Minneapolis-St. Paul, Minnesota **Metropolitan Airports Commission**
Comprehensive Annual Financial Report Year Ended December 31, 1993

Minneapolis-St. Paul, Minnesota **Metropolitan Airports Commission**

Comprehensive Annual Financial Report Year Ended December 31, 1993

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

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

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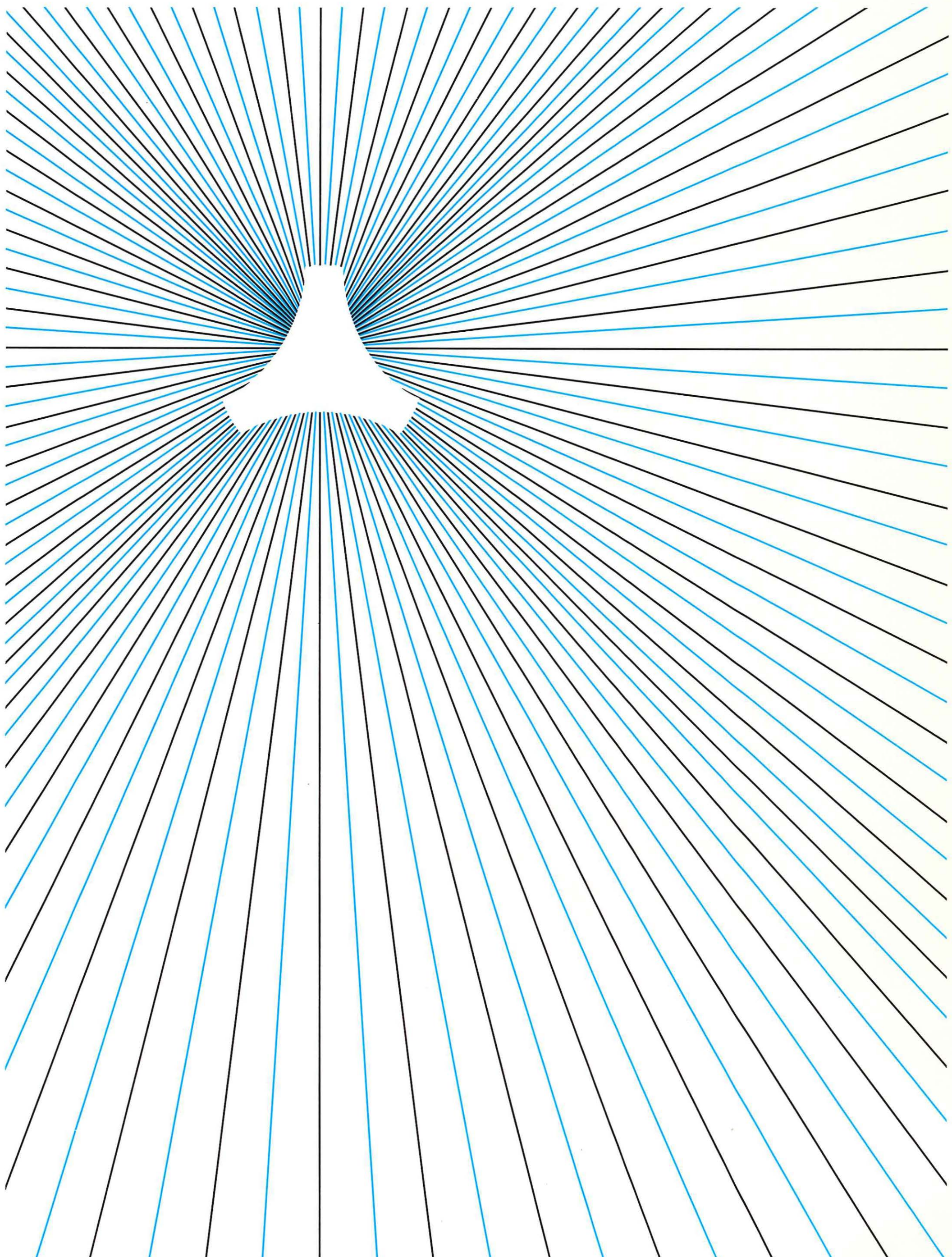
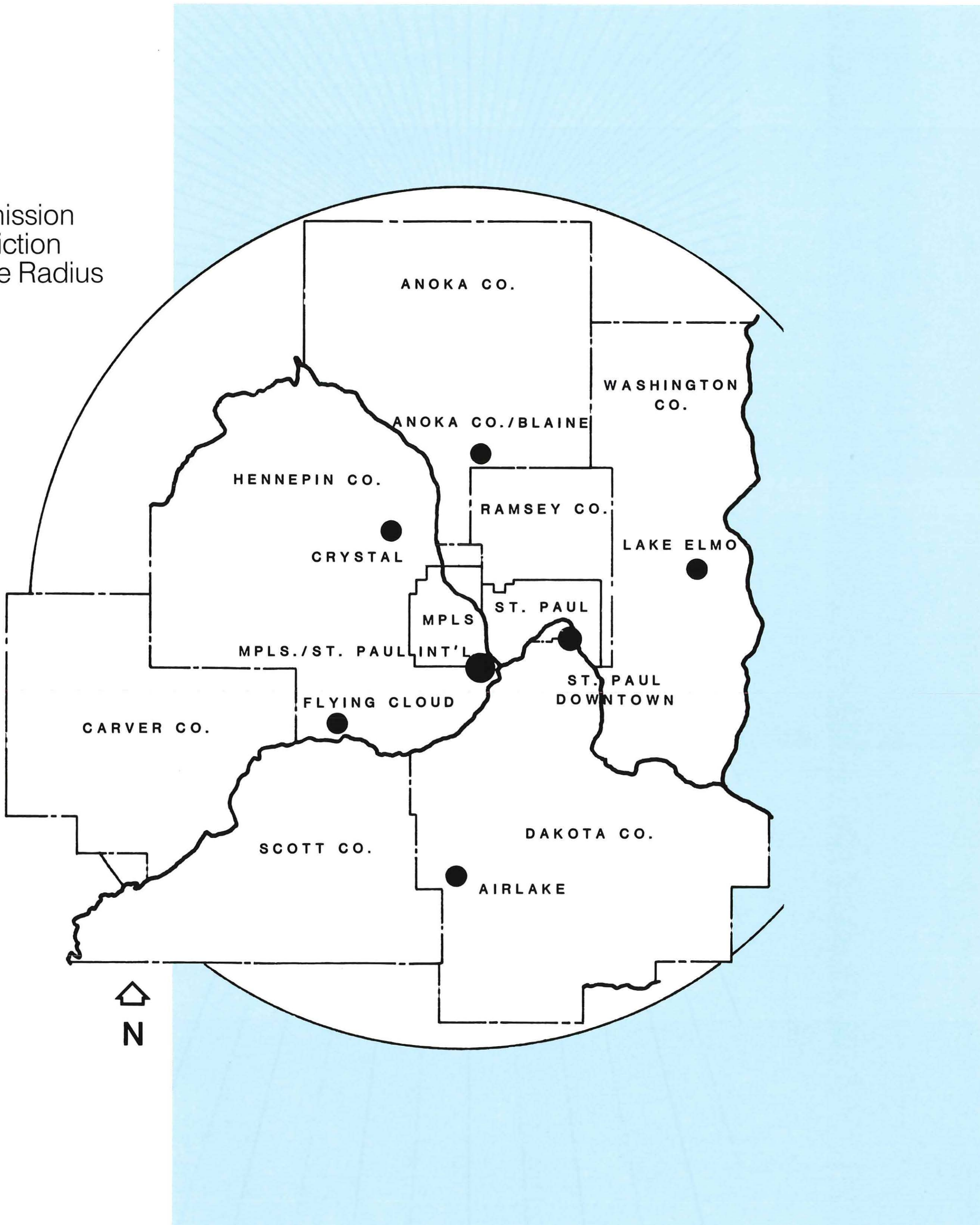
Introductory Section



Airport Locations

MINNEAPOLIS-ST. PAUL METROPOLITAN AIRPORTS COMMISSION

Commission
Jurisdiction
35 Mile Radius



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President

Jeffrey L. Esser

Executive Director

MINNEAPOLIS-ST. PAUL METROPOLITAN AIRPORTS COMMISSION

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March 7, 1994

To The Public:

The Comprehensive Annual Financial Report of the Metropolitan Airports Commission, Minneapolis-St. Paul, Minnesota, for the fiscal year ended December 31, 1993, is hereby submitted. Responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures rests with the Commission. To the best of our knowledge and belief, the enclosed data is accurate in all material respects and reported in a manner designed to present fairly the financial position and results of operations of various funds of the Commission. All disclosures necessary to enable the reader to gain an understanding of the Commission's financial activities have been included.

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

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

The Minneapolis-Saint Paul Metropolitan Airports Commission (MAC) was created by an act of the Minnesota State Legislature in 1943 as a public corporation. Its purpose is to promote air navigation and transportation (international, national, and local) in and through the State of Minnesota, promote the efficient, safe, and economical handling of air commerce, assure the inclusion of the state in national and international programs of air transportation, and to those ends develop the full potentialities of the metropolitan area as an aviation center. It has the responsibility to assure residents of the metropolitan area the minimum environmental impact from air navigation and transportation, promote the overall goals of the state's environmental policies and minimize the public's exposure to noise and safety hazards around airports.

MINNEAPOLIS-ST. PAUL METROPOLITAN AIRPORTS COMMISSION

MAC jurisdiction is throughout the Minneapolis-St. Paul Metropolitan Area radiating 35 miles from the Minneapolis and St. Paul City Halls, and including Anoka, Carver, Dakota, Hennepin, Ramsey, Scott, and Washington counties. The Commission owns and operates seven airports in the Metropolitan Area including Minneapolis-St. Paul International Airport (MSP) serving as the primary air carrier facility and the following Reliever Airports serving general aviation:

St. Paul Downtown Airport
Flying Cloud Airport
Crystal Airport
Anoka County/Blaine Airport
Lake Elmo Airport
Airlake Airport

REPORTING ENTITY

The MAC may, under the Airport Law, (Minn. Stat. §473.667) borrow money and issue General Obligation Bonds for the purpose of acquiring property, constructing and equipping new airports, acquiring and equipping existing airports and making capital improvements to any airport constructed or acquired by the Commission. Other powers delegated to the Commission include power to levy taxes against property of the Metropolitan Area in order to pay debt service on bonds issued by the Commission. In addition, the Commission can levy taxes, not in excess of .00806 percent in each year, upon the valuation of all taxable property in the Metropolitan Area to meet operation and maintenance costs of airport facilities. The Commission is governed by fifteen Commissioners. Eight Commissioners are appointed by the Governor of the State of Minnesota from designated districts within the Metropolitan Area. The mayors of St. Paul and Minneapolis also have seats on the Commission with the option to appoint a surrogate to serve in their place. The Governor also appoints four Commissioners representing the Greater Minnesota Area (i.e. outside the Metropolitan Area). The Chairperson of the Commission is appointed by the Governor and may be from anywhere in the state. Only the Chairperson can be removed before their term. These appointing authorities, however, do not exercise direct financial oversight; and thus, the Commission is independent for financial reporting purposes. In applying Government Accounting Standards Board (GASB) 14, the MAC is not financially accountable to any other organization and is considered a stand-alone government unit.

