Metropolitan Mosquito Control District

Financial Audit
For the Year Ended December 31, 1998

July 1999

Financial Audit Division
Office of the Legislative Auditor
State of Minnesota

99-32

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SUMMARY

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Metropolitan Mosquito Control District

Financial Audit
For the Year Ended December 31, 1998

Public Release Date: July 2, 1999 No. 99-32

Agency Background

The Metropolitan Mosquito Control District (District) operates under the authority of Minn. Stat. Sections 473.701 to 473.716. The District was created to control mosquitoes and black gnats and to monitor Lyme ticks in the metropolitan area. The District is governed by the Metropolitan Mosquito Control Commission. The Commission is comprised of representatives from the following counties: Anoka, Carver, Dakota, Hennepin, Ramsey, Scott, and Washington. The District's executive director is Joseph Sanzone.

Objectives

The primary objective of the audit was to issue an opinion on the District's financial statements for the year ended December 31, 1998. As part of this objective, we considered the District's internal control structure for cash and investments, revenue and receipts, operating expenditures, payroll, consumable inventory, and fixed assets. We also tested compliance with significant finance-related legal provisions.

Financial Highlights

At December 31, 1998, the Metropolitan Mosquito Control District reported total General Fund equity of approximately $5.9 million. Of this amount, approximately $4.7 million represents unreserved fund balance. The District reported total General Fund assets of $6.7 million, of which $5.1 million is cash and short term investments. The District's cash balance is generally higher near the end of a year due to the timing of property tax payments and the limited extent of control work being conducted. In fiscal year 1998 the District significantly increased its inventory to approximately $1.2 million due to advantageous pricing of certain control materials. Other assets of the District, accounted for in the General Fixed Asset Account Group, include property and equipment of $1.6 million and buildings of $5.4 million.

For the fiscal year ended December 31, 1998, the District collected approximately $7.6 million, primarily from property tax levies. The District's expenditure for control purposes totaled $7.2 million or 88 percent of total expenditures. Total revenues and expenditures were approximately 8.5 and 7.8 percent more, respectively, than the preceding fiscal year. The District's total expenditures exceeded total revenues for the fiscal year by $575,000.

Conclusions

The District's financial statements for fiscal year ending December 31, 1998, were fairly stated in accordance with generally accepted accounting principles (GAAP).

In regard to the District's compliance with finance-related legal provisions and its internal controls over financial reporting, we found no issues required to be reported under the *Government Auditing Standards*.

STATE OF MINNESOTA
OFFICE OF THE LEGISLATIVE AUDITOR
JAMES R. NOBLES, LEGISLATIVE AUDITOR

Representative Dan McElroy, Chair
Legislative Audit Commission

Members of the Legislative Audit Commission

Commissioner Randy Johnson, Chair
Metropolitan Mosquito Control Commission

Members of the Metropolitan Mosquito Control Commission

Mr. Joseph Sanzone, Executive Director
Metropolitan Mosquito Control District

We have audited the balance sheet of the Metropolitan Mosquito Control District (District) for the year ended December 31, 1998, and the related statements of revenues, expenditures, and changes in fund balance for the two years then ended. Our audit opinion on the financial statements, dated May 17, 1999, is included in the financial section of this report.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we obtained an understanding of the District's internal control structure and performed tests of the District's compliance with certain provisions of laws, regulations, and contracts. Our conclusions on compliance and internal control, titled *Report on Compliance and Internal Control over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards,* are included within this report.

This report is intended for the information of the Legislative Audit Commission and the management of the Metropolitan Mosquito Control District. This restriction is not intended to limit the distribution of this report, which was released as a public document on July 2, 1999.

