OLA

OFFICE OF THE LEGISLATIVE AUDITOR
STATE OF MINNESOTA

Financial Audit Division Report

Metropolitan Mosquito Control District

Year Ended December 31, 2004

JUNE 30, 2005 05-38

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 forty 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.

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, or evaluation, 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
Steven Johnson, CPA	Auditor-in-Charge
Marisa Isenberg	Auditor
Kelly Olson	Auditor

Report Summary

Key Audit Conclusions:

- The basic financial statements of the Metropolitan Mosquito Control District (District) for the year ended December 31, 2004, 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.

The audit report contained no audit findings relating to internal control and legal compliance.

Audit Scope:

Audit Period:
Year Ended December 31, 2004

Selected Audit Areas:
- Metropolitan Mosquito Control District's financial statements

Agency Background:

The District was created under the authority of *Minnesota Statutes*, 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 received approximately $13.7 million in revenue and spent approximately $12.1 million in 2004.

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Independent Auditor's Report

Commissioner Willis Branning, Chair
Metropolitan Mosquito Control Commission

Members of the Metropolitan Mosquito Control Commission

Mr. William Caesar, Business Administrator
Metropolitan Mosquito Control District

We have audited the accompanying basic financial statements of the Metropolitan Mosquito Control District (District) as of and for the year ended December 31, 2004, as listed in the Table of Contents. 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, 2004, and the changes in financial position for the year then ended, and the respective budgetary comparison for the General Fund 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 13, 2005, 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, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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Management's Discussion and Analysis is not a required part of the District's basic financial statements, but is supplementary information required by generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

/s/ James R. Nobles	*/s/ Claudia J. Gudvangen*
James R. Nobles Legislative Auditor	Claudia J. Gudvangen, CPA Deputy Legislative Auditor

End of Fieldwork: May 13, 2005

Report Signed On: June 24, 2005

Management's Discussion and Analysis

As management of the Metropolitan Mosquito Control District, we offer readers of the Metropolitan Mosquito Control District's financial statements this narrative overview and analysis of the financial activities of the Metropolitan Mosquito Control District for the fiscal year ending December 31, 2004.

Governmental Accounting Standards Board (GASB) Statement No. 34, "Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments," established new reporting requirements for state and local governments throughout the United States. The new requirements not only restructure the format of information presented in previous fiscal years, but also create new information that must be presented. The intention of the new reporting model is to make annual reports more comprehensive while being easier to understand.

Financial Highlights – The assets of the Metropolitan Mosquito Control District exceeded its liabilities at the close of the most recent fiscal year by $16,268,077 (net assets). Of this amount $8,868,841, (unrestricted net assets) may be used to meet the organizations ongoing obligations to citizens and creditors in accordance with the District's fund designations and fiscal policies. As of the close of the current fiscal year, the District's General Fund reported an ending fund balance of $9,223,183. At the end of the current fiscal year, the unreserved fund balance for the General Fund was $8,251,355 dollars or 68.3 percent of the total General Fund expenditures. Over 89 percent of the total fund balance is available for use within the District's designations and policies.

Overview of the Financial Statements – The discussion and analysis are intended to serve as an introduction to Metropolitan Mosquito Control District's basic financial statements. The Metropolitan Mosquito Control District's basic financial statements are comprised of three components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements.

Government-Wide Financial Statements – Government-wide financial statements are designed to provide readers with a broad overview of the Metropolitan Mosquito Control District's finances in a manner similar to private sector business.

The statement of net assets provides information on all the District's assets and liabilities with the difference between the two reported as net assets. Over time, increases or decreases in the net assets can indicate whether the financial position of the Metropolitan Mosquito Control District is improving or deteriorating.

The statement of activities presents information showing how the District's assets changed during the most recent fiscal year. All changes of net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Thus, revenues and expenses are recorded in this statement for some items that will only be resolved in cash flows in future fiscal periods (e.g. uncollected taxes and unused vacation leave as examples).

