O L A **OFFICE OF THE LEGISLATIVE AUDITOR**
STATE OF MINNESOTA

Financial Audit Division Report

# Metropolitan Mosquito Control District

## Year ended December 31, 2006

**August 21, 2007** **07-20**

# Financial Audit Division

The Office of the Legislative Auditor (OLA) is a professional, nonpartisan office in the legislative branch of Minnesota state government. Its principal responsibility is to audit and evaluate the agencies and programs of state government (the State Auditor audits local governments).

OLA's Financial Audit Division annually audits the state's financial statements and, on a rotating schedule, audits agencies in the executive and judicial branches of state government, three metropolitan agencies, and several "semi-state" organizations. The division also investigates allegations that state resources have been used inappropriately.

The division has a staff of approximately forty auditors, most of whom are CPAs. The division conducts audits in accordance with standards established by the American Institute of Certified Public Accountants and the Comptroller General of the United States.

Consistent with OLA's mission, the Financial Audit Division works to:

- Promote Accountability,
- Strengthen Legislative Oversight, and
- Support Good Financial Management.

Through its Program Evaluation Division, OLA conducts several evaluations each year.

OLA is under the direction of the Legislative Auditor, who is appointed for a six-year term by the Legislative Audit Commission (LAC). The LAC is a bipartisan commission of representatives and senators. It annually selects topics for the Program Evaluation Division, but is generally not involved in scheduling financial audits.

All findings, conclusions, and recommendations in reports issued by the Office of the Legislative Auditor are solely the responsibility of the office and may not reflect the views of the LAC, its individual members, or other members of the Minnesota Legislature.

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If you have comments about our work, or you want to suggest an audit, investigation, or evaluation, please contact us at 651-296-4708 or by e-mail at auditor@state.mn.us

OLA

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

**Financial Audit Division Report**

# Metropolitan Mosquito Control District

## Year Ended December 31, 2006

**August 21, 2007** **07-20**

FINANCIAL AUDIT DIVISION
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## Audit Participation

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

| | |
|---|---|
| Cecile Ferkul, CPA, CISA | Deputy Legislative Auditor |
| Michael Hassing, CPA, CISA | Audit Manager |
| Steven Johnson, CPA | Auditor-in-Charge |
| Bridgette Leonard | Auditor |

We discussed the results of the audit with the following staff of the Metropolitan Mosquito Control District at an exit conference on August 17, 2007:

| | |
|---|---|
| James Stark | Executive Director |
| William Caesar | Business Administrator |
| Trish Egerer | Accounting/Payroll |

# Report Summary

**Conclusion**:

The financial statements of the Metropolitan Mosquito Control District (District) for the year ended December 31, 2006, were fairly presented, in all material respects, in accordance with generally accepted accounting principles.

We did not identify any weaknesses in internal control over financial reporting or instances of noncompliance with legal provisions that could have significantly affected the District's financial statements.

**Audit Scope:**

Material Audit Areas:

- Cash
- Inventory and capital assets
- Revenues
- Expenses

**Agency Background:**

The District operates under the authority granted in *Minnesota Statutes* 2006, 473.701 to 473.716 to control mosquitoes and black gnats and to monitor Lyme ticks in the metropolitan area. The District is governed by the Metropolitan Mosquito Control Commission. The Commission is comprised of representatives from the following counties: Anoka, Carver, Dakota, Hennepin, Ramsey, Scott, and Washington. The District received $15.8 million in revenue and spent approximately $13.8 million in 2006.

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**Independent Auditor's Report**

Representative Rick Hansen, Chair
Legislative Audit Commission

Members of the Legislative Audit Commission

Commissioner Penny Steele, Chair
Metropolitan Mosquito Control Commission

Members of the Metropolitan Mosquito Control Commission

Mr. James Stark, Executive Director
Metropolitan Mosquito Control District

We have audited the accompanying basic financial statements of the Metropolitan Mosquito Control District (District) as of and for the year ended December 31, 2006, as listed in the Table of Contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Metropolitan Mosquito Control District as of December 31, 2006, and the changes in financial position for the year then ended, and the respective budgetary comparison for the General Fund for the two years then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report (found on page 25) dated June 8, 2007, on our consideration of the Metropolitan Mosquito Control