James R. Nobles
Legislative Auditor

Claudia J. Gudvangen, CPA
Deputy Legislative Auditor

End of Fieldwork: May 17, 1999

Report Signed On: June 25, 1999

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Metropolitan Mosquito Control District

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Audit Participation

The following members of the Office of the Legislative Auditor prepared this report:

Claudia Gudvangen, CPA	Deputy Legislative Auditor
Jim Riebe, CPA	Audit Manager
Susan Kachelmeyer, CPA	Auditor-in-Charge
Irene Hass	Staff Auditor

STATE OF MINNESOTA
OFFICE OF THE LEGISLATIVE AUDITOR
JAMES R. NOBLES, LEGISLATIVE AUDITOR

Independent Auditor's Report

Commissioner Randy Johnson, Chair
Metropolitan Mosquito Control Commission

Members of the Metropolitan Mosquito Control Commission

Mr. Joseph Sanzone, Executive Director
Metropolitan Mosquito Control District

We have audited the accompanying balance sheet of the Metropolitan Mosquito Control District for the year ended December 31, 1998, and the related statements of revenues, expenditures, and changes in fund balance for the two years then ended. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit 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 audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Metropolitan Mosquito Control District as of December 31, 1998, and the results of its operations and the changes in its fund balance for the two years then ended in conformity with generally accepted accounting principles.

The year 2000 supplementary information on page 15 is not a required part of the basic financial statements, but is supplementary information required by the Government Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and do not express an opinion on it. In addition, we do not provide assurance that the District is or will become year 2000 compliant, that the District's year 2000 remediation efforts will be successful in whole or in part, or that parties with which the District does business are or will become year 2000 compliant.

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In accordance with *Government Auditing Standards*, we have also issued a report dated May 17, 1999, on our consideration of the Metropolitan Mosquito Control District's internal control structure and on its compliance with certain provisions of laws and regulations.

James R. Nobles
Legislative Auditor

Claudia J. Gudvangen, CPA
Deputy Legislative Auditor

May 17, 1999

EXHIBIT A

METROPOLITAN MOSQUITO CONTROL DISTRICT

COMBINED BALANCE SHEET

ALL FUND TYPES AND ACCOUNT GROUPS

December 31, 1998

	Governmental Fund Type	Account Groups		Totals (MEMORANDUM ONLY) December 31,	
		General Fixed	General Long-Term		
Assets	*General*	*Assets*	*Debt*	*1998*	*1997*
Cash+Cash Equivalents	$ 5,133,018			$ 5,133,018	$ 6,307,805
PrePaid Expenses	0			0	771
Income Receivable:					
(net of allowance					
for uncollectible					
taxes of $391,901)	332,198			332,198	229,789
Inventory at cost	1,182,880			1,182,880	316,580
Equipment					
Net of depreciation		$ 1,566,092		1,566,092	1,572,859
Land		1,118,867		1,118,867	1,118,867
Building					
Net of bldg. depreciation		5,365,228		5,365,228	5,599,604
Amount to be provided for					
Employee Benefits			$ 513,858	513,858	474,102
Total Assets	$ 6,648,096	$ 8,050,187	$ 513,858	$ 15,212,141	$ 15,620,377
Liabilities & Fund Equity					
Liabilities:					
Accounts Payable	$ 453,958			$ 453,958	$ 201,619
Accrued Salary					
and Wages	73,997			73,997	60,942
Employee Benefits					
Payable	19,987		$ 513,858	533,845	494,032
Deferred Revenue	237,849			237,849	134,752
Total Liabilities	$ 785,791		$ 513,858	$ 1,299,649	$ 891,345
Fund Equity:					
Investment in general					
fixed assets		$ 8,050,187		$ 8,050,187	$ 8,291,330
Fund Balance:					
Reserved for inventory	$ 1,182,880			$ 1,182,880	$ 316,580
Unreserved Fund Balance	$ 4,679,425			$ 4,679,425	$ 6,121,122
(See designation in foonotes					
$1,853,000)					
Total Fund Equity	$ 5,862,305	$ 8,050,187		$ 13,912,492	$ 14,729,032
Total Liabilities					
and Fund Equity	$ 6,648,096	$ 8,050,187	$ 513,858	$ 15,212,141	$ 15,620,377

The accompanying notes are an integral part of the financial statements.

