Minneapolis-St. Paul, Minnesota

Metropolitan Airports Commission

Comprehensive Annual Financial Report

Year Ended December 31, 1997

Minneapolis-St. Paul, Minnesota

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Comprehensive Annual Financial Report

Year Ended December 31, 1997

Prepared by The Finance Department

Stephen L. Busch, Director of Finance

Chairman:	Pierson Grieve
Commissioners:	
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District B	Daniel Johnson
District C	John Himle
District D	Alton Gasper
District E	Edward Fiore
District F	Darwin Reedy
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District H	Louis Miller
City of Minneapolis	Steve Cramer
City of Saint Paul	Dick Long
Representing Greater Minnesota Area:	Carl D'Aquila
	John Kahler
	Paul Rehkamp
	Georgiann Stenerson
Executive Director:	Jeffrey Hamiel

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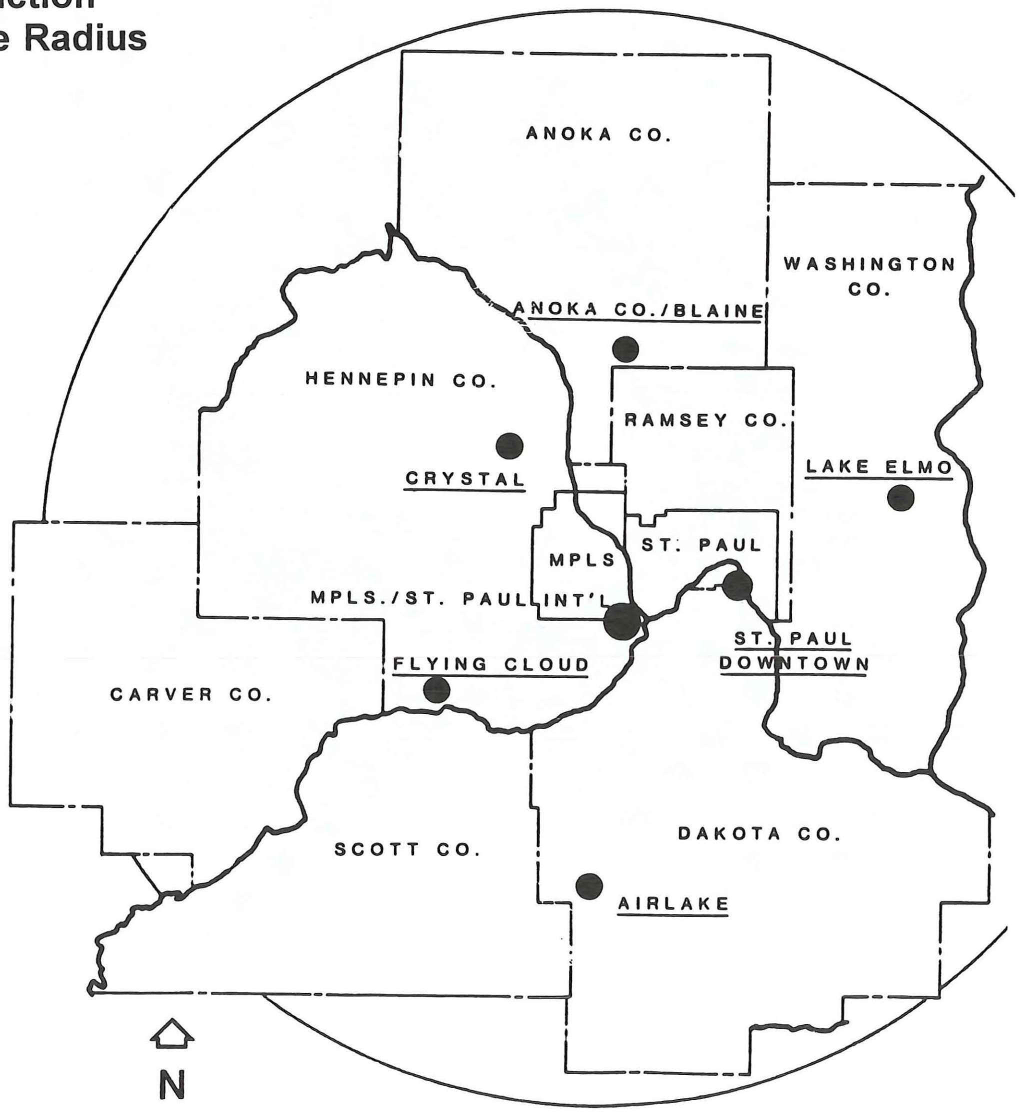

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OFFICE OF EXECUTIVE DIRECTOR

March 6, 1998

To The Public:

The Comprehensive Annual Financial Report of the Metropolitan Airports Commission, Minneapolis-St. Paul, Minnesota, for the fiscal year ended December 31, 1997, is hereby submitted. Responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures rests with the Commission. To the best of our knowledge and belief, the enclosed data is accurate in all material respects and reported in a manner designed to present fairly the financial position and results of operations of various funds and account groups of the Commission. All disclosures necessary to enable the reader to gain an understanding of the Commission's financial activities have been included.

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

The Commission is required to undergo an annual single audit in conformity with the provisions of the Single Audit Act of 1996 and the U.S. Office of Management and Budget, Circular A-133, Audits of States and Local Governments. Information related to this single audit including the Schedule of Federal Financial Assistance, findings and recommendation, and auditors report on the internal control structure and compliance with applicable laws and regulations are issued as a separate report. The Commission is also required to undergo an audit on the Commission's compliance with the regulations issued by the Federal Aviation Administration of the U.S. Department of Transportation to implement Sections 9110 and 9111 of the Aviation Safety and Capacity Expansion Act of 1990 in relation to Passenger Facility Charge revenues and expenses. These reports are issued separately.

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

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

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

The facilities at Airlake, Anoka County/Blaine, Crystal, Flying Cloud, and Lake Elmo are classified as minor use airports. Control towers are operational at Crystal, Anoka County/Blaine and Flying Cloud airports. The St. Paul Downtown airport serves as the primary corporate reliever and is classified as an intermediate airport.

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

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

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

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

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

ECONOMIC CONDITION AND OUTLOOK

Passengers

Total passengers at MSP increased 5.49% from 1996 levels. Total MSP passengers for 1997 were 28.8 million. The increase in passengers was a result of additional passengers carried by the major and regional airlines as well as on-line connecting passengers flying with Northwest Airlines. The top five air carriers in 1997, by enplaned passengers, serving MSP are shown below. The total enplaned passengers for 1997, including connecting, was 14,335,640.

Carrier	Enplaned Passengers	% of Total
Northwest	10,699,343	74.6%
Mesaba	628,268	4.4
United	496,162	3.5
American	363,050	2.5
Delta	322,311	2.2
	12,509,034	87.2%

Operations
Aircraft operations increased in 1997 to 491,273 from 485,480 the previous year, up 1%. While the number of major airline flights remained at 298,000 for both 1996 and 1997, operations by regional, charter and air freight carriers posted declines in 1997. Increases were posted by military and general aviation flights.

At the Reliever airports, operations decreased 10.1% from 1996 levels. Flooding at St. Paul Downtown Airport closed the airport for a number of days in 1997, as well as a harsh winter in the early months of 1997 contributed to this decrease.

MAJOR INITIATIVES FOR THE YEAR

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

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

The five objectives for 1997 are:

MSP DEVELOPMENT

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

During 1996, the Minnesota Legislature directed the MAC to implement the 2010 Long Term Comprehensive Plan for MSP. Key elements of the 2010 Plan include development of a new runway (runway 17-35) and continued development of terminal facilities.

Development of the new runway has involved continued work, in cooperation with the FAA, of an Environmental Impact Statement (EIS). A draft of the final EIS is currently under preparation and should receive final federal and state approval in early 1998. Activities are also underway to develop a configuration for replacement cargo and hangar facilities on the west side of the airport. Actions in the terminal area have focused on the development of additional public parking spaces and the provision of additional airline gates by extending the Green concourse to the southeast. Design for each of these facilities is currently underway; it is expected that construction will begin in 1998; additional studies are also underway to evaluate follow-on development phases, particularly for future gate expansion.

CUSTOMER SERVICE AND SATISFACTION

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

During 1997, the MAC created a customer satisfaction team to direct organizational efforts toward proactive management of customer relationships. The team focused on identifying customer requirements, drivers of customer satisfaction, creating a "Family of Measures" for use in assessing organizational performance. The "Family" is subject to refinement as the MAC develops its system for defining and measuring customer satisfaction.

Secondly, the team initiated basic customer input systems, developing and deploying a "Customer Feedback Form," complaint analysis and a "Customer Comment Card."

In a parallel 1997 effort, MAC approved a Strategic Plan containing a goal (#2) "To provide world-class, customer orientated transportation facilities at MSP."

In 1998, while responding to a Commission directive to significantly improve MSP's Survey America Travel Trek scores, MAC will evolve its customer feedback systems, develop measures to access Strategic Plan accomplishments and further refine performance measurement with respect to customer satisfaction. Also, MAC is poised to survey customer segments as part of determining customer expectations and performance baselines preliminary to setting continuous improvement goals.

STRATEGIC PLANNING IMPLEMENTATION

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

An annual planning cycle has been established to implement MAC's strategic plan, which includes ten organizational goals for the next three to five years. Each of the goals contains specific objectives and the desired outcome for each objective. Annual planning will be accomplished by cascading the strategic goals and objectives with desired outcomes into the organization for short term departmental planning. Beginning in 1998. A strategic fit review will be conducted during the planning cycle to ensure organizational alignment and to allocate resources. Semi-annual updates on results achieved will be given to employees and the Commission. Progress results as well as changing conditions will be used to regularly update the strategic plan.

