Metropolitan Mosquito Control District

Financial Audit
For the Year Ended December 31, 1995

June 1996

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Financial Audit Division
Office of the Legislative Auditor
State of Minnesota

96-25

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

STATE OF MINNESOTA
OFFICE OF THE LEGISLATIVE AUDITOR
CENTENNIAL BUILDING, 658 CEDAR STREET • ST. PAUL, MN 55155 • 612/296-4708 • TDD RELAY 612/297-5353
JAMES R. NOBLES, LEGISLATIVE AUDITOR

Representative Ann H. Rest, Chair
Legislative Audit Commission

Members of the Legislative Audit Commission

Mr. Dick Wedell, 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 Metropolitan Mosquito Control District for the year ended December 31, 1995. The primary objective of our audit was to issue an opinion on the financial statements of the district for the year then ended. Our opinion thereon dated April 10, 1996, is included in the financial section of this report. The following Summary highlights the audit objectives and conclusions.

We conducted our audit in accordance with generally accepted government auditing standards. As part of obtaining reasonable assurance about whether the district's financial statements are free from material misstatement, we performed tests of the district's compliance with certain provisions of laws, regulations, contracts, and grants. We also obtained an understanding of the district's internal control structure. Our conclusions on internal control and compliance are included within this report as an *Auditor's Report on the Internal Control Structure* and a *Report on Compliance Based on an Audit of Financial Statements*.

This report is intended for the information of the Legislative Audit Commission and the management of the Metropolitan Mosquito Control District. This restriction is not intended to limit the distribution of this report, which was released as a public document on June 28, 1996.

James R. Nobles
Legislative Auditor

John Asmussen, CPA
Deputy Legislative Auditor

End of Fieldwork: April 10, 1996

Report Signed On: June 19, 1996

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, 1995

Public Release Date: June 28, 1996 No. 96-25

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.

Objectives

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

Financial Highlights

At December 31, 1995, the Metropolitan Mosquito Control District reported total General Fund equity of approximately $7.1 million. Of this amount, over $7 million represents unreserved fund balance. The district reported total General Fund assets of $7.6 million; $7.3 million is cash and short term investments. Other assets of the district, accounted for in the General Fixed Asset Account Group, include property and equipment of $1.5 million and buildings of $7.1 million.

For the fiscal year ended December 31, 1995, the district collected approximately $9.4 million, primarily from taxes. The district's expenditures for control purposes totaled $8.1 million or 92 percent of total expenditures. Total expenditures were approximately six percent less than the preceding fiscal year. The district's revenues exceeded its expenditures for the fiscal year by $645,000.

Conclusions

The district's financial statements for fiscal year 1995 were fairly stated in accordance with generally accepted accounting principles (GAAP).

We found the internal control structure to be effective except that the district needs to improve controls over receipts by performing more timely bank reconciliations and depositing receipts promptly.

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
Mark Mathison, CPA	Auditor-in-Charge
Laura Peterson	Auditor

Exit Conference

This report was discussed with the following staff of the Metropolitan Mosquito Control District at the exit conference held on June 4, 1996:

Joseph Sanzone	Executive Director
William Caesar	Business Administrator
Trish Egerer	Accounting
John Thompson	Data Processing

Financial Section

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JAMES R. NOBLES, LEGISLATIVE AUDITOR

Independent Auditor's Report

Mr. Dick Wedell, 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, 1995, 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 audit 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 audits provide 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, 1995, 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* issued by the Comptroller General of the United States, we have also issued separate reports dated April 10, 1996, 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

