

# **Metropolitan Mosquito Control District**

## **Financial Audit**

**For the Year Ended December 31, 1996**

**June 1997**

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**Financial Audit Division  
Office of the Legislative Auditor  
State of Minnesota**

**97-32**





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

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Legislative Audit Commission

Members of the Legislative Audit Commission

Commissioner Margaret Langfeld, Chair  
Metropolitan Mosquito Control Commission

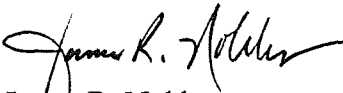
Members of the Metropolitan Mosquito Control Commission

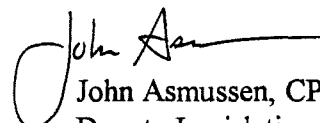
Mr. Joseph Sanzone, Executive Director  
Metropolitan Mosquito Control District

We have audited the Metropolitan Mosquito Control District (district) for the year ended December 31, 1996. 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 May 15, 1997, is included in the financial section of this report. The following summary highlights the audit objectives and conclusions.

We conducted our audits in accordance with generally accepted auditing standards and *Government Auditing Standards* issued by the Comptroller General of the United States. As part of obtaining reasonable assurance about whether the district's financial statements are free from material misstatement, we obtained an understanding of the district's internal control structure and performed tests of the district's compliance with certain provisions of laws, regulations, and contracts. Our conclusions on internal control and compliance, titled *Independent Auditor's Report on the Internal Control Structure* and *Independent Auditor's Report on Compliance Based on an Audit of Financial Statements* are included within this report.

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 20, 1997.

  
James R. Nobles  
Legislative Auditor

  
John Asmussen, CPA  
Deputy Legislative Auditor

End of Fieldwork: May 15, 1997

Report Signed On: June 13, 1997



# SUMMARY

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## **Metropolitan Mosquito Control District**

### **Financial Audit For the Year Ended December 31, 1996**

Public Release Date: June 20, 1997

No. 97-32

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#### **Agency Background**

The Metropolitan Mosquito Control District was established under Minnesota Laws 1959, Chapter 488 (codified Minn. Stat. Sections 473.701 to 473.716). The district operates under the Metropolitan Mosquito Control Commission representing the seven county metropolitan area. The district was created to control mosquitoes and black gnats and to monitor Lyme ticks in the metropolitan area, which consists of Anoka, Carver, Dakota, Hennepin, Ramsey, Scott, and Washington counties. The district's executive director is Joseph Sanzone.

#### **Objectives**

The primary objective of the audit was to issue an opinion on the district's financial statements for the year ended December 31, 1996. As part of this objective, we considered the district's internal control structure for cash and investments, revenue and receipts, operating expenditures, payroll, consumable inventory, and fixed assets. We also tested compliance with significant finance-related legal provisions.

#### **Financial Highlights**

At December 31, 1996, the Metropolitan Mosquito Control District reported total General Fund equity of approximately \$7 million. Of this amount, over \$6.4 million represents unreserved fund balance. The district reported total General Fund assets of \$7.3 million of which \$6.4 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 \$1.6 million and buildings of \$6.9 million.

For the fiscal year ended December 31, 1996, the district collected approximately \$6.8 million, primarily from property tax levies. The district's expenditures for control purposes totaled \$5.9 million, or 85 percent of total expenditures. Total revenues and expenditures were approximately 28 and 22 percent less, respectively, than the preceding fiscal year. This reduction was largely due to a legislative mandate under Minnesota Laws 1995, Chapter 255, Article 2 (codified Minn. Stat. Section 473.711 Subd. 2), which reduced the level for which the district could levy property taxes. The district's expenditures exceeded its revenues for the fiscal year by \$81,000.

#### **Conclusions**

The district's financial statements for fiscal year ending December 31, 1996 were fairly stated in accordance with generally accepted accounting principles (GAAP).

