OLA

OFFICE OF THE LEGISLATIVE AUDITOR
STATE OF MINNESOTA

Financial Audit

Metropolitan Mosquito Control District

For the Year Ended December 31, 2001

JULY 18, 2002 **02-47**

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

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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
Patrick Phillips, CPA	Auditor-in-Charge
Kristen Peterson	Auditor

Exit Conference

We discussed the results of the audit with the following staff of the Metropolitan Mosquito Control District at a meeting held on May 31, 2002:

Bill Caesar	Business Administrator
Trish Egerer	Accounting

Report Summary

Key Audit Conclusions:

- The financial statements of the Metropolitan Mosquito Control District (District) for the year ended December 31, 2001, were fairly presented, in all material respects, in accordance with generally accepted accounting principles.
- 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 $9.1 million in tax revenue and spent approximately $7.5 million on control activities in the year 2001.

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.

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, 2001, and the related statements of revenues, expenditures, and changes in fund balances for the two years then ended as presented on pages 3 to 6. 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 auditing standards generally accepted in the United States of America 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 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, 2001, and the results of its operations and changes in its fund balance for the two years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 31, 2002, 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

End of Fieldwork: May 31, 2002

Report Signed On: July 11, 2002

EXHIBIT A

METROPOLITAN MOSQUITO CONTROL DISTRICT

COMBINED BALANCE SHEET
ALL FUND TYPES AND ACCOUNT GROUPS
For the year ending December 31, 2001

		Account Groups		*Totals*	
	Governmental Fund Type	*General Fixed*	*General Long-Term*	*(MEMORANDUM ONLY) December 31,*	
Assets	*General*	*Assets*	*Debt*	*2001*	*2000*
Cash+Cash Equivalents	$5,761,209			$ 5,761,209	$ 5,941,238
Short term Investment	96,750			96,750	90,000
Prepaid Expenses	33,899			33,899	790
Income Receivable:					
(net of allowance					
for estimated uncollectible					
taxes of $391,901)	521,365			521,365	420,421
Inventory at cost	1,634,054			1,634,054	645,673
Equipment					
Net of depreciation		$1,648,333		$ 1,648,333	1,629,451
Land		1,118,867		1,118,867	1,118,867
Building					
Net of bldg. depreciation		4,675,650		4,675,650	4,906,759
Amount to be provided for					
Employee Benefits	0	0	$616,986	616,986	583,102
Total Assets	$8,047,277	$7,442,850	$616,986	$16,107,113	$15,336,301
Liabilities & Fund Equity					
Liabilities:					
Accounts Payable	$ 52,567			$52,567	$ 105,495
Accrued Salary					
and Wages	106,257			106,257	92,277
Employee Benefits					
Payable	32,807		$616,986	649,793	620,042
Deferred Revenue	367,459		0	367,459	295,499
Total Liabilities	$ 559,090		$616,986	$ 1,176,076	$ 1,113,313
Fund Equity:					
Investment in general					
fixed assets		$7,442,850		$ 7,442,850	$ 7,655,077
Fund Balance:					
Reserved for inventory	$1,634,054			$ 1,634,054	$ 645,673
Unreserved Fund Balance	$5,854,133			$ 5,854,133	$ 5,922,238
(See designation in footnotes					
$1,955,000)					
Total Fund Equity	$7,488,187	$7,442,850		$14,931,037	$14,222,988
Total Liabilities					
and Fund Equity	$8,047,277	$7,442,850	$616,986	$16,107,113	$15,336,301

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
For the years ended December 31, 2001 and 2000

	2001	2000
Revenue:		
Taxes -		
Anoka County	$ 716,911	$ 675,566
Carver County	133,102	127,638
Dakota County	1,056,720	984,837
Hennepin County	3,868,782	3,754,394
Ramsey County	1,365,062	1,288,805
Scott County	237,466	215,797
Washington County	627,872	578,616
Homestead & Agricultural Credit & other aids (see footnote #1, K)	1,138,967	1,139,203
Tax Delinquent Income	53,012	91,596
Other County Income	6,318	10,102
Investment Income	264,852	284,644
Miscellaneous	73,662	85,691
Total Revenues	$9,542,726	$9,236,889
Expenditures:		
Board of Commissoners -		
Salaries	$ 0	$ 0
Travel	3,925	2,337
Administrative	749,116	711,390
Control	7,549,716	7,116,065
Capital Expenditures	319,693	390,018
Total Expenditures	$8,622,450	$8,219,810
Excess (deficiency) of revenues over expenditures	$ 920,276	$1,017,079
Fund Balance at beginning of year	$6,567,911	$5,550,832
Fund Balance at end of year	$7,488,187	$6,567,911

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
For the year ended December 31, 2001

	Budget	Actual	Variance Favorable (Unfavorable)
Revenue:			
Taxes -			
Anoka County	$ 727,953	$ 716,911	$ (11,042)
Carver County	134,491	133,102	(1,389)
Dakota County	1,067,452	1,056,720	(10,732)
Hennepin County	3,930,083	3,868,782	(61,301)
Ramsey County	1,385,031	1,365,062	(19,969)
Scott County	240,791	237,466	(3,325)
Washington County	635,597	627,872	(7,725)
Homestead & Agricultural Credit & other aids (see footnote #1, K)	1,138,967	1,138,967	0
Tax Delinquent Income	53,000	53,012	12
Other County Income	0	6,318	6,318
Investment Income	265,000	264,852	(148)
Miscellaneous	67,000	73,662	6,662
Total Revenues	$ 9,645,365	$ 9,542,726	$ (102,639)
Expenditures:			
Board of Commissoners -			
Salaries	$ 0	$ 0	$ 0
Travel	6,900	3,925	2,975
Administrative	769,015	749,116	19,899
Control	8,622,980	7,549,716	1,073,264
Capital Expenditures	471,150	319,693	151,457
Total Expenditures	$ 9,870,045	$ 8,622,450	$ 1,247,595
Excess (deficiency) of revenues over expenditures	$ (224,680)	$ 920,276	$ 1,144,956
Fund Balance at beginning of year	$ 6,567,911	$ 6,567,911	$ 0
Fund Balance at end of year	$ 6,343,231	$ 7,488,187	$ 1,144,956

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
For the 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.