April 10, 1996

EXHIBIT A

METROPOLITAN MOSQUITO CONTROL DISTRICT

COMBINED BALANCE SHEET
ALL FUND TYPES AND ACCOUNT GROUPS
December 31, 1995

	Governmental Fund Type	Account Groups		Totals (MEMORANDUM ONLY) December 31,	
Assets	*General*	*General Fixed Assets*	*General Long-Term Debt*	*1995*	*1994*
Cash+Cash Equivalents	$ 7,282,331			$ 7,282,331	$ 5,733,058
PrePaid Expenses	12,625			12,625	1,038
Taxes Receivable: (net of allowance for uncollectible taxes of $365,066)	241,613			241,613	671,137
Inventory at cost	70,474			70,474	1,213,100
Property & Equipment					3,660,766
Net of depreciation		$ 1,499,869		1,499,869	
Building					7,824,019
Net of depreciation		7,112,200		7,112,200	
Amount to be provided for Employee Benefits			$ 415,093	415,093	447,865
Total Assets	$ 7,607,043	$ 8,612,069	$ 415,093	$ 16,634,205	$ 19,550,983
Liabilities & Fund Equity					
Liabilities:					
Accounts Payable	$ 212,030			$ 212,030	$ 547,351
Accrued Salary and Wages	172,254			172,254	39,833
Employee Benefits Payable	16,624		$ 415,093	431,717	466,368
Deferred Revenue	108,904			108,904	560,595
Total Liabilities	$ 509,812		$ 415,093	$ 924,905	$ 1,614,147
Fund Equity:					
Investment in general fixed assets		$ 8,612,069		$ 8,612,069	$ 11,484,785
Fund Balance:					
Reserved for inventory	$ 70,474			$ 70,474	$ 1,213,100
Unreserved Fund Balance (See designation in foonotes $2,298,000)	$ 7,026,757			$ 7,026,757	$ 5,238,951
Total Fund Equity	$ 7,097,231	$ 8,612,069		$ 15,709,300	$ 17,936,836
Total Liabilities and Fund Equity	$ 7,607,043	$ 8,612,069	$ 415,093	$ 16,634,205	$ 19,550,983

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

METROPOLITAN MOSQUITO CONTROL DISTRICT

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

GENERAL FUND
Years Ended December 31, 1995 and 1994

	1995	1994
Revenue:		
Taxes -		
Anoka County	$ 572,159	$ 557,749
Carver County	92,125	82,966
Dakota County	842,632	858,627
Hennepin County	3,299,212	3,213,095
Ramsey County	1,199,329	1,259,103
Scott County	175,465	161,851
Washington County	462,919	450,779
Homestead & Agricultural Credit & other aids (see footnote #1, J)	2,196,880	2,175,078
Tax Delinquent Income	58,714	29,301
Investment Income	238,947	130,083
Miscellaneous	305,948	110,151
Total Revenues	$ 9,444,330	$ 9,028,783
Expenditures:		
Board of Commissoners -		
Salaries	$ 0	$ 0
Travel	7,035	5,788
Administrative	632,860	700,471
Control	8,063,654	7,742,636
Capital Expenditures	95,601	946,595
Total Expenditures	$ 8,799,150	$ 9,395,490
Excess (deficiency) of revenues over expenditures	$ 645,180	$ (366,707)
Fund Balance at beginning of year	$ 6,452,051	$ 6,818,758
Fund Balance at end of year	$ 7,097,231	$ 6,452,051

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, 1995

		Budget		*Actual*		*Variance Favorable (Unfavorable)*
Revenue:						
Taxes -						
Anoka County	$	579,166	$	572,159	$	(7,007)
Carver County		93,006		92,125		(881)
Dakota County		854,079		842,632		(11,447)
Hennepin County		3,358,654		3,299,212		(59,442)
Ramsey County		1,232,822		1,199,329		(33,493)
Scott County		177,179		175,465		(1,714)
Washington County		467,658		462,919		(4,739)
Homestead & Agricultural Credit & other aids (see footnote #1, J)		2,187,436		2,196,880		9,444
Tax Delinquent Income				58,714		58,714
Investment Income				238,947		238,947
Miscellaneous				305,948		305,948
Total Revenues	$	8,950,000	$	9,444,330	$	494,330
Expenditures:						
Board of Commissoners -						
Salaries	$	0	$	0	$	0
Travel		6,900		7,035		(135)
Administrative		679,490		632,860		46,630
Control		8,903,640		8,063,654		839,986
Capital Expenditures		175,650		95,601		80,049
Total Expenditures	$	9,765,680	$	8,799,150	$	966,530
Excess (deficiency) of revenues over expenditures	$	(815,680)	$	645,180	$	1,460,860
Fund Balance at beginning of year	$	6,452,051	$	6,452,051	$	0
Fund Balance at end of year	$	5,636,371	$	7,097,231	$	1,460,860

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
Notes to Financial Statements

December 31, 1995

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 1995 is the 1994 property tax levy limitation adjusted by a multiplier based on Market valuation changes between 1993 and 1994. District budgeted expenditures have exceeded the levy as Commission and legislative intent has been to minimize growth and reduce the fund balance.