METROPOLITAN MOSQUITO CONTROL DISTRICT

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

GENERAL FUND
Years Ended December 31, 1998 and 1997

	1998	1997
Revenue:		
Taxes -		
Anoka County	$ 503,400	$ 447,295
Carver County	94,295	79,670
Dakota County	793,495	679,852
Hennepin County	3,096,939	2,676,281
Ramsey County	1,045,930	959,262
Scott County	157,475	136,001
Washington County	426,825	359,521
Homestead & Agricultural Credit & other aids (see footnote #1, K)	1,094,824	1,094,276
Tax Delinquent Income	46,069	58,927
Investment Income	285,777	294,235
Miscellaneous	87,423	247,867
Total Revenues	$ 7,632,452	$ 7,033,187
Expenditures:		
Board of Commissoners -		
Salaries	$ 0	$ 0
Travel	3,900	2,245
Administrative	665,646	597,756
Control	7,248,318	6,765,419
Capital Expenditures	289,985	246,597
Total Expenditures	$ 8,207,849	$ 7,612,017
Excess (deficiency) of revenues over expenditures	$ (575,397)	$ (578,830)
Fund Balance at beginning of year	$ 6,437,702	$ 7,016,532
Fund Balance at end of year	$ 5,862,305	$ 6,437,702

The accompanying notes are an integral part of the financial statements.

METROPOLITAN MOSQUITO CONTROL DISTRICT

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE BUDGET AND ACTUAL

GENERAL FUND
Year Ended December 31, 1998

	Budget	Actual	Variance Favorable (Unfavorable)
Revenue:			
Taxes -			
Anoka County	$ 525,789	$ 503,400	$ (22,389)
Carver County	95,256	94,295	(961)
Dakota County	801,274	793,495	(7,779)
Hennepin County	3,129,469	3,096,939	(32,530)
Ramsey County	1,056,382	1,045,930	(10,452)
Scott County	159,088	157,475	(1,613)
Washington County	437,918	426,825	(11,093)
Homestead & Agricultural Credit & other aids (see footnote #1, K)	1,094,824	1,094,824	0
Tax Delinquent Income	50,000	46,069	(3,931)
Investment Income	250,000	285,777	35,777
Miscellaneous	50,000	87,423	37,423
Total Revenues	$ 7,650,000	$ 7,632,452	$ (17,548)
Expenditures:			
Board of Commissoners -			
Salaries	$ 0	$ 0	$ 0
Travel	6,900	3,900	3,000
Administrative	654,300	665,646	(11,346)
Control	7,632,110	7,248,318	383,792
Capital Expenditures	292,000	289,985	2,015
Total Expenditures	$ 8,585,310	$ 8,207,849	$ 377,461
Excess (deficiency) of revenues over expenditures	$ (935,310)	$ (575,397)	$ 359,913
Fund Balance at beginning of year	$ 6,437,702	$ 6,437,702	$ 0
Fund Balance at end of year	$ 5,502,392	$ 5,862,305	$ 359,913

The accompanying notes are an integral part of the financial statements.