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District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

*/s/ James R. Nobles*

James R. Nobles
Legislative Auditor

*/s/ Cecile M. Ferkul*

Cecile M. Ferkul, CPA, CISA
Deputy Legislative Auditor

June 8, 2007

# Management's Discussion and Analysis

As management of the Metropolitan Mosquito Control District, we offer readers of the Metropolitan Mosquito Control District's financial statements, this narrative overview and analysis of the financial activities of the Metropolitan Mosquito Control District for the fiscal year ending December 31, 2006.

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

**Financial Highlights** –At the close of the 2006 fiscal year, the District's general fund reported an ending fund balance of $12,951,804, the unreserved fund balance for the general fund was $11,171,424 or 82 percent of the total general fund expenditures. This amount is adequate for working capital needs of the following period. Over 86 percent of the total fund balance is available for use within the District's designations and policies.

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

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

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

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

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

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

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

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

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

The District does not have proprietary or fiduciary funds.

**Notes to Financial Statements** - The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 15 – 24 of this report.

**Government-Wide Financial Analysis**

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the Metropolitan Mosquito Control District, assets exceeded liabilities by $19,690,051 at the close of the most recent fiscal year.
Thirty-six and one half percent of the District's net assets are reflected in capital assets (e.g. land, buildings, vehicles and equipment). The District uses these capital assets to provide services to citizens; consequently these assets are not available for future spending.

**Table 1**
**Metropolitan Mosquito Control District's Net Assets**
**As of December 31, 2006 and 2005**

| | 2006 | 2005 |
|---|---|---|
| **Current and Other Assets** | $ 13,635,268 | $ 11,436,816 |
| **Capital Assets** | 7,192,768 | 7,313,755 |
| **Total Assets** | 20,828,036 | 18,750,571 |
| **Long-term Liabilities** | 812,733 | 785,855 |
| **Other Liabilities** | 325,252 | 324,110 |
| **Total Liabilities** | 1,137,985 | 1,109,965 |
| | | |
| **Net Assets:** | | |
| **Invested in Capital Assets** | 7,192,768 | 7,313,755 |
| **Unrestricted** | 12,497,283 | 10,326,851 |
| **Total Net Assets** | $ 19,690,051 | $ 17,640,606 |

A portion of the District's net assets represent resources that may be subject to restrictions on how they may be used. The balance of unrestricted net assets, $12,497,283, may be used to meet the District's ongoing obligations to citizens and creditors.

**Table 2**
**Metropolitan Mosquito Control District's Changes in Net Assets**
**For the Years Ended December 31, 2006 and 2005**

| | 2006 | 2005 |
|---|---|---|
| **Revenues** | | |
| **Property Tax** | $ 15,350,000 | $ 14,757,850 |
| **Other County Income** | 19,050 | 15,959 |
| **Investment Income** | 370,864 | 207,142 |
| **Miscellaneous** | 66,914 | 61,031 |
| **Total Revenue** | $ 15,806,828 | $ 15,041,982 |
| | | |
| **Expenses** | | |
| **Commissioners** | $ 2,769 | $ 3,789 |
| **Administrative** | 778,037 | 907,349 |
| **Control** | 12,976,577 | 12,758,316 |
| **Total Expenses** | 13,757,383 | 13,669,454 |
| **Increase (decrease) in Net Assets** | 2,049,445 | 1,372,528 |
| **Net Assets on Jan. 1st** | 17,640,606 | 16,268,078 |
| **Net Assets on Dec. 31st** | $ 19,690,051 | $ 17,640,606 |