MAC provides a variety of services at each of its airports. At MSP, MAC is responsible for providing buildings and facilities for air carrier activity, as well as police, fire protection, maintenance, administrative and planning services, as well as other related services and facilities that are deemed to be necessary.

ECONOMIC CONDITION AND OUTLOOK

AIRLINE INDUSTRY

The economic condition of the air carriers continues to have a profound impact on the MAC and its ability to fund both operational activities and capital improvements for 1994 and beyond. The U.S. aviation industry is only now beginning to recover from the most disatrous economic slump in its history. Since 1990, U.S. airlines lost more than $10 billion—more than the cumulative earnings of the carriers in their entire history. Two carriers serving MSP—TWA and America West—are in Chapter 11 bankruptcy proceedings while Continental has just recently emerged from bankruptcy. Northwest Airlines, the MAC's principal tenant, was at the brink of bankruptcy through the first half of 1993 and was able to avoid filing for Chapter 11 protection after receiving pay, benefit and work rule concessions from its employees.

PASSENGERS

Total passengers at MSP increased 3.1% from 1992 levels. Total MSP passengers for 1993 were 22.1 million. While this year did not show the dramatic increases of 1992 for the summer months, the remainder of the year showed steady gains over corresponding months in 1992. While domestic passenger traffic increased only 2.0%, international traffic increased 11.4%. Three new passenger carriers began service at MSP in 1993. Reno Air began service in April, but discontinued operations on June 1. Comair began service in July as a Delta Connection, providing service to Cincinnati. MarkAir began operations in October with service to Chicago (Midway) and Denver. Following its affiliation with Northwest Airlines, KLM ceased a physical presence at the airport on April 1. KLM passengers are now carried on Northwest flights. The top five air carriers in 1993, by enplaned passengers, serving MSP are shown below. The total enplaned passengers for 1993, including connecting, was 11,022,476.

Carrier	Enplaned Passengers	% of Total
Northwest	8,353,282	75.8%
United	416,551	3.8
American	308,984	2.8
Delta	284,202	2.6
Mesaba	270,447	2.5
	9,633,466	87.5%

OPERATIONS

Aircraft operations were 439,990 in 1993, an increase of 6.4% from 1992 levels. Regional carriers showed the greatest increase in operations, up 26% to 108,237. Regional carriers now carry more than 5.7% of the passengers at MSP, and account for 24.6% of the total operations. Recent forecasts project growth at MSP at 3.2% per year.

Reliever airports, operations increased slightly in 1993 to post a modest gain of .5%, despite the fact that the St. Paul Downtown Airport was closed 19 days due to severe flooding.

MAJOR INITIATIVES FOR THE YEAR

In 1993, the MAC identified four major areas of emphasis on which it would place special attention during the year. Those areas were as follows:

MINNEAPOLIS-ST. PAUL METROPOLITAN AIRPORTS COMMISSION

FOCUS ORGANIZATIONAL VISION

GOAL:

Clarify the "vision" for MAC including the major areas of policy direction developed by the Commission. To accomplish this goal, the following activities were proposed for 1993:

1) Identify the major areas of policy direction that exist today, including any areas without the needed direction.
2) Document the existing policy statements as currently understood.
3) Discuss and reach agreement on revised policy statements as required.

BACKGROUND:

During 1993, the MAC has worked to develop a clearer vision and direction through a detailed analysis of our policies. We have completed an exercise to identify our major policies, assumptions and philosophies that direct our activities. We also have completed work analyzing each policy to understand how and why the policy was developed. Our next step is to complete documenting each policy in writing and to begin a discussion with the Commission to confirm the need for and appropriateness of existing policies. We also will identify areas where no policy exists or where a policy needs to be changed. Because of the significant turnover in Commissioners, this effort has been delayed and will be completed in 1994.

DUAL TRACK AIRPORT PLANNING PROCESS

GOAL:

The Dual Track Airport Planning process was established by the legislature in 1989 to determine whether development of MSP or a new airport is needed to meet the region's aviation needs. In 1991, a Long Term Comprehensive Plan for MSP was completed. Therefore, the focus for 1993 has continued on the new airport option. Specific work items accomplished in 1993 include:

1) Aviation Forecast Update—A joint effort between the MAC and Metropolitan Council has updated the aviation activity forecasts. The new forecasts will be used both for the New Airport Comprehensive Plan and for the MSP Long Term Comprehensive Plan Update. Facility requirements and development alternatives for MSP and the potential new airport will be updated using these latest forecasts.
2) Socio-economic and Community Impacts—The Metropolitan Council continues to evaluate the differential impacts of a new airport versus continued development of MSP. With the new site now identified, more detailed work regarding the potential impacts on the surrounding area will be done as will work on the differences between development of MSP and development of a new site. This is included in the environmental evaluation, and is being done under an interagency agreement with the MAC.
3) DNR Biological Survey—Much of the work on this survey was being done in 1992 and was completed in 1993. Results of the survey are included in the draft Alternative Environmental Document which was adopted by the MAC on September 20, 1993.

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4) Public Involvement and Information—This process continued throughout 1993 with both Technical and Policy Committees providing direction in the process, which included public meetings and workshops. Newsletters and brochures were prepared to provide information to interested parties.

5) Environmental Analysis—The MAC is producing the necessary environmental analysis to allow either of the two tracks to be implemented, depending on the Legislative decision.

6) FAA Capacity Enhancement Plan—The FAA completed its work on the Capacity Enhancement Plan for MSP. The task force looked at alternative capacity enhancement measures that could be implemented at the airport. This work will be used to update the MSP Long Term Comprehensive Plan.

7) Site Selection—A 10,000 acre tract in Dakota County known as "Site 3" was given preliminary approval by the Commission on September 20. This site had been recommended by the MAC's Site Selection Task Force. Site 3 will be presented to the public for comment with final action by the MAC expected in January 1994. Following that action a detailed comprehensive plan will be prepared for the recommended new site which addresses needed airport facilities for the 30-year planning period.

BACKGROUND:

In 1989, the Minnesota Legislature set in place a multi-year planning process to determine whether continued development of Minneapolis-St. Paul International Airport or development of a new airport would best meet the region's aviation needs. In previous years, a development plan for Minneapolis-St. Paul International Airport was completed and a search area for a potential new airport was selected by the Metropolitan Council. During 1993, the MAC has been concentrating its efforts on selecting a specific airport site within the designated search area and preparing for the work to be completed during 1994.

The Site Selection Process has been underway since early 1992. During 1993, three possible sites within the search area were selected for detailed evaluation. This evaluation included airport operational factors, natural environment facts and impact on the human environment. A wide variety of data sources were used in the analysis to ensure that the appropriate information for decision makers was available. Preliminary selection of a site in the southeastern corner of the search area midyear by the MAC initiated the environmental review process related to site selection. This Alternative Environmental Review process has been approved by the Minnesota Environmental Quality Board and is designed to allow a series of decisions to be made toward the final recommendation to the Legislature. The environmental review process was completed in late 1993 in order to allow a final decision on the proposed site in early 1994. Following final action on the site, a detailed plan for airport development will be prepared.

Concurrently with the Site Selection work, the Federal Aviation Administration was working toward completion of a Capacity Enhancement Plan for Minneapolis-St. Paul International Airport. The Task Force completing this work met on a monthly basis during the year, with publication of a final report during December. This analysis looks at potential capacity enhancement measures that could be implementmented at MSP, and will be used as technical input into the update of the Long Term Comprehensive Plan for MSP that will be undertaken during 1994.

As a result of the changes that have taken place in the airline industry since the initial activity forecast was completed in 1989, a process to revise and update the forecasts was developed and implemented during 1993. A series of Expert Panels were held to ensure the maximum level of information in developing both the forecast process and the assumptions that would be used. The revised numbers were finalized during mid-1993, and show a decline in the previous numbers of both passengers and aircraft operations. The decreases are due primarily to changed assumptions regarding the level of hubbing that Northwest Airlines will carry out in the Twin Cities. The revised forecasts will be the basis for the update of the Long Term Comprehensive Plan for MSP and for the Long Term Comprehensive Plan for the proposed new airport.

Throughout the year, an extensive public information and public input program has been in effect. The Site Selection process was overseen by a Technical Committee and Task Force, both of which met on an almost monthly basis to provide input and comments on both work underway and draft documents. Public meetings allowed review and comment, and a series of newsletters and brochures were prepared to keep all interested persons aware of ongoing activities.

CUSTOMER SERVICE

GOAL:

Customer Service Action Plans will be prepared as suggested by the Terminal Services and Business Plan survey findings. Staff will develop action plans carrying forward initiatives which improve processes and deliver better service to both internal and external customers.

BACKGROUND:

In 1989, MAC began an organized, systematic program to review the effectiveness of the organization. A survey of employees was included which suggested several innovations to improve the work place environment and employee development. An information systems study suggested improvements in our information systems and technological tools. The Terminal Services and Building Plan study, originating in 1992 and in 1993, focused on customers and their needs. Customer Service Action Plans incorporates the customer service focus into MAC's method of operation and responds to two initiatives.

A survey of MSP passengers was done as the initial phase of MAC's "Terminal Services and Concessions Business Plan" development, itself a customer service effort. The survey assessed the passengers' service needs and their opinions about the quality of MSP's services and concessions. We learned that while they have a very favorable impression of today's services and concessions, there are general areas where the MAC is not meeting their expectations. After a detailed analysis of the data, internal round table discussions will be held to reach a complete understanding of the data, internal round table discussions will be held to reach a complete understanding of our customers' concerns and to develop a course of action for improving those areas.

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The MAC's effort to incorporate continuous improvements and customer focus into our work environment continues. The initial phases of our Quality Movement are proceeding through efforts to involve employees, utilize team processes and improve communications. A focus on internal customers has begun and will continue throughout 1994 through education and development of customer satisfaction measurements.

MAC 50TH ANNIVERSARY

GOAL:

To use the 50th Anniversary of the establishment of the Metropolitan Airports Commission as a vehicle to educate and familarize various audiences with the MAC, its role in meeting the air transportation needs of Minnesota and the region, its record of safety and efficiency in developing and operating a system of airports, and the effective and unique structure of governance its organic law created.

BACKGROUND:

In 1993, the Metropolitan Airports Commission observed its 50th anniversary with a number of events and promotions which attracted attention to MAC's history, its facilities, programs, and its look to the future.

On April 19, former Governor Harold Stassen, the architect of the MAC and the governor who signed the bill creating the MAC, made a brief presentation in the rotunda of the capital building commemorating the anniversary of the signing.

Airport Days, an annual event sponsored by the MAC, celebrated the anniversary with several exhibits devoted to the history and development of MSP and the Commission. A hard cover book entitled **"MSP—America's North Coast Gateway,"**, was published by Jostens Publishing Group. The book was sponsored by various local and national organizations who wished to participate in the commemorative publication which features the history of Twin Cities aviation.

The Metropolitan Public Airport Foundation, a non-profit organization dedicated to the advancement of aviation, featured MAC's Golden Anniversary in its annual Black Tie Dinner at St. Paul's Landmark Center in November.

A special display on the history and significance of MSP is being developed in the Lindbergh Terminal space. The display will tell the history and significance of MSP and its role in meeting the area's transportation needs.