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

D. Deposits and Investments
Deposits are held in a financial institution, First Bank Midway N.A., and are carried at cost plus accrued interest. The carrying amount of deposits is $265,225 displayed on the balance sheet as part of "Cash and Cash Equivalents." Cash equivalents are short-term, highly liquid investments that are both (1) readily convertible to known amounts of cash and (2) so near their maturity that they present insignificant risk of changes in value because of changes in interest rates. Minn. Stat. Section 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. 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 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:
$7,016,906.

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

Instrument	Carrying Amount
MAGIC Trust Fund	$ 7,016,906
Deposits	265,225
Imprest Petty Cash	200
	$ 7,282,331

E. Inventory
Inventory is stated at cost using the first-in, first-out method. It consists of expendable supplies held for consumption in the next operating year. A portion of the fund balance, $545,000, has been designated for control materials inventory. The District is using less of a control material which, in order to affect savings, had in the past been purchased early and carried to the next period. This change results in a significant reduction in inventory and the amount reserved for inventory.

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

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. This is a change from previous years.

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. The amount of $415,000 has been designated in the fund balance for employee benefits.

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

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

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

For 1995 the Homestead and Agricultural Credit Aid was $2,187,438. An additional $9,442 was received for mobile home HACA.

K. Budget

The 1995 annual budget for Operations was $9,765,680. The Commission has designated $500,000 of the fund balance for emergency disease vector control, as well as $50,000 for education.

2. General Fixed Assets

A summary of changes in general fixed assets as of December 31, 1995 follows:

	Motor Vehicles	Furniture & Equipment	Total
Balance Jan 1, 1995	$2,332,304	1,328,462	$3,660,766
Deletions resulting from threshold change	(1,697)	(209,731)	(211,428)
Additions	8,981	85,863	94,844
	2,339,588	1,204,594	3,544,182
Deletions (Disposition)	(309,081)	(6,239)	(315,320)
Balance Dec 31, 1995	$2,030,507	$1,198,355	$3,228,862
Accumulated Depreciation	(905,044)	(823,949)	(1,728,993)
Balance Net of Depreciation Dec 31, 1995	$1,125,463	$374,406	$1,499,869

The District has made two changes this year in the GFAAG. The threshold of capitalization has been changed from $100 to $400, which presents a more workable level to control General Fixed Assets. The District is recording depreciation on fixed assets, as better information can be provided for decision making. The method of depreciation used is straight line. The estimated useful life of the assets is as follows:

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

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

3. Building

A. Headquarters

The Anoka Operating Division Headquarters is carried at a cost of $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 1984-85 and in 1992 expansion was completed to provide additional space for operational use. The Jordan Headquarters was constructed in 1991, total cost $779,029. The Administrative/Research Headquarters was constructed in 1992 and 1993 and is carried at $3,206,700. The Rosemount Headquarters was completed in 1994; project cost was $1,044,368. Two facilities were purchased in 1993 for Hennepin Operating Headquarters. Remodeling of these facilities was completed in 1994. Expenditures for purchase and remodeling totalled $1,055,434 for Maple Grove facility, and $1,016,598 for Plymouth. The buildings are shown on the GFAAG statement. Balance is $7,824,776 less accumulated depreciation, $712,576.

B. Building Project

The District has completed all planned building projects resulting in facilities which provide suitable working conditions. A portion of the fund balance, $588,000 has been designated for facilities repair and upkeep.

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, 1995.

	Total
Employee benefits payable at Jan. 1, 1995	$466,368
Portion currently payable in 1995	(18,503)
Long term employee benefits payable at Jan. 1, 1995	447,865
Net change in compensated absences	(32,772)
Long term employee benefits payable at December 31, 1995	$415,093

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. Reductions in funding and reorganization have resulted in staff reductions.

These former employees have been provided with severance benefits which are reflected on the balance sheet as an increase in Accrued Salary and Wages, as well as continued employer's PERA payments for an employee considered on leave of absence.