## Fund Financial Analysis

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

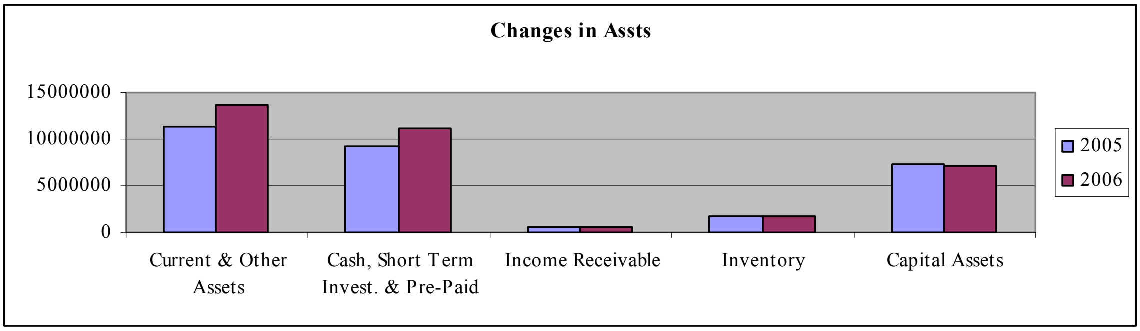
At the end of the current fiscal year, the District's general fund reported an ending fund balance of $12,951,804, over 86 percent of which is unreserved. The unreserved fund balance is necessary for working capital as designated, as well as for specific other designations due to the property tax payment schedules which impact the District's cash flow. The remainder is reserved because it is committed as control materials already purchased.

The general fund balance increased by $2,082,752 in 2006. This was due to lower expenditures than expected because of weather patterns which required few treatments of mosquito breeding sites after June. In 2006, the District has maintained $750,000 for emergency and vector borne disease expenditures. In previous years, those funds have been expended and restored in subsequent years.

## Changes in Financial Position

During 2006 the District's current and other assets grew by $2,198,452 from $11,436,816 at the end of 2005 to $13,635,268 at the end of 2006, a change of 19.2 percent. Cash, short term investments and pre-paid expenses increased by $1,993,935. The District took advantage of an opportunity to save money on future control materials by purchasing materials at 2006 prices, which increased the inventory by $47,650, not as much as some previous years, but an amount that covers much of the expected use of those materials. From a General Fund point of view, the fund balance was expected to increase by $592,036 in the original budget. It actually increased by $2,082,752, (see exhibit C). The addition to the fund balance was planned for working capital cash flow purposes as well as preparation for upcoming program needs. However, lower levels of expenditure than expected were experienced due to slowing in the need for control operations from June on. The bulk of the remaining $1,490,716 is a result of those lower expenditures.

The following table provides some visual comparison for the changes in assets from 2005 to 2006; Current and Other Assets show the $2,000,000 plus increase in 2006. The components of Current and Other Assets include Cash, Short Term Investments and Pre-paid, Income receivable, and Inventory. The table makes it clear that the major change is in Cash, Short Term Investment and Pre-paid, while Income Receivable and Inventory have changed very little. Capital assets have only experienced a small reduction.




Recently, the District has been responding to an expanding Metropolitan area with increased service. Expenditures for 2005 were up13% from 2004. The budget for 2005 addressed an issue experienced in 2004 when continual rainfall confounded treatments. The operational strategy for 2005 used a treatment regime that was designed to allow more effective treatments during mosquito broods. This process was improved upon in 2006 by focusing on specific improvements such as ensuring better use of all helicopter treatment resources. Expenditures were relatively flat in 2006 compared to 2005, increasing only $87,929, or 0.6%. However, personnel expense for operations increased by about 5.9% as a result of reorganizing some positions. Administrative personnel expense was reduced when the Executive Director and public information positions were combined. Other operating expenses, control materials and helicopter expenses did not change significantly. Vehicle and travel expenses were up by about 15% due to high fuel cost. Insurance expense was also higher due to Workers Compensation charges. Overall non-capital expenditures were up by 1.4% in operations and down 11.4% in Administration.

The strategy used in 2005 and 2006 resulted in fewer mosquitoes to bother citizens. As a result, expenditures for control materials and helicopter costs were significantly below budgeted amounts by 19.3%, or about $1,362,000. Control wages were close to budget and Administration wages were below budgeted amounts by about 16.4%. Other Administration expenditures were below budget as a result of various contractual changes. Most other expenditures were close to budgeted amounts.