METROPOLITAN MOSQUITO CONTROL DISTRICT

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE BUDGET AND ACTUAL

GENERAL FUND
Year Ended December 31, 1997

	Budget	*Actual*	*Variance Favorable (Unfavorable)*
Revenue:			
Taxes -			
Anoka County	$ 451,810	$ 447,295	$ (4,515)
Carver County	80,432	79,670	(762)
Dakota County	685,154	679,852	(5,302)
Hennepin County	2,717,701	2,676,281	(41,420)
Ramsey County	970,262	959,262	(11,000)
Scott County	137,549	136,001	(1,548)
Washington County	362,816	359,521	(3,295)
Homestead & Agricultural Credit & other aids (see footnote #1, K)	1,094,276	1,094,276	0
Tax Delinquent Income		58,927	58,927
Investment Income		294,235	294,235
Miscellaneous		247,867	247,867
Total Revenues	$ 6,500,000	$ 7,033,187	$ 533,187
Expenditures:			
Board of Commissoners -			
Salaries	$ 0	$ 0	$ 0
Travel	6,900	2,245	4,655
Administrative	627,545	597,756	29,789
Control	6,848,680	6,765,419	83,261
Capital Expenditures	277,000	246,597	30,403
Total Expenditures	$ 7,760,125	$ 7,612,017	$ 148,108
Excess (deficiency) of revenues over expenditures	$ (1,260,125)	$ (578,830)	$ 681,295
Fund Balance at beginning of year	$ 7,016,532	$ 7,016,532	$ 0
Fund Balance at end of year	$ 5,756,407	$ 6,437,702	$ 681,295

The accompanying notes are an integral part of the financial statements.

Metropolitan Mosquito Control District
Notes to Financial Statements

December 31, 1998

1. Organization & Significant Accounting Policies

Reporting Entity
The Metropolitan Mosquito Control District (MMCD) was established under Minnesota Laws 1959, Chapter 488 (Coded Minn. Stat. Sections 473.701 to 473.716). The District operates under the Metropolitan Mosquito Control Commission representing the seven county metropolitan area. It was created to control mosquitoes and black gnats and to perform surveillance on Lyme ticks in the metropolitan area, which consists of Anoka, Carver, Dakota, Hennepin, Ramsey, Scott and Washington Counties. A director is responsible for the supervision of the District and reports to the Commission. As provided by Minn. Stat. Section 473.129, Subd.6, a member of the Metropolitan Council is appointed to serve as a representative to the Metropolitan Mosquito Control Commission. This member receives a copy of all Commission meeting minutes. For financial reporting purposes, the Commission is not considered part of the Metropolitan Council.

Significant Accounting Policies
This summary of significant accounting policies of the Metropolitan Mosquito Control District is presented to assist in understanding the District's financial statements. The financial statements and notes are representations of the District's management, which is responsible for their integrity and objectivity. These accounting policies conform to generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board and have been consistently applied in the preparation of the financial statements. In accordance with Governmental Accounting Standard No. 20, the District does not apply any pronouncements of the Financial Accounting Standards Board issued after November 30, 1989.

A. Basis of Presentation
The accounts of the District are organized on the basis of funds and account groups, each of which is considered a separate accounting entity. The fund and account groups maintained are presented as follows:

Governmental Fund

General Fund - The General Fund is the general operating fund of the District and is used to account for all financial activities.

Account Groups

General Fixed Assets Account Group - The General Fixed Assets group of accounts is used to account for all fixed assets of the District.

General Long-Term Debt Account Group - The General Long-Term Debt group of accounts contains the long-term obligations of the District represented by employee benefit obligations.

B. Basis of Accounting

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied. Revenues and expenditures are recognized on the modified accrual basis as follows:

Revenue Recognition - Revenues are recognized when they become measurable and available.

Expenditure Recognition - Expenditures are generally recognized when the related liability is incurred. An exception to this general rule is the long-term portion of employee benefits for unused sick and vacation leave. Also, consumable inventory items are recognized as expenditures in the period used, rather than in the period purchased.

C. Budgets and Budgetary Accounting

The Commission adopts an annual budget for the General Fund for the fiscal year commencing the following January. The budget is prepared on the modified accrual basis of accounting which is consistent with generally accepted accounting principles (GAAP). It includes the amounts that can be expended based on detailed budget estimates for individual expenditure accounts and the related anticipated revenues, as shown in the basic financial statements and supplementary information.