Government-wide financial statements of the Metropolitan Mosquito Control District represent the governmental activities of the District, which includes its General Fund to control mosquitoes. The District does not record business-type activities.

The government-wide financial statements are reported in columnar manner, adjacent to the related fund statement, with reconciliation of those statements included.

Fund Financial Statements – A fund is a group of related accounts used to maintain control over resources that have been segregated for specific activities or objectives. The District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance related legal requirements. The District has one fund, which is categorized as a governmental fund.

Governmental Funds - Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating governmental near term financial requirements.

Because the focus of governmental funds is narrower than government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the governmental-wide statements. By doing so, readers may better understand the long-term impact of the District's financial decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balance, provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The District develops an annual appropriated budget for its fund. A budgetary comparative statement has been provided for the fund to demonstrate compliance with this budget.

The District does not have proprietary or fiduciary funds.

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 14 – 23 of this report.

Government-Wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the Metropolitan Mosquito Control District, assets exceeded liabilities by $16,268,077 at the close of the most recent fiscal year.

Forty-five percent of the District's net assets are reflected in capital assets (e.g. land, buildings, vehicles and equipment). The District uses these capital assets to provide services to citizens; consequently these assets are not available for future spending.

Metropolitan Mosquito Control District's Net Assets

	2004	2003
Current and Other Assets	$ 10,074,870	$ 8, 713,612
Capital Assets	7,399,236	7,343,161
Total Assets	17,474,106	16,056,773
Long-term Liabilities	862,803	829,416
Other Liabilities	343,226	583,052
Total Liabilities	1,206,029	1,412,468
Net Assets:		
Invested in Capital Assets	7,399,236	7,343,161
Unrestricted	8,868,841	7,301,144
Total Net Assets	$ 16,268,077	$ 14,644,305

A portion of the District's net assets represent resources that may be subject to restrictions on how they may be used, however, at this time there are no such restrictions. The balance of unrestricted net assets ($8,868,841) may be used to meet the District's ongoing obligations to citizens and creditors.

Metropolitan Mosquito Control District's Changes in Net Assets

	2004	2003
Revenues		
Property Tax	$ 13,270,938	$ 11,721,500
Other County Income	24,048	24,243
Investment Income	343,710	356,957
Miscellaneous	63,611	51,167
Other	670	8,270
Total Revenue	$ 13,702,977	$ 12,162,137
Expenses		
Commissioners	$ 5,559	$ 2,734
Administrative	905,134	867,679
Control	11,168,512	9,835,155
Total Expenses	12,079,205	10,705,568
Increase (decrease) in Net Assets	1,623,772	1,456,569
Net Assets on Jan. 1st	14,644,305	13,187,736
Net Assets on Dec. 31st	$ 16,268,077	$ 14,644,305

Fund Financial Analysis

The focus of the District's governmental or General Fund is to provide information on near-term inflows, outflows, and balances of spendable resources (i.e. flow of financial resources). This information can be useful in assessing the District's financing requirements. The District's unreserved fund balance may serve as a useful measure of its net resources available for spending or working capital at the end of the fiscal year.

At the end of the current fiscal year, the District's General Fund reported an ending fund balance of $9,223,183, over 89 percent of which is unreserved. The unreserved fund balance is available for working capital as designated, as well as specific other designations. The remainder is reserved because it is committed as control materials already purchased.

The General Fund balance increased by $1,491,402 in 2004. This was due to slightly lower expenditures than expected because of weather patterns which did not allow optimum treatment of mosquito breeding sites. In 2004, the District has maintained $750,000 for emergency and vector borne disease expenditures. In previous years, those funds were expended, 2002 is an example. These funds were restored in 2003.

