Metropolitan Mosquito Control District

Financial Audit
For the Year Ended December 31, 1997

June 1998

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Financial Audit Division
Office of the Legislative Auditor
State of Minnesota

98-37

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STATE OF MINNESOTA
OFFICE OF THE LEGISLATIVE AUDITOR
JAMES R. NOBLES, LEGISLATIVE AUDITOR

Senator Deanna Wiener, Chair
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 balance sheet of the Metropolitan Mosquito Control District for the year ended December 31, 1997, and the related statements of revenues, expenditures, and changes in fund balance for the two years then ended. Our audit opinion on the financial statements, dated May 11, 1998, 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 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 *Report on Compliance and Internal Control over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards,* 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 26, 1998.

James R. Nobles
Legislative Auditor

Claudia J. Gudvangen, CPA
Deputy Legislative Auditor

End of Fieldwork: May 11, 1998

Report Signed On: June 22, 1998

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SUMMARY

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Metropolitan Mosquito Control District

Financial Audit
For the Year Ended December 31, 1997

Public Release Date: June 26, 1998 No. 98-37

Agency Background

The Metropolitan Mosquito Control District operates under the authority of Minn. Stat. Sections 473.701 to 473.716. The district was created to control mosquitoes and black gnats and to monitor Lyme ticks in the metropolitan area. The district is governed by the Metropolitan Mosquito Control Commission. The commission is comprised of representatives from the following counties: Anoka, Carver, Dakota, Hennepin, Ramsey, Scott, and Washington 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, 1997. 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, 1997, the Metropolitan Mosquito Control District reported total General Fund equity of approximately $6.4 million. Of this amount, over $6.1 million represents unreserved fund balance. The district reported total General Fund assets of $6.9 million, of which $6.3 million is cash and short term investments. The district's cash balance is generally higher near the end of a year due to the timing of property tax payments and the limited extent of control work being conducted. 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 $6.7 million.

For the fiscal year ended December 31, 1997, the district collected approximately $7 million, primarily from property tax levies. The district's expenditures for control purpose totaled $6.8 million or 89 percent of total expenditures. Total revenues and expenditures were approximately 3.4 and 10.6 percent more, respectively, than the preceding fiscal year. The district's expenditures exceeded its revenues for the fiscal year by $579,000.

Conclusions

The district's financial statements for fiscal year ending December 31, 1997, were fairly stated in accordance with generally accepted accounting principles (GAAP).

In regards to the district's compliance with finance-related legal provisions and its internal controls over financial reporting, we found no issues required to be reported under the *Government Auditing Standards*.

Metropolitan Mosquito Control District

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Audit Participation

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

Claudia Gudvangen, CPA	Deputy Legislative Auditor
Jim Riebe, CPA	Audit Manager
Mark Mathison, CPA	Auditor-in-Charge
Rick Weinmeyer	Auditor

Exit Conference

This report was discussed with the following staff of the Metropolitan Mosquito Control District at the exit conference held on June 19, 1998:

Joseph Sanzone	Executive Director
William Caesar	Business Administrator
John Thompson	Information Systems Coordinator

Metropolitan Mosquito Control District

Financial Section

STATE OF MINNESOTA
OFFICE OF THE LEGISLATIVE AUDITOR
JAMES R. NOBLES, LEGISLATIVE AUDITOR

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, 1997, 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 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, 1997, 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 a report dated May 11, 1998, on our consideration of the Metropolitan Mosquito Control District's internal control structure and on its compliance with certain provisions of laws and regulations.