6. Deferred Revenue

The deferred revenue balance at December 31, 1995 was $473,970 consisting of taxes and other receivables which are not expected to be collected within 60 days as required by NCGA Interpretation 3. In addition, $365,066 is estimated uncollectible in the future based on historical experience. A review was undertaken to establish a better estimate of uncollectibles, resulting in a substantial change from the previous period. The District has reduced receivables by $136,576 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):

1996	$163,386
1997	$169,315
1998	$168,211
1999	$171,912
2000	$175,725
Total minimum lease payments	$848,549

If the District exercises its option to extend the lease agreement for three years, a rebate of $6,955 will be received in 1998 reducing that total to $161,256. 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:

1994	$163,464
1995	$162,854

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. 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, one member has elected Medicare Coverage. All new members must participate in the Coordinated Plan. The payroll for employees covered by the PERF plan for the year ended December 31, 1995, was $2,253,152. The District's total payroll was $3,140,598.

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

There are different types of annuities available to members upon retirement. A normal annuity is a lifetime annuity that ceases upon the death of the retiree. No survivor annuity is payable. There are also various types of joint and survivor annuity options available which will reduce the monthly normal annuity amount, because the annuity is payable over joint lives. Members may also leave their contributions in the fund upon termination of public service, in order to qualify for a deferred annuity at retirement age. Refunds of contributions are available at any time to members who leave public service, but before retirement benefits begin.

The benefit provisions stated in the previous paragraphs of this section are current provisions and apply to active plan members. Vested, terminated employees who are entitled to benefits but are not receiving them yet, are bound by the provisions in effect at the time they last terminated their public service.

B. Contributions Required and 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 July 1, 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. The required contribution rate consists of (a) normal costs based on entry age normal cost methods, (b) a supplemental contribution for amortizing any unfunded actuarial accrued liability by the date required for full funding, and (c) an allowance for administrative expenses. Current statutory contribution rates and actuarially required contribution rates for the plans are as follows:

	Statutory Rates:		Required
	Employees	Employer	Rates*
PERF (A blended rate for both the Basic & Coordinated Plans)	4.31%	4.60%	9.76%

*The recommended rates scheduled above represent the required rates for fiscal year 1995 contributions as reported in the July 1, 1995, actuarial valuation reports.

Total contributions made by the District during fiscal year 1995 were:

	Amounts:		Percentage of Covered Payroll:	
PERF:	Employees	Employer	Employees	Employer
Basic Plan	$ 8,942	$ 11,658	4.31 %	5.62 %
Coordinated Plan	$ 90,668	96,027	43.74 %	46.32 %
Totals	$ 99,610	$107,685		

The District's contribution for the year ended June 30, 1995 to the PERF represented $220,383. .092 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 is the actuarial present value of credited projected benefits and 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 participating employers. The measure is independent of the actuarial funding method used to determine required contributions, which is discussed in Note B. PERA does not make separate measurements of assets and pension benefit obligation amounts for individual participating employers.

The pension benefit obligations of the PERA as of June 30, 1995, are shown below:

(In Thousands)	PERF
Total pension benefit obligations	$ 5,994,492
Net assets available for benefits, at cost (Market Value for PERF = $5,266,688)	$ 5,074,357
Unfunded (assets in excess of) pension benefit obligation	$ 920,135

The pension benefit obligation was determined as part of an actuarial valuation at July 1, 1995.

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 an age related table which incorporates a 5 percent base inflation assumption; (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.

2. Changes in Benefit Provisions

The 1995 legislative session did not include any benefit improvements which would impact funding costs for the PERF.

3. Changes in Actuarial Assumptions

Since the July 1, 1994 actuarial valuation, there were no changes in actuarial assumptions of the PERF which impacted funding costs.

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, 1995. 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, 1995, 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 1995, $28,849 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 1995, a payment of $6,914 was made to the former Director. As he has terminated employment with the District, he will be entitled to 25 percent for the duration of the patents. The patents are for the process currently used for manufacturing control material briquets. The District has licensed rights to manufacture the briquets to a private company, and revenue will accrue to the District from sales to entities other than the District. The District to date has not been successful licensing additional development rights. The first patent was issued on June 2, 1987; the second on March 22, 1988.