Budgetary Highlights

The budget for 2004 addressed among other issues, response to West Nile disease and expansion into western Carver County. Four regular full time and ten seasonal employees were added this year to address recent increased workload. Revenues were less than budget by $379,601. This compares to only $2,084 in 2003. This change is in part due to reduced market value credits from the state. The fund balance was expected to increase by $1,147,934 in the original budget. It actually increased by $1,491,402. The increase is to address working capital needs.

Capital Asset and Long-Term Liabilities

Capital Assets – The District's investment in capital assets as of December 31, 2004 amounts to $7,399,236 (net of accumulated depreciation). The investment includes land, buildings, vehicles and equipment.

Capital asset events of note in 2004 include: Vehicle and equipment purchases in the amount of $527,221, including replacements for old vehicles and equipment, and vehicles and equipment for the added employees.

Metropolitan Mosquito Control District's Capital Assets (Net of Depreciation)

	2004	**2003**
Land and Improvements	$ 1,118,867	$1,118,867
Buildings	4,105,909	4,278,511
Vehicles	1,745,273	1,495,786
Equipment	429,187	449,997
Total	$ 7,399,236	$7,343,161

Long-Term Liabilities - At the end of 2004 the District had long-term debt in the amount of $774,553 for compensated absences and, $88,250 for a long term lease.

METROPOLITAN MOSQUITO CONTROL DISTRICT

STATEMENT OF NET ASSETS AND GOVERNMENTAL FUND BALANCE SHEET
For the year ended December 31, 2004

	General Fund	Statement of Net Assets	Reconciliation	
Assets				
Cash+Cash Equivalents	$ 8,187,153	$ 8,187,153	$ -	
Short term Investment	97,945	97,945	-	
PrePaid Expenses	39,871	39,871	-	
Inventory at cost	971,828	971,828	-	
Income Receivable: (net of allowance for estimated uncollectible taxes of $331,037)	778,073	778,073	-	
Equipment, net of accumulated depreciation	-	2,174,460	2,174,460	Capital assets are not expenditures of the current period and not shown in the general fund.
Land	-	1,118,867	1,118,867	
Building, net of accumulated depreciation	-	4,105,909	4,105,909	
Total Assets	$ 10,074,870	$ 17,474,106	$ 7,399,236	
Liabilities				
Accounts Payable	$ 218,496	$ 218,496	$ -	
Employee Benefits Payable	24,276	798,829	774,553	Longterm liabilities for compensated absences are not due and payable in the current period and therefore are not reported in the funds.
Lease Payable	-	88,250	88,250	Remaining liability for equipment lease.
Accrued Salary and Wages	100,454	100,454	-	
Deferred Revenue	508,461	-	(508,461)	Long term assets not available to pay for current period expenditures and therefore, are deferred in the funds.
Total Liabilities	$ 851,687	$ 1,206,029	$ 354,342	
Fund Balance/Net Assets				
Fund Balance:				
Reserved for Inventory	$ 971,828	$ -	$ (971,828)	
Unreserved See designations in notes	2,849,553	-	(2,849,553)	
Unreserved, designated for working capital	5,401,802	-	(5,401,802)	
Total Fund Balance	9,223,183	-	$ (9,223,183)	
Total Liabilities & Fund Balance	$ 10,074,870			
Net Assets:				
Invested in Capital Assets		7,399,236	7,399,236	Capital assets (net of depr.) used in governmental actvities and are not financial resources and therefore, are not reported in the fund.
No restrictions		8,868,841	8,868,841	
Total Net Assets		$ 16,268,077	$ 16,268,077	

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

METROPOLITAN MOSQUITO CONTROL DISTRICT

STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUND REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
For the year ended December 31, 2004