COST MANAGEMENT

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

In order to maintain an operating cost per enplaned passenger below the large hub average, operating expenses and services provided must be evaluated and controlled. In the 1998 budget, as in the 1997 budget, the focus was on providing resources to areas most affected by activity. In 1997 over 60% of the service centers were held to 0% change or a decrease and in 1998 over 50% were held to 0% change or a decrease in expenses. Staff continued to evaluate all areas in order to control costs. Some of the areas recommended for change include:

Personnel – In order to add positions, most areas (unless directly affected by activity) needed to show a corresponding decrease elsewhere in their budget.

Utilities – Staff is proceeding to bid out both natural gas and electricity in order to reduce the continually rising costs of these areas.

Processes – In late 1997 staff initiated two major process improvement projects. These were Purchasing and Lease Management. Based on preliminary information provided, both of these areas should show a "significant" increase in efficiencies and also overall cost savings.

In 1998 the Capital Plan Process (CIP) will likely be evaluated. With the addition of an internal auditor, internal processes will be evaluated more frequently to ensure continued efficiency increases. In addition, a number of areas go through continuous evaluations in order to make sure they are as efficient as possible.

PERFORMANCE PLANNING AND MANAGEMENT

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

The strategic plan completed in 1997 provides the foundation for further development of an integrated performance planning and management system to improve the linkage between organizational, department and individual planning. Developing performance planning methods that link strategic objectives with critical performance measures will strengthen our management of the organization.

By April 1998, planning tools will be developed and rolled out to departments through training for their short and long range planning efforts. An accountability system which includes two way performance feedback and individual development planning will be integrated into the planning system later for use throughout the organization to improve communication, assure employee involvement during the planning process, provide direction and support throughout the year and to track progress on organizational, department and individual plans.

The strategic plan for the Metropolitan Airports Commission was completed in 1997. The plan includes ten goals which will be used to set the direction for the Commission over the next three to five years. Each year the plan will be reviewed and revised to include one additional year. Progress results as well as changing conditions will be used to regularly update the strategic plan. An accountability system which includes two way performance feedback and individual development planning will be integrated into the planning system later for use throughout the organization to improve communication, assure employee involvement during the planning process, provide direction and support throughout the year and to track progress on organizational, department and individual plans. A strategic fit review will be conducted during the planning cycle to ensure organizational alignment and to allocate resources. Semi-annual reports on results achieved will be given to employees and the Commission. The following is a list of MAC's ten strategic goals with plan objectives and expected outcomes for each objective. Beginning in 1998, this information will be used to do departmental and individual planning and to allocate resources through MAC's annual budgeting process. By April 1998, planning tools will be developed and rolled out to departments through training for their short and long range planning efforts.

GOAL 1. To operate a safe and secure airport system.
Leader: Tim Anderson, Deputy Executive Director - Operations

Objective A. Develop and implement a comprehensive airport safety program on each of MAC's airports for employees, passengers and airfield users.
Expected Outcome: Reduced number of injuries on our airports.

Objective B. Maintain and upgrade the security of the airports.
Expected Outcome: Increased compliance with security requirements and decreased criminal offense incidences.

Objective C. Develop strategies to minimize property and equipment damage.
Expected Outcome: Reduced costs and equipment downtime.

GOAL 2. To provide world class, customer-oriented transportation facilities at MSP.
Leader: Tim Anderson, Deputy Executive Director - Operations

Objective A. Continuously improve the customer experience.
Expected Outcome: Improved image of MSP.

Objective B. Maintain and upgrade existing airside and landside facilities.
Expected Outcome: Maximized life of existing facilities.

Objective C. Provide additional facilities through the implementation of the 2010 Plan to support growth and economic vitality.
Expected Outcome: Facilities in place to meet demand.

GOAL 3. To build and strengthen a productive and rewarding work environment that demonstrates trust and respect.
Leader: David Bergsven, Deputy Executive Director of Human Resources

Objective A. Attract and retain a qualified, diverse work force.
Expected Outcome: Employees who can accomplish tasks which support MAC's goals.

Objective B. Provide resources necessary for employees to do their jobs.
Expected Outcome: Maximized potential to achieve organizational goals.

Objective C. Continuously improve internal customer service.
Expected Outcome: Improved working relationships between departments.

Objective D. Improve employee job satisfaction and recognition.
Expected Outcome: A work force that understands their value to the organization.

Objective E. Review existing policies and procedures.
Expected Outcome: Understandable and accessible information on organization-wide Human Resource and Administrative policies and procedures.

Objective F. Establish sound employee relations practices.
Expected Outcome: Practices that ensure consistency, fairness and accountability.

GOAL 4. To communicate proactively and effectively.
Leader: Wendy Burt, Public Information Officer

Objective A. Strengthen internal communications.
Expected Outcome: Information shared at the organizational, department and inter-department levels.

Objective B. Enhance our public image.
Expected Outcome: Positive public perception of our Airport System.

Objective C. Provide necessary technology for improved communications.
Expected Outcome: Access for all.

GOAL 5. To contribute to the economic vitality of the region by expanding and improving air service.
Leader: Jeff Hamiel, Executive Director

Objective A. Develop a strategic marketing plan for MAC's airport system.
Expected Outcome: Increased passenger/cargo air service at MSP.

GOAL 6. To meet the capital development, operating and debt service requirements of the airport system while preserving our financial strength.
Leader: Denise Kautzer, Deputy Executive Director of Administration

Objective A. Provide creative, responsible funding for completion of the 2010 plan.
Expected Outcome: Funding in place to accomplish 2010 Plan.

Objective B. Maximize all sources of revenue and maintain competitive rates and charges.
Expected Outcome: Airline cost/enplanement in lower ⅓ of major airports; increased operating revenue/enplanement over previous year; increased concession revenue/enplanement over previous year.

Objective C. Provide cost effective services.
Expected Outcome: Debt/enplaned passenger, operating cost/enplaned passenger, and enplanements/employee figures compare favorably to industry averages.

GOAL 7. To maximize the utilization of the Reliever Airport System.
Leader: Tim Anderson, Deputy Executive Director of Operations

Objective A. Improve financial viability of the airports.
Expected Outcome: Reduced dependence on MSP subsidy.

Objective B. Ensure compatible and orderly development of Airport land and establish guidelines for the use of airport facilities.
Expected Outcome: Effective use of limited resources.

Objective C. Improving customer service.
Expected Outcome: Improved image of Reliever Airports.

Objective D. Strengthen community relations.
Expected Outcome: Reliever Airports valued by surrounding communities.

Objective E. Develop marketing plan(s).
Expected Outcome: Targeted utilization of Reliever Airport System.

GOAL 8. To strengthen partner and stakeholder relationships.
Leader: Gordy Wennerstrom, Director of Commercial Management and Airline Affairs

Objective A. Develop specific strategies to strengthen relationships.
Expected Outcome: Minimized conflicts through collaborative efforts.

GOAL 9. To continue our leadership in environmental mitigation.
Leader: Nigel Finney, Deputy Executive Director of Planning and Environment

Objective A. Develop and maintain good working relationships with the public, affected communities, and regulatory agencies.
Expected Outcome: Cooperative environment that allows airport development and operation.

Objective B. Develop and implement a noise mitigation program for each MAC airport.
Expected Outcome: Reduced off-airport noise impacts.

Objective C. Implement a Water Quality Management Program at each MAC airport in coordination with affected tenants.
Expected Outcome: Minimal water quality impacts on surrounding areas.

Objective D. Integrate mitigation programs/procedures with each development project.
Expected Outcome: Minimal project impacts.

Objective E. Coordinate environmental review and audit procedures with planning and development activities.
Expected Outcome: Maximum compliance with environmental regulations.

GOAL 10. A commitment to excellence through strategic planning.
Leader: Jeff Hamiel, Executive Director

Objective A. Develop an integrated process which ensures the implementation of strategic planning.
Expected Outcome: An annual strategic planning cycle that integrates department and individual planning and links with the budget and CIP processes.

Objective B. Develop appropriate evaluation measures to track progress, review and update.
Expected Outcome: Progress tracked through measurement.

Objective C. Develop and implement an internal and external process for communicating the strategic plan.
Expected Outcome: All MAC employees, commissioners and stakeholders are knowledgeable about MAC's direction and progress on the strategic plan.

POST-RETIREMENT MEDICAL BENEFITS

In August 1996, the Commission approved the recording and funding of the post-retirement medical benefits. The cost of this 20 year program is estimated at $2,794,000 per year, beginning January 1997. Slightly over 50% of this costs will be reimbursed through airline rates and charges.

FINANCIAL INFORMATION

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

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

BUDGETING CONTROLS

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

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

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

A monthly budget variance analysis, as required by Commission by-laws, reports significant variations from the adopted plan and directs management action for correction as required. A system of purchase requisitions, purchase orders and authorized signature approvals provide the basis for positive management responsibility and control for each of the budget line items.

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

REVENUES AND EXPENDITURES

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

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

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

For the year ended December 31, 1997, the aggregate rentals received by the Commission pursuant to the airline lease agreement were approximately $37,298,000. The annual rentals due under each lease may be adjusted each year to reflect actual costs of the airport. The airline lease agreement will remain in effect until its expiration date of December 31, 1997.

Other Building and Miscellaneous Leases
The other building and miscellaneous leases relate to rentals and other fees associated with the Hubert H. Humphrey International Charter Terminal, miscellaneous hangar facilities, office rentals for tenants located in the West Terminal area, and non-airline tenants in the Lindbergh Terminal. For the year ended December 31, 1997, the aggregate annual rentals under these leases were approximately $8,150,000.

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

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

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

For the year ended December 31, 1997, the aggregate lease payments paid to the Commission under specific project leases were approximately $80,673,000.

Concession Agreements

The Commission has entered into separate concession agreements with various firms to operate concessions inside the terminal buildings at the airport including, among others, food and beverage services, newsstands, advertising, amusements/games, insurance, personal service shops, and telephones. For the year ended December 31, 1997, the aggregate fees paid to the Commission under the existing inside concession agreements were approximately $8,103,000. Such fees are computed on the basis of different percentages of gross sales for the various types of concessions, with the larger concessions guaranteeing a minimum payment each year.

