Metropolitan Mosquito Control District

Financial Audit
For the Year Ended December 31, 1994

August 1995

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Financial Audit Division
Office of the Legislative Auditor
State of Minnesota

95-36

Centennial Office Building, Saint Paul, MN 55155 • 612/296-4708

SUMMARY
State of Minnesota
Office of the Legislative Auditor
Centennial Office Building • St. Paul, MN 55155
612/296-4708

Metropolitan Mosquito Control District

Financial Audit
For the Year Ended December 31, 1994

Public Release Date: August 25, 1995 No. 95-36

Agency Background

The Metropolitan Mosquito Control District 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. The mission of the district is to control mosquitoes and black gnats and to perform surveillance on Lyme ticks in the metropolitan area.

Financial Highlights

At December 31, 1994, the Metropolitan Mosquito Control District reported total fund equity in the General Fund of $6.45 million of which $5.24 million represented unreserved fund balance. The district reported total General Fund assets of $7.62 million as of year end; cash and investments accounted for approximately $5.7 million of this amount. Regarding investments, beginning in fiscal year 1994 the district began participating in the Minnesota Association of Governments Investing for Counties (MAGIC) Trust Fund investment pool. Other assets of the district include property and equipment of $3.66 million and buildings of $7.82 million.

For the fiscal year ended December 31, 1994, the district collected revenues of approximately $9 million, primarily from taxes. During this period the district's expenditures included approximately $7.7 million for control purposes, and $.7 million and $.95 million, respectively, for administrative and capital expenditures. In total, the district's expenditures exceeded its revenues by $366,707 for the fiscal year.

Objectives

The audit objectives were to:

- issue an audit opinion on the district's financial statements;
- evaluate the internal control structure for cash and investments, revenues and receipts, operating disbursements, payroll, consumable inventory, and fixed assets; and
- test compliance with significant finance-related legal provisions.

Conclusions

We issued an unqualified opinion on the district's financial statements.

We found the internal control structure to be effective. However, we feel that the district's policy regarding compensatory time for exempt employees is too liberal.

We found that the district complied with finance-related legal provisions.

Contact the Financial Audit Division for additional information.
296-1235

Metropolitan Mosquito Control District

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Audit Participation

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

John Asmussen, CPA	Deputy Legislative Auditor
Jim Riebe, CPA	Audit Manager
Joan Haskin, CPA	Auditor-in-Charge
Mary Annala, CPA	Auditor

Exit Conference

This report was discussed with the following staff of the Metropolitan Mosquito Control District at the exit conference held on August 1, 1995:

Joseph Sanzone	Executive Director
William Caesar	Business Administrator
Dave Clark	Personnel Director
Trish Egerer	Accounting

Metropolitan Mosquito Control District

Financial Section

STATE OF MINNESOTA
OFFICE OF THE LEGISLATIVE AUDITOR
CENTENNIAL BUILDING, ST. PAUL, MN 55155 • 612/296-4708
JAMES R. NOBLES, LEGISLATIVE AUDITOR

Independent Auditor's Report

Mr. Dennis Hegberg, Chair
Metropolitan Mosquito Control Commission

Members of the Metropolitan Mosquito Control Commission

Mr. Joseph Sanzone, Executive Director
Metropolitan Mosquito Control District

We have audited the accompanying balance sheet of the Metropolitan Mosquito Control District as of December 31, 1994, and the related statements of revenues, expenditures, and changes in fund balance for the two years then ended. These financial statements are the responsibility of the district's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Metropolitan Mosquito Control District as of December 31, 1994, and the results of its operations and the changes in its fund balance for the two years then ended in conformity with generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued separate reports dated June 9, 1995 on our consideration of the Metropolitan Mosquito Control District's internal control structure and on its compliance with laws and regulations.