	General Fund	Statement of Activities	Reconciliation	
Revenues:				
Property Taxes -				
Anoka County	$ 1,211,934	$ 1,271,104	$ 59,170	Property tax in the
Carver County	373,740	377,983	4,243	Statement of Activites
Dakota County	1,688,482	1,724,345	35,863	is the total due
Hennepin County	5,953,565	5,963,789	10,224	less an amount for
Ramsey County	2,244,648	2,278,660	34,012	estimated uncollectible taxes
Scott County	499,337	511,382	12,045	not recorded
Washington County	1,123,637	1,143,677	20,040	in the General Fund.
Tax Delinquent Income	41,721	-	(41,721)	Property tax from prior years collected this year.
Other County Income	24,048	24,048	-	
Investment Income	343,710	343,710	-	
Miscellaneous	63,611	63,611	0	Transactions involving disposal of capital assets and recognition of lease financing.
Total Revenues	$ 13,568,433	$ 13,702,308	$ 133,875	
Gains (Losses) on Disposal of Capital Assets	-	670	670	Transactions involving disposal of capital assets.
Total General Revenues	$ 13,568,433	$ 13,702,978	$ 134,545	
Expenditures:				
Board of Commissoners -				
Salaries	$ -	-	$ -	
Travel	5,559	5,559	-	
Administrative	863,853	905,134	41,281	Depreciation expense not included in funds, less
Control	10,613,976	11,168,512	554,536	lease principal payments.
Capital Expenditures	593,643	0	(593,643)	Capital outlay recorded in funds as a flow of financial resources.
Total Expenditures	$ 12,077,031	$ 12,079,205	$ 2,174	
Excess (Deficiency) of Revenues Over Expenditures/ Change in Net Assets	1,491,402	1,623,773	132,371	
Fund Balance /Net Assets at Beginning of Year	7,731,781	14,644,305	6,912,524	
Fund Balance /Net Assets at End of Year	$ 9,223,183	$ 16,268,078	$ 7,044,895	

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, 2004

	Original Budget	Final Budget	Actual	Variance Over (Under)
Revenues:				
Property Taxes -				
Anoka County	$ 1,254,570	$ 1,290,461	$ 1,211,934	$ (78,527)
Carver County	351,110	383,739	373,740	(9,999)
Dakota County	1,740,000	1,750,604	1,688,482	(62,122)
Hennepin County	6,217,210	6,054,607	5,953,565	(101,042)
Ramsey County	2,284,400	2,313,360	2,244,648	(68,712)
Scott County	505,974	519,170	499,337	(19,833)
Washington County	1,120,770	1,161,093	1,123,637	(37,456)
Tax Delinquent Income	42,000	42,000	41,721	(279)
Other County Income	24,000	24,000	24,048	48
Investment Income	344,000	344,000	343,710	(290)
Miscellaneous	64,000	64,000	63,611	(389)
Total Revenues	$ 13,948,034	$ 13,947,034	$ 13,568,433	$ (379,601)
Expenditures:				
Board of Commissoners -				
Salaries	$ -	$ -	$ -	$ -
Travel	6,900	6,900	5,559	1,341
Administrative	885,500	885,500	863,853	21,647
Control	11,306,200	11,306,200	10,613,976	692,224
Capital Expenditures	601,500	601,500	593,643	7,857
Total Expenditures	$ 12,800,100	$ 12,800,100	$ 12,077,031	$ 723,069
Excess (deficiency) of revenues over expenditures	$ 1,147,934	$ 1,146,934	$ 1,491,402	$ 343,468
Fund Balance at beginning of year	$ 8,167,042	$ 7,347,042	$ 7,731,781	$ 0
Fund Balance at end of year	$ 9,314,976	$ 8,493,976	$ 9,223,183	$ 343,468