For 1994 the MAC has identified three areas of emphasis on which it will place special attention. Those areas are:

METROPOLITAN GOVERNANCE

GOAL:

To participate fully in the public debate over the structure of metropolitan government, ensuring that the public's interest in maintaining a safe and effective air transportation system are adequately represented. This goal should be accomplished by specifically identifying Commissioners and Staff to coordinate these efforts and by seeking membership and other forms of participation in the public discussion and debate.

MINNEAPOLIS-ST. PAUL METROPOLITAN AIRPORTS COMMISSION

CUSTOMER SERVICE
GOAL:

MAC will continue its emphasis in 1994 on becoming a customer driven organization:

1. Preparing a customer service feedback program for each department at MAC (including Commissioners as a group) which will identify their customers, what services the department provides and an analysis of the opinion of those customers regarding the services currently being provided. An effort will be made to use a variety of feedback opportunities including surveys, interviews, focus groups, etc.
2. Creating a Humphrey Terminal Action Team to develop a prototype customer service feedback plan to improve the operation of the International Charter Terminal.

MARKETING MAC'S AIRPORTS

GOAL:

MAC will step up its emphasis on marketing its airports in 1994 in several different areas by:

1. Retaining a consultant to assist the MAC in developing a comprehensive marketing plan for MSP for strategic domestic and international flights, building on the two reports previously completed by SH&E which assessed MSP's potential for serving additional markets.
2. Developing a comprehensive plan to build appropriate infrastructure to attract and handle additional international passenger and cargo flights.
3. Form a consortium with other governmental and business organizations that are promoting international and domestic trade and tourism. It would work cooperatively to foster, promote and market the business, trade, retail, convention, tourism, arts and sporting event opportunities within the State of Minnesota. While minimizing redundant and overlapping efforts, it could maximize a positive economic impact to the state and local communities.

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 definied as an enterprise fund. This report includes all funds of the MAC. Accounting records are maintained on an accrual basis in accordance with generally accepted accounting principles.

MINNEAPOLIS-ST. PAUL METROPOLITAN AIRPORTS COMMISSION

BUDGETING CONTROLS

The MAC annually adopts an Operating Budget which is organized by functional responsibility according to service centers assigned to each airport. A monthly budget variance analysis, as required by Commission by-laws, reports significant variations from the adopted plan and directs management action for correction as required. A system of purchase requisitions, purchase orders and authorized signature approvals provide the basis for positive management responsibility and control for each of the budget line items.

Significant elements of the Commission's accounting, budgeting and reporting system are established and described in the lease/use agreement between MAC and the air carriers serving MSP, which was signed in 1989. The agreement provides for the definition of eligible costs and methodology for determining rates and charges to be paid by the airlines that are parties to the agreement.

REVENUES AND EXPENSES

OPERATING REVENUE

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

Traffic	— Aircraft landing and parking fees
Commercial:	
Concessions	— Revenue from food & beverage sales, merchandise sales, auto parking, etc.
Rentals	— Fees for ground and building rentals
Utilities	— Charges for tenants use of water and sewer
Miscellaneous	— Charges for other services provided by MAC

During 1993 MAC operating revenues increased by 8.8% to $71,129,000 from $65,347,000 in 1992. Changes in major categories are summarized below (dollars in thousands):

	1993		1992		DOLLAR	PERCENT
	$	%	$	%	CHANGE	CHANGE
TRAFFIC	$21,082	29.6%	$19,634	30.0%	$1,448	7.4%
COMMERCIAL:						
CONCESSIONS	32,626	45.9	28,882	44.2	3,744	13.0
RENTALS	14,915	21.0	14,228	21.8	687	4.8
UTILITIES	1,116	1.6	1,129	1.7	(13)	(1.2)
MISCELLANEOUS	1,390	1.9	1,474	2.3	(84)	(5.7)
OPERATING REVENUES	**$71,129**	**100.0%**	**$65,347**	**100.0%**	**$5,782**	**8.8%**

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Traffic increased $1,448,000 or 7.4% primarily because of landing fees. Landing fees are calculated on a breakeven basis (excluding MAC's portion of new airport planning costs) with revenue and expense being equal, an increase in revenue, therefore, is a result of increased costs in the Field and Runway area. The increase in the Field and Runway cost center can be attributed to increased expenses, specifically in the areas of storm water monitoring and depreciation costs related to capital improvements projects.

Concessions increased $3,744,000 or 13.0% in 1993. The majority of the increase from 1992 levels is in the auto parking concession. Effective April 1, 1993, rates were increased at the general lot, short term lot, Econolot and the garage. New services and/or renewed agreements with various concessionaires account for the remaining increase.

OPERATING EXPENSE

In 1993, MAC operating expenses increased by 4.8% to $66,488,000 from $63,427,000 in 1992. Changes in major categories are summarized below (dollars in thousands):

	1993		1992		DOLLAR	PERCENT
	$	%	$	%	CHANGE	CHANGE
SALARIES, WAGES AND EMPLOYEE BENEFITS	$22,739	34.2%	$22,308	35.2%	$ 431	1.9%
ADMINISTRATIVE SUPPLIES & EXPENSES	966	1.5	923	1.5	43	4.7
PROFESSIONAL SERVICES	4,984	7.5	4,813	7.6	171	3.6
UTILITIES	4,974	7.5	4,412	7.0	562	12.7
OPERATING SERVICES	5,809	8.7	5,907	9.3	(98)	(1.7)
MAINTENANCE	7,406	11.1	7,088	11.2	318	4.5
DEPRECIATION	19,258	29.0	17,976	28.2	1,282	7.1
OTHER	352	.5	0	0.0	352	N/A
OPERATING EXPENSES	**$66,488**	**100.0%**	**$63,427**	**100.0%**	**$3,061**	**4.8%**

Salaries, wages and employee benefits increased by 1.9% due to a wage/hiring freeze for a majority of the commission's employees offset by an increase in the employers unfunded pension liability for employees covered under the Minneapolis Employees Retirement Fund.

Utilities increased due to an increase in rates as well as consumption due to colder than normal weather.

Depreciation increased $1,282,000 in 1993. This is a result of approximately $30 million of Terminal Building and $18 million of Field and Runway projects that were completed in 1992-1993.

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OPERATING REVENUE AND EXPENSE BY AIRPORT

In 1993 and 1992, net revenues for each airport were as follows (in thousands):

	OPERATING REVENUE	OPERATING EXPENSE	1993 NET REVENUE	1992 NET REVENUE
MSP	$70,396	$60,583	$ 9,813	$ 6,865
ST. PAUL DOWNTOWN	311	2,970	(2,659)	(2,482)
FLYING CLOUD	188	1,154	(966)	(947)
CRYSTAL	74	368	(294)	(258)
ANOKA	74	704	(630)	(640)
LAKE ELMO	37	354	(317)	(407)
AIRLAKE	49	355	(306)	(211)
TOTAL	**$71,129**	**$66,488**	**$ 4,641**	**$ 1,920**

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:

1994	$92,025,683
1995	$91,403,039
1996	$89,761,297
1997	$87,398,628
1998	$84,549,425

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Authority for issuing bonds is obtained from the Minnesota State Legislature. Authorization as of December 31, 1993, permits the issuance of an additional $55 million of bonds. In 1993, the Commission issued $29 million in tax-exempt General Obligation Revenue Bonds to advance refund General Obligation Revenue Bond Series 1 and 6. As a result of the advance refunding, the Commission reduced its total debt service requirements by $1,799,318 which resulted in an economic gain (the difference between the present values of the debt service payments on the old and the new debt) in the amount of $1,208,410. These Bonds received AAA/Aaa ratings from both Standard & Poor's and Moody's rating services.

CAPITAL PROJECTS

Each year the MAC approves capital projects that are planned to start within the next 12 months, and a Capital Improvement Program which covers all projects which are to be started during the second calendar year. In addition, a Capital Improvement Plan which covers an additional 5 years is adopted. These serve as a basis for determining funding requirements, and other operational planning decisions. Certain projects which have a metropolitan significance are also submitted to the Metropolitan Council for review and approval. The Metropolitan Council is a regional planning agency responsible for coordination and planning of certain governmental services for the Metropolitan Area.

Funds required for completion of all capital projects come from four sources: a) General Obligation Revenue Bonds, b) state or federal grants, c) internally generated funds from operations, and d) passenger facility charges (PFC's). PFC's are fees imposed on enplaned passengers by airport authorities for the purpose of generating revenue for airport projects that increase capacity, increase safety, or mitigate noise impacts. On June 1, 1992, the MAC began collecting a $3.00 PFC to finance projects totalling approximately $68,217,000. In order to limit the cost of facilities at the reliever airports, MAC uses only grant funds or retained earnings to finance all construction projects at these airports. Capital improvements at MSP are financed from all four sources as appropriate.

Anticipated projects planned for 1994 and 1995, as well as the extended period 1996-2000, are summarized as follows: (The amounts shown represent the estimated total cost for projects planned to be initiated, but not necessarily completed during that period.):

AIRPORTS	1994	1995	1996-00
MSP:			
FIELD AND RUNWAYS	$37,150,000	$17,775,000	$181,275,000
ENVIRONMENTAL	40,400,000	42,300,000	114,000,000
SELF-LIQUIDATING	0	1,000,000	0
TERMINAL BUILDING AND OTHERS	15,650,000	33,750,000	14,350,000
ST. PAUL DOWNTOWN	3,035,000	3,600,000	6,280,000
FLYING CLOUD	310,000	5,000,000	9,000,000
CRYSTAL	370,000	585,000	750,000
ANOKA COUNTY	4,035,000	0	2,660,000
LAKE ELMO	200,000	0	1,700,000
AIRLAKE	1,650,000	0	700,000
TOTALS	**$102,800,000**	**$104,010,000**	**$330,715,000**

MINNEAPOLIS-ST. PAUL METROPOLITAN AIRPORTS COMMISSION

CASH MANAGEMENT

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

In addition to the legal requirements, the MAC has an investment policy to further enhance the safety of its investments. In accordance with this policy, securities with a maturity of over 7 days are safekept at one institution and purchases can be made only from dealers located in the State of Minnesota. To ensure competitive prices on all purchases, the policy required bids to be taken from several different dealers.

The Government Accounting Standards Board requires disclosure of types of investments and safekeeping arrangement in the notes to the financial statements. Custodial agreements are disclosed as three levels of risk. At year end 1993, the majority of the MAC's investment portfolio was being held by a third party agent of the Commission. There were, however, a few securities held by brokers that were not in the Commission's name. In accordance with Commission policy, these were investments that matured within seven days from the date of purchase. Because of their short maturity, this arrangement does not expose our investment portfolio to unnecessary risk. Total investment earnings for 1993 were $3,075,000. The average yield on investments during the year was 3.97%.

RISK MANAGEMENT

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

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

INDEPENDENT AUDIT

The financial records of the MAC are audited annually by a firm of independent certified public accountants. The audits for the years ended December 31, 1993 and 1992, were performed by Deloitte & Touche. Their opinion on the financial statements is presented in this report.

In conjunction with the annual audit, Deloitte & 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 & Touche also perform procedures for the purposes of the MAC's compliance with the regulations issued by the FAA to implement Sections 9110 and 9111 of the Aviation Safety and Capacity Expansion 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 1993, the financial audit has been performed by the firm Deloitte & Touche. In addition, the Legislative Auditor periodically conducts a separate audit to examine the Commission's compliance with applicable laws, policies, and procedures.