James R. Nobles
Legislative Auditor

Claudia J. Gudvangen, CPA
Deputy Legislative Auditor

May 11, 1998

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EXHIBIT A

METROPOLITAN MOSQUITO CONTROL DISTRICT

COMBINED BALANCE SHEET

ALL FUND TYPES AND ACCOUNT GROUPS

December 31, 1997

	Governmental Fund Type	Account Groups		Totals (MEMORANDUM ONLY) December 31,	
Assets	*General*	*General Fixed Assets*	*General Long-Term Debt*	*1997*	*1996*
Cash+Cash Equivalents	$ 6,307,805			$ 6,307,805	$ 6,407,693
PrePaid Expenses	771			771	1,417
Income Receivable: (net of allowance for uncollectible taxes of $391,901)	229,789			229,789	239,531
Inventory at cost	316,580			316,580	652,935
Equipment Net of depreciation		$ 1,572,859		1,572,859	1,624,845
Land		1,118,867		1,118,867	1,071,867
Building Net of bldg. depreciation		5,599,604		5,599,604	5,832,973
Amount to be provided for Employee Benefits			$ 474,102	474,102	443,527
Total Assets	$ 6,854,945	$ 8,291,330	$ 474,102	$ 15,620,377	$ 16,274,788
Liabilities & Fund Equity					
Liabilities:					
Accounts Payable	$ 201,619			$ 201,619	$ 78,399
Accrued Salary and Wages	60,942			60,942	46,693
Employee Benefits Payable	19,930		$ 474,102	494,032	457,771
Deferred Revenue	134,752			134,752	145,708
Total Liabilities	$ 417,243		$ 474,102	$ 891,345	$ 728,571
Fund Equity:					
Investment in general fixed assets		$ 8,291,330		$ 8,291,330	$ 8,529,685
Fund Balance:					
Reserved for inventory	$ 316,580			$ 316,580	$ 652,935
Unreserved Fund Balance (See designation in foonotes $2,015,000)	$ 6,121,122			$ 6,121,122	$ 6,363,597
Total Fund Equity	$ 6,437,702	$ 8,291,330		$ 14,729,032	$ 15,546,217
Total Liabilities and Fund Equity	$ 6,854,945	$ 8,291,330	$ 474,102	$ 15,620,377	$ 16,274,788

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, 1997 and 1996

	1997	1996
Revenue:		
Taxes -		
Anoka County	$ 447,295	$ 441,348
Carver County	79,670	75,590
Dakota County	679,852	682,633
Hennepin County	2,676,281	2,672,530
Ramsey County	959,262	925,642
Scott County	136,001	129,945
Washington County	359,521	360,534
Homestead & Agricultural Credit & other aids (see footnote #1, J)	1,094,276	1,032,680
Tax Delinquent Income	58,927	36,839
Investment Income	294,235	295,104
Miscellaneous	247,867	150,835
Total Revenues	$ 7,033,187	$ 6,803,680
Expenditures:		
Board of Commissoners -		
Salaries	$ 0	$ 0
Travel	2,245	3,969
Administrative	597,756	606,640
Control	6,765,419	5,870,522
Capital Expenditures	246,597	403,248
Total Expenditures	$ 7,612,017	$ 6,884,379
Excess (deficiency) of revenues over expenditures	$ (578,830)	$ (80,699)
Fund Balance at beginning of year	$ 7,016,532	$ 7,097,231
Fund Balance at end of year	$ 6,437,702	$ 7,016,532

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

EXHIBIT C

METROPOLITAN MOSQUITO CONTROL DISTRICT

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

GENERAL FUND
Year Ended December 31, 1997

	Budget	Actual	Variance Favorable (Unfavorable)
Revenue:			
Taxes -			
Anoka County	$ 451,810	$ 447,295	$ (4,515)
Carver County	80,432	79,670	(762)
Dakota County	685,154	679,852	(5,302)
Hennepin County	2,717,701	2,676,281	(41,420)
Ramsey County	970,262	959,262	(11,000)
Scott County	137,549	136,001	(1,548)
Washington County	362,816	359,521	(3,295)
Homestead & Agricultural Credit & other aids (see footnote #1, J)	1,094,276	1,094,276	0
Tax Delinquent Income		58,927	58,927
Investment Income		294,235	294,235
Miscellaneous		247,867	247,867
Total Revenues	$ 6,500,000	$ 7,033,187	$ 533,187
Expenditures:			
Board of Commissoners -			
Salaries	$ 0	$ 0	$ 0
Travel	6,900	2,245	4,655
Administrative	627,545	597,756	29,789
Control	6,848,680	6,765,419	83,261
Capital Expenditures	277,000	246,597	30,403
Total Expenditures	$ 7,760,125	$ 7,612,017	$ 148,108
Excess (deficiency) of revenues over expenditures	$ (1,260,125)	$ (578,830)	$ 681,295
Fund Balance at beginning of year	$ 7,016,532	$ 7,016,532	$ 0
Fund Balance at end of year	$ 5,756,407	$ 6,437,702	$ 681,295

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

	Budget	Actual	Variance Favorable (Unfavorable)
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, J)	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 Commissoners -			
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
Notes to Financial Statements

December 31, 1997

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. The property tax levy limitation for 1997 is the 1996 property tax levy limitation adjusted by a multiplier based on market valuation changes between 1995 and 1996. 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 $323,369, 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 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 national or state banks insured by FDIC or FSLIC, certain repurchase agreements or reverse repurchase agreements and other instruments permitted by applicable laws. The assets of the District within the fund are held in the District's name as equally valued shares. The carrying amount is $5,984,236.