James R. Nobles
Legislative Auditor

John Asmussen, CPA
Deputy Legislative Auditor

June 9, 1995

Metropolitan Mosquito Control District

2099 University Avenue West
St Paul MN 55104-3431

FINANCIAL STATEMENTS

Year End December 31, 1994

EXHIBIT A

METROPOLITAN MOSQUITO CONTROL DISTRICT

COMBINED BALANCE SHEET
ALL FUND TYPES AND ACCOUNT GROUPS
December 31, 1994

	Governmental Fund Type	Account Groups		Totals (MEMORANDUM ONLY) December 31,	
Assets	*General*	*General Fixed Assets*	*General Long-Term Debt*	*1994*	*1993*
Cash+Cash Equivalents	$ 5,733,058			$ 5,733,058	$ 5,782,326
PrePaid Expenses	1,038			1,038	16,122
Taxes Receivable: (net of allowance for uncollectible taxes of $15,000)	671,137			671,137	808,344
Inventory at cost	1,213,100			1,213,100	1,435,281
Property & Equipment		$ 3,660,766		3,660,766	3,636,708
Building		7,824,019		7,824,019	7,120,867
Amount to be provided for Employee Benefits			$ 447,865	447,865	377,808
Total Assets	$ 7,618,333	$ 11,484,785	$ 447,865	$ 19,550,983	$ 19,177,456
Liabilities & Fund Equity					
Liabilities:					
Accounts Payable	$ 547,351			$ 547,351	$ 417,577
Accrued Salary and Wages	39,833			39,833	43,019
Employee Benefits Payable	18,503		$ 447,865	466,368	474,023
Deferred Revenue	560,595			560,595	666,504
Total Liabilities	$ 1,166,282		$ 447,865	$ 1,614,147	$ 1,601,123
Fund Equity:					
Investment in general fixed assets		$ 11,484,785		$ 11,484,785	$ 10,757,575
Fund Balance:					
Reserved for inventory	$ 1,213,100			$ 1,213,100	$ 1,435,281
Reserved for building	0			0	495,206
Unreserved Fund Balance (See designation for building project, in footnotes)	$ 5,238,951			$ 5,238,951	$ 4,888,271
Total Fund Equity	$ 6,452,051	$ 11,484,785		$ 17,936,836	$ 17,576,333
Total Liabilities and Fund Equity	$ 7,618,333	$ 11,484,785	$ 447,865	$ 19,550,983	$ 19,177,456

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, 1994 and 1993

	1994	1993
Revenue:		
Taxes -		
Anoka County	$ 557,749	$ 554,278
Carver County	82,966	80,470
Dakota County	858,627	819,414
Hennepin County	3,213,095	3,305,303
Ramsey County	1,259,103	1,254,777
Scott County	161,851	139,056
Washington County	450,779	425,065
Homestead & Agricultural Credit & other aids (see footnote #1, J)	2,175,078	2,105,158
Tax Delinquent Income	29,301	55,002
Investment Income	130,083	125,920
Miscellaneous	110,151	197,039
Total Revenues	$ 9,028,783	$ 9,061,482
Expenditures:		
Board of Commissoners -		
Salaries	$ 0	$ 0
Travel	5,788	5,036
Administrative	700,471	728,980
Control	7,742,636	8,852,103
Capital Expenditures	946,595	2,744,495
Total Expenditures	$ 9,395,490	$ 12,330,614
Excess (deficiency) of revenues over expenditures	$ (366,707)	$ (3,269,132)
Fund Balance at beginning of year	$ 6,818,758	$ 10,132,881
Adjustment to Fund Balance		$ (44,991)
Fund Balance at end of year	$ 6,452,051	$ 6,818,758

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

METROPOLITAN MOSQUITO CONTROL DISTRICT

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

GENERAL FUND
Year Ended December 31, 1994

	Budget	Actual	Variance Favorable (Unfavorable)
Revenue:			
Taxes -			
Anoka County	$ 567,784	$ 557,749	$ (10,035)
Carver County	83,895	82,966	(929)
Dakota County	873,921	858,627	(15,294)
Hennepin County	3,345,208	3,213,095	(132,113)
Ramsey County	1,297,368	1,259,103	(38,265)
Scott County	163,259	161,851	(1,408)
Washington County	452,931	450,779	(2,152)
Homestead & Agricultural Credit & other aids (see footnote #1, J)	2,165,634	2,175,078	9,444
Tax Delinquent Income		29,301	29,301
Investment Income		130,083	130,083
Miscellaneous		110,151	110,151
Total Revenues	$ 8,950,000	$ 9,028,783	$ 78,783
Expenditures:			
Board of Commissoners -			
Salaries	$ 1,700	$ 0	$ 1,700
Travel	6,900	5,788	1,112
Administrative	694,965	700,471	(5,506)
Control	9,023,292	7,742,636	1,280,656
Capital Expenditures	937,850	946,595	(8,745)
Total Expenditures	$ 10,664,707	$ 9,395,490	$ 1,269,217
Excess (deficiency) of revenues over expenditures	$ (1,714,707)	$ (366,707)	$ 1,190,434
Fund Balance at beginning of year	$ 6,818,758	$ 6,818,758	$ 0
Fund Balance at end of year	$ 5,104,051	$ 6,452,051	$ 1,190,434