The property tax levy limitation for 1996 is the 1995 property tax levy limitation adjusted by a multiplier based on market valuation changes between 1994 and 1995 reduced by 50 % of the actual 1995 levy. In addition HACA payments were permanently reduced by 50% of the amount certified to have been received in 1995. The property tax levy limitation for 1998 is the 1997 property tax levy limitation adjusted by a multiplier based on market valuation changes between 1996 and 1997. District budgeted expenditures have exceeded the levy as Commission and legislative intent has been to minimize growth and reduce the fund balance.

All budget amounts lapse at the end of the year to the extent they have not been expended or encumbered.

D. Deposits and Investments

Deposits are held in a financial institution, US Bank N.A. Midway branch, and are carried at cost plus accrued interest. The carrying amount of deposits is $339,920, displayed on the balance sheet as part of "Cash and Cash Equivalents". Cash equivalents are short-term, highly liquid investments that are both (1) readily convertible to known amounts of cash and (2) so near their maturity that they present insignificant risk of changes in value because of changes in interest rates. Minn. Stat. Section 118A.03 requires that deposits in financial institutions by municipalities, including special districts, be secured by depository insurance or a combination of depository insurance and collateral security. The statute further requires the total collateral computed at its fair market value shall be at least 10 percent more than the amount on deposit in excess of any insured portion. The MMCD's deposits at year-end were appropriately secured by federal depository insurance and by collateral held by US Bank N.A. Midway branch in MMCD's name.

The District participates in the Minnesota Association of Governments Investing for Counties (MAGIC) Trust Fund, an investment pool. These pooled investments are not categorized because securities are not specifically held by the District in book entry form. The fund invests in instruments permitted by law, including direct obligations of the United States of America and its agencies, obligations of the State of Minnesota rated "A" or better, bankers' acceptances of United States banks, commercial paper issued by United States corporations, deposits in national or state banks insured by FDIC or FSLIC, certain repurchase agreements or reverse repurchase agreements and other instruments permitted by applicable laws. The assets of the District within the fund are held in the District's name as equally valued shares. The carrying amount is $4,792,898.

The following table summarizes the District's cash and cash equivalents.

Instrument	Carrying Amount
MAGIC Trust Fund	$ 4,792,898
Deposits	339,920
Imprest Petty Cash	200
	$ 5,133,018

E. Inventory

Inventory is stated at cost using the first-in, first-out method. It consists of expendable supplies held for consumption in the next operating year. A portion of the fund balance, $1,182,880, has been reserved for control materials inventory.

F. Fixed Assets and Real Property
Fixed assets and real property are stated net of depreciation. The costs of fixed assets and real property, which are purchased from current revenue, are accounted for as expenditures in the year received.

Depreciation is provided in the District's accounts because it results in better information for resource allocation to activities of the District's operation. In addition, comparison of accumulated depreciation and the cost of assets is helpful in budgeting outlays for replacement of capital assets.

G. Risk Management
The District is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters for which the District carries insurance. The District obtains insurance through participation in the League of Minnesota Cities Insurance Trust (LMCIT) which is a risk sharing pool with approximately 800 other governmental units. The District pays an annual premium to LMCIT for its workers compensation and property and casualty insurance. The LMCIT is self sustaining through member premiums and will reinsure for claims above a prescribed dollar amount for each insurance event. Settled claims have not exceeded the District's coverage in any of the past three fiscal years.

H. Amount to be Provided for Employee Benefits
Resources for the payment of employee benefits included in the General Long-Term Debt group of accounts will be provided by the General Fund. The amount of $515,000 has been designated in the fund balance for employee benefits.

I. Comparative Data
Comparative total data for the prior year has been presented in the accompanying financial statements in order to provide an understanding of changes in the District's financial position and operation.

J. Total Columns on Statements
Total columns on the statements are captioned "Memorandum Only" to indicate they are presented only to facilitate financial analysis. Data in these columns do not present financial position, results of operations, or changes in financial position in conformity with generally accepted accounting principles. Such data also is not comparable to a consolidation.