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, 2003

	Original Budget	Final Budget	Actual	Variance Over (Under)
Revenues:				
Property Taxes -				
Anoka County	$ 1,116,565	$ 1,116,565	$ 1,081,644	$ (34,921)
Carver County	220,614	220,614	215,263	(5,351)
Dakota County	1,548,594	1,548,594	1,508,875	(39,719)
Hennepin County	5,533,310	5,533,310	5,378,750	(154,560)
Ramsey County	2,033,115	2,033,115	1,995,088	(38,027)
Scott County	450,320	450,320	436,968	(13,352)
Washington County	997,482	997,482	975,240	(22,242)
Tax Delinquent Income	31,000	31,000	27,605	(3,395)
Other County Income	24,000	24,000	24,243	243
Investment Income	160,000	160,000	356,957	196,957
Miscellaneous	85,000	85,000	197,283	112,283
Total Revenues	$ 12,200,000	$ 12,200,000	$ 12,197,916	$ (2,084)
Expenditures:				
Board of Commissoners -				
Salaries	$ -	$ -	$ -	$ -
Travel	6,900	6,900	2,734	4,166
Administrative	836,205	836,205	827,396	8,809
Control	9,950,535	9,950,535	9,297,645	652,890
Capital Expenditures	506,360	506,360	563,076	(56,716)
Total Expenditures	$ 11,300,000	$ 11,300,000	$ 10,690,851	$ 609,149
Excess (deficiency) of revenues over expenditures	$ 900,000	$ 900,000	$ 1,507,065	$ 607,065
Fund Balance at beginning of year	$ 7,267,042	$ 6,447,042	$ 6,224,716	$ 0
Fund Balance at end of year	$ 8,167,042	$ 7,347,042	$ 7,731,781	$ 607,065

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

Metropolitan Mosquito Control District
Notes to Financial Statements

For the year ending December 31, 2004

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.

A. Basis of Presentation
During fiscal year 2002, the District implemented several new accounting standards issued by GASB:

> Statement No. 34, Basic Financial Statements - and Management’s Discussion and Analysis - for State and Local Governments.
>
> Statement No. 37, Basic Financial Statements - and Management’s Discussion and Analysis - for State and Local Governments: Omnibus.

The requirements of Statements Nos. 34 and 37 establish new financial reporting standards for state and local governments and represent a significant change in the financial reporting model used by state and local governments. The standards include new as well as revised statement formats and changes in fund types and account groups. In addition to fund financial statements, governments are required to issue government-wide financial statements, prepared using the accrual basis of accounting and the economic resources measurement focus. As a result, adjustments to the fund equities reported in the prior financial statement balances were required. The financial statements are presented in a columnar format reconciling differences between them.

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information of all activities of the District. The District reports all activities as governmental, supported by taxes, and does not report business-type activities. The District does not have program revenues.

Governmental Fund

The District's General fund is the general operating fund of the District and is used to account for all financial activities. The General Fixed Assets group of accounts and the General Long Term Debt account group are supplanted by the information in the Statement of Net Assets.

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 as follows:

The government-wide statements are reported using the economic resources measurement and focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of timing or related cash flows. Property taxes are recognized as revenues in the year for which they are levied.

The governmental fund financial statements are reported using the current financial resources measurement focus and modified accrual basis of accounting. Revenues are recognized when they become measurable and available. They are considered to be available when they are collectible within the current period or soon enough after to pay liabilities of the current period. The District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. 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.

HACA payments were eliminated in 2002. The property tax levy limitation for 2004 is the 2003 property tax levy limitation adjusted by a multiplier based on market valuation changes between 2002 and 2003. In 2004, expenditures did not exceed 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 $282,326. 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 $97,945 maturing within six months. Accrued interest of $851.09 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. 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, 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 $7,904,627.

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

Instrument	Carrying Amount
MAGIC Trust Fund	$ 7,904,627
Deposits	282,326
Imprest Petty Cash	200
	$ 8,187,153

The following summarizes the District's short term investments.

Instrument	Carrying Amount
Certificate of Deposit	$ 97,945

E. Inventory

Inventory is stated at historic 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, $971,828, has been reserved for control materials inventory.

F. Capital Assets and Real Property

Capital assets and real property are stated at historic cost net of depreciation. Capital outlay expenditures in the governmental fund totaled $593,643 for the year ended December 31, 2004.