The District increased the property tax levy to fund the above work and county collections were up in 2006 about 2% over 2005. Investment income was up by $163,722, or close to 79%. This offset a drop in 2005 which was due to a patent on which the District collected royalties that expired in 2005 and royalties ceased. The royalties were included in previous investment income. The increase in 2006 was due to higher interest rates.

### Capital Asset and Long-Term Liabilities

**Capital Assets** – The District's investment in capital assets as of December 31, 2006 amounts to $7,192,768 (net of accumulated depreciation). The investment includes land, buildings, vehicles and equipment.

Capital asset events of note in 2006 include: Vehicle and equipment additions in the amount of $448,930, including replacements for old vehicles and equipment.

**Table 3**
**Metropolitan Mosquito Control District's Capital Assets (Net of Depreciation)**
**As of December 31, 2006 and 2005**

| | 2006 | 2005 |
|---|---|---|
| **Land and Improvements** | $ 1,118,867 | $1,118,867 |
| **Buildings** | 3,725,376 | 3,929,253 |
| **Vehicles** | 1,977,072 | 1,861,931 |
| **Equipment** | 371,453 | 403,704 |
| **Total** | $ 7,192,768 | $ 7,313,755 |

**Long-Term Liabilities** - At the end of 2006 the District had long-term liabilities in the amount of $775,088 for compensated absences and, $37,645 for a long term telephone lease.

EXHIBIT A

# METROPOLITAN MOSQUITO CONTROL DISTRICT

## STATEMENT OF NET ASSETS AND GOVERNMENTAL FUND BALANCE SHEET
## As Of December 31, 2006

| | General Fund | Statement of Net Assets | Reconciliation | |
|---|---|---|---|---|
| **Assets** | | | | |
| Cash and Cash Equivalents | $ 9,223,883 | $ 9,223,883 | $ - | |
| Short term Investment | 1,964,000 | 1,964,000 | - | |
| PrePaid Expenses | 7,643 | 7,643 | - | |
| Inventory at cost | 1,780,380 | 1,780,380 | - | |
| Income Receivable: (net of allowance for estimated uncollectible taxes of $670,732) | 659,362 | 659,362 | - | |
| Equipment, net of accumulated depreciation | - | 2,348,525 | 2,348,525 | Capital assets are not expenditures of the current period and therefore are not reported in the general fund. |
| Land | - | 1,118,867 | 1,118,867 | |
| Building, net of accumulated depreciation | - | 3,725,376 | 3,725,376 | |
| Total Assets | $ 13,635,268 | $ 20,828,036 | $ 7,192,768 | |
| **Liabilities** | | | | |
| Accounts Payable | $ 99,926 | $ 99,926 | $ - | |
| Employee Benefits Payable | 30,187 | 805,275 | 775,088 | Longterm liabilities for compensated absences are not due and payable in the current period and therefore are not reported in the general fund. |
| Lease Payable | - | 37,645 | 37,645 | Remaining liability for equipment lease. |
| Accrued Salary and Wages | 195,139 | 195,139 | - | |
| Deferred Revenue | 358,212 | - | (358,212) | Long term receivables not available to pay for current period expenditures and therefore, are deferred in the general fund. |
| Total Liabilities | $ 683,464 | $ 1,137,985 | $ 454,521 | |
| **Fund Balance/Net Assets** | | | | |
| **Fund Balance:** | | | | |
| Reserved for Inventory | $ 1,780,380 | $ - | $ (1,780,380) | The commission reserved amounts from current financial resources and therefore the reserves are reported in the general fund. |
| Unreserved See designations in notes | 1,460,000 | - | (1,460,000) | |
| Unreserved, designated for working capital | 9,711,424 | - | (9,711,424) | |
| Total Fund Balance | 12,951,804 | - | $ (12,951,804) | |
| Total Liabilities & Fund Balance | $ 13,635,268 | | | |
| **Net Assets:** | | | | |
| Invested in Capital Assets | | 7,192,768 | 7,192,768 | Capital assets (net of depreciation) used in governmental activities are not current financial resources and therefore, are not reported in the general fund. |
| No restrictions | | 12,497,283 | 12,497,283 | |
| Total Net Assets | | $ 19,690,051 | $ 19,690,051 | |