K. Property Taxes

The property tax levy of the District is set by the Metropolitan Mosquito Control Commission. Distribution of the levy between the counties in the District is set by the Commissioner of Revenue, acting as the State Board of Equalization, and based on the budget established by MMCD. The levies are certified to Anoka, Carver, Dakota, Hennepin, Ramsey, Scott, and Washington Counties. The levies are limited to the statutory levy limitation in each of the Counties.

Property taxes are payable in equal installments by real property owners to the counties on May 15 and October 15. In general, the counties remit the collection to MMCD after each payment date.

Taxes payable on homestead property are partially reduced by a homestead credit. This credit is paid to MMCD by the state in lieu of taxes levied against homestead property. The state remits this credit in two equal installments in July and December each year.

For 1998 the Homestead and Agricultural Credit Aid was $1,094,824.

L. Budget

The 1998 annual budget for Operations was $8,585,310. The Commission has designated $500,000 of the fund balance for emergency disease vector control, as well as $50,000 for education.

2. General Fixed Assets

A. Furniture and Equipment / Motor Vehicles

A summary of changes in general fixed assets as of December 31, 1998 follows:

	Motor Vehicles	Furniture & Equipment	Total
Balance Jan 1, 1998	$2,156,521	$1,367,736	$3,524,257
Additions	236,016	53,969	289,985
Deletions (Disposition)	(80,411)	(17,321)	(97,732)
Balance Dec 31, 1998	$2,312,126	$1,404,384	$3,716,510
Accumulated Depreciation	(1,112,765)	(1,037,653)	(2,150,418)
Balance Net of Depreciation Dec 31, 1998	$1,199,361	$ 366,731	$1,566,092

The threshold for capitalization is $400. The District is recording depreciation on fixed assets, as better information can be provided for decision making. The method of depreciation used is straight line. The estimated useful life of the assets is as follows:

Vehicles	12 yrs	Salvage value 15% of purchase
Equipment	10 yrs.	Salvage value 5% of purchase
Computer & Application Equipment	5 yrs.	Salvage value 0% of purchase
Buildings...............................	30 yrs.	Salvage value 0% of purchase

There has been $200,000 designated in the fund balance for equipment replacement.

B. Building

The following is a schedule of values of headquarters operating buildings owned by the District. Depreciation and value net of depreciation is included. The Anoka operating headquarters is on land owned by Anoka County being leased at $1 per year for 99 years. Should the District break the lease, Anoka County is to purchase the building at its depreciated value as calculated using 20 years straight-line depreciation. This facility was built in 1984-85 and expanded in 1992. The Jordan headquarters was constructed in 1991. The Administrative Research headquarters was constructed in 1992-93. The Rosemount headquarters was completed in 1994. The two Hennepin County facilities were purchased in 1993 and remodeling was completed in 1994. An appraisal was made of the land at the Jordan headquarters to determine its value for reporting purposes. The result is an increase in land value at that site.

Building	**Cost**	**Land`**	**Accumulated Depreciation**	**Depreciated Value**
Anoka HQ	$ 723,596	$ -0-	$ (230,748)	$ 492,848
Jordan HQ	826,029	47,000	(190,031)	588,998
Admin./Research HQ	3,231,701	530,202	(584,552)	2,116,947
Rosemount HQ	1,044,368	187,381	(132,790)	724,197
Maple Grove HQ	1,055,434	225,744	(132,905)	696,785
Plymouth HQ	1,017,483	128,540	(143,490)	745,453
	$7,898,611	$1,118,867	$(1,414,516)	$5,365,228

The buildings are shown on the GFAAG statement. The District has completed all planned construction projects. The buildings provide suitable working conditions and space for internal meetings and other agency use. Some space is currently rented to other agencies. A portion of the fund balance, $588,000 has been designated for facilities repair and upkeep.

3. Changes in Long Term Debt

The following is a summary of employee benefit transactions of the Metropolitan Mosquito Control District for the year ended December 31, 1998.