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Metropolitan Mosquito Control District
Notes to Financial Statements

For the year ending December 31, 2001

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.

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 2001 is the 2000 property tax levy limitation adjusted by a multiplier based on market valuation changes between 1999 and 2000. 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 2001 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 $274,145. 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 $96,750 maturing within six months. Accrued interest of $2,929.01 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 $5,486,864.

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

Instrument	Carrying Amount		
MAGIC Trust Fund	$ 5,486,864	Deposits	274,145
Imprest Petty Cash	200		
	$ 5,761,209		

The following summarizes the District's short term investments.

Instrument	Carrying Amount
Certificate of Deposit	$ 96,750

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, $1,634,054, 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 $616,986 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.

The District's final levy was certified to the Minnesota Department of Revenue by December 28, 2000.

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.

The member counties make collections and forward payment to the District. Payments for the May 15 due date were to be forwarded by July 5, 2001. On December 3, 2001 all collections through November 20, 2001 were due to the District. The balance of all 2001 collections was due by January 25, 2002.

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 2001 the Homestead and Agricultural Credit Aid was $1,138,967.

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

L. Budget

The 2001 annual budget for Operations was $9,870,045. 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, 2001 follows:

	Motor Vehicles	Furniture & Equipment	Total

Balance Jan 1, 2001	$2,477,268	$1,511,840	$3,989,108
Additions	247,288	68,673	315,961
Deletions (Disposition)	(117,905)	(14,234)	(132,139)
Balance Dec 31, 2001	$2,606,651	$1,566,279	$4,172,930
Accumulated Depreciation	(1,275,228)	(1,249,369)	(2,524,597)
Balance Net of Depreciation Dec 31, 2001	$1,331,423	$ 316,910	$1,648,333

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

Equipment and vehicles in use more than six months are depreciated in the first year. There has been $200,000 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. Buildings and improvements will not be depreciated until after being in use for at least one year. 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. In 1997 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 01/01/01		Add/ Del		Building Cost 12/31/01		Accumulated Depreciation		Net Building Value
Anoka	$	-0-	$	723,596	$		$	723,596	$	(304,908)	$	418,688
Jordan		47,000		781,022				781,022		(270,541)		510,481
Admn/ Resarch		530,202		2,701,499		3,732		2,705,231		(873,227)		1,832,004
Rosemount		187,381		856,987				856,987		(219,700)		637,287
Maple Grove		225,744		838,077				838,077		(216,880)		621,197
Plymouth		128,540		888,943				888,943		(232,950)		655,993
Totals	$	1,118,867	$	6,793,857	$	3,732	$	6,793,887	$	(2,118,206)	$	4,675,650

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, 2001.

	Total
Employee benefits payable at Jan. 1, 2001	$620,042
Portion currently payable in 2001	(36,940)
Long term employee benefits payable at Jan. 1, 2001	583,102
Net change in compensated absences	33,884
Long term employee benefits payable at December 31, 2001	$616,986

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. Prior to 1997 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, 2001 was $759,360 consisting of taxes and other receivables which are not expected to be collected within 60 days as required by GASB 33 and 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):

2002	177,425
2003	177,425
2004	177,425
2005	181,350
Total minimum lease payments	$713,625

The District has renewed this lease agreement through 2005. Total rental expense is as follows:

2000	$174,920
2001	$174,569

The District had no rental expenditures for equipment or vehicles in either of these years.

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, 60 Empire Drive Suite 200, St. Paul, Minnesota, 55103-1855 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. Member and employer contribution rates for Basic and Coordinated members will increase by 0.35% effective January 2002. The District's contributions to the Public Employees Retirement Fund for the years ending December 31, 1999, 2000, and 2001 were $247,138, $253,783, and $264,364 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 2001, $100,395.27 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 2001, a payment of $25,427.73, including royalties and interest, 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.

9. Financial Statements in Future Periods

The Government Accounting Standards Board's Statement 34 requires implementation of its standards for phase three governments in financials statements for periods beginning after June 15, 2003. The District is a phase three government and would be required to implement GASB 34 for the year ending December 31, 2004. It is the intention of the District to transition to GASB 34 for 2002 statements, implementing early, resulting in restructured financial statements.

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 two years ended December 31, 2001, and have issued our report thereon dated May 31, 2002. We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses.

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. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

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 31, 2002

Status of Prior Audit Issues
As of May 31, 2002

Most Recent Audit

The Office of the Legislative Auditor performs an annual audit of the Metropolitan Mosquito Control District. Legislative Audit Report 01-35, dated June 28, 2001, covered the year ended December 31, 2000. The audit scope included those areas material to the District's financial statements for the year then ended. The report contained one finding that the District did not have an appropriate process to verify its investment pool balance. The District took corrective action to resolve the issue.