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

METROPOLITAN MOSQUITO CONTROL DISTRICT

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

GENERAL FUND
Year ended December 31, 1993

	Budget	*Actual*	*Variance Favorable (Unfavorable)*
Revenue:			
Taxes -			
Anoka County	$ 563,600	$ 554,278	$ (9,322)
Carver County	80,386	80,470	84
Dakota County	842,546	819,414	(23,132)
Hennepin County	3,523,865	3,305,303	(218,562)
Ramsey County	1,322,225	1,254,777	(67,448)
Scott County	140,860	139,056	(1,804)
Washington County	430,763	425,065	(5,698)
Homestead & Agricultural Credit & other aids (see footnote #1, J)	2,095,755	2,105,158	9,403
Tax Delinquent Income		55,002	55,002
Investment Income		125,920	125,920
Miscellaneous		197,039	197,039
Total Revenues	$ 9,000,000	$ 9,061,482	$ 61,482
Expenditures:			
Board of Commissoners -			
Salaries	$ 1,200	$	$ 1,200
Travel	6,400	5,036	1,364
Administrative	671,380	728,980	(57,600)
Control	8,952,530	8,852,103	100,427
Capital Expenditures	2,936,175	2,744,495	191,680
Total Expenditures	$ 12,567,685	$ 12,330,614	$ 237,071
Excess (deficiency) of revenues over expenditures	$ (3,567,685)	$ (3,269,132)	$ 298,553
Fund Balance at beginning of year	$ 10,132,881	$ 10,132,881	$ 0
Adjustment to Fund Balance		$ (44,991)	$ (44,991)
Fund Balance at end of year	$ 6,565,196	$ 6,818,758	$ 253,562

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

Metropolitan Mosquito Control District
Notes to Financial Statements

December 31, 1994

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.

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 1994 is the 1993 property tax levy limitation adjusted by a multiplier based on Market valuation changes between 1992 and 1993. District expenditures have exceeded the levy as Commission and legislative intent has been to minimize growth and reduce reserves.

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

D. Deposits and Investments

Deposits are held in a financial institution, First Bank Midway N.A., and are carried at cost plus accrued interest. The carrying amount of deposits is $253,748.22 displayed on the balance sheet as part of "Cash and Cash Equivalents." Minn. Stat. Section 118.01 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 First Bank Midway N.A. in MMCD's name.

The District participates in the Minnesota Association of Governments Investing for Counties (MAGIC) Trust Fund, an investment pool. 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 a 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 and market value are:

$5,479,110.16.

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.

F. Fixed Assets and Real Property

Fixed assets and real property are stated at cost. The costs of fixed assets and real property, which are purchased from current revenue, are accounted for as expenditures in the year paid.

Depreciation is not provided in the District's accounts because it does not constitute a current budgetary expenditure.

G. 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.

H. 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.

I. 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.

J. Property Taxes

Property tax levies are 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 1994 the Homestead and Agricultural Credit Aid was $2,165,634. An additional $9,444.00 was received for mobile home HACA.

K. Budget

The 1994 annual budget for Operations was $9,979,707. The Capital Expenditures budget includes the capital purchases budget plus $685,000 for the long-term building project.