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 will be provided by the General Fund. The amount of $774,553 has been designated in the fund balance for long-term employee benefits. Short-term employee benefits are shown at $24,276.

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. 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 27, 2003. A lien is created when the levy is certified.

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, 2004 On December 1, 2004 all collections through November 20, 2004 were due to the District. The balance of all 2004 collections was due by January 25, 2005.

Taxes payable on property in the District are partially covered by a market value credit. This credit is paid to MMCD by the state in lieu of taxes levied against property. The state remitted this credit in two equal installments in November and December of 2004 after a two percent reduction based on taxes payable 2003 levy.

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

K. Budget

The 2004 adopted annual budget for operations was $12,800,100. The Commission has designated $750,000 of the fund balance for emergency disease vector control, as well as $50,000 for education.

2. Capital Assets

A. Furniture and Equipment / Motor Vehicles

A summary of changes in general fixed assets as of December 31, 2004 follows:

	Motor Vehicles	Furniture & Equipment	Total
Balance Jan 1, 2004	$2,790,222	$1,597,604*	$4,387,826
Additions	461,711	65,510	527,221
Deletions (Disposition)	(176,080)	(78,302)	(254,382)
Balance Dec 31, 2004	$3,075,853	$1,584,812	$4,660,665
Accumulated Depreciation	(1,330,580)	(1,155,625)	(2,486,205)
Balance Net of Depreciation Dec 31, 2004	$1,745,273	$ 429,187	$2,174,460
Current Year Depreciation	($ 185,812)	($ 84,642)	($ 270,454)

*Includes value of leased phone equipment.

The threshold for capitalization is $400. The District is recording depreciation on capital 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 $375,000 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 (Not Depre.)	Building Cost 01/01/04	Add/ Del	Building Cost 12/31/04	Accumulated Depreciation	Net Building Value	Current Year Depre.
Anoka	$ -0-	$ 727,512	$ -0-	$ 727,512	$ (379,720)	$ 347,792	$ 25,046
Jordan	47,000	784,938	-0-	784,938	(351,581)	433,357	27,085
Admn/ Research	530,202	2,724,594	66,422	2,791,016	(1,164,014)	1,627,002	97,536
Rosemount	187,381	896,111	-0-	896,111	(308,738)	587,373	30,914
Maple Grove	225,744	842,143	-0-	842,143	(301,975)	540,168	28,430
Plymouth	128,540	893,009	-0-	893,009	(322,792)	570,217	30,011
Totals	$ 1,118,867	$ 6,868,307	$ 66,422	$ 6,934,729	$ (2,828,820)	$ 4,105,909	$ 239,022

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, $900,000 has been designated for facilities repair and upkeep.

3. Changes in Long-Term Liabilities

The District long-term liabilities consist of compensated absences for 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, while the total liability is reflected in the government-wide Statement of Net Assets under the heading Employee Benefits Payable.

The following is a summary of employee benefit transactions of the Metropolitan Mosquito Control District for the year ended December 31, 2004. Employees accumulate earned but unused vacation and sick leave, some of which is available for severance or retirement payments.

	Total
Employee benefits payable at Jan. 1, 2004	$759,843
Portion currently payable in 2004	(28,543)
Long term employee benefits payable at Jan. 1, 2004	731,300
Net change in compensated absences	43,254
Long term employee benefits payable at December 31, 2004	$774,553

4. Deferred Revenue

The deferred revenue balance at December 31, 2004 was $839,497 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, $331,034 is estimated uncollectible in the future based on historical experience.