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

Instrument	Carrying Amount
MAGIC Trust Fund	$ 5,984,236
Deposits	323,369
Imprest Petty Cash	200
	$ 6,307,805

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, $316,580, has been reserved for control materials inventory. An additional $222,000 has been designated for control materials inventory. The District, in order to affect savings, normally purchases some of its control materials early and carries them over to the next period. This was not accomplished in 1997. This change results in an decrease in the amount reserved for inventory and an increase in the amount designated 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 received.

Depreciation is provided in the District's accounts because it results in better information for resource allocation to activities of the District's operation. In addition, comparison of accumulated depreciation and the cost of assets is helpful in budgeting outlays for replacement of capital assets.

G. Risk Management

The District is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters for which the District carries insurance. The District obtains insurance through participation in the League of Minnesota Cities Insurance Trust (LMCIT) which is a risk sharing pool with approximately 800 other governmental units. The District pays an annual premium to LMCIT for its workers compensation and property and casualty insurance. The LMCIT is self sustaining through member premiums and will reinsure for claims above a prescribed dollar amount for each insurance event. Settled claims have not exceeded the District's coverage in any of the past three fiscal years.

H. Amount to be Provided for Employee Benefits

Resources for the payment of employee benefits included in the General Long-Term Debt group of accounts will be provided by the General Fund. The amount of $455,000 has been designated in the fund balance for employee benefits.

I. Comparative Data

Comparative total data for the prior year has been presented in the accompanying financial statements in order to provide an understanding of changes in the District's financial position and operation.

J. Total Columns on Statements

Total columns on the statements are captioned "Memorandum Only" to indicate they are presented only to facilitate financial analysis. Data in these columns do not present financial position, results of operations, or changes in financial position in conformity with generally accepted accounting principles. Such data also is not comparable to a consolidation.

K. Property Taxes

The property tax levy of the District is set by the Metropolitan Mosquito Control

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

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 1997 the Homestead and Agricultural Credit Aid was $1,094,276.

L. Budget

The 1997 annual budget for Operations was $7,760,125. 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, 1997 follows:

	Motor Vehicles	Furniture & Equipment	Total
Balance Jan 1, 1997	$2,206,865	$1,307,354	$3,514,219
Additions	109,019	136,628	245,648
Deletions (Disposition)	(159,364)	(76,247)	(235,610)
Balance Dec 31, 1997	$2,156,520	$1,367,736	$3,524,256
Accumulated Depreciation	(1,011,384)	(940,013)	(1,951,397)
Balance Net of Depreciation Dec 31, 1997	$1,145,136	$ 427,723	$ 1,572,859

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

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

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. An appraisal was made of the land at the Jordan headquarters to determine its value for reporting purposes. The result is an increase in land value at that site.

Building	**Cost**	**Land`**	**Accumulated Depreciation**	**Depreciated Value**
Anoka HQ	$ 723,596	$ -0-	$ (206,028)	$ 517,568
Jordan HQ	826,029	47,000	(163,261)	615,768
Admin./Research HQ	3,231,701	530,202	(488,327)	2,213,172
Rosemount HQ	1,044,368	187,381	(103,820)	753,167
Maple Grove HQ	1,055,434	225,744	(105,034)	724,656
Plymouth HQ	1,017,483	128,540	(113,670)	775,273
	$7,898,611	$1,118,867	$(1,180,140)	$5,599,604

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, 1997.

	Total
Employee benefits payable at Jan. 1, 1997	$457,771
Portion currently payable in 1997	(14,244)
Long term employee benefits payable at Jan. 1, 1997	443,527
Net change in compensated absences	30,575
Long term employee benefits payable at December 31, 1997	$474,102

4. Compensated Absences

Compensated absences consist of employee vacation, sick leave and compensatory time benefits. These benefits are determined based on a formula with a maximum number of hours accumulated and are payable upon death, termination or retirement. Calculations include employer's share of Social Security and Medicare taxes. In previous years only vested accrued benefits were shown. The current portion of this liability is reflected in the General Fund, and the long term portion is reflected in the General Long-Term Debt group of accounts.