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

# METROPOLITAN MOSQUITO CONTROL DISTRICT

## STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUND REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

**For the year ended December 31, 2006**

| | General Fund | Statement of Activities | Reconciliation | |
|---|---|---|---|---|
| **Revenues:** | | | | |
| Property Taxes - | | | | |
| Anoka County | $ 1,481,579 | $ 1,508,091 | $ 26,512 | Property tax in the Statement of Activities is the total due less an amount for estimated uncollectible taxes not recorded in the General Fund. |
| Carver County | 477,829 | 481,223 | 3,394 | |
| Dakota County | 2,009,630 | 2,035,272 | 25,642 | |
| Hennepin County | 6,743,049 | 6,851,135 | 108,086 | |
| Ramsey County | 2,498,186 | 2,536,879 | 38,693 | |
| Scott County | 623,831 | 633,617 | 9,786 | |
| Washington County | 1,294,466 | 1,303,783 | 9,317 | |
| Tax Delinquent Income | 105,222 | - | (105,222) | Property tax from prior years collected this year. |
| Other County Income | 19,050 | 19,050 | - | |
| Investment Income | 370,864 | 370,864 | - | |
| Miscellaneous | 63,273 | 63,273 | - | |
| Total Revenues | $ 15,686,979 | $ 15,803,187 | $ 116,208 | |
| **Gains (Losses) on Disposal of Capital Assets** | - | 3,641 | 3,641 | Transactions involving disposal of capital assets. |
| Total General Revenues | $ 15,686,979 | $ 15,806,828 | $ 119,849 | |
| **Expenditures:** | | | | |
| Board of Commissoners - Trave | 2,769 | 2,769 | - | |
| Administrative | 759,606 | 778,037 | 18,431 | Depreciation expense not included in funds, less lease principle payments. |
| Control | 12,349,852 | 12,976,577 | 626,725 | |
| Capital Expenditures | 492,000 | - | (492,000) | Capital outlay recorded in funds as a flow of financial resources. |
| Total Expenditures | $ 13,604,227 | $ 13,757,383 | $ 153,156 | |
| **Excess (Deficiency) of Revenues Over Expenditures/ Change in Net Assets** | 2,082,752 | 2,049,445 | (33,307) | |
| **Fund Balance /Net Assets at Beginning of Year** | 10,869,052 | 17,640,606 | 6,771,554 | |
| **Fund Balance /Net Assets at End of Year** | $ 12,951,804 | $ 19,690,051 | $ 6,738,247 | |

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

# METROPOLITAN MOSQUITO CONTROL DISTRICT

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

### GENERAL FUND
### For the Year Ended December 31, 2006

| | Original Budget | Final Budget | Actual | Variance Over (Under) |
|---|---|---|---|---|
| **Revenues:** | | | | |
| Property Taxes - | | | | |
| Anoka County | $ 1,508,091 | $ 1,508,091 | $ 1,481,579 | $ (26,512) |
| Carver County | 481,223 | 481,223 | 477,829 | (3,394) |
| Dakota County | 2,035,272 | 2,035,272 | 2,009,630 | (25,642) |
| Hennepin County | 6,851,135 | 6,851,135 | 6,743,049 | (108,086) |
| Ramsey County | 2,536,879 | 2,536,879 | 2,498,186 | (38,693) |
| Scott County | 633,617 | 633,617 | 623,831 | (9,786) |
| Washington County | 1,303,783 | 1,303,783 | 1,294,466 | (9,317) |
| Tax Delinquent Income | 105,200 | 105,200 | 105,222 | 22 |
| Other County Income | 19,050 | 19,050 | 19,050 | 0 |
| Investment Income | 370,800 | 370,800 | 370,864 | 64 |
| Miscellaneous | 63,200 | 63,200 | 63,273 | 73 |
| Total Revenues | $ 15,908,250 | $ 15,908,250 | $ 15,686,979 | $ (221,271) |
| **Expenditures:** | | | | |
| Board of Commissoners - Trav | $ 6,900 | $ 6,900 | $ 2,769 | $ 4,131 |
| Administrative | 912,230 | 912,230 | 759,606 | 152,624 |
| Control | 13,687,084 | 13,687,084 | 12,349,852 | 1,337,232 |
| Capital Expenditures | 710,000 | 710,000 | 492,000 | 218,000 |
| Total Expenditures | $ 15,316,214 | $ 15,316,214 | $ 13,604,227 | $ 1,711,987 |
| Excess (deficiency) of revenues over expenditures | $ 592,036 | $ 592,036 | $ 2,082,752 | $ 1,490,716 |
| Fund Balance at beginning of year | $ 10,869,052 | $ 10,869,052 | $ 10,869,052 | $ 0 |
| Fund Balance at end of year | $ 11,461,088 | $ 11,461,088 | $ 12,951,804 | $ 1,490,716 |