We found the district designed an internal control structure to reduce the risks of material errors or irregularities from occurring and not being detected timely. We also found that the district complied with significant finance-related legal provisions for the items tested.



# **Metropolitan Mosquito Control District**

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### **Audit Participation**

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

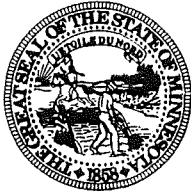
John Asmussen, CPA	Deputy Legislative Auditor
Jim Riebe, CPA	Audit Manager
Mark Mathison, CPA	Auditor-in-Charge
Laura Dombeck	Auditor



# **Metropolitan Mosquito Control District**

## **Financial Section**





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

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**Independent Auditor's Report**

Commissioner Margaret Langfeld, 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, 1996, 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 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. 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, 1996, 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 reports dated May 15, 1997, 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

May 15, 1997



# METROPOLITAN MOSQUITO CONTROL DISTRICT

## COMBINED BALANCE SHEET

### ALL FUND TYPES AND ACCOUNT GROUPS

December 31, 1996

	<u>Account Groups</u>			<u>Totals</u>	
	<i>Governmental</i>	<i>General</i>	<i>General</i>	<i>(MEMORANDUM ONLY)</i>	
	<i>Fund Type</i>	<i>Fixed</i>	<i>Long-Term</i>	<i>December 31,</i>	
	<i>General</i>	<i>Assets</i>	<i>Debt</i>	<i>1996</i>	<i>1995</i>
<b>Assets</b>					
Cash+Cash Equivalents	\$ 6,407,693			\$ 6,407,693	\$ 7,282,331
PrePaid Expenses	1,417			1,417	12,625
Income Receivable:					
(net of allowance					
for uncollectible					
taxes of \$391,901)	239,531			239,531	241,613
Inventory at cost	652,935			652,935	70,474
Equipment					
Net of depreciation		\$ 1,624,845		1,624,845	1,499,869
Building					
Net of depreciation		6,904,840		6,904,840	7,112,200
Amount to be provided for					
Employee Benefits			\$ 443,527	443,527	415,093
<i>Total Assets</i>	<u>\$ 7,301,576</u>	<u>\$ 8,529,685</u>	<u>\$ 443,527</u>	<u>\$ 16,274,788</u>	<u>\$ 16,634,205</u>
<b>Liabilities &amp; Fund Equity</b>					
Liabilities:					
Accounts Payable	\$ 78,399			\$ 78,399	\$ 212,030
Accrued Salary					
and Wages	46,693			46,693	172,254
Employee Benefits					
Payable	14,244		\$ 443,527	457,771	431,717
Deferred Revenue	145,708			145,708	108,904
<i>Total Liabilities</i>	<u>\$ 285,044</u>		<u>\$ 443,527</u>	<u>\$ 728,571</u>	<u>\$ 924,905</u>
Fund Equity:					
Investment in general					
fixed assets		\$ 8,529,685		\$ 8,529,685	\$ 8,612,069
Fund Balance:					
Reserved for inventory	\$ 652,935			\$ 652,935	\$ 70,474
Unreserved Fund Balance	<u>\$ 6,363,597</u>			<u>\$ 6,363,597</u>	<u>\$ 7,026,757</u>
(See designation in footnotes					
\$1,778,000)					
<i>Total Fund Equity</i>	<u>\$ 7,016,532</u>	<u>\$ 8,529,685</u>		<u>\$ 15,546,217</u>	<u>\$ 15,709,300</u>
<i>Total Liabilities</i>					
<i>and Fund Equity</i>	<u>\$ 7,301,576</u>	<u>\$ 8,529,685</u>	<u>\$ 443,527</u>	<u>\$ 16,274,788</u>	<u>\$ 16,634,205</u>

