O L A
OFFICE OF THE LEGISLATIVE AUDITOR
STATE OF MINNESOTA

Financial Audit

Metropolitan Mosquito Control District

For the Year Ended December 31, 2000

JUNE 28, 2001 **01-35**

Financial Audit Division

The Office of the Legislative Auditor (OLA) is a professional, nonpartisan office in the legislative branch of Minnesota State government. Its principal responsibility is to audit and evaluate the agencies and programs of state government (the State Auditor audits local governments).

OLA's Financial Audit Division annually audits the state's financial statements and, on a rotating schedule, audits agencies in the executive and judicial branches of state government, three metropolitan agencies, and several "semi-state" organizations. The division also investigates allegations that state resources have been used inappropriately.

The division has a staff of approximately fifty auditors, most of whom are CPAs. The division conducts audits in accordance with standards established by the American Institute of Certified Public Accountants and the Comptroller General of the United States.

Consistent with OLA's mission, the Financial Audit Division works to:

- Promote Accountability,
- Strengthen Legislative Oversight, and
- Support Good Financial Management.

Through its Program Evaluation Division, OLA conducts several evaluations each year and one best practices review.

OLA is under the direction of the Legislative Auditor, who is appointed for a six-year term by the Legislative Audit Commission (LAC). The LAC is a bipartisan commission of Representatives and Senators. It annually selects topics for the Program Evaluation Division, but is generally not involved in scheduling financial audits.

All findings, conclusions, and recommendations in reports issued by the Office of the Legislative Auditor are solely the responsibility of the office and may not reflect the views of the LAC, its individual members, or other members of the Minnesota Legislature.

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If you have comments about our work, or you want to suggest an audit, investigation, evaluation, or best practices review, please contact us at 651-296-4708 or by e-mail at auditor@state.mn.us

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, CISA	Auditor-in-Charge
Tim Haag	Auditor

Exit Conference

We discussed the findings and recommendations with the following staff of the Metropolitan Mosquito Control District at an exit conference held on May 17, 2001:

Bill Caesar	Business Administrator
Trish Egerer	Accounting

Report Summary

Key Audit Conclusions, Findings, and Recommendations:

- The financial statements of the Metropolitan Mosquito Control District (District) for the year ended December 31, 2000, were fairly presented, in all material respects, in accordance with generally accepted accounting principles.
- We report one written finding with recommendations to the District for improving internal controls over financial reporting. We found that the District did not have an appropriate process to verify its investment pool balance. (Finding 1, page 19)
- We did not identify any instances of noncompliance with legal provisions that could have significantly affected the district's financial statements.

Background:

The District was created under the authority of Minn. Stat. Sections 473.701 to 473.716 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. The District received approximately $8.8 million in tax revenue and spent approximately $7.1 million on control activities in fiscal year 2000.

This **audit report** contains the Metropolitan Mosquito Control District's financial statements and our related Independent Auditor's Report and Report on Compliance and Internal Control over Financial Reporting.

O L A

OFFICE OF THE LEGISLATIVE AUDITOR

State of Minnesota • James Nobles, Legislative Auditor

Independent Auditor's Report

Commissioner Dallas Bohnsack, Chair
Metropolitan Mosquito Control District

Members of the Metropolitan Mosquito Control District

Mr. Joseph Sanzone, Executive Director
Metropolitan Mosquito Control District

We have audited the accompanying balance sheet of the Metropolitan Mosquito Control District (District) as of December 31, 2000, and the related statements of revenues, expenditures, and changes in fund balances for the two years then ended as presented on pages 3 to 16. 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 the standards applicable to financial audits contained in *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 the 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, 2000, and the results of its operations and changes in its fund balance for the two years then ended in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 22, 2001, on our consideration of the Metropolitan Mosquito Control District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