	Total
Employee benefits payable at Jan. 1, 1998	$494,032
Portion currently payable in 1998	(19,930)
Long term employee benefits payable at Jan. 1, 1998	474,102
Net change in compensated absences	39,756
Long term employee benefits payable at December 31, 1998	$513,858

4. Compensated Absences

Compensated absences consist of employee vacation, sick leave and compensatory time benefits. These benefits are determined based on a formula with a maximum number of hours accumulated and are payable upon death, termination or retirement. Calculations include employer's share of Social Security and Medicare taxes. In previous years only vested accrued benefits were shown. The current portion of this liability is reflected in the General Fund, and the long term portion is reflected in the General Long-Term Debt group of accounts under the heading Employee Benefits Payable.

5. Deferred Revenue

The deferred revenue balance at December 31, 1998 was $629,751 consisting of taxes and other receivables which are not expected to be collected within 60 days as required by NCGA Interpretation 3. In addition, $391,901 is estimated uncollectible in the future based on historical experience.

6. Leases

Operating leases consist of rental of the Ramsey/Washington Division headquarters.

The following is a yearly schedule of future minimum rental payments under operating leases (including base rent, property taxes and operating costs):

1999	$172,992
2000	$176,805
Total minimum lease payments	$349,797

The District has exercised its option to extend this lease agreement through 2000. An accounts payable credit of $5,851.08 has been charged for rental fees not billed to the District. Total rental expense including short-term, seasonal equipment and vehicles is as follows:

1997	$165,761
1998	164,712

7. Retirement Plan

The following pension disclosures are made to comply with GASB Statement 27, "Accounting for Pensions by State and Local Government Employers."

A. Plan Description

All full-time and certain part-time employees of the Metropolitan Mosquito Control District 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) which is a cost-sharing multiple-employer retirement plan. These plans are established and administered in accordance with *Minnesota Statutes* Chapters 353 and 356.

PERF members belong to either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security and Basic Plan members are not. All new members must participate in the Coordinated Plan.

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 highest 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 and Basic Plan 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 Basic Plan member who retires before July 1, 1997 is 2 percent of average salary for each of the first 10 years of service and 2.5 percent for each remaining year. The annuity accrual rate for Basic members who retire on or after July 1, 1997 is 2.2 percent of average salary for each of the first 10 years of service and 2.7 percent for each remaining year. For a Coordinated Plan member, who retired before July 1, 1997, the annuity accrual rate is 1 percent of average salary for each of the first 10 years and 1.5 percent for each remaining year. For Coordinated members who retire on or after July 1, 1997, the annuity accrual rates increase by 0.2 percent (to 1.2 percent of average salary for each of the first 10 years and 1.7 percent for each remaining year). Under Method 2, the annuity accrual rate is 2.5 percent of average salary for Basic Plan members and 1.5 percent for Coordinated Plan members who retired before July 1, 1997. Annuity accrual rates increase 0.2 percent for members who retire on or after July 1, 1997. Effective July 1, 1997, the annuity accrual rate is increased to 3.0 percent. For PERF members whose annuity is calculated using Method 1, a full annuity is available when age plus years of service equal 90. A reduced retirement annuity is also available to eligible members seeking early retirement.

There are different types of annuities available to members upon retirement. A normal annuity is a lifetime annuity that ceases upon the death of the retiree. No survivor annuity is payable. There are also various types of joint and survivor annuity options available which will reduce the monthly normal annuity amount, because the annuity is payable over joint lives. Members may also leave their contributions 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 members. 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.

PERA issues a publicly available financial report that includes financial statements and required supplementary information for PERF. That report may be obtained by writing to PERA, 514 St. Peter Street #200, St. Paul, Minnesota, 55102 or by calling (651) 296-7460 or 1-800-652-9026.