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, 1996 and 1995

	1996	1995
Revenue:		
Taxes -		
Anoka County	\$ 441,348	\$ 572,159
Carver County	75,590	92,125
Dakota County	682,633	842,632
Hennepin County	2,672,530	3,299,212
Ramsey County	925,642	1,199,329
Scott County	129,945	175,465
Washington County	360,534	462,919
Homestead & Agricultural		
Credit & other aids	1,032,680	2,196,880
(see footnote #1, J)		
Tax Delinquent Income	36,839	58,714
Investment Income	295,104	238,947
Miscellaneous	150,835	305,948
Total Revenues	\$ 6,803,680	\$ 9,444,330
Expenditures:		
Board of Commissioners -		
Salaries	\$ 0	\$ 0
Travel	3,969	7,035
Administrative	606,640	632,860
Control	5,870,522	8,063,654
Capital Expenditures	403,248	95,601
Total Expenditures	\$ 6,884,379	\$ 8,799,150
Excess (deficiency)		
of revenues over expenditures	\$ (80,699)	\$ 645,180
Fund Balance at beginning of year	\$ 7,097,231	\$ 6,452,051
Fund Balance at end of year	\$ 7,016,532	\$ 7,097,231

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, 1996

	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Revenue:			
Taxes -			
Anoka County	\$ 446,507	\$ 441,348	\$ (5,159)
Carver County	76,017	75,590	(427)
Dakota County	689,368	682,633	(6,735)
Hennepin County	2,721,151	2,672,530	(48,621)
Ramsey County	940,365	925,642	(14,723)
Scott County	131,510	129,945	(1,565)
Washington County	362,402	360,534	(1,868)
Homestead & Agricultural			
Credit & other aids (see footnote #1, 1)	1,032,680	1,032,680	0
Tax Delinquent Income		36,839	36,839
Investment Income		295,104	295,104
Miscellaneous		150,835	150,835
Total Revenues	\$ 6,400,000	\$ 6,803,680	\$ 403,680
Expenditures:			
Board of Commissioners -			
Salaries	\$ 0	\$ 0	\$ 0
Travel	6,900	3,969	2,931
Administrative	594,625	606,640	(12,015)
Control	6,583,635	5,870,522	713,113
Capital Expenditures	60,000	403,248	(343,248)
Total Expenditures	\$ 7,245,160	\$ 6,884,379	\$ 360,781
Excess (deficiency) of revenues over expenditures	\$ (845,160)	\$ (80,699)	\$ 764,461
Fund Balance at beginning of year	\$ 7,097,231	\$ 7,097,231	\$ 0
Fund Balance at end of year	\$ 6,252,071	\$ 7,016,532	\$ 764,461

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

	<i>Budget</i>	<i>Actual</i>	<i>Variance Favorable (Unfavorable)</i>
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	<u>\$ 8,950,000</u>	<u>\$ 9,444,330</u>	<u>\$ 494,330</u>
Expenditures:			
Board of Commissioners -			
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	<u>\$ 9,765,680</u>	<u>\$ 8,799,150</u>	<u>\$ 966,530</u>
Excess (deficiency) of revenues over expenditures	<u>\$ (815,680)</u>	<u>\$ 645,180</u>	<u>\$ 1,460,860</u>
Fund Balance at beginning of year	<u>\$ 6,452,051</u>	<u>\$ 6,452,051</u>	<u>\$ 0</u>
Fund Balance at end of year	<u>\$ 5,636,371</u>	<u>\$ 7,097,231</u>	<u>\$ 1,460,860</u>

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

# **Metropolitan Mosquito Control District**

## **Notes to Financial Statements**

**December 31, 1996**

### **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 1996 is the 1995 property tax levy limitation adjusted by a multiplier based on market valuation changes between 1994 and 1995 reduced by 50 % of the actual 1995 levy. In addition HACA payments were permanently reduced by 50% of the amount certified to have been received in 1995. 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 \$301,384 plus accrued interest of \$5,263 totaling \$306,647 displayed on the balance sheet as part of "Cash and Cash Equivalents," as well as income receivable. 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 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 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:

\$6,106,109.