/s/ James R. Nobles

James R. Nobles
Legislative Auditor

/s/ Claudia J. Gudvangen

Claudia J. Gudvangen, CPA
Deputy Legislative Auditor

May 22, 2001

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EXHIBIT A

METROPOLITAN MOSQUITO CONTROL DISTRICT
COMBINED BALANCE SHEET
ALL FUND TYPES AND ACCOUNT GROUPS
December 31, 2000

	Governmental Fund Type	Account Groups		Totals (MEMORANDUM ONLY) December 31,	
		General Fixed	General Long-Term		
Assets	General	Assets	Debt	2000	1999
Cash+Cash Equivalents	$ 5,941,238			$ 5,941,238	$ 5,272,916
Short term Investment	90,000			90,000	0
PrePaid Expenses	790			790	12,424
Income Receivable: (net of allowance for uncollectible taxes of $391,901)	420,421			420,421	397,936
Inventory at cost	645,673			645,673	320,036
Equipment Net of depreciation		$ 1,629,451		1,629,451	1,556,040
Land		1,118,867		1,118,867	1,118,867
Building Net of bldg. depreciation		4,906,759		4,906,759	5,132,846
Amount to be provided for Employee Benefits			$ 583,102	583,102	557,087
Total Assets	$ 7,098,122	$ 7,655,077	$ 583,102	$ 15,336,301	$ 14,368,152
Liabilities & Fund Equity					
Liabilities:					
Accounts Payable	$ 105,495			$ 105,495	$ 60,418
Accrued Salary and Wages	92,277			92,277	88,015
Employee Benefits Payable	36,940		$ 583,102	620,042	586,922
Deferred Revenue	295,499			295,499	274,212
Total Liabilities	$ 530,211		$ 583,102	$ 1,113,313	$ 1,009,567
Fund Equity:					
Investment in general fixed assets		$ 7,655,077		$ 7,655,077	$ 7,807,753
Fund Balance:					
Reserved for inventory	$ 645,673			$ 645,673	$ 320,036
Unreserved Fund Balance (See designation in foonotes $1,973,000)	$ 5,922,238			$ 5,922,238	$ 5,230,796
Total Fund Equity	$ 6,567,911	$ 7,655,077		$ 14,222,988	$ 13,358,585
Total Liabilities and Fund Equity	$ 7,098,122	$ 7,655,077	$ 583,102	$ 15,336,301	$ 14,368,152

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

EXHIBIT B

METROPOLITAN MOSQUITO CONTROL DISTRICT

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

GENERAL FUND
Years Ended December 31, 2000 and 1999

	2000	1999
Revenue:		
Taxes -		
Anoka County	$ 675,566	$ 611,687
Carver County	127,638	112,666
Dakota County	984,837	918,830
Hennepin County	3,754,394	3,502,560
Ramsey County	1,288,805	1,173,371
Scott County	215,797	191,415
Washington County	578,616	520,173
Homestead & Agricultural Credit & other aids (see footnote #1, K)	1,139,203	1,094,824
Tax Delinquent Income	91,596	52,116
Other County Income	10,102	0
Investment Income	284,644	192,748
Miscellaneous	85,691	98,684
Total Revenues	$ 9,236,889	$ 8,469,074
Expenditures:		
Board of Commissoners -		
Salaries	$ 0	$ 0
Travel	2,337	3,227
Administrative	711,390	718,246
Control	7,116,065	7,744,523
Capital Expenditures	390,018	314,551
Total Expenditures	$ 8,219,810	$ 8,780,547
Excess (deficiency) of revenues over expenditures	$ 1,017,079	$ (311,473)
Fund Balance at beginning of year	$ 5,550,832	$ 5,862,305
Fund Balance at end of year	$ 6,567,911	$ 5,550,832

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

EXHIBIT C

METROPOLITAN MOSQUITO CONTROL DISTRICT

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

GENERAL FUND
Year Ended December 31, 2000

	Budget	Actual	Variance Favorable (Unfavorable)
Revenue:			
Taxes -			
Anoka County	$ 683,663	$ 675,566	$ (8,097)
Carver County	129,296	127,638	(1,658)
Dakota County	995,083	984,837	(10,246)
Hennepin County	3,804,496	3,754,394	(50,102)
Ramsey County	1,305,524	1,288,805	(16,719)
Scott County	218,814	215,797	(3,017)
Washington County	585,511	578,616	(6,895)
Homestead & Agricultural Credit & other aids (see footnote #1, K)	1,139,203	1,139,203	0
Tax Delinquent Income	60,000	91,596	31,596
Other County Income	0	10,102	10,102
Investment Income	250,000	284,644	34,644
Miscellaneous	70,000	85,691	15,691
Total Revenues	$ 9,241,590	$ 9,236,889	$ (4,701)
Expenditures:			
Board of Commissoners -			
Salaries	$ 0	$ 0	$ 0
Travel	6,900	2,337	4,563
Administrative	738,545	711,390	27,155
Control	8,347,090	7,116,065	1,231,025
Capital Expenditures	409,535	390,018	19,517
Total Expenditures	$ 9,502,070	$ 8,219,810	$ 1,282,260
Excess (deficiency) of revenues over expenditures	$ (260,480)	$ 1,017,079	$ 1,277,559
Fund Balance at beginning of year	$ 5,550,832	$ 5,550,832	$ 0
Fund Balance at end of year	$ 5,290,352	$ 6,567,911	$ 1,277,559