Metropolitan Mosquito Control District

Other Auditor Reports

STATE OF MINNESOTA
OFFICE OF THE LEGISLATIVE AUDITOR
CENTENNIAL BUILDING, 658 CEDAR STREET • ST. PAUL, MN 55155 • 612/296-4708 • TDD RELAY 612/297-5353
JAMES R. NOBLES, LEGISLATIVE AUDITOR

Auditor's Report on the Internal Control Structure

Mr. Dick Wedell, 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, 1995, and have issued our report thereon dated April 10, 1996.

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 the 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, 1995, 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.

We noted a matter discussed in Finding 1 involving the internal control structure and its operation that we considered to be a reportable condition under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the district's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

The reportable condition referred to in the preceding paragraph pertains to weaknesses in the district's cash management procedures. During the audit, we noted that the district had not performed certain key controls over receipts. Weaknesses included the lack of timely reconciliations of bank statements to supporting accounting records. Also, the district did not deposit receipts timely.

A material weakness is a reportable condition in which the design or operation of one or more of the specific 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 general-purpose 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 do not believe that the reportable condition described above is a material weakness.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we noted other matters involving the internal control structure and its operation that we reported orally to management of the Metropolitan Mosquito Control District at an exit conference held on June 4, 1996.

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

April 10, 1996

STATE OF MINNESOTA
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JAMES R. NOBLES, LEGISLATIVE AUDITOR

Report on Compliance Based on an Audit of Financial Statements

Mr. Dick Wedell, 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, 1995, and have issued our report thereon dated April 10, 1996.

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 the *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

April 10, 1996

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Current Finding and Recommendations

1. The Metropolitan Mosquito Control District needs to improve controls over receipts.

The district did not follow certain control procedures to ensure that receipts are adequately safeguarded and properly accounted for. The district collected $9.4 million in receipts in fiscal year 1995. The primary source of receipts was property taxes of $8.9 million. Miscellaneous receipts accounted for $305,000. The district processes about 16 receipt transactions per month. We noted the following weaknesses in the district's receipt procedures.

First, the district did not record all receipts in its receipts log. The district established the log to ensure that all receipts collected are deposited. Without consistently using the receipts log, the potential exists that the district could receive funds that may not be properly deposited, and the error or irregularity could go undetected.

Secondly, the district did not reconcile its bank statements to its supporting accounting records in a timely manner. At the time of our audit, the district was four months behind in its bank reconciliations, and it had not reconciled its receipts log to actual deposits since July 1995.

Finally, the district is not depositing its receipts timely. The district is only making deposits once or twice per month on average. The district held some checks, ranging in amounts from $25,000 to $48,000, more than three weeks. We calculated that the district lost over $1,200 of interest due to deposits not being made timely. There is also an additional risk that receipts may be lost or stolen if they are not deposited promptly.

A strong system of internal control provides reasonable assurance that assets are safeguarded, properly accounted for, and that errors or irregularities will be prevented or detected in a timely manner. Management of the district had designed adequate controls to aid in this process. The district did not, however, follow the established control procedures for receipts during the audit. As such, the district is subjecting itself to an undo risk of errors or irregularities that could occur and not be detected timely.

Recommendations

- *The district should record all incoming receipts in its receipt log.*
- *The district should perform timely reconciliations of bank statements to supporting accounting records, including its receipt log.*
- *The district should deposit its receipts promptly.*

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METROPOLITAN MOSQUITO CONTROL DISTRICT

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JOSEPH F. SANZONE
Director

W.J. CAESAR
Business Admin.

June 12, 1996

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

I am writing in response to the finding and recommendations in your management letter for the Financial and Compliance Audit of the Metropolitan Mosquito Control District for the year ending December 31, 1995.

We would like to thank the Office of the Legislative Auditor for specifying these areas that need improvement. We would also like to note that 1995 was a year of great change for the Metropolitan Mosquito Control District and the noted errors occurred as a result of staff changes and reorganization. We do not see these as structural weaknesses and thus do not feel that changes to the processes or procedures need to be instituted. However, the District will need to be more vigilant in following its procedures.

A very small number of the District's receipts were not recorded in its log. To remedy this, the procedure will be periodically reviewed with the employees involved in the process to ensure that all receipts are recorded. Staff assignments have been clarified and some external recording matters have been rectified, so reconciliation of statements and supporting records can be accomplished more efficiently.

Finally, more attention will be directed towards making deposits in a timely manner.

Thank you.

Sincerely,

Joseph F. Sanzone

Joseph F. Sanzone
Director