2. General Fixed Assets

A summary of changes in general fixed assets as of December 31, 1994 follows:

	Motor Vehicles	Furniture & Equipment	Total
Balance Jan 1, 1994	$2,368,344	$1,268,364	$3,636,708
Additions	159,642	83,801	243,443
	2,527,986	1,352,164	3,880,151
Deletions	(195,682)	(23,703)	(219,385)
Balance Dec 31, 1994	$2,332,304	$1,328,462	$3,660,766

3. Building

A. Headquarters

The Anoka Operating Division Headquarters has been constructed with cost shown on the balance sheet as $722,647. The land is owned by Anoka County and is being leased for $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 by using 20 years straight-line depreciation. This facility was built in 1985 and in 1992 the expansion was completed to provide additional space for operational use. The Scott-Carver Operating Division Headquarters was constructed in 1991. Recent additions have brought the total cost to $779,029. The Administrative/Research Headquarters was constructed in 1992 and 1993 and is carried at $3,205,944. The Dakota Operating Division Headquarters was completed in 1994; project cost was $1,044,368. Two facilities were purchased in 1993 for the North Hennepin and South Hennepin Operating Divisions. Remodeling of these facilities was completed in 1994. Expenditures for purchase and remodeling were the total cost of $1,055,434 for North Hennepin, and $1,016,598 for South Hennepin.

B. Building Project

The District has completed all planned building projects resulting in facilities which provide suitable working conditions.

4. 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, 1994.

	Total
Employee benefits payable at Jan. 1, 1994	$474,023
Portion currently payable in 1994	(96,215)
Long term employee benefits payable at Jan. 1, 1994	377,808
Net change in compensated absences	70,057
Long term employee benefits payable at December 31, 1994	$447,865

5. Compensated Absences

Compensated absences consist of vested employee vacation and sick leave 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. 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.

6. Deferred Revenue

The deferred revenue balance at December 31, 1994 was $560,594.98 consisting of taxes and other receivables which are not expected to be collected within 60 days as required by NCGA Interpretation 3. The District has reduced receivables by $276,563.98 due to cancellations and abatements of delinquent property tax by the counties.

7. 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):

1995	$157,680
1996	$163,326
1997	$169,255
1998	$168,151
1999	$171,853
Total minimum lease payments	$830,265

If the District exercises its option to extend the lease agreement for three years, a rebate of $6,955.91 will be received in 1998 reducing that total to $161,195. The rebate is to offset larger rent increases in years 1996 and 1997. Total rental expense including short-term, seasonal equipment and vehicles is as follows:

1993	$307,350
1994	$163,464

8. Retirement Plan

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. PERF members belong to either the Coordinated Plan or the Basic Plan. Coordinated members are covered by Social Security and Basic members are not, one member has elected Medicare Coverage. All new members must participate in the Coordinated Plan. The payroll for employees covered by PERA plans for the year ended December 31, 1994, was $2,404,893.11. The District's total payroll was $3,293,200.51.

PERA provides retirement benefits as well as disability benefits to members, and benefits to survivors upon death of eligible members. Benefits are established by State Statute, and vest after three years of credited service. The defined retirement benefits are based on a member's average salary for any five successive years of allowable service, age, and years of credit at termination of service. Two methods are used to compute benefits for Coordinated and Basic members. The retiring member receives the higher of step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Basic member is 2 percent of average salary for each of the first 10 years of service and 2.5 percent for each remaining year. For a Coordinated member, the annuity accrual rate is 1 percent of average salary for each of the first 10 years and 1.5 percent for each remaining year. Using Method 2, the annuity accrual rate is 2.5 percent of average salary for Basic members and 1.5 percent for Coordinated members. For PERF members whose annuity is calculated using Method 1, a full annuity is available when age plus years of service equal 90.

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.

B. Contributions Required & Contributions Made

Minnesota Statutes Chapter 353 sets the rates for employer and employee contributions. The District makes annual contributions to the pension plans equal to the amount required by state statutes. According to Minnesota Statutes Chapter 356.215, Subd. 4(g), the date of full funding required for the PERA plans is the year 2020. As part of the annual actuarial valuation, PERA's actuary determines the sufficiency of the statutory contribution rates towards meeting the required full funding deadline. The actuary compares the actual contribution rate to a "required" contribution rate. Current statutory contribution rates and actuarially required contribution rates for the plans are as follows:

	Statutory Rates:		Required
	Employees	Employer	Rates*
PERF (Basic & Coordinated Plans)	4.30%	4.60%	9.58%

*The recommended rates scheduled above represent the required rates for fiscal year 1994 contributions as reported in the July 1, 1994, actuarial valuation reports.