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

EXHIBIT D

METROPOLITAN MOSQUITO CONTROL DISTRICT

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

GENERAL FUND
Year Ended December 31, 1999

		Budget		Actual		Variance Favorable (Unfavorable)
Revenue:						
Taxes -						
Anoka County	$	624,565	$	611,687	$	(12,878)
Carver County		114,506		112,666		(1,840)
Dakota County		928,953		918,830		(10,123)
Hennepin County		3,539,568		3,502,560		(37,008)
Ramsey County		1,178,281		1,173,371		(4,910)
Scott County		193,229		191,415		(1,814)
Washington County		526,466		520,173		(6,293)
Homestead & Agricultural Credit & other aids (see footnote #1, K)		1,094,824		1,094,824		0
Tax Delinquent Income		50,000		52,116		2,116
Investment Income		250,000		192,748		(57,252)
Miscellaneous		100,000		98,684		(1,316)
Total Revenues	$	8,600,392	$	8,469,074	$	(131,318)
Expenditures:						
Board of Commissoners -						
Salaries	$	0	$	0	$	0
Travel		6,900		3,227		3,673
Administrative		717,786		718,246		(460)
Control		8,130,018		7,744,523		385,495
Capital Expenditures		370,420		314,551		55,869
Total Expenditures	$	9,225,124	$	8,780,547	$	444,577
Excess (deficiency) of revenues over expenditures	$	(624,732)	$	(311,473)	$	313,259
Fund Balance at beginning of year	$	5,862,305	$	5,862,305	$	0
Fund Balance at end of year	$	5,237,573	$	5,550,832	$	313,259

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

Metropolitan Mosquito Control District
Notes to Financial Statements

December 31, 2000

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 2000 is the 1999 property tax levy limitation adjusted by a multiplier based on market valuation changes between 1998 and 1999. District budgeted expenditures are expected to exceed the levy as Commission and legislative intent has been to minimize growth and reduce the fund balance. In 2000 however, expenditures were less than the levy.

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 financial institutions, US Bank N.A., and Lakes Area Bank, and are carried at cost plus accrued interest. The carrying amount of deposits included on the balance sheet as part of "Cash and Cash Equivalents" is $264,286. 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. Deposits carried in short term investments include a certificate of deposit for $90,000 maturing within six months. Accrued interest of $4,068.49 is displayed on the balance sheet as part of Income Receivable. 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. and Lakes Area Bank 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 $5,676,752.

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

Instrument	Carrying Amount		
MAGIC Trust Fund	$ 5,676,752	Deposits	264,286
Imprest Petty Cash	200		
	$ 5,941,238		

The following summarizes the District's short term investments.

Instrument	Carrying Amount
Certificate of Deposit	$ 90,000

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, $645,673, 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 $585,000 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 2000 the Homestead and Agricultural Credit Aid was $1,139,203.

Other County Income includes payments in lieu of taxes and other non-levy collections.

L. Budget

The 2000 annual budget for Operations was $9,502,070. 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, 2000 follows:

	Motor Vehicles	Furniture & Equipment	Total
Balance Jan 1, 2000	$2,389,341	$1,399,599	$3,788,940
Additions	233,966	147,664	381,630
Deletions (Disposition)	(146,039)	(35,423)	(181,462)
Balance Dec 31, 2000	$2,477,268	$1,511,840	$3,989,108
Accumulated Depreciation	(1,205,201)	(1,154,453)	(2,359,654)
Balance Net of Depreciation Dec 31, 2000	$1,272,067	$ 357,387	$1,629,454

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 $250,000 designated in the fund balance for equipment replacement.

B. Building and Land

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	Land	Building Cost	Accumulated Depreciation	Net Building Value
Anoka HQ	$ -0-	$ 723,596	$ (280,188)	$ 443,408
Jordan HQ	47,000	781,022	(243,671)	537,351
Admin./Research HQ	530,202	2,701,499	(777,002)	1,924,497
Rosemount HQ	187,381	856,987	(190,730)	666,257
Maple Grove HQ	225,744	838,077	(188,645)	649,432
Plymouth HQ	128,540	888,943	(203,130)	685,813
	$1,118,867	$6,790,124	$(1,883,366)	$4,906,758

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, 2000.

	Total
Employee benefits payable at Jan. 1, 2000	$586,922
Portion currently payable in 2000	(29,835)
Long term employee benefits payable at Jan. 1, 2000	557,087
Net change in compensated absences	26,015
Long term employee benefits payable at December 31, 2000	$583,102

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, 2000 was $687,400 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):

2001	$176,805
2002	176,805
2003	176,805
2004	176,805
2005	180,730
Total minimum lease payments	$887,950

The District has renewed this lease agreement through 2005. Total rental expense including short-term, seasonal equipment and vehicles is as follows:

1999	$173,405
2000	$174,920

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 PERF's Coordinated and Basic Plan members. The retiring member receives the higher of a 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 is 2.2 percent of average salary for each of the first 10 years of service and 2.7 percent for each remaining year. The annuity accrual rate for a Coordinated Plan member is 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 2.7 percent of average salary for Basic Plan members and 1.7 percent for Coordinated Plan members for each year of service. 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, 1999, and 2000 were $241,516, $247,138 and $253,783, 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 2000, $84,935.82 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 2000, a payment of $19,886.15 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.