5. Leases

Operating leases consist of rental of the Ramsey/Washington Division headquarters and lease of a new District wide telephone system. The following is a yearly schedule of future minimum rental payments under the operating leases (including base rent, property taxes and operating costs):

2005	$ 206,957
2006	209,654
2007	212,404
2008	203,508
2009	193,762
Total minimum lease payments	$1,026,285

The District has renewed the headquarters lease agreement through 2005 and can extend it until 2010 at an increase of 2 percent per year. The lease for the telephone system is a five year operating lease expiring in 2008. The lease for the phone is treated as a capital lease for reporting purposes and is included in capital and related accounts on the financial statements as the lease term is equal to more than 75% of the economic life of the system. Total rental expense is as follows:

2003	$191,090
2004	$202,735

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

6. 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 hired prior to July 1, 1989 whose annuity is calculated using Method 1, a full annuity is available when age plus years of service equal 90. Normal retirement age is 65 for Basic and Coordinated members hired prior to July 1, 1989. Normal retirement age is the age for unreduced Social Security benefits capped at 66 for Coordinated members hired on or after July 1, 1989. 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 single-life annuity is a lifetime annuity that ceases upon the death of the retireeBno survivor annuity is payable. There are also various types of joint and survivor annuity options available which will be 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 participants. Vested, terminated employees who are entitled to benefits but are not receiving them yet, are bound by the provisions in effect at the time they last terminated their public service.

PERA issues a publicly available financial report that includes financial statements and required supplementary information for PERF. That report may be obtained on the web at mnpera.org, by writing to PERA, 60 Empire Drive Suite 200, St. Paul, Minnesota, 55103-2088 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 9.10 percent and 5.10 percent, respectively, of their annual covered salary. The District is required to contribute the following percentages of annual covered payroll: 11.78 percent for Basic Plan PERF members, 5.53 percent for Coordinated Plan PERF members. The District's contributions to the Public Employees Retirement Fund for the years ending December 31, 2002, 2003, and 2004 were $302,676, $323,627, and $343,357 respectively. The District's contributions were equal to the contractually required contributions for each year as set by state statute.

7. Patents

The District has received two patents from the U.S. Patent Office. In 2004, $323,211.89 in royalties was collected from the patents. However, a fourth quarter 2003 payment of $27,236.69 received in February 2004 and a fourth quarter 2004 payment of $73,237.43 received in January 2005 result in $369,212.63 accruing to 2004. After fees are recovered, 25 percent will be paid to the former Director. Fees have been recovered on one of the patents. In 2004, a payment of $81,192.70, 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.

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OFFICE OF THE LEGISLATIVE AUDITOR
State of Minnesota • James Nobles, Legislative Auditor

Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

Commissioner Willis Branning, Chair
Metropolitan Mosquito Control Commission

Members of the Metropolitan Mosquito Control Commission

Mr. William Caesar, Business Administrator
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, 2004, and 2003, and have issued our report thereon dated May 13, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

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 an opinion 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 reportable 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 of misstatements caused by error or fraud 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.

Compliance and Other Matters

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 grant agreements, noncompliance with which could have a direct and material effect on the determination of

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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 or other matters that are required to be reported under *Government Auditing Standards.*

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 13, 2005

Status of Prior Audit Issues
As of May 13, 2005

Most Recent Audit

The Office of the Legislative Auditor performs an annual audit of the Metropolitan Mosquito Control District. Legislative Audit Report 04-33, dated June 14, 2004, covered the year ended December 31, 2003. The audit scope included those areas material to the District's financial statements for the year then ended. The report contained no findings.

State of Minnesota Audit Follow-Up Process

The Department of Finance, on behalf of the Governor, maintains a quarterly process for following up on issues cited in financial audit reports issued by the Legislative Auditor. The process consists of an exchange of written correspondence that documents the status of audit findings. The follow-up process continues until Finance is satisfied that the issues have been resolved. It covers entities headed by gubernatorial appointees, including most state agencies, boards, commissions, and Minnesota state colleges and universities. It is not applied to audits of the University of Minnesota, any quasi-state organizations, such as metropolitan agencies or the State Agricultural Society, the state constitutional officers, or the judicial branch.