June 30, 1996.

No changes in actuarial assumption that would significantly affect the valuation of the pension benefit obligation occurred during 1996.

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, 1996. 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, 1996 and for the fiscal year ended December 31, 1996, 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, 1996 and 1995 is presented below:

	1996	1995
Health Insurance Cost	$606,000	$595,000
Number of Retired Employees	134	130

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, 1996 and 1995 of $79,919 and $35,547, 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 Commission had no significant reduction in its insurance coverage for 1995 or 1996. In addition, no settlements exceeded insurance coverage for the last three fiscal years. 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, 1996 and 1995, as well as an estimate of claims incurred. Changes in the balances of claim liabilities during the past two years are as follows:

	1996	1995
Unpaid Claims - Beginning of Year	$ 538,420	$ 898,686
Incurred Claims and Changes in Estimates	2,107,346	1,925,748
Claims Paid	(2,206,400)	(2,286,014)
Unpaid Claims - End of Year	$ 439,366	$ 538,420

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 $18,051,000 at December 31, 1996.

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 27% of operating revenues and 71% 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 33% of the Commission's total assets at December 31, 1996.

For the years ended December 31, 1996, and December 31, 1995, the Northwest entities and NWA Corp. had audited consolidated net income respectively of approximately $536 million and $392 million. On December 31, 1996, the Northwest entities' and NWA Corp.'s audited total consolidated assets were $8.512 billion and their total audited consolidated liabilities were $8.419 billion, resulting in the Northwest entities' and NWA Corp.'s audited consolidated shareholders equity of $93 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.

MINNEAPOLIS-ST.PAUL, MINNESOTA

COMPREHENSIVE ANNUAL FINANCIAL REPORT

YEAR ENDED DECEMBER 31, 1996

METROPOLITAN AIRPORTS COMMISSION

Statistical Section

TOTAL ANNUAL REVENUES 1987–1996

(Dollars in Thousands)	1987	1988	1989
Airline Rates and Charges	$ 19,211	$ 20,888	$ 20,230
Operating Lease Settlement			
Concessions	24,433	23,554	25,062
Other	5,850	5,773	7,175
Total Operating Revenues	**$ 49,494**	**$ 50,215**	**$ 52,467**
Add: Interest Income	13,933	15,257	16,243
Passenger Facility Charge Revenue			
Gain on Sale of Airports and Facilities		1,081	
Total Revenues	**$ 63,427**	**$ 66,553**	**$ 68,710**

Source: Audit reports for the last ten years.

TOTAL ANNUAL EXPENSES 1987–1996

(Dollars in Thousands)	1987	1988	1989
Salaries, Wages and Employee Benefits	$ 14,784	$ 15,116	$ 17,551
Administrative Supplies and Expenses	414	406	512
Professional Services	2,193	3,063	3,229
Utilities	3,072	3,809	3,704
Operating Expenses	3,281	3,600	4,272
Maintenance	4,814	5,451	6,144
Depreciation	11,500	12,461	11,807
Other	731	150	283
Total Operating Expenses	**$ 40,789**	**$ 44,056**	**$ 47,502**
Add: Interest Expense[1]	7,050	7,640	7,058
Total Expenses	**$ 47,839**	**$ 51,696**	**$ 54,560**

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 1987–1996

	1987	1988	1989
	2,153,533	2,200,321	2,240,850

Source: Metropolitan Council
N/A – Not Available

1990	1991	1992	1993	1994	1995	1996
$ 21,812	$ 25,385	$ 27,223	$ 29,115	$ 31,960	$ 35,193	$ 35,647
						9,326
26,206	26,405	28,882	32,627	35,579	41,838	47,872
8,927	8,649	9,242	9,387	8,854	10,225	12,387
$ 56,945	**$ 60,439**	**$ 65,347**	**$ 71,129**	**$ 76,393**	**$ 87,256**	**$105,232**
15,744	15,838	34,238	40,572	41,776	44,946	45,282
		14,607	28,596	28,472	32,286	35,892
				448		418
$ 72,689	**$ 76,277**	**$114,192**	**$140,297**	**$147,089**	**$164,488**	**$186,824**

1990	1991	1992	1993	1994	1995	1996
$ 19,153	$ 21,168	$ 22,308	$ 22,739	$ 23,293	$ 24,360	$26,341
715	668	923	966	839	1,003	1,028
3,043	3,731	4,813	4,984	4,681	5,705	4,040
4,070	3,665	4,412	4,974	5,287	5,354	6,106
5,074	5,581	5,907	5,809	7,995	8,276	8,705
6,763	7,003	7,088	7,406	6,743	7,236	8,007
14,662	16,214	17,976	19,258	21,048	22,656	26,528
566	276		352	289	327	477
$ 54,046	**$ 58,306**	**$ 63,427**	**$ 66,488**	**$ 70,175**	**$ 74,917**	**$ 81,232**
7,943	9,430	27,544	34,812	34,018	32,945	31,788
$ 61,989	**$ 67,736**	**$ 90,971**	**$101,300**	**$104,193**	**$107,862**	**$113,020**

1990	1991	1992	1993	1994	1995	1996
2,288,721	2,318,532	2,352,121	2,383,725	2,415,207	2,448,967	N/A

OPERATING RATIO[1] 1987–1996

(Dollars in Thousands)	1987	1988	1989
Operating Expense[2]	$ 29,289	$ 31,595	$ 35,695
Operating Revenues[3]	49,494	50,215	52,467
Operating Ratio	59%	63%	68%

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

[2] Operating expense excludes depreciation.