Concession agreements for rental car agencies require such concessionaires to pay fees based on a percentage of their gross revenues and special charges such as parking fees and a per-square-foot land rental. The Commission also has a management contract with a firm for the operation of the airport parking lot and garage facilities. For the year ended December 31, 1997, the aggregate fees paid to the Commission under the existing rental car agreements and parking lot management contract were approximately $41,144,000. Of this amount, parking revenue was approximately $31,675,000 and auto rental revenue was approximately $9,469,000.

Miscellaneous and Reliever Airports

In addition to the above agreements, the Commission enters into various other leases and agreements. These include reliever airport tenant leases, utility charges, ground space rentals, office rentals for commuter airlines and concessionaires, computer and general aviation fees, taxicab licenses, and other miscellaneous amounts. For the year ended December 31, 1997, the revenues from these agreements were approximately $11,366,000.

Operating Revenue

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

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

During 1997 MAC operating revenues increased by 0.79% to $106,061,000 from $105,232,000 in 1996. Changes in major categories are summarized below (dollars in thousands):

	1997		1996		Dollar	Percent
	$	%	$	%	Change	Change
Airline Rates & Charges	$ 41,838	39.45%	$ 35,647	33.88%	$6,191	17.37%
Concessions	52,279	49.29	47,872	45.49	4,407	9.21
Other Revenue:						
Operating Lease Settlement	0	0.00	9,326	8.86	(9,326)	(100.00)
Utilities	1,516	1.43	1,584	1.51	(68)	(4.29)
Miscellaneous	10,428	9.83	10,803	10.26	(375)	(3.47)
Operating Revenues	**$106,061**	**100.00%**	**$105,232**	**100.00%**	**$ 829**	**0.79%**

Airline rates and charges increased $6,191,000 or 17.4% primarily because of landing fees. Landing fees are calculated on a breakeven basis 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 personnel (overtime and post-retirement medical benefits) and depreciation costs related to capital improvement projects.

Concessions increased $4,407,000 or 9.21%. The majority of the increase from 1996 levels is in the auto parking concession. This is a result of an increase in the utilization of the MAC's parking facilities coupled with a price increase during 1997 and an increase in average length of stay.

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

Operating Expense

In 1997, MAC operating expenses increased by 15.64% to $93,937,000 from $81,232,000 in 1996. Changes in major categories are summarized below (dollars in thousands):

	1997		1996		Dollar	Percent
	$	%	$	%	Change	Change
Personnel	$30,653	32.63%	$26,341	32.43%	$ 4,312	16.37%
Administrative & Expenses	1,108	1.18	1,028	1.27	80	7.78
Professional Services	4,069	4.33	4,040	4.97	29	0.72
Utilities	5,889	6.27	6,106	7.52	(217)	(3.55)
Operating Services	9,935	10.58	8,705	10.72	1,230	14.13
Maintenance	8,809	9.38	8,007	9.86	802	10.02
Depreciation	33,304	35.45	26,528	32.66	6,776	25.54
Other	170	0.18	477	0.57	(307)	(64.36)
Operating Expenses	$93,937	100.00%	$81,232	100.00%	$12,705	15.64%

Personnel increased 16.37% primarily as a result of additional overtime/double time worked due to heavier than normal snowfalls and the occurrence of these snowfalls at night and on weekends. Also, in 1997, the MAC approved the recording and funding of post-retirement medical benefits.

Operating Services increased 14.13% or $1,230,000. The increase can be attributed to changes in shuttle bus services, additional hours added in the parking management contract and the hosting of the 1997 American Association of Airport Executives (AAAE) annual conference.

Maintenance increased over 1996 levels as a result of heavier than normal snow in early 1997.

Depreciation increased by 25.54% as a result of approximately $210 million of airports and facilities were completed in 1996–97.

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

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

DEBT ADMINISTRATION

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

October 10, 1998	$83,827
October 10, 1999	$80,612
October 10, 2000	$78,816
October 10, 2001	$80,078
October 10, 2002	$80,833

Statutory authority for issuing bonds is obtained from the Minnesota State Legislature. Authorization as of December 31, 1997, permits the issuance of an additional $55 million of General Obligation Revenue Bonds. In 1996, the Commission issued $5.5 million in tax-exempt General Obligation Revenue Bonds to advance refund General Obligation Revenue Bond Series 5. As a result of the refunding, the Commission reduced its total debt service requirements by $1,150,586 which resulted in an economic gain (the difference between the present values of the debt service payments on the old and the new debt) in the amount of $891,902. These Bonds received AAA/Aaa ratings from Standard & Poor's, Moody's and Fitch's rating services.

CAPITAL PROJECTS

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

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

PFCs are fees imposed on enplaned passengers by airport authorities for the purpose of generating revenue for airport projects that increase capacity, increase safety, or mitigate noise impacts. On June 1, 1992, the Commission began collecting a $3.00 PFC to finance projects totalling approximately $66,356,000. Collection for the first application expired on August 1, 1994. The Commission received authority to collect a $3.00 PFC under a second application beginning that same day. The total amount of the second application is $126,222,000. The second application will expire December 31, 1999. During 1995, the Commission received authority to collect a $3.00 PFC under a third application beginning July 1, 1996 to finance projects totalling $36.4 million. The third application was fully funded in 1997 and collections have ended. In order to limit the cost of facilities at the reliever airports, the Commission uses only grant funds or retained earnings to finance all construction projects at these airports. Capital improvements at the airport have been financed from all sources as appropriate with the exception of Revenue Bonds, which are new 1996 legislation.

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

Anticipated projects planned for 1998, 1999 and 2000, as well as the extended period 2001-2004, are summarized as follows. (The amounts shown represent the estimated total cost for projects planned to be initiated, but not necessarily completed during that period [in thousands]):

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

	1998	1999	2000	2001-2004	Total 1998-2004
Minneapolis/St. Paul Int'l					
Field & Runway	$ 57,650	$124,500	$ 99,900	$151,300	$ 433,350
Environmental	36,860	22,360	31,100	106,000	196,320
Self-Liquidating	10,200	0	0	0	10,200
Landside	303,690	40,250	23,800	81,500	449,240
Total Minneapolis/St. Paul Int'l	$408,400	$187,110	$154,800	$338,800	$1,089,110
Reliever Airports					
St. Paul	$ 7,050	$ 500	$ 500	$ 900	$ 8,950
Flying Cloud	10,200	4,450	5,500	6,800	26,950
Crystal	300	150	3,150	450	4,050
Anoka	800	0	6,300	2,350	9,450
Lake Elmo	400	0	700	6,600	7,700
Airlake	2,400	1,600	0	2,000	6,000
Total Reliever Airports	$ 21,150	$ 6,700	$ 16,150	$ 19,100	$ 63,100
Total All Facilities	$429,550	$193,810	$170,950	$357,900	$1,152,210

CASH MANAGEMENT

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

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

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

The Government Accounting Standards Board requires disclosure of types of investments and safekeeping arrangement in the notes to the financial statements. Custodial agreements are disclosed as three levels of risk. At year end 1997, all of the MAC's investments were being held by a third party agent of the Commission. Total investment earnings for 1997 were $8,378,000. The average yield on investments during the year was 5.82%.

RISK MANAGEMENT

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

The Risk Department coordinates claims payment, major claims management, and early intervention where needed in order to promote cost containment and overall claims handling efficiency. The MAC or its tenants, within limits and with deductibles approved by the MAC, maintain fire insurance coverage on all buildings at the airport. Contractors and lessees are required to carry certain amounts of insurance. A schedule of insurance in force at December 31, 1997, can be found in the Statistical section of this report. Loss Prevention and Wellness Committees, composed of MAC staff and airport community representatives with the Risk Department advisor, endeavor to identify exposures, make recommendations to MAC management and promote wellness and awareness among employees and all MAC facilities. Also, the Risk Department maintains open communication and positive relationships with other departments, brokers, insurance companies to ensure good working relationships and access to competent professional advice. The Risk Department serves as an advisor to public needs, airport tenants, other MAC departments and special action committees.

INDEPENDENT AUDIT

The financial records of the MAC are audited annually by a firm of independent certified public accountants. The audit for the years ended December 31, 1997 and 1996, were performed by Deloitte and Touche LLP. Their opinion on the financial statements is presented in this report.

In conjunction with the annual audit, Deloitte and Touche perform procedures consistent with the Single Audit Act of 1984 (The Act), OMB Circular A-128 and guidelines in relation to grant award agreement between the MAC and FAA in progress during the year. Deloitte and Touche LLP also perform procedures for the purposes of the MAC's compliance with the regulations issued by the FAA to implement Sections 9110 and 9111 of the Aviation Safety and Capacity Expansion Act of 1990 in relation to Passenger Facility charge revenues and expenses. The reports issued are intended for the use of MAC and the FAA, do not change in any way the financial statements and have not been included in this report.

In accordance with Minnesota State Law, the Legislative Auditor may conduct a financial audit of the MAC or allow this service to be contracted. In 1997, the financial audit has been performed by the firm Deloitte and Touche LLP. In addition, the Legislative Auditor periodically conducts a separate audit to examine the Commission's compliance with applicable laws, policies, and procedures.

AWARDS

The Government Finance Officers Association of the United States and Canada (GFOA) awarded the Certificate of Achievement for Excellence in Financial Reporting to the MAC for its Comprehensive Annual Financial Report for the year ended December 31, 1996. For the twelfth 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 tenth consecutive year the GFOA Award For Distinguished Budget Presentation for its Annual Operating Budget for 1997. In order to qualify for the Distinguished Budget Presentation, the Commission's budget document was judged to be proficient in several categories, including policy documentation, financial planning and organization.