AWARDS

The Government Finance Officers Association of the United States and Canada (GFOA) awarded the Certificate of Achievement for Excellence in Financial Reporting to the MAC for its Comprehensive Annual Financial Report for the year ended December 31, 1992. For the eighth consecutive year, the Commission has received the prestigious award.

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

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

The Commission also received for the seventh consecutive year the GFOA Award For Distinguished Budget Presentation for its Annual Operating Budget for 1993. In order to qualify for the Distinguished Budget Presentation, the Commission's budget document was judged to be proficient in several categories, including policy documentation, financial planning and organization.

ACKNOWLEDGMENTS

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

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

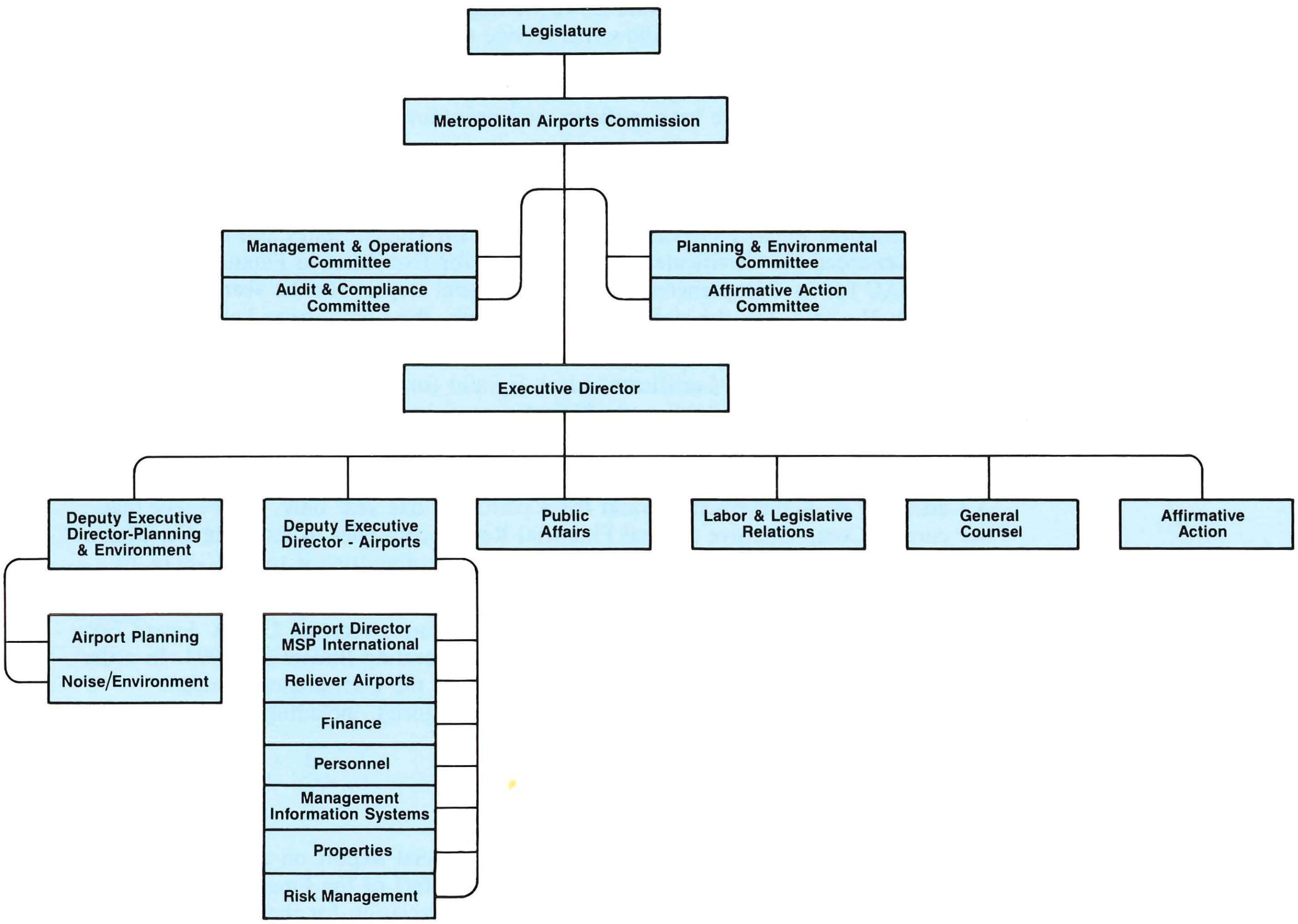
Respectfully submitted,

Jeffrey W. Hamiel
Executive Director

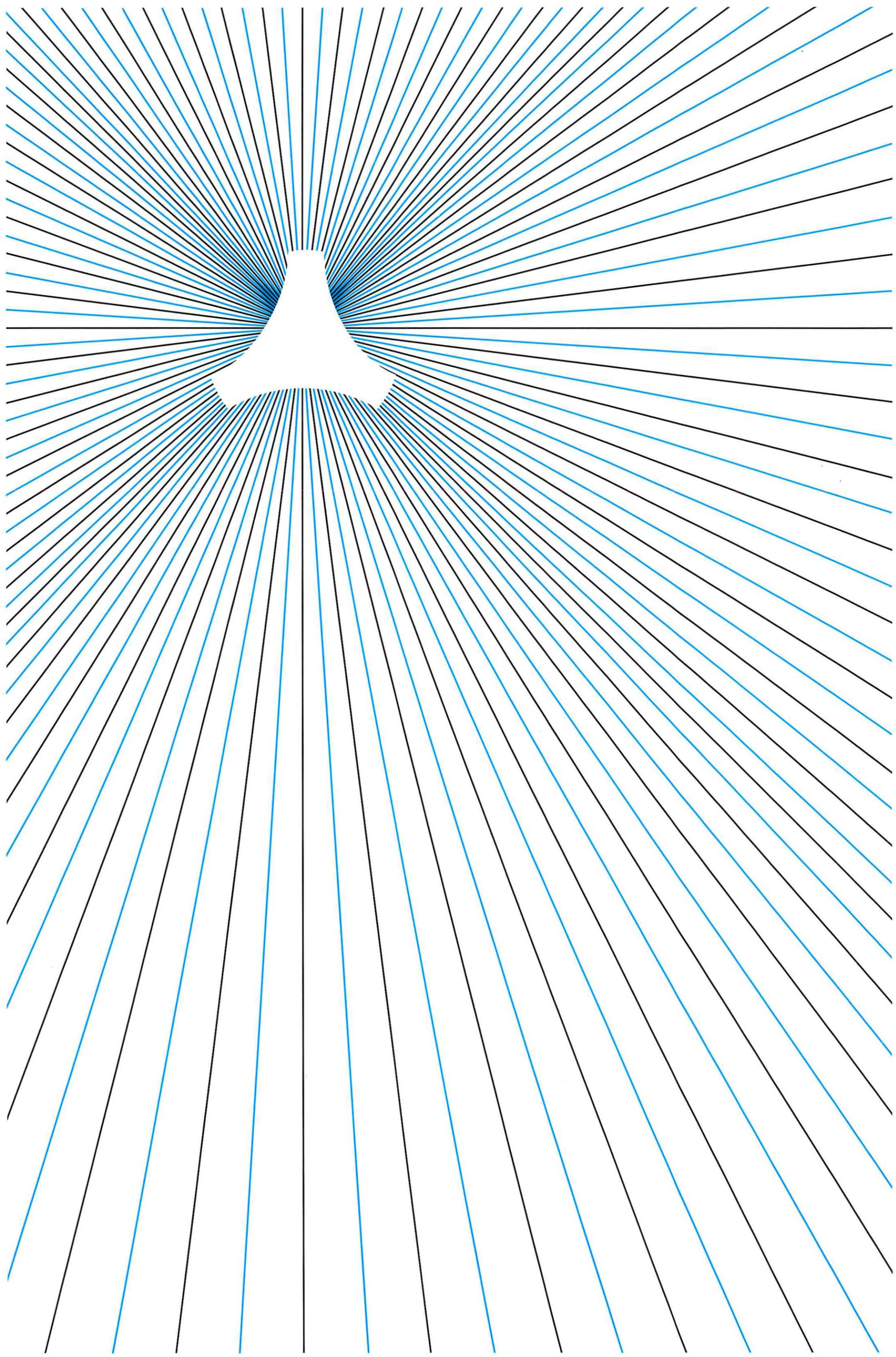
Denise A. Kautzer
Director of Finance

Organization Chart

MINNEAPOLIS-ST. PAUL METROPOLITAN AIRPORTS COMMISSION



Financial Section



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, 1993 and 1992 and the related statements of revenues and expenses and changes in retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the Commission's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, such financial statements present fairly, in all material respects, the financial position of the Commission at December 31, 1993 and 1992 and the results of its operations and its cash flows for the years then ended in conformity with generally accepted accounting principles.

As discussed in Note P to the financial statements, the Commission has 46% of its total assets in leases and accounts receivable from a major airline which is experiencing financial difficulty.

Deloitte + Touche

March 7, 1994
Minneapolis, Minnesota

Balance Sheets

MINNEAPOLIS-ST. PAUL METROPOLITAN AIRPORTS COMMISSION

(Dollars in Thousands)

	December 31 1993	December 31 1992
ASSETS		
Cash and investments—Note B:		
Unrestricted:		
Cash and Cash Equivalents	$ 288	$ 738
Investments	15,459	15,133
	15,747	15,871
Restricted—Note C:		
Cash and Cash Equivalents	14	43
Investments	137,293	105,854
	137,307	105,897
	153,054	121,768
Accounts receivable	3,217	5,190
Government grants in aid of construction receivable	687	200
Restricted Asset:		
Passenger facility charge receivable—Note A and C	2,377	3,163
Airports and facilities—Notes A, E and F	307,831	294,885
Leases receivable—Notes A and I	422,806	429,151
Deferred compensation benefits—Note L	5,842	4,672
Other	291	340
TOTAL ASSETS	**$ 896,105**	**$ 859,369**
LIABILITIES AND FUND EQUITY		
Accounts payable and accrued expenses	$ 3,754	$ 5,782
Payables from restricted assets:		
Debt Service—Note F	70,749	72,586
Construction	5,481	4,816
Other	1,365	1,122
Employee compensation and payroll taxes	3,836	3,116
Deferred revenue—Note A	49,615	50,660
Deferred compensation benefits—Note L	5,842	4,672
Bonds payable—Note F	362,277	371,840
TOTAL LIABILITIES	**$ 502,919**	**$ 514,594**
FUND EQUITY—Note D		
Contributed capital—Note A	$ 96,060	$ 91,974
Retained Earnings:		
Reserved—Note C	62,089	30,536
Unreserved	235,037	222,265
TOTAL FUND EQUITY	**393,186**	**344,775**
TOTAL LIABILITIES AND FUND EQUITY	**$ 896,105**	**$ 859,369**

See notes to financial statements.