Total contributions made by the District during fiscal year 1994 were:

	Amounts:		Percentage of Covered Payroll:	
PERF:	Employees	Employer	Employees	Employer
Basic Plan	$ 9,035	$ 11,780	4.09 %	5.34 %
Coordinated Plan	$ 97,085	102,822	43.99 %	46.58 %
Totals	$106,120	$114,602		

The District's contribution for the year ended June 30, 1994 to the PERF represented .101 percent of total contributions required of all participating entities.

C. Funding Status and Progress

1. Pension Benefit Obligation

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

The pension benefit obligations of the PERA as of June 30, 1994, are shown below:

(In Thousands)	PERF
Total pension benefit obligations	$ 5,625,598
Net assets available for benefits, at cost (Market Value for PERF = $4,762,519)	$ 4,733,845
Unfunded (assets in excess of) pension benefit obligation	$ 891,753

The measurement of pension benefit obligation is based on an actuarial valuation as of June 30, 1994 Net assets available to pay pension benefits were valued as of June 30, 1994.

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

Actuarial assumptions used in the calculation of the PEPFF include (a) rate of return on the investment of present and future assets of 8.5 percent per year, compounded annually, prior to retirement, and 5 percent per year, compounded annually following retirement; (b) projected salary increases of 6.5 percent per year, compounded annually attributable to the effects of inflation; (c) post retirement increases that are accounted for by the 5 percent rate of return assumption following retirement; and (d) mortality rates based on the 1971 Group Annuity Mortality Table projected to 1984 for males and females.

2. Changes in Plan Provisions

The 1994 legislative session did not include any benefit improvements which would impact funding costs for the PERF.

3. Changes in Actuarial Assumptions

Prior to fiscal year 1994, the salary increase assumption and the mortality tables used in the calculation of pension benefit obligation for the PERF were the same as those specified for the PEPFF. For the July 1, 1994 actuarial valuation, PERA's board of trustees approved new mortality rates updated to the 1983 Group Annuity Mortality Table, salary increases which were changed to a select and ultimate table and a new payroll growth assumption which was changed from 6.5 percent to 6 percent. These changes were made to reflect actual experience of the plan.

With the adoption of the actuarial assumption changes and the new mortality tables for the PERF, the pension benefit obligation increased to $56,596,000. The actuarial assumption changes also necessitated a $81,201,000 transfer from the PERF Benefit Reserve to the PERF Minnesota Post Retirement Investment Fund (MPRIF) Reserve to finance the increased obligation for future retirement benefits. The change in the mortality rate assumption increased the PERF's costs because pensioners are living longer than assumed previously. The change in the salary increase assumption, however, offset some of the additional costs because lower salary increases generally translate into lower benefit liabilities in the future.

D. Ten-Year Historical Trend Information

Ten-year historical trend information is presented in PERA's Comprehensive Annual Financial Report for the year ending June 30, 1994 This information is useful in assessing the pension plan's accumulation of sufficient assets to pay pension benefits as they become due.

E. Related Party Investments

As of June 30, 1994, and for the fiscal year then ended, PERA held no securities issued by the District or other related parties.

9. Patent

The District has received two patents from the U.S. Patent Office. In 1994, $23,652.60 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 1994, a payment of $3,708.55 was made to the 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.

Other Audit Reports

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STATE OF MINNESOTA
OFFICE OF THE LEGISLATIVE AUDITOR
CENTENNIAL BUILDING, ST. PAUL, MN 55155 • 612/296-4708
JAMES R. NOBLES, LEGISLATIVE AUDITOR

Auditor's Report on the Internal Control Structure

Mr. Dennis Hegberg, Chair
Metropolitan Mosquito Control Commission

Members of the Metropolitan Mosquito Control Commission

Mr. Joseph Sanzone, Executive Director
Metropolitan Mosquito Control District

We have audited the financial statements of the Metropolitan Mosquito Control District, as of and for the year ended December 31, 1994, and have issued our report thereon dated June 9, 1995.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

The management of Metropolitan Mosquito Control District is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

In planning and performing our audit of the financial statements of the Metropolitan Mosquito Control District for the year ended December 31, 1994, we obtained an understanding of the internal control structure. With respect to the internal control structure, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk 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 structure. Accordingly, we do not express such an opinion.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a condition in which the design or operation of one or more of the internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control structure and its operations that we consider to be material weaknesses as defined above.