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

ACKNOWLEDGMENTS

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

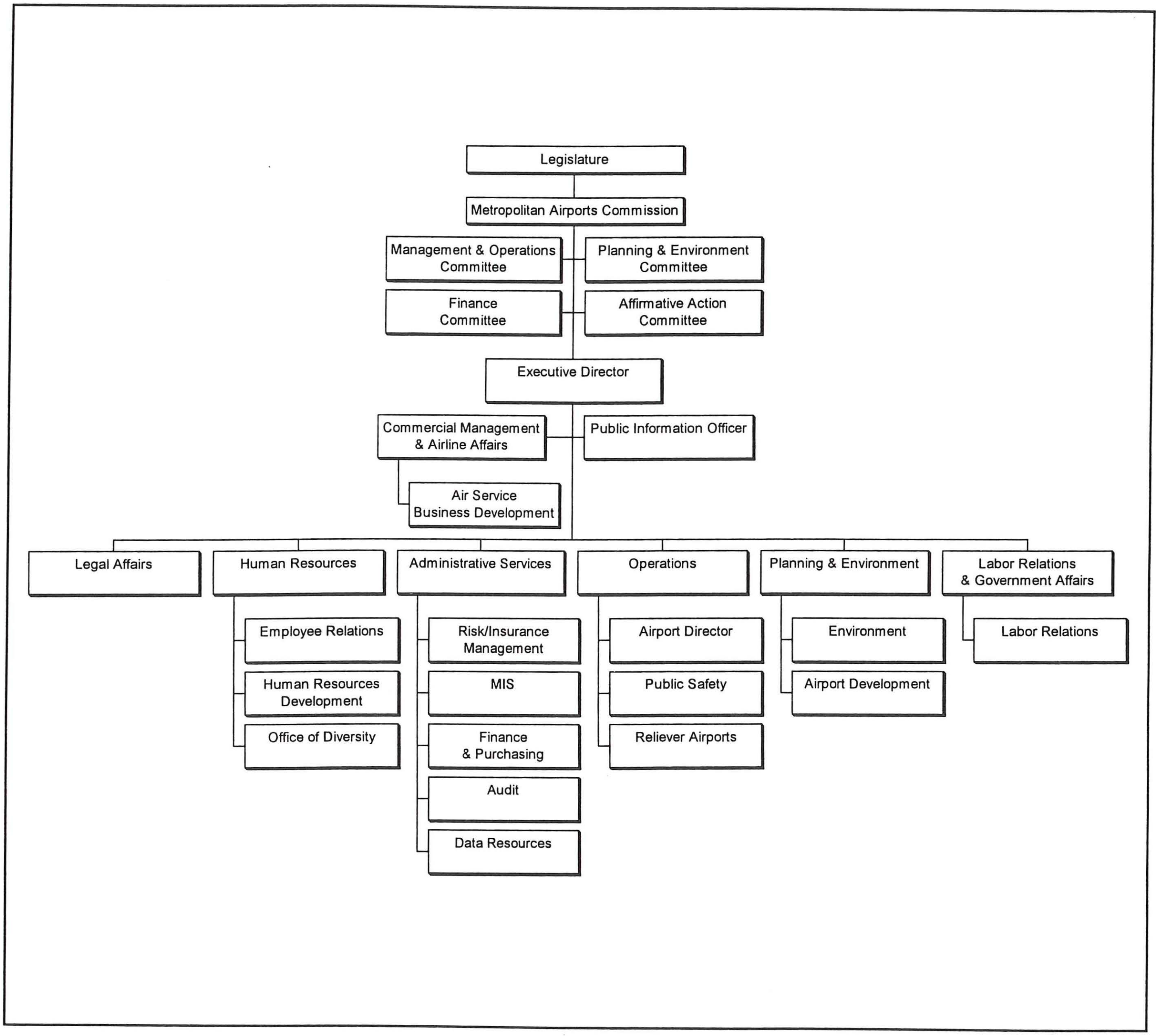
In closing, without the leadership and support of the governing body of the Metropolitan Airports Commission, preparation of this report would not have been possible.

Respectfully submitted,

Jeffrey W. Hamiel
Executive Director

Stephen L. Busch
Director of Finance

ORGANIZATION CHART



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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, 1997 and 1996 and the related statements of revenues and expenses and changes in retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the Commission's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, such financial statements present fairly, in all material respects, the financial position of the Commission at December 31, 1997 and 1996 and the results of its operations and its cash flows for the years then ended, in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued a report dated March 6, 1998 on our consideration of the Commission's internal control and a report dated March 6, 1998 on its compliance with laws and regulations.

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

As discussed in Note L to the financial statements, in 1997 the Commission adopted Statement of Financial Accounting Standards No. 106, *Accounting for Postretirement Benefits Other Than Pensions*.

Deloitte & Touche LLP

March 6, 1998
Minneapolis, Minnesota

BALANCE SHEETS

(Dollars in Thousands)

	December 31, 1997	December 31, 1996
ASSETS		
Cash and Investments – Note B:		
Unrestricted:		
Cash and Cash Equivalents	$ 2,135	$ 3,658
Investments	17,328	21,154
	19,463	24,812
Restricted – Note C:		
Cash and Cash Equivalents	8	15
Investments	264,093	262,195
	264,101	262,210
	283,564	287,022
Accounts receivable	6,941	3,706
Government grants in aid of construction receivable – Note A	1,359	376
Restricted Asset:		
Passenger facility charge receivable – Note A	2,677	2,650
Airports and Facilities – Notes A, E, F, and J	567,905	494,558
Leases receivable – Notes A and I	369,094	416,315
Deferred compensation benefits – Note M	8,655	8,464
Other	93	131
TOTAL ASSETS	**$1,240,288**	**$1,213,222**
LIABILITIES AND FUND EQUITY		
Accounts payable and accrued expenses	$ 7,071	$ 6,417
Security lending agreement	1,965	4,787
Payables from restricted assets:		
Debt Service – Note F	87,996	88,927
Construction	16,152	18,664
Post Retirement Medical and Other – Note L	3,021	0
Other	1,870	1,865
Security lending agreement	47,887	64,670
Employee compensation and payroll taxes	3,886	3,517
Deferred revenue – Note A	46,897	48,728
Deferred compensation benefits – Note M	8,655	8,464
Bonds payable – Note F	319,635	329,730
TOTAL LIABILITIES	**$545,035**	**$ 575,769**
Commitments and Contingencies – Notes P and Q		
FUND EQUITY – Note D		
Contributed capital – Notes A and D	$ 143,446	$ 146,627
Retained Earnings:		
Reserved	109,852	90,734
Unreserved	441,955	400,092
TOTAL FUND EQUITY	**695,253**	**637,453**
TOTAL LIABILITIES AND FUND EQUITY	**$1,240,288**	**$1,213,222**

See notes to financial statements.

STATEMENTS OF REVENUES AND EXPENSES AND CHANGES IN RETAINED EARNINGS

(Dollars in Thousands)	For The Fiscal Years Ended December 31, 1997	1996
OPERATING REVENUES		
Airline Rates and Charges	$ 41,838	$ 35,647
Concessions	52,279	47,872
Other Revenues:		
Operating Lease Settlement – Note A	0	9,326
Utilities	1,516	1,584
Miscellaneous	10,428	10,803
TOTAL OPERATING REVENUES	**106,061**	**105,232**
OPERATING EXPENSES		
Personnel	30,653	26,341
Administrative Expenses	1,108	1,028
Professional Services	4,069	4,040
Utilities	5,889	6,106
Operating Services	9,935	8,705
Maintenance	8,809	8,007
Depreciation	33,304	26,528
Other	170	477
TOTAL OPERATING EXPENSES	**93,937**	**81,232**
OPERATING INCOME	**12,124**	**24,000**
OTHER REVENUES (EXPENSES)		
Interest Income	43,545	45,282
Passenger Facility Charges	37,162	35,892
Gain on Sale of Assets	6	418
Bond Interest Expense	(30,957)	(31,788)
Part 150 Home Insulation Expenses	(8,482)	0
Concession Development Expenses	(1,358)	0
NET INCOME	**52,040**	**73,804**
ADD: Depreciation of facilities provided by government grants	8,941	7,882
INCREASE IN RETAINED EARNINGS	**60,981**	**81,686**
Retained Earnings–Beginning of Year	490,826	409,140
RETAINED EARNINGS–END OF YEAR	**$551,807**	**$490,826**

See notes to financial statements.

STATEMENTS OF CASH FLOWS

Increase (Decrease) in Cash and Cash Equivalents

(Dollars in Thousands)

	For The Fiscal Years Ended December 31,	
	1997	1996
Cash flows from operating activities:		
Operating income	$ 12,124	$ 24,000
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	33,304	26,528
Operating lease settlement	0	(9,326)
Change in assets and liabilities:		
Accounts receivable	(3,235)	2,332
Other assets	38	79
Accounts payable	654	749
Post retirement medical	3,021	0
Other restricted liabilities	5	3
Employee compensation and payroll taxes	369	265
Deferred revenue	(1,831)	(754)
NET CASH PROVIDED BY OPERATING ACTIVITIES	**44,449**	**43,876**
Cash flows from capital and related financing activities:		
Payments for airports and facilities	(108,046)	(135,063)
Proceeds from disposal of airports and facilities	49	547
Payments for Part 150 Program	(8,482)	0
Payments for Concession Development Program	(1,358)	0
Proceeds from bond issuance	0	5,505
Receipt of lease payments	47,219	7,718
Receipt of passenger facility charges	37,135	37,368
Payments on bonds	(11,065)	(18,775)
Interest paid on bonds	(32,076)	(33,290)
Receipts of government grants in aid of construction	4,777	36,025
NET CASH USED IN CAPITAL AND RELATED FINANCING ACTIVITIES	**(71,847)**	**(99,965)**
Cash flows from investing activities:		
Purchase of investment securities	(881,960)	(340,463)
Proceeds from maturities of investment securities	864,283	353,284
Interest income	43,545	45,282
NET CASH PROVIDED BY INVESTING ACTIVITIES	**25,868**	**58,103**
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	**(1,530)**	**2,014**
Cash and cash equivalents–Beginning of year	3,673	1,659
CASH AND CASH EQUIVALENTS–END OF YEAR	**$ 2,143**	**$ 3,673**

See notes to financial statements.