Statements of Revenues and Expenses and Changes in Retained Earnings

MINNEAPOLIS-ST. PAUL METROPOLITAN AIRPORTS COMMISSION

(Dollars in Thousands)

	Years Ended December 31 1993	1992
OPERATING REVENUES		
Traffic	$ 21,082	$ 19,634
Commercial:		
Concession	32,626	28,882
Rentals	14,915	14,228
Utilities	1,116	1,129
Miscellaneous	1,390	1,474
TOTAL OPERATING REVENUES	**71,129**	**65,347**
OPERATING EXPENSES		
Salaries, Wages and Employee Benefits	22,739	22,308
Administrative Supplies and Expenses	966	923
Professional Services	4,984	4,813
Utilities	4,974	4,412
Operating Services	5,809	5,907
Maintenance:		
Building	1,523	1,448
Field	905	832
Equipment	1,607	1,313
Cleaning	3,371	3,495
Depreciation	19,258	17,976
Other	352	0
TOTAL OPERATING EXPENSES	**66,488**	**63,427**
OPERATING INCOME	**4,641**	**1,920**
OTHER REVENUES (EXPENSES)		
Interest Income	40,572	34,238
Passenger Facility Charge Revenue	28,596	14,607
Bond Interest Expense	(34,812)	(27,544)
NET INCOME	**38,997**	**23,221**
Add: Depreciation of facilities provided by government grants	5,328	4,984
INCREASE IN RETAINED EARNINGS	**44,325**	**28,205**
Retained Earnings—Beginning of Year	252,801	224,596
RETAINED EARNINGS—END OF YEAR	**$ 297,126**	**$ 252,801**

See notes to financial statements.

Statements of Cash Flows

MINNEAPOLIS-ST. PAUL METROPOLITAN AIRPORTS COMMISSION

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

	Years Ended December 31 1993	1992
Cash flows from operating activities:		
Operating income	$ 4,641	$ 1,920
Adjustments to reconcile net operating income to net cash provided by operating activities:		
Depreciation	19,258	17,976
Change in assets and liabilities:		
Accounts receivable	1,973	(368)
Other assets	49	(304)
Accounts payable	(2,028)	1,938
Other restricted liabilities	243	113
Employee compensation and payroll taxes	720	428
Deferred revenue	(1,045)	(424)
NET CASH PROVIDED BY OPERATING ACTIVITIES	**23,811**	**21,279**
Cash flows from non-capital financing activities:		
Proceeds from bond issuance for Northwest Airlines Inc.	0	271,464
Payment to Northwest Airlines, Inc.	0	(270,000)
Interest paid on bonds	(23,960)	(17,970)
Interest income	27,885	20,708
Payment of debt issuance costs	0	(5,401)
NET CASH PROVIDED BY (USED IN) NON-CAPITAL FINANCING ACTIVITIES	**3,925**	**(1,199)**
Cash flows from capital and related financing activities:		
Payments for airports and facilities	(31,620)	(33,921)
Proceeds from disposal of airports and facilities	416	681
Proceeds from bond issuance	28,777	44,697
Receipt of lease payments	6,611	5,784
Receipt of passenger facility charges	29,382	11,444
Payment to trustee	(29,897)	0
Payments on bonds	(11,195)	(9,120)
Interest paid on bonds	(10,538)	(11,962)
Receipts of government grants in aid of construction	8,927	8,183
NET CASH (USED IN) PROVIDED BY CAPITAL AND RELATED FINANCING ACTIVITIES	**(9,137)**	**15,786**
Cash flows from investing activities:		
Purchase of investment securities	(353,865)	(392,263)
Proceeds from maturities of investment securities	322,100	342,735
Interest income	12,687	13,530
NET CASH USED IN INVESTING ACTIVITIES	**(19,078)**	**(35,998)**
Net decrease in cash and cash equivalents	(479)	(132)
Cash and cash equivalents—Beginning of year	781	913
CASH AND CASH EQUIVALENTS-END OF YEAR	**$ 302**	**$ 781**

See notes to financial statements.

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

Notes to Financial Statements

MINNEAPOLIS-ST. PAUL METROPOLITAN AIRPORTS COMMISSION

For the years ended December 31, 1993 and 1992

NOTE A

SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The Minneapolis-Saint Paul Metropolitan Airports Commission (the Commission) was created by an act of the Minnesota State Legislature in 1943 as a public corporation. Its purpose is to promote air navigation and transportation (international, national, and local) in and through the State of Minnesota, promote the efficient, safe, and economical handling of air commerce, assure the inclusion of the state in national and international programs of air transportation, and to those ends develop the full potentialities of the metropolitan area as an aviation center. It has the responsibility to assure residents of the metropolitan area the minimum environmental impact from air navigation and transportation, promote the overall goals of the state's environmental policies and minimize the public's exposure to noise and safety hazards around airports.

The area over which the Commission exercises its jurisdiction is the Minneapolis-Saint Paul Metropolitan Area which includes Anoka, Carver, Dakota, Hennepin, Ramsey, Scott, and Washington counties. The Commission controls and operates seven airports within the Metropolitan Area, including the Minneapolis-Saint Paul International Airport, which services scheduled air carriers and six reliever airports, serving general aviation.

The Commission is governed independently by a 15-member Board of Commissioners that is directly responsible to the Minnesota State Legislature. Certain large capital improvement projects having metropolitan significance must be reviewed by the Metropolitan Council, which is a public agency established by law with powers of regulation over the development of the Metropolitan Area.

The Commission's financial statements include only funds and departments over which Commission officials exercise oversight responsibility. No other agencies, boards, commissions, or other organizations have been included in the Commission's financial statements.

Oversight responsibility includes such aspects as budget review, approval of property tax levies, outstanding debt secured by the Commission's full faith and credit or revenues, responsibility for funding deficits, and others.

Basis of Accounting

The system of airports operated by the Commission is accounted for as an Enterprise Fund and reported on the accrual basis of accounting. Revenues are recognized when they are earned, and expenses are recognized when they are incurred.

Budgeting Process

As required by Minnesota State Statutes, the Commission adopts an annual operating and capital expenditures budget for purposes of determination of required taxes, if any, to be levied by counties in its jurisdiction. Budgets are established on a departmental basis using the accrual method of accounting.

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

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

MINNEAPOLIS-ST. PAUL METROPOLITAN AIRPORTS COMMISSION

NOTE A

SIGNIFICANT ACCOUNTING POLICIES-CONTINUED

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

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

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

Cash

In accordance with Minnesota Statutes, the Commission maintains deposits at those depository banks which are members of the Federal Reserve System, as authorized by the Commission.

Statement of Cash Flows

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

Deferred Revenue

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

Government Grants in Aid of Construction

Government grants in aid of construction represent the estimated portion of construction costs incurred for which airport aid grants are expected to be paid to the Commission by the United States Government and the State of Minnesota. These amounts are recorded as a receivable and as contributed capital. As assets acquired with grants in aid are depreciated, the related contributed capital is transferred to retained earnings (Note D).

Airports and Facilities

As required under Chapter 500, Laws of Minnesota 1943—the law under which the Commission was created—certain properties, classified as airports and facilities, were contributed by the cities of Minneapolis and Saint Paul. Fee title to the land and improvements remains with the two cities.

Land contributed to the Commission from the cities has been recorded at the cost reported by the cities. Airport improvements and buildings acquired from the cities at the time of the takeover, and similar facilities acquired since that time from United States government agencies, have been recorded principally on the basis of replacement cost, less allowance for depreciation, to reflect sound value as of the date of acquisition. Subsequent additions to the property accounts have been recorded at cost.

It is the Commission's policy to amortize the carrying amount of the properties, including those acquired using government grants in aid, over their estimated useful lives on a straight line basis by annual depreciation charges to income. Estimated useful lives on depreciable assets are as follows:

Airport improvements and buildings	20-40 years
Moveable equipment	3-10 years

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

Passenger Facility Charges

On June 1, 1992, the Commission began collecting Passenger Facility Charges (PFC's). PFC's are fees imposed on enplaned passengers by airport authorities for the purpose of generating revenue for airport projects that increase capacity, increase safety, or mitigate noise impacts. The fee can be set at $1.00, $2.00, or $3.00 per enplaning originating and connecting passengers. The Commission has received approval for a $3.00 PFC to finance projects totalling approximately $68,217,000. The following projects have been approved (in thousands):

A. Upper Level Roadway	$18,261
B. Lower Level Roadway	4,051
C. Ground Transportation Center— East/West	11,655
D. Automated People Movement System	18,991
E. Skyways/Vertical Circulation Towers	14,271
F. Taxiway C Reconstruction	988
	$68,217

PFC's are recorded as non-operating revenue.

Leases

Substantially all airport improvements and buildings are leased or charged to users under various agreements. Certain facilities are leased under self-liquidating lease agreements which require the lessee to pay annual payments equal to the debt service requirements of the bonds issued to construct the facilities, or the debt service requirements which would have been required if bond funds were used. Other facilities at Minneapolis-Saint Paul Airport are charged to user airlines under lease agreements which provide for compensatory rental rates designed to recover agreed-upon portions of costs incurred, including depreciation and interest, in the terminal building, ramp, and runway areas. Other facilities, to the extent they are leased, are leased under conventional agreements, primarily percentage leases. Revenues above costs recovered are used to defray the costs of maintaining reliever airports and public areas at Minneapolis-Saint Paul International Airport. See Note P for additional information regarding transactions with Northwest Airlines, Inc.

Capitalized Interest

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

Reclassifications

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

NOTE B

CASH AND INVESTMENTS

Minnesota Statutes require that all Commission deposits be protected by insurance, surety bond, or collateral. The market value of collateral pledged must equal 110% of the deposits not covered by insurance or bonds (140% for mortgage notes pledged). Authorized collateral includes allowable investments as discussed below, certain first mortgage notes, and certain other state or local government obligations. Minnesota Statutes require that securities pledged as collateral be held in safekeeping by the Commission or in a financial institution other than that furnishing the collateral.

MINNEAPOLIS-ST. PAUL METROPOLITAN AIRPORTS COMMISSION

NOTE B
CASH AND INVESTMENTS—CONTINUED

Cash

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

	December 31 1993	December 31 1992
Financial statement balances	($1,182)	($164)
Bank balances:	$ 220	$ 286

Investments

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

The Commission invests funds as authorized by Minnesota Statutes in direct obligations or obligations guaranteed by the United States or its agencies, general obligations of the State of Minnesota or any of its municipalities, commercial paper rated A1 by Standard & Poor's Corporation or P1 by Moody's, Bankers acceptances of United States banks eligible for purchase by the Federal Reserve System, certificates of deposit issued by official depositories of the Commission, and repurchase agreements with financial institutions.

The Commission's investments at December 31, 1993 are categorized below to give an indication of the level of credit risk assumed. Category 1 includes investments that are insured or registered or for which the securities are held by the Commission or its agent in the Commission's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the Commission's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in the Commission's name. In accordance with Commission policy, Category 3 amounts are securities with a maturity less than seven days from the purchase date.

(In Thousands) Type of Security	Carrying Amount Credit Risk Category 1	2	3	Total	Market Value
December 31, 1993					
U.S. Government and Agencies	$132,807	$		$132,807	$132,885
Commercial Paper	19,404		$ 500	19,904	19,834
	$152,211	$ -	$ 500	152,711	152,719
Mutual Funds				1,525	1,525
Cash on Hand				(1,182)	
Total Cash and Investments				$153,054	$154,244

MINNEAPOLIS-ST. PAUL METROPOLITAN AIRPORTS COMMISSION

NOTE C

RESTRICTED ASSETS AND RESERVED RETAINED EARNINGS FOR FUTURE DEBT SERVICE AND CONSTRUCTION

Minnesota Statutes require the Commission to have a balance on hand in a Debt Service Account on October 10 of every year equal to the amount of principal and interest due on all outstanding bonds for the next 27 months. Cash and investments to meet this requirement plus interest earned thereon are restricted.