We questioned, however, the propriety of the district's policy regarding compensatory time for exempt employees as discussed in finding 1. We also noted certain other matters involving the internal control structure and its operation that we have reported orally to the management of the Metropolitan Mosquito Control District at an exit conference held on August 1, 1995.

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

James R. Nobles
Legislative Auditor

John Asmussen, CPA
Deputy Legislative Auditor

June 9, 1995

STATE OF MINNESOTA
OFFICE OF THE LEGISLATIVE AUDITOR
CENTENNIAL BUILDING, ST. PAUL, MN 55155 • 612/296-4708
JAMES R. NOBLES, LEGISLATIVE AUDITOR

Report on Compliance Based on an Audit of Financial Statements

Mr. Dennis Hegberg, Chair
Metropolitan Mosquito Control Commission

Members of the Metropolitan Mosquito Control Commission

Mr. Joseph Sanzone, Executive Director
Metropolitan Mosquito Control District

We have audited the financial statements of Metropolitan Mosquito Control District, as of and for the year ended December 31, 1994, and have issued our report thereon dated June 9, 1995.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards,* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

Compliance with laws, regulations, contracts, and grants applicable to the Metropolitan Mosquito Control District is the responsibility of the district's management. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the district's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our audit of the financial statements was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance that are required to be reported herein under *Government Auditing Standards.*

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

James R. Nobles
Legislative Auditor

John Asmussen
Deputy Legislative Auditor

June 9, 1995

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Current Finding and Recommendation

1. The district's practice regarding compensatory time for exempt employees is too liberal.

The district's compensatory time practice allows exempt employees to earn compensatory time at the rate of time-and-one-half for each hour of overtime worked. The district's guidelines require employees to use any compensatory time earned by March 15 of the following calendar year. However, there are no other limitations on the amount of compensatory time exempt employees may earn. Exempt positions at the district include program managers and leaders, the personnel manager, the public information coordinator, data processing manager, operating division supervisors, administrative assistant, legislative and environmental liaison and research analyst, and entomologist. The executive director and the business administrator do not earn any compensatory time.

Based on our experience with other public sector entities, we believe the district's compensatory time policy for exempt employees is too liberal. Many public sector entities do not allow exempt employees to earn compensatory time because of the type of work they perform and how their compensation is determined (not based on an hourly rate). However, under certain conditions, these entities will permit exempt employees to earn one hour of compensatory time for each overtime hour worked. The seasonal nature of the work of the district may justify allowing exempt employees to earn a limited amount of compensatory time.

The district's current practice subjects it to a potentially large contingent liability should any of these employees leave the district. As of December 31, 1994, the liability for compensatory time for exempt employees was $14,762 for 775 hours. One exempt employee earned compensatory time during every pay period in 1994 for a total of 619 hours. This employee's balance at the end of 1994 was 517 hours.

Recommendation

- *The district commission should study the compensatory time practice for exempt employees and address whether exempt positions should be entitled to earn compensatory time and, if so, the commission should consider limiting the number of compensatory hours exempt employees may earn, and decide at what rate the hours should be earned.*

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METROPOLITAN MOSQUITO CONTROL DISTRICT

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JOSEPH F. SANZONE
Director

W.J. CAESAR
Business Admin.

August 21, 1995

James Nobles
Legislative Auditor
Centennial Building
1st Floor South
658 Cedar Street
St Paul MN 55155

Dear Mr. Nobles:

With reference to your finding and recommendation concerning the District's compensatory time policy in the financial and compliance audit for the year ending December 31, 1994, our actions will be as follows:

Compensatory time has been allowed for exempt employees due to the seasonal nature of their work. The employees in question do not have the flexibility of work schedule normally associated with this type of position. The policy has provided a successful and cost effective alternative to higher wages. It is recognized however, that consideration should be given to bringing the policy more in line with other jurisdictions. We appreciate the auditors' support for our recommendation to place limits on accumulation of compensatory time. The issue will be referred to the Commission for their review.

Sincerely,

Joseph F. Sanzone

Joseph F. Sanzone
Director