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

<u>Instrument</u>	<u>Carrying Amount</u>
MAGIC Trust Fund	\$ 6,106,109
Deposits	306,647
Imprest Petty Cash	200
	<hr/>
	\$ 6,412,956

#### **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, \$652,935, has been reserved for control materials inventory. The District has, in order to affect savings, purchased some control materials early and carried them to the next period. This change results in an increase in 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.

**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 \$440,000 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 1996 the Homestead and Agricultural Credit Aid was \$1,032,680.

### K. Budget

The 1996 annual budget for Operations was \$7,245,160. The Commission has designated \$500,000 of the fund balance for emergency disease vector control, as well as \$50,000 for education.

## 2. General Fixed Assets

### A. Furniture and Equipment / Motor Vehicles

A summary of changes in general fixed assets as of December 31, 1996 follows:

	<u>Motor Vehicles</u>	<u>Furniture &amp; Equipment</u>	<u>Total</u>
Balance			
Jan 1, 1996	\$2,030,507	1,198,355	\$3,228,862
Additions	<u>263,213</u>	<u>114,150</u>	<u>377,363</u>
Deletions (Disposition)	<u>86,855</u>	<u>5,151</u>	<u>92,006</u>
Balance			
Dec 31, 1996	<u>\$2,206,865</u>	<u>\$1,307,354</u>	<u>\$3,514,219</u>
Accumulated			
Depreciation	<u>(973,103)</u>	<u>(916,270)</u>	<u>(1,889,373)</u>
Balance Net of			
Depreciation			
Dec 31, 1996	<u>\$1,233,762</u>	<u>\$ 391,084</u>	<u>\$ 1,624,846</u>

The threshold of capitalization is \$400. The District is recording depreciation on fixed assets, as better information can be provided for decision making. The method of depreciation used is straight line. The estimated useful life of the assets is as follows:

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

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

### B. Building

The following is a schedule of values of headquarters operating buildings owned by the District. Depreciation and value net of depreciation is included. The Anoka operating headquarters is on land owned by Anoka County being leased at \$1 per year for 99 years.

Should the District break the lease, Anoka County is to purchase the building at its depreciated value as calculated using 20 years straight-line depreciation. This facility was built in 1984-85 and expanded in 1992. The Jordan headquarters was constructed in 1991. The Administrative Research headquarters was constructed in 1992-93. The Rosemount headquarters was completed in 1994. The two Hennepin County facilities were purchased in 1993 and remodeling was completed in 1994.

Building	Cost	Accumulated Depr.	Depreciated Value
Anoka HQ	\$ 722,647	\$ 181,363	\$ 541,284
Jordan HQ	779,029	136,491	642,538
Admin./Research HQ	3,231,701	392,102	2,839,599
Rosemount HQ	1,044,368	74,850	969,518
Maple Grove HQ	1,055,434	77,165	978,269
Plymouth HQ	<u>1,017,483</u>	<u>83,850</u>	<u>933,633</u>
	<u>\$ 7,850,662</u>	<u>\$ 945,821</u>	<u>\$ 6,904,841</u>

The buildings are shown on the GFAAG statement. The District has completed all planned construction projects. The buildings provide suitable working conditions and space for internal meetings and other agency use. Some space is currently rented to other agencies. A portion of the fund balance, \$ 588,000 has been designated for facilities repair and upkeep.

### 3. Changes in Long Term Debt

The following is a summary of employee benefit transactions of the Metropolitan Mosquito Control District for the year ended December 31, 1996.

<u>Total</u>	
Employee benefits payable at Jan. 1, 1996	\$431,717
Portion currently payable in 1996	<u>(16,624)</u>
Long term employee benefits payable at Jan. 1, 1996	415,093
Net change in compensated absences	<u>28,434</u>
Long term employee benefits payable at December 31, 1996	<u>\$443,527</u>

#### 4. 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.

#### 5. Deferred Revenue

The deferred revenue balance at December 31, 1996 was \$537,609 consisting of taxes and other receivables which are not expected to be collected within 60 days as required by NCGA Interpretation 3. In addition, \$391,901 is estimated uncollectible in the future based on historical experience.