Cash and investments segregated as regular construction funds include amounts received from issuance of commission bonds, government grants in aid of construction, Passenger Facility Charges, rental receipts on assets purchased with grants in aid not utilized for aviation, and cumulative interest earned from the investment of such funds. These amounts are used principally for construction at Minneapolis Saint Paul International Airport.

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

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

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

	December 31 1993	December 31 1992
Restricted Assets:		
Cash and Investments		
Debt service	$ 70,749	$ 72,586
Construction:		
Regular	24,730	12,158
Special	40,460	20,029
Other	1,368	1,124
Passenger facility charge receivable	2,377	3,163
TOTAL RESTRICTED ASSETS	**139,684**	**109,060**
Less payables to be paid from restricted cash and investments:		
Debt service	70,749	72,586
Construction	5,481	4,816
Other	1,365	1,122
	77,595	78,524
RESERVED RETAINED EARNINGS	**$ 62,089**	**$ 30,536**

MINNEAPOLIS-ST. PAUL METROPOLITAN AIRPORTS COMMISSION

NOTE D

CHANGES IN FUND EQUITY

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

	Contributed Capital	Retained Earnings Reserved	Retained Earnings Unreserved	Total
Balance January 1, 1992	**$89,369**	**$31,457**	**$193,139**	**$313,965**
Government grants in aid of construction	7,589	0	0	7,589
Net income for the year	0	0	23,221	23,221
Depreciation of facilities provided by government grants	(4,984)	0	4,984	0
Net change in restricted assets and liabilities	0	(921)	921	0
Balance December 31, 1992	**91,974**	**30,536**	**222,265**	**344,775**
Government grants in aid of construction	9,414	0	0	9,414
Net income for the year	0	0	38,997	38,997
Depreciation of facilities provided by government grants	(5,328)	0	5,328	0
Net change in restricted assets and liabilities	0	31,553	(31,553)	0
Balance December 31, 1993	**$96,060**	**$62,089**	**$235,037**	**$393,186**

MINNEAPOLIS-ST. PAUL METROPOLITAN AIRPORTS COMMISSION

NOTE E

AIRPORTS AND FACILITIES

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

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

Airports and Facilities	Balance January 1, 1992	Additions	Transfers In (Out)	Deductions	Balance December 31, 1992
Land	$ 13,928	$ 489	$ 666	$ (2)	$ 15,081
Airport improvements and buildings	414,613	244	48,466	(3,169)	460,154
Moveable Equipment	20,983	1,691	0	(245)	22,429
Projects-in-progress	36,608	32,044	(49,132)	0	19,520
TOTAL AIRPORTS AND FACILITIES	**486,132**	**34,468**	**0**	**(3,416)**	**517,184**
Accumulated depreciation	(204,533)	(17,976)	0	210	(222,299)
NET AIRPORTS AND FACILITIES	**$ 281,599**	**$ 16,492**	**$ 0**	**$(3,206)**	**$ 294,885**

NOTE F

LONG-TERM DEBT

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

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

The Commission has not levied taxes for the payment of debt service since 1969. Since then, Commission revenues have been sufficient to pay principal and interest due on Airport Improvement Bonds and General Obligation Revenue Bonds.

Authority for issuing bonds is obtained from the Minnesota State Legislature. Authorization as of December 31, 1993 permits the issuance of an additional $55 million of bonds.

Bonds Payable, due serially (Dollars in thousands):	Issue Date	Original Amount	Final Payment In	Outstanding as of December 31 1993	Outstanding as of December 31 1992
Airport Improvement Bonds:					
Series 14 - 3.5 to 4.9%	7-1-67	$ 17,000	1997	$ 3,630	$ 4,450
Series 15 - 3.5 to 4.9%	7-1-67	1,000	1997	215	265
Series 16 - 4.25 to 5.0%	1-1-68	16,000	1998	4,460	5,240
Series 17 - 5.5 to 7.0%	9-1-69	5,000	1999	1,830	2,080
Series 19 - 5.5 to 7.0%	3-1-70	12,000	1999	4,620	5,230
Series 20 - 4.5 to 6.0%	10-1-72	5,000	2002	2,425	2,630
				17,180	19,895
General Obligation Revenue Bonds:					
Series 1 - 6.0 to 7.0%—See Note G	7-1-75	10,000	2005	0	6,800
Series 2 - 4.25 to 5.2%	12-1-77	10,000	2002	5,250	5,700
Series 3 - 5.2 to 5.75%	1-1-79	15,000	2000	7,275	8,100
Series 4 - 6.2 to 6.5%	1-1-80	15,300	2002	8,200	9,000
Series 5 - 8.9 to 9.1%	1-1-81	24,500	2002	13,500	15,000
Series 6 - 5.7 to 6.25%-See Note G	12-1-86	30,000	2006	0	23,200
Series 7 - 7.80%	8-1-88	51,150	2015	48,600	49,500
Series 8 - 4.25 to 6.60%	2-1-92	45,000	2011	45,000	45,000
Series 9 - 8.60 to 8.95%	4-1-92	270,000	2022	270,000	270,000
Series 10 - 3.60 to 5.00%	5-1-93	29,025	2006	29,025	0
				426,850	432,300
TOTAL BONDS OUTSTANDING				**444,030**	**452,195**
Net unamortized discount				(1,017)	(1,227)
Deferred loss on refunding—See Note G				(1,120)	0
Accrued interest due				17,559	17,832
				459,452	468,800
Less:					
Prepayments				(26,426)	(24,374)
Payable from restricted assets—debt service				(70,749)	(72,586)
TOTAL BONDS PAYABLE				**$362,277**	**$371,840**

MINNEAPOLIS-ST. PAUL METROPOLITAN AIRPORTS COMMISSION

NOTE F

LONG-TERM DEBT—CONTINUED

Future debt service requirements after December 31, 1993 are as follows (in thousands):

Year/s	Airport Improvement Bonds	General Obligation Revenue Bonds	Total Bonds Outstanding	Interest	Total Principal & Interest
1994	$ 2,850	$ 8,455	$ 11,305	$ 35,005	$ 46,310
1995	3,000	8,660	11,660	34,163	45,823
1996	3,145	8,945	12,090	33,503	45,593
1997	3,305	9,070	12,375	32,812	45,187
1998	2,405	9,440	11,845	32,094	43,939
1999-2022	2,475	382,280	384,755	459,680	844,435
	$ 17,180	**$426,850**	**$ 444,030**	**$ 627,257**	**$ 1,071,287**

Of the future debt service requirements listed above, $345,893,000 of principal and $582,586,000 of interest are leased under agreements with Northwest Airlines, Inc. These lease agreements require the lessee to make annual payments equal to the debt service requirements of the bonds.

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

NOTE G

ADVANCE BOND REFUNDING

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

MINNEAPOLIS-ST. PAUL METROPOLITAN AIRPORTS COMMISSION

NOTE G

BOND REFUNDING—CONTINUED

provide debt service payments until all the General Obligation Revenue Bonds are called on January 1, 1995. The advance refunding met the requirements of an in-substance debt defeasance and the General Obligation Revenue Bonds were removed from the Commission's books. At December 31, 1993, $22,647,000 is being held in escrow in order to pay the remaining maturity of $21,700,000 on General Obligation Revenue Bonds Series 6. As a result of the advance refunding, the Commission reduced its total service requirements by $1,799,318 which resulted in an economic gain (the difference between the present values of the debt service payments on the old and the new debt) in the amount of $1,208,410. The Commission also deferred recognition of a $1,167,000 loss incurred in connection with this refunding through early implementation of GASB Statement No. 23 "Accounting and Financial Reporting for Refunding of Debt Reported by Proprietary Activities" issued December 1993. As a result, the loss has been deferred and will be amortized to interest expense on a straight line basis through January 1, 2006. At December 31, 1993, the unamortized deferred loss netted against bonds payable equals $1,120,000.

NOTE H

CAPITALIZATION OF INTEREST

Total interest costs incurred were $35,331,000 and $29,913,000 in 1993 and 1992, respectively. Interest costs excluded from interest expense and capitalized as part of the costs of constructed assets were $603,000 and $2,258,000 in 1993 and 1992, respectively. Total interest paid was $34,498,000 and $29,932,000 in 1993 and 1992, 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)

	1993	1992
Total minimum lease payments to be received	$ 1,085,945	$ 1,129,538
Less: Allowance for uncollectibles	0	0
Net minimum lease payments receivable	1,085,945	1,129,538
Less: Unearned income	658,739	696,127
Net investment in leases	427,206	433,411
Less: Prepaid principal	4,400	4,260
LEASES RECEIVABLE PER BALANCE SHEET	**$ 422,806**	**$ 429,151**

At December 31, 1993, future minimum lease payments are as follows (in thousands):

Year	Amounts
1994	$ 43,634
1995	$ 43,531
1996	$ 43,241
1997	$ 43,134
1998	$ 41,949
1999-2022	$870,456

MINNEAPOLIS-ST. PAUL METROPOLITAN AIRPORTS COMMISSION

NOTE J

PENSION AND RETIREMENT PLANS

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

1. PUBLIC EMPLOYEES RETIREMENT ASSOCIATION

A. Plan Description

All full-time and certain part-time employees of the Commission (hired after June 30, 1978) are covered by defined benefit pension plans administered by the Public Employees Retirement Association of Minnesota (PERA). PERA administers the Public Employees Retirement Fund (PERF) and the Public Employees Police and Fire Fund (PEPFF), which are cost-sharing, multiple-employer retirement plans. PERF members belong to the Coordinated Plan. Coordinated members are covered by social security. All police officers, fire fighters, and peace officers who qualify for membership by statute are covered by the PEPFF. The payroll for employees covered by PERF and PEPFF for the year ended December 31, 1993 is as follows (in thousands):

	1993
Covered payrolls:	
PERF participants	$ 9,416
PEPFF participants	2,084
Total covered payrolls	**$ 11,500**

The Commission's total payroll was $16,874,737.

PERA provides retirements benefits as well as disability benefits to members and benefits to survivors upon death of eligible members. Benefits are established by state statute and vest after three years of credited service. The defined retirement benefits are based on a member's average salary for any five successive years of allowable service, age, and years of credit at termination of service. Two methods are used to compute benefits for coordinated members. The retiring member receives the higher of step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a coordinated member is 1% of average salary for each of the first ten years and 1.5% for each remaining year. Using Method 2, the annuity accrual rate is 1.5% of average salary coordinated members. For PEPFF members, the annuity accrual rate is 2.5% for each year of service through June 30, 1993. (Effective July 1, 1993, the annual accrual rate for PEPFF is 2.65%.) For PERF members whose annuity is calculated using Method 1, and for all PEPFF members, a full annuity is available when age plus years of service equal 90.