For the years ended December 31, 1997 and 1996

NOTE A
SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

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

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

The Commission is governed independently by a 15-member Board of Commissioners. The Governor of the State of Minnesota appoints thirteen Commissioners. The Mayors of Minneapolis and St. Paul also have seats on the Commission with the option to appoint a surrogate to serve in their place. Certain large capital improvement projects having metropolitan significance must be reviewed by the Metropolitan Council, which is a public agency established by law with powers of regulation over the development of the Metropolitan Area.

In applying Government Accounting Standards Board (GASB) Statement No. 14, the State of Minnesota and the Commission have agreed that the Commission is not financially accountable to any other organization and is considered a stand-alone governmental unit.

Basis of Accounting

The system of airports operated by the Commission is accounted for as an Enterprise Fund and reported on the accrual basis of accounting. Revenues are recognized when they are earned, and expenses are recognized when they are incurred. The Commission has applied GASB Statement No. 20, "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting." Under GASB Statement No. 20, the Commission applies all applicable GASB pronouncements and all Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board (APB) Opinions and Accounting Research Bulletins (ARB) issued on or before November 30, 1989, unless they conflict with or contradict GASB pronouncements.

Budgeting Process

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

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

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

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

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

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

Cash

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

Statement of Cash Flows

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

Deferred Revenue

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

Government Grants in Aid of Construction

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

Airports and Facilities

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

Land contributed to the Commission from the cities has been recorded at the cost reported by the cities. This transaction occurred in 1943, the fair market value on the land can not be determined. However, it is the Commission's belief that the difference between the cost and the fair market value in 1943 is immaterial. Additions to the property accounts have been recorded at cost since 1943.

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

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

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

Passenger Facility Charges

On June 1, 1992 the Commission began collecting Passenger Facility Charges (PFCs). PFCs are fees imposed on enplaned passengers by airport authorities for the purpose of generating revenue for airport projects that increase capacity, increase safety, or mitigate noise impacts. In the first application, the Commission received approval for a $3.00 PFC to finance projects totalling approximately $66,356,000. Collection for the first application expired on August 1, 1994. The Commission received authority to collect a $3.00 PFC under a second application beginning that same day to finance projects totalling $113,064,000. This application was amended in December 1996 to increase the amount collected to $126,222,000 and extending the expiration date to 12/31/99. During 1995, the Commission received authority to collect a $3.00 PFC under a third application beginning June 1, 1996 to finance projects totalling $32.7 million. This application was amended in March 1997 to increase the amount collected to $36.4 million. The third application was fully funded in 1997 and collections have ended. Effective January 1, 1997, the Commission began to expense costs associated with the Part 150 Sound Insulation Program that are funded by PFC's. The expense recognized in 1997 due to this change in accounting estimate is $8,482,000.

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

Leases

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

Capitalized Interest

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

Deferred Loss on Refundings

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

Operating Lease Settlement

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

Reclassifications

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

NOTE B
CASH, INVESTMENTS AND SECURITIES LENDING

Cash

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

	12/31/97	12/31/96
Financial statement balances	$112	($1,334)
Bank balances	$473	$5,907

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

Securities Lending Transactions

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

All securities loans can be terminated on demand by either the Commission or the borrower, although the average term of the loans is one week. In lending securities, cash collateral is invested in securities authorized by Minnesota statutes, generally with maturities between one week and three months.

Investments

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

The Commission invests funds as authorized by Minnesota Statutes in direct obligations or obligations guaranteed by the United States or its agencies, general obligations of the State of Minnesota or any other state, or any of its municipalities, commercial paper rated in the highest category by at least two nationally recognized rating agencies, Bankers acceptances of United States banks eligible for purchase by the Federal Reserve System, certificates of deposit issued by official depositories of the Commission, shares of investment companies registered under the Federal Investment Company Act of 1940 and whose only investments are in direct obligations or obligations guaranteed by the United States or its agencies, and repurchase agreements with financial institutions.

The Commission's investments at December 31, 1997, are categorized below to give an indication of the level of credit risk assumed. Category 1 includes investments that are insured or registered or for which the securities are held by the Commission or its agent in the Commission's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the Commission's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in the Commission's name.

(In Thousands)	Carrying Amount Credit Risk Category				Market
Type of Security	1	2	3	Total	Value
December 31, 1997					
U.S. Government and Agencies	$214,567	$ 0	$ 0	$214,567	$213,199
Repurchase Agreements	11,881	0	0	11,881	11,881
Commercial Paper	53,319	0	0	53,319	53,242
	$279,767	$ 0	$ 0	279,767	278,322
Investments – Not Categorized					
Deferred Compensation				8,655	8,655
Mutual Funds				3,685	3,685
Cash on Hand				112	112
Total Cash and Investments				$292,219	$290,774

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

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

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

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

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

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

	12/31/97	12/31/96
Restricted Assets		
Cash and Investments		
Debt service	$ 87,996	$ 88,927
Construction:		
Regular	56,029	55,829
Special	67,290	50,899
Post Retirement Medical	3,021	0
Other	1,879	1,885
Security lending transactions	47,887	64,670
Passenger Facility Charge Receivable	2,677	2,650
TOTAL RESTRICTED ASSETS	**266,778**	**264,860**
Less payables to be paid from restricted cash and investments:		
Debt service	87,996	88,927
Construction	16,152	18,664
Post retirement medical and other	3,021	0
Other	1,870	1,865
Security lending transactions	47,887	64,670
	156,926	174,126
RESERVED RETAINED EARNINGS	**$109,852**	**$ 90,734**

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, 1996	**$122,834**	**$107,868**	**$301,272**	**$531,974**
Government grants in aid of construction	31,675	0	0	31,675
Net income for the year	0	0	73,804	73,804
Depreciation of facilities provided by government grants	(7,882)	0	7,882	0
Net change in restricted assets and liabilities	0	(17,134)	17,134	0
Balance December 31, 1996	**$146,627**	**$ 90,734**	**$400,092**	**$637,453**
Government grants in aid of construction	5,760	0	0	5,760
Net income for the year	0	0	52,040	52,040
Depreciation of facilities provided by government grants	(8,941)	0	8,941	0
Net change in restricted assets and liabilities	0	19,118	(19,118)	0
Balance December 31, 1997	**$143,446**	**$109,852**	**$441,955**	**$695,253**

NOTE E
AIRPORTS AND FACILITIES

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

Airports and Facilities	Balance January 1, 1997	Additions	Transfers In (Out)	Deductions	Balance December 31, 1997
Land	$ 44,794	$	$ 20,412	$	$ 65,206
Airport improvements and buildings	691,609	96	46,487	(38)	738,154
Moveable equipment	30,516	2,359	938	(762)	33,051
Projects-in-progress	34,853	104,239	(67,837)		71,255
TOTAL AIRPORTS AND FACILITIES	**801,772**	**106,694**	**0**	**(800)**	**907,666**
Accumulated depreciation	(307,214)	(33,304)	0	757	(339,761)
NET AIRPORTS AND FACILITIES	**$494,558**	**$ 73,390**	**$ 0**	**$ (43)**	**$567,905**

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

NOTE F
LONG-TERM DEBT

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

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

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

The Commission has statutory authority for issuing General Obligation Revenue Bonds. The present statutory general obligation bonding limit as of December 31, 1997, would permit the issuance of an additional $55 million of General Obligation Revenue Bonds.

Bonds payable, due serially (in thousands):

	Issue Date	Original Amount	Final Payment In	Outstanding as of December 31 1997	1996
Airport Improvement Bonds:					
Series 14 – 3.5%	7-1-67	17,000	1997	$ 0	$ 960
Series 15 – 3.5%	7-1-67	1,000	1997	0	60
Series 16 – 4.5%	1-1-68	16,000	1998	970	1,900
Series 20 – 4.5 to 5.0%	10-1-72	5,000	2002	1,490	1,740
Series 22 – 3.3 to 3.85%	2-1-94	5,625	1999	2,390	3,510
				4,850	8,170
General Obligation Revenue Bonds:					
Series 2 – 5.00 to 5.2%	12-1-77	10,000	2002	3,200	3,750
Series 3 – 5.6 to 5.75%	1-1-79	15,000	2000	3,525	4,500
Series 5 – 9.1%	1-1-81	24,500	2002	0	9,000
Series 7 – 7.80%	8-1-88	51,150	2015	44,400	45,550
Series 8 – 5.00 to 6.60%	2-1-92	45,000	2011	38,400	40,150
Series 10 – 3.60 to 5.00%	5-1-93	29,025	2006	19,845	22,140
Series 11 – 4.60 to 5.30%	10-1-94	5,615	2002	4,740	5,615
Series 12 – 4.20 to 4.55%	11-1-96	5,525	2002	5,525	5,525
Special NWA Financing Secured by Facilities, Parts, Routes, Simulators:					
Series 9 – 8.60 to 8.95% – Note Q	4-1-92	270,000	2022	270,000	270,000
				389,635	406,230
TOTAL BONDS OUTSTANDING				**394,485**	**414,400**
Net unamortized discount				(643)	(712)
Deferred loss on refunding				(820)	(939)
Accrued interest due				15,835	16,422
				408,857	429,171
Less:					
Prepayments				(1,226)	(10,514)
Payable from restricted assets—debt service				(87,996)	(88,927)
TOTAL BONDS PAYABLE				**$319,635**	**$329,730**

Future debt service requirements after December 31, 1997 are as follows (in thousands):

Year/s	Airport Improvement Bonds	General Obligation Revenue Bonds	Total Bonds Outstanding	Interest	Total Principal & Interest
1998	$ 2,400	$ 7,950	$ 10,350	$ 31,608	$ 41,958
1999	1,505	9,885	11,390	31,054	42,444
2000	300	9,975	10,275	30,454	40,729
2001	315	8,985	9,300	29,915	39,215
2002	330	9,180	9,510	29,388	38,898
Thereafter	0	343,660	343,660	338,111	681,771
	$ 4,850	$389,635	$394,485	$490,530	$885,015

Of the future debt service requirements listed above, $324,121,000 of principal and $465,148,000 of interest are leased under agreements with Northwest Airlines, Inc. The General Obligation Revenue Bond Series 9 represents $270,000,000 of principal and $426,198,000 of interest of the Northwest Airlines debt service requirements. These lease agreements require the lessee to make annual payments equal to the debt service requirements of the bonds.