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

Commissioner Dallas Bohnsack, Chair
Metropolitan Mosquito Control District

Members of the Metropolitan Mosquito Control District

Mr. Joseph Sanzone, Executive Director
Metropolitan Mosquito Control District

We have audited the financial statements of the Metropolitan Mosquito Control District as of and for the years ended December 31, 2000 and 1999, and have issued our report thereon dated May 22, 2001. 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, contracts, and grants, 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. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the District's ability to record, process, summarize,

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and report financial data consistent with the assertions of management in the financial statements. We describe a reportable condition that relates to the District's process to verify its investment pool balances in the accompanying section titled, *Current Findings and Recommendations*.

A material weakness is a condition in which the design or 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. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition described above is not a material weakness.

This report is intended solely for the information and use of the Metropolitan Mosquito Control District's management and the Legislative Audit Commission and is not intended to be and should not be used by anyone other than these specified parties.

/s/ James R. Nobles

James R. Nobles
Legislative Auditor

/s/ Claudia J. Gudvangen

Claudia J. Gudvangen, CPA
Deputy Legislative Auditor

May 22, 2001

Current Finding and Recommendations

1. The Metropolitan Mosquito Control District (District) did not have an appropriate process to verify its investment pool balance.

At December 31, 2000, the District's investment pool balance in the accounting system was approximately $19,000 less than the amount reported by its investment manager. The District traced the difference to an electronic payment from a county in early 1999. Staff determined that the county's payment related to fiscal year 1998. The District had not recorded the cash receipt or reduced the corresponding accounts receivable balance on the financial statements and did not recognize the revenue associated with the payment.

The District keeps the majority of its cash and cash equivalents in the Minnesota Association of Government Investing for Counties (MAGIC) Fund, an investment pool. The MAGIC Fund balance was approximately $5.7 million as of December 31, 2000. Each month, the District attempted to reconcile the MAGIC Fund balance to the amount recorded in the accounting system. However, the District did not use the ending balance on the monthly account statements in its reconciliation process. Instead, the District carried forward the prior month's reconciled ending balance. In addition, we found that the District's management only reviewed the investment account reconciliations on an exception basis.

The District raised the risk of not timely detecting errors by using adjusted ending investment account balances and by not independently reviewing investment reconciliations on a regular basis.

Recommendations

- *The District should use the ending account balance reported by its investment manager when verifying its accounting records.*

- *The District's management should periodically review and approve investment account reconciliations.*

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Status of Prior Audit Issues
As of May 22, 2001

Most Recent Audit

The Office of the Legislative Auditor performs an annual audit of the Metropolitan Mosquito Control District. Legislative Audit Report 00-26, dated May 24, 2000, covered the year ended December 31, 1999. The audit scope included those areas material to the district's financial statements for the year then ended. There were no findings in the report.

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METROPOLITAN MOSQUITO CONTROL DISTRICT
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651-645-9149 ■ FAX 651-645-3246 TTY use Minnesota Relay Service

JOSEPH F. SANZONE, BCE
Director

W.J. CAESAR
Business Admin.

June 22, 2001

James Nobles
Legislative Auditor
Centennial Building
1st floor South
658 Cedar Street
St. Paul, Minnesota 55155

I am writing in response to the finding and recommendations in your management letter for the Financial and Compliance Audit of the Metropolitan Mosquito Control District for the year ending December 31, 2000.

You found that the process used by the District to verify its investment pool balance was inadequate. Your recommendations are to use the ending account balance reported by the investment pool manager when verifying the records and that management should review and approve the reconciliations on a regular basis. We would like to thank the Office of the Legislative Auditor for specifying these areas that need improvement.

The District's Business Administrator has identified the few steps necessary to complete the reconciliation process which we expect will resolve the issue. The Business Administrator will work with the reconciler to assure the process is improved, and designate a regular review process. We have already taken action to change the process and over the next months will monitor the results. The work product will be reviewed regularly thereafter. Therefor the problem will be resolved in this accounting period. It is our intention that these problems not occur. However, if they do, we want the process to identify the error so we can correct it.

Thank you.

Sincerely,

/s/ Joseph Sanzone

Joseph F. Sanzone
Director