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

B. Contributions Required and Contributions Made

Minnesota Statutes Chapter 353 sets the rates for employer and employee contributions. The Commission makes annual contributions to the pension plans equal to the amount required by state statutes. According to Minnesota Statutes Chapter 356.215

MINNEAPOLIS-ST. PAUL METROPOLITAN AIRPORTS COMMISSION

NOTE J

PENSION AND RETIREMENT PLANS—CONTINUED

Subd. 4(g), the date of full funding required for the PERF and the PEPFF is the year 2020. As part of the annual actuarial valuation, PERA's actuary determines the sufficiency of the statutory contribution rates towards meeting the required full funding deadline. The actuary compares the actual contribution rate to a "required" contributions rate. Current combined statutory contribution rates and actuarially required contribution rates for the plans are as follows:

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

Total contributions made by the Commission for the fiscal year ended December 31, 1993 were as follows (in thousands):

	Contributions		Percentage of Covered Payroll	
	Employee	Employer	Employee	Employer
PERF	$398	$422	4.23%	4.48%
PEPFF	167	250	8.00%	12.00%
Total	$565	$672		

The Commission's contribution for the year ended June 30, 1993 to the PERF represented .4% of total contributions required of all participating entities. For the PEPFF, contributions for the year ended June 30, 1993 represented .8% of total contributions required of all participating entities.

C. Funding Status and Progress

1. Pension Benefit Obligation

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

The measurement of the pension benefit obligation is based on an actuarial valuation as of June 30, 1993. Net assets available to pay pension benefits were valued as of June 30, 1993.

2. Changes in Benefit Provisions

Three bills enacted during the 1993 legislative session improved benefits for many members without a material effect on the pension benefit obligation in the PERF or the PEPFF. The early retirement incentive bill permitted a public employer to offer PERA's Basic and Coordinated members an increase of one-fourth percent (.25%)

MINNEAPOLIS-ST. PAUL METROPOLITAN AIRPORTS COMMISSION

NOTE J

PENSION AND RETIREMENT
CONTINUED

The pension benefit obligation as of June 30, 1993 is shown below (in millions):

	PERF	PEPFF
Total pension benefit obligation	$5,164	$ 932
Net assets available for benefits, at cost (Market Value: $5,688)	4,304	1,091
Unfunded (assets in excess of) pension benefit obligation	$ 860	$ (159)

in the formula multiplier for each year of service, up to the first 30 years, or health insurance coverage to age 65. Also, the survivor protection bill provided benefits to either a surviving spouse or children of PERF Coordinated Plan members who die before age 50. Lastly, the Police and Fire benefit increase bill, which became effective July 1, 1993, permanently increased the PEPFF formula multiplier from 2.5 percent to 2.65 percent of an individual's average salary over the five highest consecutive years of earnings.

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, 1993. 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, 1993 and for the fiscal year ended December 31, 1993, 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, 1993 is as follows (in thousands):

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

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

MINNEAPOLIS-ST. PAUL METROPOLITAN AIRPORTS COMMISSION

NOTE J

PENSION AND RETIREMENT—CONTINUED

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. The 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.

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.

Current required contributed rates are as follows:

	Employee	Employer	Additional Employer
Retirement Contribution	9.25%	8.47%	2.50%
Survivor Benefits	.50%		

Total contributions made by the Commission for the fiscal year ended December 31, 1993 are as follows (in thousands):

1993	Contributions	Percentage of Covered Payroll
Employer	$1,376	27.44%
Employee	$489	9.75%

The Commission's contribution for the year ended June 30, 1993 represented 7.16% of the total contributions required of all participating entities.

NOTE J
PENSION AND RETIREMENT CONTINUED

C. Funding Status and Progress

Pension Benefit Obligation

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

The pension benefit obligation as of June 30, 1993 is shown below (in millions):

	1993
Total pension benefit obligation	$1,135
Net assets available for benefits, at lower of cost or market value: $935	812
Unfunded pension benefit obligation	$ 323

The measurement of the pension benefit obligation is based on an actuarial valuation as of June 30, 1993. Net assets available to pay pension benefits were valued as of June 30, 1993.

No changes in actuarial assumption that would significantly affect the valuation of the pension benefit obligation occurred during 1993.

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, 1993. 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, 1993 and for the fiscal year ended December 31, 1993, MERF held no securities issued by the Commission or other related parties.

NOTE K

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 Commision will then pay 100% of the premium for the retired employee, spouse over age 65, and legal dependents, provided that the retired employee is receiving benefits from either MERF or PERA, and is enrolled in Medicare A and B as their primary health insurance. As of January 1, 1991, all employees hired by the Commission will only be able to participate

NOTE K

POST-EMPLOYMENT BENEFITS CONTINUED

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, 1993 and 1992 is presented below (in thousands):

	1993	1992
Health Insurance	$429	$461
Retired Employees	117	109

NOTE L

DEFERRED COMPENSATION PLAN

The Commission offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all Commission employees, permits employees to defer up to 25% of salary, limited to $7,500 per year. Amounts deferred are available to employees or beneficiaries only at termination, retirement, death, or unforeseeable emergency. Amounts deferred are placed with a trustee for investment purposes. Investments deposited for deferred compensation benefits are valued at fair market value.

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

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

NOTE M

ARBITRAGE

Every five years, the Commission is required to rebate arbitrage profits earned in relation to General Obligation Revenue Bond Series 6, 7 and 8 and 10. Arbitrage profits are earned when investment income relating to these issues exceeds the yield on the bonds. The Commission has recorded a liability in accrued expenses for the years ended December 31, 1993 and 1992 of $97,759 and $645,369, respectively.

NOTE N

RISK MANAGEMENT

It is the policy of the Commission to act as a self-insurer for workers' compensation and health/dental claims. The liability recorded under Employee Compensation and Payroll Taxes by the Commission includes estimated settlements for claims reported but not settled as of December 31, 1993, as well as an estimate of claims incurred but not reported.

NOTE O

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 $25,090,125 at December 31, 1993.

MINNEAPOLIS-ST. PAUL METROPOLITAN AIRPORTS COMMISSION

NOTE P

MAJOR CUSTOMER

Northwest Airlines, Inc. ("NAI") is a Minnesota corporation in the business of transporting by air, passengers, mail and property. Northwest Aerospace Training Corporation ("NATCO") is a Minnesota corporation in the business of pilot training. Both NAI and NATCO are wholly owned by NWA Inc., a Delaware corporation ("NWA"). In July 1989, NWA acquired was by Wings Holdings Inc., a Delaware corporation ("Wings"). In December 1993, Wings changed its corporate name to Northwest Airlines Corporation ("NWA Corp."). NAI is the fourth largest airline in the United States and is one of the largest private employers in the State of Minnesota. NAI operates both domestic and international air route systems. Minneapolis-St. Paul International Airport is one of NAI's three major hubs. Revenues from NAI account for approximately 30% of operating revenues and 73% of total revenues from major airlines.

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

The financial condition of NWA Corp. and the Northwest entities on a consolidated basis is material to the ability to perform their rental and other payment obligations to the Commission under various agreements. Leases and accounts receivable from the Northwest entities represent 46% of the Commission's total assets at December 31, 1993.

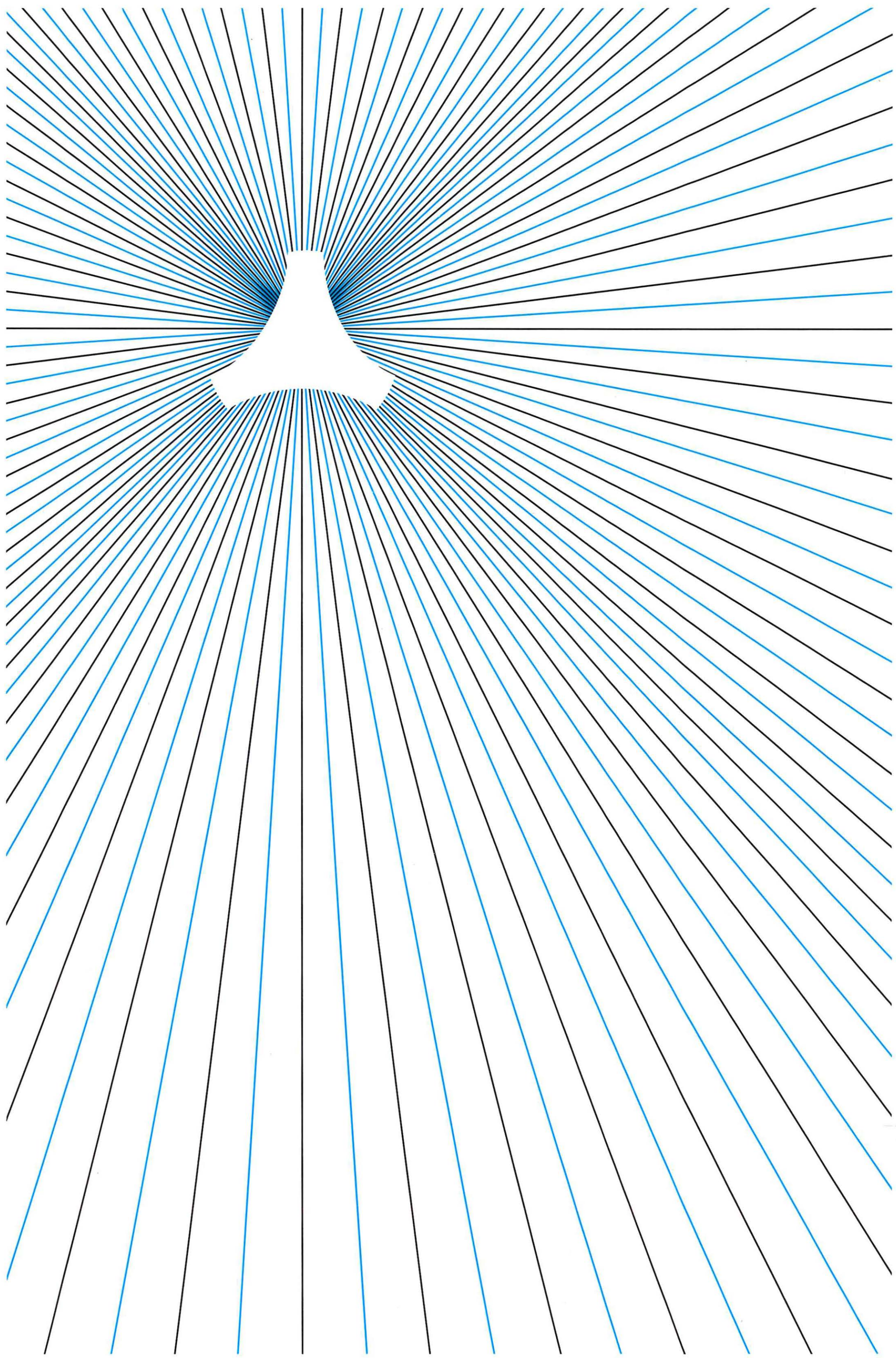
For the years ended December 31, 1993 and December 31, 1992, the Northwest entities and NWA Corp. had audited consolidated net losses of approximately $115 million and $1.079 billion. On December 31, 1993, the Northwest entities' and NWA Corp.'s audited total consolidated assets were $7.571 billion and their total audited consolidated liabilities were $9.602 billion, resulting in the Northwest entities' and NWA Corp.'s audited consolidated net deficit of $2.031 billion. In the event that the Northwest entities or NWA Corp. are unable to meet their lease commitments, the Commission has the authority to levy property taxes to support the debt obligations on the Bonds.

NOTE Q

SUBSEQUENT EVENT

On February 1, 1994, the Commission issued $5,625,000 of Airport Improvement Refunding Bonds Series 22. The proceeds of the Series 22 Bonds will be used to refund 1994-1999 maturities, totaling $1,830,000 of the Commission's $4,590,000 Airport Improvement Bonds, Series 17, dated September 1, 1969 and the 1994-1999 maturities, totaling $4,620,000 of the Commission's $11,240,000 Airport Improvement Bonds, Series 19, dated March 1, 1970.