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

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

NOTE G
BOND REFUNDINGS

On November 1, 1996, the Commission issued $5,525,000 General Obligation Revenue Bond Series 12 to refund General Obligation Revenue Bond Series 5. General Obligation Revenue Bond Series 5 matures on January 1, 2002, and was called on January 1, 1997. As a result of the refunding, the Commission reduced its total debt service requirements by $1,150,586 which resulted in an economic gain (the difference between the present values of the debt service payments on the old and the new debt) in the amount of $891,902. The Commission also deferred recognition of a $57,702 loss incurred in connection with this refunding according to GASB Statement No. 23. As a result, the loss has been deferred and will be amortized to interest expense on a straight line basis through January 1, 2002. At December 31, 1997, the unamortized deferred loss netted against bonds payable is $44,672.

NOTE H
CAPITALIZATION OF INTEREST

Total interest costs incurred were $30,957,000 and $31,788,000 in 1997 and 1996, respectively. Interest costs excluded from interest expense and capitalized as part of the costs of constructed assets were $1,160,000 and $1,498,000 in 1997 and 1996, respectively. Total interest paid was $32,076,000 and $33,290,000 in 1997 and 1996, 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):

	1997	1996
Total minimum lease payments to be received	$860,668	$973,169
Less: Allowance for uncollectibles	0	0
Net minimum lease payments receivable	860,668	973,169
Less: Unearned Income	487,443	551,864
Net investment in leases	373,225	421,305
Less: Prepaid Principal	4,131	4,990
LEASES RECEIVABLE PER BALANCE SHEET	**$369,094**	**$416,315**

As of December 31, 1997, future minimum lease payments are as follows (in thousands):

Year	Amount
1998	$38,486
1999	$38,827
2000	$37,435
2001	$37,330
2002	$41,915
2003–2022	$666,675

NOTE J
CAPITAL LEASE

The Commission is obligated under certain leases accounted for as capital leases. Assets under capital leases totaled $1,017,000 at December 31, 1997, and accumulated amortization on those assets totaled $401,000. The following is a schedule of future minimum lease payments under capital leases, together with the net present value of the minimum lease payments as of December 31, 1997 (in thousands):

(In Thousands)

Year Ending December 31	Minimum Lease Payments
1998	$125
1999	125
2000	125
2001	125
2002	121
2003-2004	244
Minimum lease payments for all capital leases	865
Less: Amount representing interest at the Commission's incremental borrowing rate of interest	157
Present value of minimum lease payments	$708

NOTE K
PENSION AND RETIREMENT PLANS

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

1. PUBLIC EMPLOYEES RETIREMENT ASSOCIATION

A. Plan Description

All full-time and certain part-time employees of the Commission (hired after June 30, 1978) are covered by defined benefit pension plans administered by the Public Employees Retirement Association of Minnesota (PERA). PERA administers the Public Employees Retirement Fund (PERF) and the Public Employees Police and Fire Fund (PEPFF), which are cost-sharing, multiple-employer retirement plans. These plans are established and administered in accordance with Minnesota Statutes, Chapters 353 and 356. PERF members belong to the Coordinated Plan. Coordinated members are covered by Social Security. All police officers, fire fighters, and peace officers who qualify for membership by statute are covered by the PEPFF. The payroll for employees covered by PERF and PEPFF for the year ended December 31, 1997 is as follows (in thousands):

	1997
Covered payrolls:	
PERF participants	$13,244
PEPFF participants	2,761
Total covered payrolls	**$16,005**

The Commission's total payroll was $21,457,178.

PERA provides retirement benefits as well as disability benefits to members and benefits to survivors upon death of eligible members. Benefits are established by state statute and vest after three years of credited service. The defined retirement benefits are based on a member's average salary for any five successive years of allowable service, age, and years of credit at termination of service. Two methods are used to compute benefits for coordinated members.

The retiring member receives the higher of step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a coordinated member who retires before July 1, 1997, is 1% of average salary for each of the first ten years and 1.5% for each remaining year. For Coordinated members who retire on or after July 1, 1997, the annuity accrual rates increase by 0.2% to 1.2% of average salary for each of the first ten years and 1.7% for each remaining year. Using Method 2, the annuity accrual rate is 1.5% of average salary for coordinated members who retire before July 1, 1997. Annuity accrual rates increase 0.2% for members who retire on or after July 1, 1997. For PEPFF members, the annuity accrual rate is 2.65% for each year of service. For PERF members whose annuity is calculated using Method 1, and for all PEPFF members, a full annuity is available when age plus years of service equals 90. A reduced retirement annuity is also available to eligible members seeking early retirement.

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

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

B. Contributions Required and Contributions Made

Minnesota Statutes Chapter 353 sets the rates for employer and employee contributions. The Commission makes annual contributions to the pension plans equal to the amount required by state statutes. According to Minnesota Statutes Chapter 356.215 Subd. 4(g), the date of full funding required for the PERF and the PEPFF is July 1, 2020. As part of the annual actuarial valuation, PERA's actuary determines the sufficiency of the statutory contribution rates towards meeting the required full funding deadline. The actuary compares the actual contribution rate to a "required" contribution rate. The required contribution rate consists of (a) normal costs based on entry age normal cost methods, (b) a supplemental contribution for amortizing any unfunded actuarial accrued liability by the date required for full funding, and (c) an allowance for administrative expenses. Current combined statutory contribution rates and actuarially required contribution rates for the plans are as follows:

	Statutory Rates		Required
	Employee	Employer	Rates
PERF (Coordinated Plan)	4.23%	4.48%	8.90%
PEPFF	7.60%	11.40%	19.00%

Total contributions made by the Commission for the fiscal year ended December 31, 1997 were as follows (in thousands):

	Amounts		Percentage of Covered Payroll	
	Employee	Employer	Employee	Employer
PERF	$560	$593	4.23%	4.48%
PEPFF	210	315	7.60%	11.40%
Total	$770	$908		

The Commission's contribution for the year ended June 30, 1997 to the PERF represented .4% of total contributions required of all participating entities. For the PEPFF, contributions for the year ended June 30, 1997 represented .8% of total contributions required of all participating entities.

C. Funding Status and Progress

1. Pension Benefit Obligation

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

The pension benefit obligation as of June 30, 1997 is shown below (in millions):

	PERF	PEPFF
Total pension benefit obligation	$ 7,330	$ 1,491
Net assets available for benefits, at cost	6,552	1,924
Unfunded (assets in excess of) pension benefit obligation	$ 778	$ (433)
Net assets available for benefits, at market	$ 6,871	$ 2,075

The measurement of the pension benefit obligation is based on an actuarial valuation at July 1, 1997. Net assets available to pay pension benefits were valued as of June 30, 1997.

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

2. Changes in Actuarial Assumptions and Methods
Since the July 1, 1996 actuarial valuation, there were no changes in actuarial assumptions of the PERF which impacted funding costs.

There were, however, several actuarial assumption changes made to the PEPFF. An experience study based on the four year period ending June 30, 1994, disclosed that (a) retirees are living longer; (b) the expected active member death rate is declining; (c) the trend toward early retirement continues; and (d) the pattern of salary increases varies substantially by age, with a strong merit and seniority component evident at the younger ages. Because of these findings, several actuarial assumptions were changed and are effective with the July 1, 1997 actuarial valuation. The salary increase assumption has been changed from 6.5% to 5% plus a merit increase based on age. The payroll growth assumption has been changed from 6.5% to 6.0% The retirement age assumption has changed from age 60 to an age-related table using different retirement rates at various ages. The mortality table has also been revised from 1971 GAM to the 1983 GAM with a five year set back for active members. These assumption changes added approximately $32,387,000 to the actuarial accrued liability for the PEPFF.

3. Changes in Benefit Provisions
Legislation enacted in 1997 improved initial benefits for PERA members without a material effect on the actuarial accrued liability in the PERF and the PEPFF. The annuity accrual rates were increased for members who retire on or after July 1, 1997. In order to pay for the increased initial benefit, the assumed earnings rate of the Minnesota Post Retirement Investment Fund was increased from 5% to 6% and the cap on the inflation-based portion of an annuitant's annual benefit increase was lowered from 3.5% to 2.5%. Because present retirees will receive lower future benefit increases, their benefits were increased by an offsetting amount on July 1, 1997.

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, 1997. 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, 1997 and for the fiscal year ended December 31, 1997, 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, 1997 is as follows (in thousands):

		1997
Covered payrolls:	MERF participants	$4,889

The Commission's total payroll for the year ended December 31, 1997 was $21,457,178.

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

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

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

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

B. Contributions Required and Contributions Made

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

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

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

Current required contribution rates are as follows:

	Employee	Employer	Additional Employer
Retirement Contribution	9.25%	9.01%	2.50%
Survivor Benefits	.50%		

Total contributions made by the Commission for the fiscal year ended December 31, 1997 are as follows (in thousands):

1997	Contributions	Percentage of Covered Payroll
Employer	$1,062	21.72%
Employee	477	9.75%

The Commission's contribution for the year ended June 30, 1997 represented 5.7% of the total contributions required of all participating entities.