[3] In 1996 Operating Lease Settlement is not included.

REVENUE AVAILABLE FOR DEBT SERVICE 1987–1996

(Dollars in Thousands)	1987	1988	1989
Operating Revenue[1]	$ 49,494	$ 50,215	$52,467
Interest Income	13,933	15,257	16,243
Lease Principal Payments	3,976	3,540	2,821
Operating Expense[2]	(29,289)	(31,595)	(35,695)
Revenue Available for Debt Service	$ 38,114	$ 37,417	$ 35,836
Debt Service	$ 14,595	$ 15,185	$ 15,422
Coverage of Debt Service	2.61	2.46	2.32
Coverage of Debt Service Excluding $270 Issue for NWA	2.61	2.46	2.32

[1] In 1996 Operating Lease Settlement is not included.

[2] Operating expense excludes depreciation.

RATIO OF ANNUAL DEBT SERVICE TO TOTAL EXPENSES 1987–1996

(Dollars in Thousands)	1987	1988	1989
Principal	$ 7,545	$ 7,545	$ 8,035
Interest[1]	7,050	7,640	7,058
Total Debt Service	$ 14,595	$ 15,185	$ 15,093
Total Expenses	$ 47,839	$ 51,696	$ 54,560
Ratio of Debt Service to Total Expenses	31%	29%	28%

[1] Does include capitalized interest.

1990	1991	1992	1993	1994	1995	1996
$ 39,384	$ 42,092	$ 45,451	$ 47,230	$ 49,127	$ 52,261	54,704
56,945	60,439	65,347	71,129	76,393	87,256	95,906
69%	70%	70%	66%	64%	60%	57%

1990	1991	1992	1993	1994	1995	1996
$ 56,945	$ 60,439	$ 65,347	$ 71,129	$ 76,393	$ 87,256	$ 95,906
15,744	15,838	34,238	40,572	41,776	44,946	45,282
4,016	4,686	5,784	6,611	6,907	7,261	7,718
(39,384)	(42,092)	(45,451)	(47,230)	(49,127)	(52,261)	(54,704)
$ 37,321	$ 38,871	$ 59,918	$ 71,082	$ 75,949	$ 87,202	$ 94,202
$ 15,238	$ 17,930	$ 36,249	$ 43,702	$44,413	$ 44,670	$ 43,063
2.45	2.17	1.65	1.63	1.71	1.95	2.19
2.45	2.17	2.29	2.39	2.54	3.05	3.68

1990	1991	1992	1993	1994	1995	1996
$ 7,295	$ 8,500	$ 8,705	$ 8,890	$ 10,395	$ 11,725	$ 11,275
7,943	9,430	27,544	34,812	34,018	32,945	31,788
$ 15,238	$ 17,930	$ 36,249	$ 43,702	$ 44,413	$ 44,670	$ 43,063
$ 61,989	$ 67,736	$ 90,971	$101,300	$104,193	$107,862	$113,020
25%	26%	40%	43%	43%	41%	38%

ACTIVITY STATISTICS FOR MINNEAPOLIS–ST. PAUL INTERNATIONAL AIRPORT 1987–1996

	1987	1988	1989
Total Passengers[1]	17,858,984	17,733,837	18,346,095
Aircraft Operations[2]	373,660	373,851	364,030
Mail and Cargo Volumes (Metric Tons)	206,799	246,734	241,725

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.

AIRCRAFT OPERATIONS[1] AT THE RELIEVER AIRPORTS 1987–1996

	1987	1988	1989
St. Paul Downtown Airport	135,397	151,869	166,436
Flying Cloud Airport	209,423	186,699	207,661
Crystal Airport	165,367	172,074	177,679
Anoka County/Blaine Airport	180,000	200,000	212,000
Lake Elmo Airport	63,000	65,000	65,000
Airlake Airport	52,000	64,000	66,000
Total Aircraft Operations at Reliever Airports	805,187	839,642	894,776

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

SCHEDULE OF AIRLINE RATES AND CHARGES 1987–1996

	1987	1988	1989
Landing Fee/1,000 lbs.	$ 0.65	$ 0.62	$ 0.58
Ramp Fees/Lineal Foot	$ 177.01	$ 186.48	$ 310.20
Terminal Building Rentals:			
Common Use/Square Foot	$ 15.15	$ 16.06	$ 17.39
Finished/Square Foot	12.68	14.06	17.39
Finished Janitored/Square Foot	18.32	18.76	22.22
Unfinished/Square Foot	12.24	13.56	17.39