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

# METROPOLITAN MOSQUITO CONTROL DISTRICT

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

### GENERAL FUND
### For the Year Ended December 31, 2005

| | Original Budget | Final Budget | Actual | Variance Over (Under) |
|---|---|---|---|---|
| **Revenues:** | | | | |
| Property Taxes - | | | | |
| Anoka County | $ 1,471,694 | $ 1,471,694 | $ 1,453,603 | $ (18,091) |
| Carver County | 456,640 | 456,640 | 453,744 | (2,896) |
| Dakota County | 2,017,787 | 2,017,787 | 2,003,209 | (14,578) |
| Hennepin County | 6,724,115 | 6,724,115 | 6,629,918 | (94,197) |
| Ramsey County | 2,535,693 | 2,535,693 | 2,502,145 | (33,548) |
| Scott County | 592,080 | 592,080 | 584,992 | (7,088) |
| Washington County | 1,299,536 | 1,299,536 | 1,284,222 | (15,314) |
| Tax Delinquent Income | 52,000 | 52,000 | 51,994 | (6) |
| Other County Income | 16,000 | 16,000 | 15,959 | (41) |
| Investment Income | 185,000 | 185,000 | 207,142 | 22,142 |
| Miscellaneous | 61,000 | 61,000 | 61,005 | 5 |
| Total Revenues | $ 15,411,545 | $ 15,411,545 | $ 15,247,933 | $ (163,612) |
| **Expenditures:** | | | | |
| Board of Commissoners -Trav | $ 6,900 | $ 6,900 | $ 3,789 | $ 3,111 |
| Administrative | 886,410 | 886,410 | 857,579 | 28,831 |
| Control | 13,222,812 | 13,222,812 | 12,177,955 | 1,044,857 |
| Capital Expenditures | 778,000 | 778,000 | 562,741 | 215,259 |
| Total Expenditures | $ 14,894,122 | $ 14,894,122 | $ 13,602,064 | $ 1,292,058 |
| Excess (deficiency) of revenues over expenditures | $ 517,423 | $ 517,423 | $ 1,645,869 | $ 1,128,446 |
| Fund Balance at beginning of year | $ 9,223,183 | $ 9,223,183 | $ 9,223,183 | $ 0 |
| Fund Balance at end of year | $ 9,740,606 | $ 9,740,606 | $ 10,869,052 | $ 1,128,446 |

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

# Notes to Financial Statements

## For the year ending December 31, 2006

## 1. Organization & Significant Accounting Policies

**Reporting Entity**

The Metropolitan Mosquito Control District (MMCD) was established under Minnesota Laws 1959, Chapter 488 (Codified as *Minnesota Statutes* 2006, 473.701 to 473.716). The District operates under the Metropolitan Mosquito Control Commission representing the seven county metropolitan area. It was created to control mosquitoes and black gnats and to perform surveillance on Lyme ticks in the metropolitan area, which consists of Anoka, Carver, Dakota, Hennepin, Ramsey, Scott and Washington counties. A director is responsible for the supervision of the District and reports to the Commission.

**Significant Accounting Policies**

This summary of significant accounting policies of the Metropolitan Mosquito Control District is presented to assist in understanding the District's financial statements. The financial statements and notes are representations of the District's management, which is responsible for their integrity and objectivity. These accounting policies conform to generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board and have been consistently applied in the preparation of the financial statements.