C. Funding Status and Progress

Pension Benefit Obligation

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

The pension benefit obligation as of June 30, 1997 is shown below (in millions):

	1997
Total pension benefit obligation	$1,284
Net assets available for benefits, at cost	986
Unfunded pension benefit obligation	$ 298
Net assets available for benefits, at market	$1,334

The measurement of the pension benefit obligation is based on an actuarial valuation as of June 30, 1997. Net assets available to pay pension benefits were valued as of June 30, 1997.

No changes in actuarial assumption that would significantly affect the valuation of the pension benefit obligation occurred during 1997.

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, 1997. 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, 1997 and for the fiscal year ended December 31, 1997, MERF held no securities issued by the Commission or other related parties.

NOTE L
POST-RETIREMENT BENEFITS

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

Effective January 1, 1997, the Commission changed its method of accounting for post retirement health benefits to accrue the estimated cost of retiree benefit payments during the years in which the employee earns the benefit. The Commission previously expensed the costs of these benefits as claims were incurred. The Commission has elected to recognize the transition obligation of approximately $21,341,000 over a period of twenty years. The change in the method of accounting increased 1997 post retirement health care costs by $2,794,000. The net post retirement benefit cost for 1997 includes the following components:

Service costs – benefits earned during the period	$ 819,000
Interest cost on accumulated post retirement benefit obligation	1,345,000
Return on assets	0
Amortization of Unrecognized Transition Obligation	976,000
	$3,140,000

The funded status of the plan and amounts recognized on the balance sheet at December 31, 1997, are as follows:

Accumulated post retirement benefit obligation	($21,341,000)
Plan assets at fair value	0
Funded status	(21,341,000)
Unrecognized transition obligation	18,547,000
Unrecognized prior service cost	0
Accrued/prepaid pension cost	$ 2,794,000

The Commission has restricted $3,021,000 for payments of post retirement benefits.

The assumed health care cost trend rate used in measuring the accumulated post retirement benefit obligation as of December 31, 1997, was 8.94% for pre 65 participants and 8.29% for 65+ participants. The assumed discount rate used in determining the accumulated post retirement benefit obligation as of December 31, 1997, was 7.0%. A one percentage point increase in the assumed health care cost trend rate for each year would increase the accumulated post retirement obligation as of December 31, 1997, by approximately 18.4% and the service and interest cost components of the net post retirement health care cost in 1997 by approximately 21.8%.

NOTE M
DEFERRED COMPENSATION PLAN

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

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

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

NOTE N
ARBITRAGE

Every five years, the Commission is required to rebate arbitrage profits earned in relation to certain General Obligation Revenue and Airport Improvement Bond issues. Arbitrage profits are earned when investment income relating to these issues exceeds the yield on the bonds. The Commission has recorded a liability in accrued expenses at December 31, 1997 and 1996, of $126,716 and $79,919, respectively.

NOTE O
RISK MANAGEMENT

It is the policy of the Commission to act as a self-insurer for workers' compensation and health/dental claims. The Commission had no significant reduction in its insurance coverage for 1996 or 1997. In addition, no settlements exceeded insurance coverage for the last three fiscal years. The liability recorded under Employee Compensation and Payroll Taxes by the Commission includes estimated settlements for claims reported but not settled as of December 31, 1997 and 1996, as well as an estimate of claims incurred. Changes in the balances of claim liabilities during the past two years are as follows:

	1997	1996
Unpaid Claims - Beginning of Year	$ 439,366	$ 538,420
Incurred Claims and Changes in Estimates	3,261,186	2,107,346
Claims Paid	(3,226,321)	(2,206,400)
Unpaid Claims - End of Year	$ 474,231	$ 439,366

NOTE P
CONTINGENT LIABILITIES AND COMMITMENTS

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

Contractual obligations for construction were approximately $52,602,596 at December 31, 1997.

NOTE Q
MAJOR CUSTOMER

Northwest Airlines, Inc. ("NAI") is a Minnesota corporation in the business of transporting by air passengers, mail and property. Northwest Aerospace Training Corporation ("NATCO") is a Minnesota corporation in the business of pilot training. Both NAI and NATCO are wholly owned by NWA Inc., a Delaware corporation ("NWA"). In July 1989, NWA was acquired by Wings Holdings Inc., a Delaware corporation ("Wings"). In December 1993, Wings changed its corporate name to Northwest Airlines Corporation ("NWA Corp."). NAI is the fourth largest airline in the United States and one of the largest employers in the State of Minnesota. NAI operates both domestic and international air route systems. Minneapolis-St. Paul International Airport is one of NAI's three major hubs. Revenues from NAI account for approximately 28% of operating revenues and 70% of total revenues from major airlines.

On April 23, 1992, the Commission issued $270,000,000 of taxable General Obligation Revenue Bonds, Series 9, ("Bonds"). The Bonds were used to acquire and lease back (a) a flight training center in Eagan, Minnesota, owned by NATCO, NAI and NWA (collectively "the Northwest entities"), consisting of land, a building, flight simulators, and related equipment and (b) certain leasehold interests of the Northwest entities and certain additional properties located at Minneapolis-Saint Paul International Airport (collectively "the Leased Facilities"). The lease obligations are secured by the Leased Facilities, by guaranties of the Northwest entities and NWA Corp. and by a pledge of certain additional collateral consisting of aircraft engine parts and international route authorities. During the term of the Bonds, the Northwest entities are required to maintain collateral, as determined by periodic independent appraisals, which has a value (based upon use of the assets by an airline) of at least 145% (reducible to 135% under certain circumstances) of the sum of the principal amount of Bonds outstanding. 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 28% of the Commission's total assets at December 31, 1997.

For the years ended December 31, 1997, and 1996, the Northwest entities and NWA Corp. had audited consolidated net income respectively of approximately $597 million and $536 million. On December 31, 1997, the Northwest entities' and NWA Corp.'s audited total consolidated assets were $9.336 billion and their total audited consolidated liabilities were $9.647 billion, resulting in the Northwest entities' and NWA Corp.'s audited consolidated net deficit of $311 million. In the event that the Northwest entities or NWA Corp. are unable to meet their lease commitments, the Commission has the authority to levy property taxes to support the debt obligations on the Bonds.

NOTE R
SUBSEQUENT EVENT

On January 21, 1998, the Commission acquired land as a part of its development of constructing new Runway 17/35. The parcel known as the Met Center property was purchased from the Metropolitan Sports Facilities Commission for a purchase price of $25,683,825.

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Statistical Section

TOTAL ANNUAL REVENUES 1988–1997

(Dollars in Thousands)	1988	1989	1990
Airline Rates and Charges	$ 20,888	$ 20,230	$ 21,812
Operating Lease Settlement			
Concessions	23,554	25,062	26,206
Other	5,773	7,175	8,927
Total Operating Revenues	**$ 50,215**	**$ 52,467**	**$ 56,945**
Add: Interest Income	15,257	16,243	15,744
Passenger Facility Charge Revenue			
Gain on Sale of Airports and Facilities	1,081		
Total Revenues	**$ 66,553**	**$ 68,710**	**$ 72,689**

Source: Audit reports for the last ten years.

TOTAL ANNUAL EXPENSES 1988–1997

(Dollars in Thousands)	1988	1989	1990
Salaries, Wages and Employee Benefits	$ 15,116	$ 17,551	$ 19,153
Administrative Supplies and Expenses	406	512	715
Professional Services	3,063	3,229	3,043
Utilities	3,809	3,704	4,070
Operating Expenses	3,600	4,272	5,074
Maintenance	5,451	6,144	6,763
Depreciation	12,461	11,807	14,662
Other	150	283	566
Total Operating Expenses	**$ 44,056**	**$ 47,502**	**$ 54,046**
Add: Interest Expense[1]	7,640	7,058	7,943
Part 150 Home Insulation Expenses			
Concession Development Expenses			
Total Expenses	**$ 51,696**	**$ 54,560**	**$ 61,989**

Source: Audit reports for the last ten years.

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

POPULATION OF SEVEN COUNTY METROPOLITAN AREA 1988–1997

1988	1989	1990
2,200,321	2,240,850	2,288,721

Source: Metropolitan Council
N/A – Not Available

1991	1992	1993	1994	1995	1996	1997
$ 25,385	$ 27,223	$ 29,115	$ 31,960	$ 35,193	$ 35,647	$ 41,838
					9,326	
26,405	28,882	32,627	35,579	41,838	47,872	52,279
8,649	9,242	9,387	8,854	10,225	12,387	11,944
$ 60,439	**$ 65,347**	**$ 71,129**	**$ 76,393**	**$ 87,256**	**$105,232**	**$106,061**
15,838	34,238	40,572	41,776	44,946	45,282	43,545
	14,607	28,596	28,472	32,286	35,892	37,162
			448		418	6
$ 76,277	**$114,192**	**$140,297**	**$147,089**	**$164,488**	**$186,824**	**$186,774**

1991	1992	1993	1994	1995	1996	1997
$ 21,168	$ 22,308	$ 22,739	$ 23,293	$ 24,360	$26,341	$30,653
668	923	966	839	1,003	1,028	1,108
3,731	4,813	4,984	4,681	5,705	4,040	4,069
3,665	4,412	4,974	5,287	5,354	6,106	5,889
5,581	5,907	5,809	7,995	8,276	8,705	9,935
7,003	7,088	7,406	6,743	7,236	8,007	8,809
16,214	17,976	19,258	21,048	22,656	26,528	33,304
276		352	289	327	477	170
$ 58,306	**$ 63,427**	**$ 66,488**	**$ 70,175**	**$ 74,917**	**$ 81,232**	**$ 93,937**
9,430	27,544	34,812	34,018	32,945	31,788	30,957
						8,482
						1,358
$ 67,736	**$ 90,971**	**$101,300**	**$104,193**	**$107,862**	**$113,020**	**$134,734**

1991	1992	1993	1994	1995	1996	1997
2,318,532	2,352,121	2,383,725	2,415,207	2,448,967	2,482,858	N/A

OPERATING RATIO[1] 1988–1997

(Dollars in Thousands)	1988	1989	1990
Operating Expense[2]	$ 31,595	$ 35,695	$ 39,384
Operating Revenues[3]	50,215	52,467	56,945
Operating Ratio	63%	68%	69%

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

[2] Operating expense excludes depreciation.