Statistical Section



Total Annual Revenues 1984-1993

MINNEAPOLIS-ST. PAUL METROPOLITAN AIRPORTS COMMISSION

(Dollars in Thousands)

	1984	1985	1986
Traffic	$ 9,176	$ 11,330	$ 12,213
Concessions	18,582	21,555	23,425
Rentals	7,552	8,281	8,745
Other	1,139	1,223	1,562
Total Operating Revenues	**36,449**	**42,389**	**45,945**
Add: Interest Income	14,836	13,248	13,398
PFC Revenue			
Gain on sale of Airports and Facilities			
Total Revenues	**$ 51,285**	**$ 55,637**	**$ 59,343**

Source: Audit reports for the last ten years.

Total Annual Expenses 1984-1993

(Dollars in Thousands)

	1984	1985	1986
Personnel	$ 10,671	$ 12,430	$ 12,217
Administrative Supplies and Expenses	252	762	76
Professional Services	1,141	1,339	2,014
Utilities	3,089	3,308	3,134
Operating Services	3,346	3,899	4,048
Maintenance:			
Building	1,106	1,408	1,405
Field	952	1,426	1,256
Equipment	362	569	481
Cleaning	1,370	1,521	1,600
Depreciation	8,624	9,297	10,217
Other	(92)	273	526
Total Operating Expenses	**30,821**	**36,232**	**36,974**
Interest Expense—1	6,932	5,889	6,013
Loss on Building Disposition		452	
Total Expenses	**$37,753**	**$42,573**	**$42,987**

Source: Audit reports for the last ten years.

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

1987	1988	1989	1990	1991	1992	1993
$ 13,258	$ 12,872	$ 14,005	$ 16,176	$ 18,481	$ 19,634	$ 21,082
24,433	23,554	25,062	26,206	26,405	28,882	32,626
10,185	11,906	12,179	12,330	13,348	14,228	14,915
1,618	1,883	1,221	2,233	2,205	2,603	2,506
49,494	**50,215**	**52,467**	**56,945**	**60,439**	**65,347**	**71,129**
13,933	15,257	16,243	15,744	15,838	34,238	40,572
					14,607	28,596
	1,081					
$ 63,427	**$ 66,553**	**$ 68,710**	**$ 72,689**	**$ 76,277**	**$ 114,192**	**$ 140,297**

1987	1988	1989	1990	1991	1992	1993
$ 14,784	$ 15,116	$ 17,551	$ 19,153	$ 21,168	$ 22,308	$ 22,739
414	406	512	715	668	923	966
2,193	3,063	3,229	3,043	3,731	4,813	4,984
3,072	3,809	3,704	4,070	3,665	4,412	4,974
3,281	3,600	4,272	5,074	5,581	5,907	5,809
1,542	1,813	1,732	1,906	1,420	1,448	1,523
1,134	971	980	941	1,328	832	905
348	515	980	1,142	1,306	1,313	1,607
1,790	2,152	2,452	2,774	2,949	3,495	3,371
11,500	12,461	11,807	14,662	16,214	17,976	19,258
731	150	283	566	276	0	352
40,789	**44,056**	**47,502**	**54,046**	**58,306**	**63,427**	**66,488**
7,050	7,640	7,058	7,943	9,430	27,544	34,812
$47,839	**$51,696**	**$54,560**	**$61,989**	**$67,736**	**$90,971**	**$101,300**

Operating Ratio 1983-1992

MINNEAPOLIS-ST. PAUL METROPOLITAN AIRPORTS COMMISSION

(Dollars in Thousands)	1984	1985	1986
Operating Expense—2	$ 22,197	$ 26,935	$ 26,757
Operating Revenues	36,449	42,389	45,945
Operating Ratio	61%	64%	58%

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

Revenue Available for Debt Service 1984-1993

(Dollars in Thousands)	1984	1985	1986
Operating Revenue	$ 36,449	$ 42,389	$ 45,945
Interest Income	14,836	13,248	13,398
Operating Expense—1	(22,197)	(26,935)	(26,757)
Revenue available for debt service	$ 29,088	$ 28,702	$ 32,586
Debt service	$ 13,997	$ 13,892	$ 13,930
Coverage of debt service	2.08	2.07	2.34

1—Operating expense excludes depreciation.

Ratio of Annual Debt Service to Total Expenses 1984-1993

(Dollars in Thousands)	1984	1985	1986
Principal	$ 6,830	$ 7,080	$ 7,460
Interest—1	7,167	6,812	6,470
Total Debt Service	$ 13,997	$ 13,892	$ 13,930
Total Expenses	$ 37,753	$ 42,573	$ 42,987
Ratio of Debt Service to Total Expenses	37%	33%	32%

1—Does include capitalized interest.

1987	1988	1989	1990	1991	1992	1993
$ 29,289	$ 31,595	$ 35,695	$ 39,384	$ 42,092	$ 45,451	$ 47,230
49,494	50,215	52,467	56,945	60,439	65,347	71,129
59%	63%	68%	69%	70%	70%	66%

1987	1988	1989	1990	1991	1992	1993
$ 49,494	$ 50,215	$ 52,467	$ 56,945	$ 60,439	$ 65,347	$ 71,129
13,933	15,257	16,243	15,744	15,838	34,238	40,572
(29,289)	(31,595)	(35,695)	(39,384)	(42,092)	(45,451)	(47,230)
$ 34,138	$ 33,877	$ 33,015	$ 33,305	$ 34,185	$ 54,134	$ 64,471
$ 15,422	$ 16,672	$ 19,010	$ 17,776	$ 18,466	$ 38,618	$ 44,221
2.21	2.03	1.74	1.87	1.85	1.40	1.46

1987	1988	1989	1990	1991	1992	1993
$ 7,545	$ 7,545	$ 8,035	$ 7,295	$ 8,500	$ 8,705	$ 8,890
7,892	9,127	10,975	10,481	9,966	29,913	35,331
$ 15,437	$ 16,672	$ 19,010	$ 17,776	$ 18,466	$ 38,618	$ 44,221
$ 47,839	$ 51,696	$ 54,560	$ 61,989	$ 67,736	$ 90,971	$101,300
32%	32%	35%	29%	27%	42%	44%

Activity Statistics for Minneapolis—St. Paul International Airport 1984-1993

MINNEAPOLIS-ST. PAUL METROPOLITAN AIRPORTS COMMISSION

	1984	1985	1986
Total Passengers—1	12,039,411	14,803,833	17,073,605
Aircraft Operations—2	337,838	372,911	389,012
Mail and Cargo Volumes (Metric Tons)	139,859	144,925	199,319

Source: Metropolitan Airports Commission Activity Report.

1—Statistical reporting requirements were revised as follows:
—In 1986, on-line connecting passengers were included in the totals. 1984-1985 were restated to reflect this change.
(On-line connecting passengers are passengers that change to another flight on the same carrier.)

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

Aircraft Operations at the Reliever Airports 1984-1993

	1984	1985	1986
St. Paul Downtown Airport .	103,118	112,019	124,786
Flying Cloud Airport	165,542	176,246	191,350
Crystal Airport	140,704	143,665	152,773
Anoka County/Blaine Airport	145,000	160,000	165,000
Lake Elmo Airport	92,000	82,000	70,000
Airlake Airport	23,000	35,000	40,000
Total Aircraft Operations at the Reliever Airports	669,364	708,930	743,909

Source: Metropolitan Airports Commission Activity Report.

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

1987	1988	1989	1990	1991	1992	1993
17,858,984	17,733,837	18,346,095	19,167,427	19,336,533	21,407,415	22,070,715
373,660	373,851	364,030	379,785	382,017	413,502	439,990
206,799	246,734	241,725	266,824	272,328	302,201	320,893

1987	1988	1989	1990	1991	1992	1993
135,397	151,869	166,436	190,333	168,450	152,378	132,531
209,423	186,699	207,661	227,408	186,496	198,306	218,745
165,367	172,074	177,679	189,910	173,150	179,546	183,554
180,000	200,000	212,000	215,000	195,650	195,650	195,650
63,000	65,000	65,000	66,950	69,950	69,950	69,950
52,000	64,000	66,000	67,980	74,745	81,087	81,087
805,187	839,642	894,776	957,581	868,441	876,917	881,517

Schedule of Airline Rates and Charges 1983-1992

MINNEAPOLIS-ST. PAUL METROPOLITAN AIRPORTS COMMISSION

	1984	1985	1986
Landing Fee/1000 lbs.	$ 0.47	$ 0.57	$ 0.55
Ramp Fees/Lineal Foot	$185.07	$185.64	$178.83
Terminal Building Rentals:			
Common Use/Square Foot	$ 13.10	$ 14.13	$ 13.79
Finished/Square Foot	11.39	12.30	11.84
Finished Janitored/ Square Foot	15.57	16.89	16.68
Unfinished/Square Foot . .	10.90	11.82	11.38

Source: Compensatory Rental Report.

Population of Seven County Metropolitan Area 1984-1993

1984	1985	1986
2,057,157	2,086,356	2,118,445

Source: Metropolitan Council
N/A—Not Available

1987	1988	1989	1990	1991	1992	1993
$ 0.65	$ 0.62	$ 0.58	$ 0.65	$ 0.77	$ 0.77	$ 0.79
$177.01	$186.48	$310.20	$306.76	$317.97	$300.06	$333.73
$ 15.15	$ 16.06	$ 17.39	$ 17.60	$ 19.49	$ 20.46	$ 21.78
12.68	14.06	17.39	17.60	19.49	20.46	21.78
18.32	18.76	22.22	22.24	24.89	27.51	27.78
12.24	13.56	17.39	17.60	19.49	20.46	21.78

1987	1988	1989	1990	1991	1992	1993
2,153,533	2,200,321	2,240,850	2,288,721	2,318,532	2,352,121	N/A

Schedule of Insurance Coverage

MINNEAPOLIS-ST. PAUL METROPOLITAN AIRPORTS COMMISSION

Insurer	Expiration	Coverage	Policy Limits (Thousands of Dollars)
Arkwright Insuranc	1-1-95	Blanket Fire and Extended coverage on buildings and contents. Heavy equipment, boiler, machinery and Builder's Risk.	$286,700
Self-Insured Sedgwick-James Third Party Admin.	3-1-94	Statutory Workers' Compensation	$100/500/100
Fidelity & Deposit Company of Maryland	3-1-94	Comprehensive Crime Employee Bond	$1,000
Associated Aviation Underwriters	12-23-94	General Aviation Liability including personal injury	$300,000
Chubb	1-1-95	Auto Liability and physical coverage and hired automobiles.	$1,000 Per Occurrence
Chubb	1-1-95	Garage keepers liability	$5,000
Chubb	1-1-95	Valet parking	$5,000
Chubb	1-1-95	Fleet physical damage	Values over $50

MINNEAPOLIS-ST. PAUL METROPOLITAN AIRPORTS COMMISSION

At the end of 1993, major scheduled airlines serving the Twin Cities were:

America West
American Airlines
Continental Airlines
Delta Airlines
Northwest Airlines
TWA
United Airlines
USAir

Commuter service offers an extensive feeder route system to MSP International for connecting flights. Regional/Commuter airlines serving Minneapolis/Saint Paul at the end of 1993 were:

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

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

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