**A. Basis of Presentation**

The District issues fund financial statements prepared on the basis of fund accounting, and government-wide financial statements prepared using the accrual basis of accounting and the economic resources measurement focus. The financial statements are presented in a columnar format reconciling differences between them.

**Government-wide and Fund Financial Statements**

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

### Governmental Fund

The District's General fund is the general operating fund of the District and is used to account for all financial activities.

**B. Basis of Accounting**

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied. Revenues and expenditures are recognized as follows:

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

The governmental fund financial statements are reported using the current financial resources measurement focus and modified accrual basis of accounting. Revenues are recognized when they become measurable and available. They are considered to be available when they are collectible within the current period or soon enough after to pay liabilities of the current period. The District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures are generally recognized when the related liability is incurred. An exception to this general rule is the long-term portion of employee benefits for unused sick and vacation leave. Also, consumable inventory items are recognized as expenditures in the period used, rather than in the period purchased.

**C. Budgets and Budgetary Accounting**

The Commission adopts an annual budget for the General Fund for the fiscal year commencing the following January. The budget is prepared on the modified accrual basis of accounting which is consistent with generally accepted accounting principles (GAAP). It includes the amounts that can be expended based on detailed budget estimates for individual expenditure accounts and the related anticipated revenues, as shown in the basic financial statements and supplementary information.

The property tax levy limitation for 2006 is the 2005 property tax levy limitation adjusted by a multiplier based on market valuation changes between 2004 and 2005. In 2006, expenditures did not exceed the levy.

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

**D. Deposits and Investments**

Deposits are held in US Bank N.A. and nineteen different financial institutions, and are carried at principal plus accrued interest. The carrying amount of deposits included on the balance sheet as part of Cash and Cash Equivalents is $301,424. Cash equivalents are short-term, highly liquid investments that are both (1) readily convertible to known amounts of cash and (2) so near their maturity that they present insignificant risk of changes in value because of changes in interest rates. Deposits carried in short term investments include certificates of deposit for $1,400,000 maturing within six months and an additional $564,000 maturing within nine months. Accrued interest of $53,379 is displayed on the balance sheet as part of Income Receivable. Minn. Stat. Section 118A.03 requires that deposits in financial institutions by municipalities, including special districts, be secured by depository insurance or a combination of depository insurance and collateral security. The statute further requires the total collateral computed at its fair market value shall be at least 10 percent more than the amount on deposit in excess of any insured portion. MMCD's deposits at year-end were appropriately secured by federal depository insurance and by collateral held by US Bank N.A. in MMCD's name.

The District participates in the Minnesota Association of Governments Investing for Counties (MAGIC) Trust Fund, an investment pool. These pooled investments are not categorized because securities are not specifically held by the District in book entry form. The fund invests in instruments permitted by law, including direct obligations of the United States of America and its agencies, obligations of the State of Minnesota rated "A" or better, bankers' acceptances of United States banks, commercial paper issued by United States corporations, deposits in national or state banks insured by FDIC, certain repurchase agreements or reverse repurchase agreements and other instruments permitted by applicable laws. The assets of the District within the fund are held in the District's name as equally valued shares. The value is determined by the fair market value of the MAGIC Fund’s underlying portfolio. The carrying amount is $8,922,259.

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

| Instrument | Carrying Amount |
|---|---|
| MAGIC Trust Fund | $ 8,922,259 |
| Deposits | 301,424 |
| Imprest Petty Cash | 200 |
| | $ 9,223,883 |

The following summarizes the District's short term investments.

| Instrument | Carrying Amount |
|---|---|
| Certificates of Deposit | $ 1,964,000 |

**E. Inventory**

Inventory is stated at historic cost using the first-in, first-out method. It consists of expendable supplies held for consumption in the next operating year. A portion of the fund balance, $1,780,380, has been reserved for control materials inventory.

**F. Capital Assets and Real Property**

Capital assets and real property are stated at historic cost net of depreciation. Capital outlay expenditures in the governmental fund totaled $492,000 for the year ended December 31, 2006.

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 are helpful in budgeting outlays for replacement of capital assets.