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

REVENUE AVAILABLE FOR DEBT SERVICE 1988–1997

(Dollars in Thousands)	1988	1989	1990
Operating Revenue[1]	$ 50,215	$ 52,467	$56,945
Interest Income	15,257	16,243	15,744
Lease Principal Payments[2]	3,540	2,821	4,016
Operating Expense[3]	(31,595)	(35,695)	(39,384)
Revenue Available for Debt Service	$ 37,417	$ 35,836	$ 37,321
Debt Service	$ 15,185	$ 15,422	$ 15,238
Coverage of Debt Service	2.46	2.32	2.45
Coverage of Debt Service Excluding $270 Issue for NWA	2.46	2.32	2.45

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

[2] Does not include 1997 NWA's $39 million lease prepayment.

[3] Operating expense excludes depreciation.

RATIO OF ANNUAL DEBT SERVICE TO TOTAL EXPENSES 1988–1997

(Dollars in Thousands)	1988	1989	1990
Principal	$ 7,545	$ 8,035	$ 7,295
Interest[1]	7,640	7,058	7,943
Total Debt Service	$ 15,185	$ 15,093	$ 15,238
Total Expenses	$ 51,696	$ 54,560	$ 61,989
Ratio of Debt Service to Total Expenses	29%	28%	25%

[1] Does include capitalized interest.

1991	1992	1993	1994	1995	1996	1997
$ 42,092	$ 45,451	$ 47,230	$ 49,127	$ 52,261	$ 54,704	$ 60,633
60,439	65,347	71,129	76,393	87,256	95,906	106,061
70%	70%	66%	64%	60%	57%	57%

1991	1992	1993	1994	1995	1996	1997
$ 60,439	$ 65,347	$ 71,129	$ 76,393	$ 87,256	$ 95,906	$106,061
15,838	34,238	40,572	41,776	44,946	45,282	43,545
4,686	5,784	6,611	6,907	7,261	7,718	8,195
(42,092)	(45,451)	(47,230)	(49,127)	(52,261)	(54,704)	(60,633)
$ 38,871	$ 59,918	$ 71,082	$ 75,949	$ 87,202	$ 94,202	$ 97,168
$ 17,930	$ 36,249	$ 43,702	$44,413	$ 44,670	$ 43,063	$ 42,022
2.17	1.65	1.63	1.71	1.95	2.19	2.31
2.17	2.29	2.39	2.54	3.05	3.68	4.05

1991	1992	1993	1994	1995	1996	1997
$ 8,500	$ 8,705	$ 8,890	$ 10,395	$ 11,725	$ 11,275	$ 11,065
9,430	27,544	34,812	34,018	32,945	31,788	30,957
$ 17,930	$ 36,249	$ 43,702	$ 44,413	$ 44,670	$ 43,063	$ 42,022
$ 67,736	$ 90,971	$101,300	$104,193	$107,862	$113,020	$134,734
26%	40%	43%	43%	41%	38%	31%

ACTIVITY STATISTICS FOR MINNEAPOLIS–ST. PAUL INTERNATIONAL AIRPORT 1988–1997

	1988	1989	1990
Total Passengers[1]	17,733,837	18,346,095	19,167,427
Aircraft Operations[2]	373,851	364,030	379,785
Mail and Cargo Volumes (Metric Tons)	246,734	241,725	266,824

Source: Metropolitan Airports Commission Activity Report

[1] Passengers include on-line connecting. (On-line connecting passengers are passengers that change to another flight on the same carrier.)

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

AIRCRAFT OPERATIONS[1] AT THE RELIEVER AIRPORTS 1988–1997

	1988	1989	1990
St. Paul Downtown Airport	151,869	166,436	190,333
Flying Cloud Airport	186,699	207,661	227,408
Crystal Airport	172,074	177,679	189,910
Anoka County/Blaine Airport	200,000	212,000	215,000
Lake Elmo Airport	65,000	65,000	66,950
Airlake Airport	64,000	66,000	67,980
Total Aircraft Operations at Reliever Airports	839,642	894,776	957,581

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

SCHEDULE OF AIRLINE RATES AND CHARGES 1988–1997

	1988	1989	1990
Landing Fee/1,000 lbs.	$ 0.62	$ 0.58	$ 0.65
Ramp Fees/Lineal Foot	$ 186.48	$ 310.20	$ 306.76
Terminal Building Rentals:			
Common Use/Square Foot	$ 16.06	$ 17.39	$ 17.60
Finished/Square Foot	14.06	17.39	17.60
Finished Janitored/Square Foot	18.76	22.22	22.24
Unfinished/Square Foot	13.56	17.39	17.60

Source: Compensatory Rental Report

1991	1992	1993	1994	1995	1996	1997
19,336,533	21,407,415	22,070,715	23,095,510	25,332,631	27,268,562	28,766,355
382,017	413,502	439,990	454,723	465,354	485,480	491,273
272,328	302,201	320,893	378,241	365,203	361,662	379,117

1991	1992	1993	1994	1995	1996	1997
168,450	152,378	132,531	145,834	133,686	139,055	136,968
186,496	198,306	218,745	238,838	216,313	217,703	198,199
173,150	179,546	183,554	185,991	171,478	187,957	175,728
195,650	195,650	195,650	199,000	181,866	192,600	143,083
69,950	69,950	69,950	71,000	64,887	68,400	65,664
74,745	81,087	81,087	82,500	75,397	75,397	72,382
868,441	876,917	881,517	923,163	843,627	881,112	792,024

1991	1992	1993	1994	1995	1996	1997
$ 0.77	$ 0.77	$ 0.79	$ 0.87	$ 0.95	$ 0.94	$ 1.02
$ 317.97	$ 300.06	$ 333.76	$ 344.96	$ 366.41	$ 399.73	$ 462.64
$ 19.49	$ 20.46	$ 21.78	$ 20.39	$ 21.61	$ 22.51	$ 26.64
19.49	20.46	21.78	20.39	21.61	22.51	26.64
24.89	27.51	27.78	25.78	26.48	26.15	30.82
19.49	20.46	21.78	20.39	21.61	22.51	26.64

NWA REVENUE AS A PERCENTAGE OF TOTAL MAC OPERATING REVENUE[1] 1988–1997

(Dollars in Thousands)	1988	1989	1990
Total NWA Revenue	$13,901	$15,267	$16,649
Total MAC Operating Revenue[1]	$50,215	$52,467	$56,945
NWA Percentage of MAC Operating Revenue	28%	29%	29%

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

NWA REVENUE AS A PECENTAGE OF TOTAL AIRLINE REVENUE 1988–1997

(Dollars in Thousands)	1988	1989	1990
Total NWA Revenue	$13,901	$15,267	$16,649
Total Airline Revenue	$20,486	$22,102	$23,870
NWA Percentage of Total Airline Revenue	68%	69%	70%

AIRLINE COST PER ENPLANED PASSENGER 1988–1997

(Dollars in Thousands)	1988	1989	1990
Total Cost[1]	$25,096	$26,603	$28,692
Enplaned Passengers	8,867	9,173	9,577
Airline Cost Per Enplaned Passenger	$ 2.83	$ 2.90	$ 3.00

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

1991	1992	1993	1994	1995	1996	1997
$18,804	$20,424	$21,933	$23,181	$25,465	$25,740	$ 29,708
$60,439	$65,347	$71,129	$76,393	$87,256	$95,906	$106,061
31%	31%	31%	30%	29%	27%	28%

1991	1992	1993	1994	1995	1996	1997
$18,804	$20,424	$21,933	$23,181	$25,465	$25,740	$ 29,708
$26,941	$28,954	$30,861	$32,652	$36,027	$36,496	$ 42,322
70%	71%	71%	71%	71%	71%	70%

1991	1992	1993	1994	1995	1996	1997
$31,920	$33,928	$35,971	$37,948	$41,349	$42,082	$ 47,864
9,660	10,702	11,037	11,498	12,666	13,622	14,336
$ 3.30	$ 3.17	$ 3.26	$ 3.30	$ 3.26	$ 3.09	$ 3.34

SCHEDULE OF INSURANCE COVERAGE

Insurer	Expiration	Coverage	Policy Limits (Thousands of Dollars)
Arkwright Insurance	1-1-99	Blanket Fire and Extended coverage on building and contents. Heavy equipment, boiler, machinery and Builder's Risk.	$326,500
Self-Insured O.H.M.S. Third Party Admin.	3-1-99	Statutory Workers' Compensation	$100/500/100
Fidelity & Deposit Company of Maryland	3-1-99	Comprehensive Crime Employee Bond	$1,000
Associated Aviation Underwriters	12-23-98	General Aviation Liability including personal injury	$300,000
Chubb	1-1-99	Auto Liability and physical coverage and hired automobiles.	$1,000 Per Occurrence
Chubb	1-1-99	Garage keepers liability	$5,000
Chubb	1-1-99	Valet parking	$5,000
Chubb	1-1-99	Fleet physical damage	Values over $50

SCHEDULED AND COMMUTER AIRLINE SERVICE

At the end of 1997, major scheduled airlines serving the Twin Cities were:

Air Canada	KLM
America West	Northwest Airlines
American Airlines	TWA
Continental Airlines	United Airlines
Delta Airlines	USAir
Frontier	Vanguard

Commuter service offers an extensive feeder route system to MSP International for connecting flights. Regional/Commuter airlines serving Minneapolis/Saint Paul at the end of 1997 were:

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

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

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