5. Deferred Revenue

The deferred revenue balance at December 31, 1997 was $526,653 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):

1998	$169,291
1999	$172,992
2000	$176,805
Total minimum lease payments	$519,088

The District has exercised its option to extend this lease agreement for three years. As a result the District is to receive a rebate to offset larger rent increases in 1996 and 1997. The 1998 payments will not equal the stated rate in the agreement because the District was undercharged for rent in 1997. The net effect is to reduce rent payments in 1998. Total rental expense including short-term, seasonal equipment and vehicles is as follows:

1996	$167,536
1997	165,761

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, 1997, was $2,031,015. The District's total payroll was $2,853,298.

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 who retires before July 1, 1997 is 2 percent of average salary for each of the first 10 years of service and 2.5 percent for each remaining year. The annuity accrual rate for Basic members who retire on or after July 1, 1997 is 2.2 percent of average salary for each of the first 10 years of service and 2.7 percent for each remaining year. For a Coordinated Plan member, who retires before July 1, 1997, 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. For Coordinated members who retire on or after July1, 1997, the annuity accrual rates increase by 0.2 percent to 1.2 percent of average salary for each of the first 10 years and 1.7 percent for each remaining year. Under Method 2, the annuity accrual rate is 2.5 percent of average salary for Basic Plan members and 1.5 percent for Coordinated Plan members who retire before July 1, 1997. Annuity accrual rates increase 0.2 percent for members who retire on or after July 1, 1997. 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: Employees	Employer	Required Rates*
PERF (A blended rate for both the Basic & Coordinated Plans)	4.3%	4.60%	8.9%

*The recommended rates scheduled above represent the required rates for fiscal year 1997 contributions as reported in the July 1, 1996, actuarial valuation reports.

Total contributions made by the District during fiscal year 1997 were:

	Amounts:		Percentage of Covered Payroll:	
PERF:	Employees	Employer	Employees	Employer
Basic Plan	$ 3,029	$ 3,949	1.63 %	2.19 %
Coordinated Plan	$ 84,355	89,340	46.69 %	49.45 %
Totals	$ 87,384	$ 93,289		

The District's contribution for the year ended June 30, 1997 to the PERF were $168,814. .064 percent of total contributions required of all participating entities. In 1997 the District paid $36,175 in back payments to PERA for seasonal employees.

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, 1997, are shown below:

(In Thousands)	PERF
Total pension benefit obligations	$ 7,330,038
Net assets available for benefits, at cost	6,552,205
Unfunded (assets in excess of) pension benefit obligation	$ 777,833
Net assets available for benefits, at market	$ 6,870,819

The pension benefit obligation was determined as part of an actuarial valuation at July 1, 1997.

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 6 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 6 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

Legislation enacted in 1997 improved initial benefits for PERA members without a material effect on the actuarial accrued liability in the PERF. The annuity accrual rates were increased for members who retire on or after July 1, 1997. In order to pay for the increased initial benefit, the assumed earnings rate of the Minnesota Post Retirement Investment Fund was increased from 5% to 6% and the cap on the inflation-based portion of an annuitant's annual benefit increase was lowered from 3.5% to 2.5%. Because present retirees will receive lower future benefit increases, their benefits were increased by an offsetting amount on July 1, 1997..

3. Changes in Actuarial Assumptions

Since the July 1, 1996 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, 1997. 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, 1997, 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 1997, $35,038 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 1997, a payment of $7,829 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

JAMES R. NOBLES, LEGISLATIVE AUDITOR

Report on Compliance and Internal Control over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

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 balance sheet of the Metropolitan Mosquito Control District for the year ended December 31, 1997, and the related statements of revenues, expenditures, and changes in fund balance for the two years then ended and have issued our report thereon dated May 11, 1998. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Metropolitan Mosquito Control District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards.*

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Metropolitan Mosquito Control District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control structure elements does not reduce, to a relatively low level, the risk that misstatements in amounts that would be material in relation to the

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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

Claudia J. Gudvangen, CPA
Deputy Legislative Auditor

May 11, 1998

Status of Prior Audit Issues
As of May 15, 1998

Most Recent Audit

June 20, 1997, Legislative Audit Report 97-32 The Office of the Legislative Auditor annually audits the financial statements of the district. For the year ended December 31, 1996, we issued an unqualified audit opinion on the district's financial statements. During the course of our audit, we found no issues required to be reported under the *Government Auditing Standards*.