Source: Compensatory Rental Report

1990	1991	1992	1993	1994	1995	1996
19,167,427	19,336,533	21,407,415	22,070,715	23,095,510	25,332,631	27,268,562
379,785	382,017	413,502	439,990	454,723	465,354	485,480
266,824	272,328	302,201	320,893	378,241	365,203	361,662

1990	1991	1992	1993	1994	1995	1996
190,333	168,450	152,378	132,531	145,834	133,686	139,055
227,408	186,496	198,306	218,745	238,838	216,313	217,703
189,910	173,150	179,546	183,554	185,991	171,478	187,957
215,000	195,650	195,650	195,650	199,000	181,866	192,600
66,950	69,950	69,950	69,950	71,000	64,887	68,400
67,980	74,745	81,087	81,087	82,500	75,397	75,397
957,581	868,441	876,917	881,517	923,163	843,627	881,112

1990	1991	1992	1993	1994	1995	1996
$ 0.65	$ 0.77	$ 0.77	$ 0.79	$ 0.87	$ 0.95	$ 0.94
$ 306.76	$ 317.97	$ 300.06	$ 333.76	$ 344.96	$ 366.41	$ 399.73
$ 17.60	$ 19.49	$ 20.46	$ 21.78	$ 20.39	$ 21.61	$ 22.51
17.60	19.49	20.46	21.78	20.39	21.61	22.51
22.24	24.89	27.51	27.78	25.78	26.48	26.15
17.60	19.49	20.46	21.78	20.39	21.61	22.51

NWA REVENUE AS A PERCENTAGE OF TOTAL MAC OPERATING REVENUE[1] 1987–1996

(Dollars in Thousands)	1987	1988	1989
Total NWA Revenue	$13,012	$13,901	$15,267
Total MAC Operating Revenue[1]	$49,494	$50,215	$52,467
NWA Percentage of MAC Operating Revenue	26%	28%	29%

[1] In 1996, the Operating Lease Settlement is not included.

NWA REVENUE AS A PECENTAGE OF TOTAL AIRLINE REVENUE 1987–1996

(Dollars in Thousands)	1987	1988	1989
Total NWA Revenue	$13,012	$13,901	$15,267
Total Airline Revenue	$19,465	$20,486	$22,102
NWA Percentage of Total Airline Revenue	67%	68%	69%

AIRLINE COST PER ENPLANED PASSENGER 1987–1996

(Dollars in Thousands)	1987	1988	1989
Total Cost[1]	$24,052	$25,096	$26,603
Enplaned Passengers	8,930	8,867	9,173
Airline Cost Per Enplaned Passenger	$ 2.69	$ 2.83	$ 2.90

[1] Cost is defined as airline payments made to the Commission for expenses incurred in the airfield, terminal building and charter terminal.

1990	1991	1992	1993	1994	1995	1996
$16,649	$18,804	$20,424	$21,933	$23,181	$25,465	$25,740
$56,945	$60,439	$65,347	$71,129	$76,393	$87,256	$95,906
29%	31%	31%	31%	30%	29%	27%

1990	1991	1992	1993	1994	1995	1996
$16,649	$18,804	$20,424	$21,933	$23,181	$25,465	$25,740
$23,870	$26,941	$28,954	$30,861	$32,652	$36,027	$36,496
70%	70%	71%	71%	71%	71%	71%

1990	1991	1992	1993	1994	1995	1996
$28,692	$31,920	$33,928	$35,971	$37,948	$41,349	$42,082
9,577	9,660	10,702	11,037	11,498	12,666	13,622
$ 3.00	$ 3.30	$ 3.17	$ 3.26	$ 3.30	$ 3.26	$ 3.09

SCHEDULE OF INSURANCE COVERAGE

Insurer	Expiration	Coverage	Policy Limits (Thousands of Dollars)
Arkwright Insurance	1-1-98	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.	3-1-98	Statutory Workers' Compensation	$100/500/100
Fidelity & Deposit Company of Maryland	3-1-98	Comprehensive Crime Employee Bond	$1,000
Associated Aviation Underwriters	12-23-97	General Aviation Liability including personal injury	$300,000
Chubb	1-1-98	Auto Liability and physical coverage and hired automobiles.	$1,000 Per Occurrence
Chubb	1-1-98	Garage keepers liability	$5,000
Chubb	1-1-98	Valet parking	$5,000
Chubb	1-1-98	Fleet physical damage	Values over $50

SCHEDULED AND COMMUTER AIRLINE SERVICE

At the end of 1996, major scheduled airlines serving the Twin Cities were:

- Air Canada
- America West
- American Airlines
- American Trans Air
- Continental Airlines
- Delta Airlines
- Frontier
- KLM
- Northwest Airlines
- Ryan 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 1996 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 the Saint Paul Downtown Airport, 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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