B. Funding Policy

Minnesota Statutes Chapter 353 sets the rates for employer and employee contributions. These statutes are established and amended by the state legislature. The District makes annual contributions to the pension plans equal to the amount required by state statutes. PERF Basic Plan members and Coordinated Plan members are required to contribute 8.75 percent and 4.75 percent, respectively, of their annual covered salary. The District is required to contribute the following percentages of annual covered payroll: 11.43 percent for Basic Plan PERF members, 5.18 percent for Coordinated Plan PERF members. The District's contributions to the Public Employees Retirement Fund for the years ending December 31, 1998, 1997, and 1996 were $241,516, $180,674, and $168,534, respectively. The District's contributions were equal to the contractually required contributions for each year as set by state statute.

8. Patent

The District has received two patents from the U.S. Patent Office. In 1998, $78,173 in royalties were collected from the patents.

After fees are recovered, twenty five percent will be paid to the former Director. Fees have been recovered on one of the patents. In 1998, a payment of $10,474.81 was made to the former Director. As he has terminated employment with the District, he will be entitled to 25 percent for the duration of the patents. The patents are for the process currently used for manufacturing control material briquets. The District has licensed rights to manufacture the briquets to a private company, and revenue will accrue to the District from sales to entities other than the District. The District to date has not been successful licensing additional development rights. The first patent was issued on June 2, 1987; the second on March 22, 1988.

Metropolitan Mosquito Control District

REQUIRED SUPPLEMENTARY INFORMATION

Year 2000 Compliance *(unaudited)*

The year 2000 (Y2K) issue is the result of shortcomings in many electronic data processing systems and other equipment that may adversely affect operations in the year 1999 and beyond. In 1997 the District began investigations into and planning for issues regarding Y2K compliance. In October 1998 the District completed an assessment of all its mission critical computer systems, including those related to the District's accounting and administration, as well as those relating to the District operations such as local area network servers, Wide Area Network communications and building climate control systems. Based upon the results of this investigation the District began upgrading hardware and software in early 1999.

The District is in the remediation stage of work on its mission critical systems. The remediation stage is when the organization actually decides on and makes changes to its systems and equipment to make them Y2K compliant. Completion of Y2K remediation work is scheduled for August of 1999. Validation testing to verify success of remediation efforts, is to be completed by November 30, 1999. Date sensitive components will be monitored beyond the year 2000.

Vendors of major utilities have indicated that no significant issues exist with regard to Y2K compliance. However the District has no guarantee that these systems will be Y2K compliant. The District has developed contingency plans in the event there is a disruption of service from major utilities.

As of December 31, 1998, the District had no specific contracts outstanding to make computer systems or other electronic equipment Y2K compliant.

Report on Compliance and Internal Control over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

Commissioner Randy Johnson, Chair
Metropolitan Mosquito Control Commission

Members of the Metropolitan Mosquito Control Commission

Mr. Joseph Sanzone, Executive Director
Metropolitan Mosquito Control District

We have audited the balance sheet of the Metropolitan Mosquito Control District for the year ended December 31, 1998, and the related statements of revenues, expenditures, and changes in fund balance for the two years then ended and have issued our report thereon dated May 17, 1999. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Metropolitan Mosquito Control District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Metropolitan Mosquito Control District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be material weaknesses. A material weakness is a condition in which the design or

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operation of one or more of the internal control components does not reduce, to a relatively low level, the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control structure and its operations that we considered to be material weaknesses as defined above.

This report is intended for the information of the Metropolitan Mosquito Control District management and the Legislative Audit Commission. However, this report is a matter of public record, and its distribution is not limited.

James R. Nobles
Legislative Auditor

Claudia J. Gudvangen, CPA
Deputy Legislative Auditor

May 17, 1999

Status of Prior Audit Issues
As of December 31, 1998

Most Recent Audit

June 22, 1998, Legislative Audit Report 98-37 The Office of the Legislative Auditor annually audits the financial statements of the District. For the year ended December 31, 1997, we issued an unqualified audit opinion on the District's financial statements. During the course of our audit, we found no issues required to be reported under the *Government Auditing Standards.*