#### 6. Leases

Operating leases consist of rental of the Ramsey/Washington Division headquarters.

The following is a yearly schedule of future minimum rental payments under operating leases (including base rent, property taxes and operating costs):

1997	\$170,366
1998	\$169,263
1999	\$172,964
2000	\$176,777
<hr/>	
Total minimum lease payments	<u>\$689,370</u>

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:

1995	\$162,854
1996	167,536

#### 7. 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, 1996, was \$1,892,324. The District's total payroll was \$2,814,367.

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:

	<u>Statutory Rates:</u>		<u>Required</u>
	<u>Employees</u>	<u>Employer</u>	<u>Rates*</u>
PERF (A blended rate for both the Basic & Coordinated Plans)	4.3%	4.60%	9.6%

\*The recommended rates scheduled above represent the required rates for fiscal year 1996 contributions as reported in the July 1, 1995, actuarial valuation reports.

Total contributions made by the District during fiscal year 1996 were:

<u>PERF:</u>	<u>Amounts:</u>		<u>Percentage of Covered Payroll:</u>	
	<u>Employees</u>	<u>Employer</u>	<u>Employees</u>	<u>Employer</u>
Basic Plan	\$ 2,984	\$ 3,891	1.77 %	2.31 %
Coordinated Plan	\$ 78,509	83,149	46.58 %	49.34 %
Totals	<u>\$ 81,493</u>	<u>\$ 87,040</u>		

The District's contribution for the year ended June 30, 1996 to the PERF represented \$188,329. .075 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, 1996, are shown below:

(In Thousands)	PERF
Total pension benefit obligations	\$ 6,608,646
Net assets available for benefits, at cost	
(Market Value for PERF = \$5,954,697)	\$ <u>5,702,248</u>
Unfunded (assets in excess of)	
pension benefit obligation	\$ <u>906,398</u>

The pension benefit obligation was determined as part of an actuarial valuation at July 1, 1996.

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 1996 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, 1995 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, 1996. 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, 1996, and for the fiscal year then ended, PERA held no securities issued by the District or other related parties.

## **8. Patent**

The District has received two patents from the U.S. Patent Office. In 1996, \$24,703 in royalties were collected from the patents. (Additionally, \$20,000 advance minimum royalty for 1997 was received in 1996.)

After fees are recovered, twenty five percent will be paid to the former Director. Fees have been recovered on one of the patents. In 1996, a payment of \$6,263 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**

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JAMES R. NOBLES, LEGISLATIVE AUDITOR

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**Independent Auditor's Report on the Internal Control Structure**

Commissioner Margaret Langfeld, 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, 1996, and have issued our report thereon dated May 15, 1997.

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.

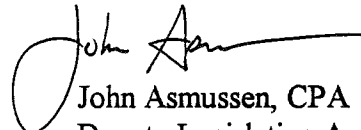
In planning and performing our audit of the financial statements of the Metropolitan Mosquito Control District for the year ended December 31, 1996, we obtained an understanding of the internal control structure. With respect to the internal control structure, we obtained an understanding of the design 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.

Commissioner Margaret Langfeld, Chair  
Members of the Metropolitan Mosquito Control Commission  
Mr. Joseph Sanzone, Executive Director  
Page 2

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 considered to be material weaknesses as defined above.

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

May 15, 1997



STATE OF MINNESOTA

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JAMES R. NOBLES, LEGISLATIVE AUDITOR

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**Independent Auditor's Report on Compliance Based on an Audit of Financial Statements**

Commissioner Margaret Langfeld, 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, 1996, and have issued our report thereon dated May 15, 1997.


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, and contracts 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, and contracts. 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

May 15, 1997