**G. Risk Management**

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

**H. Amount to be Provided for Employee Benefits**

Resources for the payment of employee benefits will be provided by the general fund. The liability for long-term employee benefits is $775,088. Short-term employee benefits are shown at $30,187.

**I. Property Taxes**

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

The District’s final levy for 2006 was certified to the Minnesota Department of Revenue by December 28, 2005. A lien is created when the levy is certified.

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

The member counties make collections and forward payment to the District. Payments for the May 15 due date were to be forwarded by July 6, 2006. On December 1, 2006, all collections through November 20, 2006 were due to the District. The balance of all 2006 collections was due by January 25, 2007.

Taxes payable on property in the District are partially covered by a market value credit. This credit is paid to MMCD by the state in lieu of taxes levied against property. The state remitted this credit in two equal installments in November and December of 2006.

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

**J. Budget**

The 2006 adopted annual budget for operations was $15,316,214. The Commission designated $1,780,380 for consumable inventory, $750,000 for emergency disease vector control, and $710,000 for compensated absences.

## 2. Capital Assets

### A. Furniture and Equipment / Motor Vehicles

A summary of changes in general fixed assets as of December 31, 2006 follows:

| | Motor Vehicles | Furniture & Equipment | Total |
|---|---|---|---|
| Balance Jan 1, 2006 | $3,213,331 | $1,665,740* | $4,879,071 |
| Additions | 355,574 | 93,356 | 448,930 |
| Deletions (Disposals) | (191,675) | (108,720) | (300,395) |
| Balance Dec 31, 2006 | $3,377,230 | $1,650,376 | $5,027,606 |
| Accumulated Depreciation | (1,400,158) | (1,278,923) | (2,679,081) |
| Balance Net of Depreciation Dec 31, 2006 | $1,977,072 | $ 371,453 | $2,348,525 |
| Current Year Depreciation | ($ 211,682) | ($ 125,200) | ($ 336,882) |

*Includes value of leased phone equipment.

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

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

Equipment and vehicles in use more than six months are depreciated in the first year. Leased phone equipment is depreciated over the life of the contract.

### B. Building and Land

The following is a schedule of values of headquarters operating buildings owned by the District. Depreciation and value net of depreciation is included. Buildings and improvements will not be depreciated until after being in use for at least one year. The Anoka operating headquarters, is on land owned by Anoka County being leased at $1 per year for 99 years. Should the District break the lease, Anoka County is to purchase the building at its depreciated value as calculated using 20 years straight-line depreciation. This headquarters was built in 1984-85, expanded in 1992 and will be expanded in 2007. 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 headquarters, Maple Grove and Plymouth facilities were purchased in 1993 and remodeling was completed in 1994. In 1997 an appraisal was made of the land at the Jordan headquarters to determine its value for reporting purposes. At that time a determination was made to increase in land value at that site.

| Building | Land (Not Depr.) | Building Cost 01/01/06 | Add/ Del | Building Cost 12/31/06 | Accumulated Depreciation | Net Building Value | Current Year Depr. |
|---|---|---|---|---|---|---|---|
| Anoka | $ -0- | $ 727,512 | $ 17,123 | $ 744,635 | $ (429,812) | $ 314,823 | $ 25,046 |
| Jordan | 47,000 | 784,938 | 4,980 | 789,918 | (405,751) | 384,167 | 27,085 |
| Admn/ Research | 530,202 | 2,798,082 | 13,500 | 2,811,582 | (1,367,861) | 1,443,721 | 102,159 |
| Rosemount | 187,381 | 950,427 | 2,868 | 953,295 | (373,584) | 579,711 | 33,932 |
| Maple Grove | 225,744 | 847,279 | 2,900 | 850,179 | (359,120) | 491,059 | 28,715 |
| Plymouth | 128,540 | 893,009 | 1,700 | 894,709 | (382,814) | 511,895 | 30,011 |
| Totals | $ 1,118,867 | $ 7,001,247 | $ 43,071 | $ 7,044,318 | $ (3,318,942) | $ 3,725,376 | $ 246,948 |

The buildings provide suitable working conditions and space for internal meetings and other agency use, although over time there may be need to improve the facilities as our needs change. Some space is currently rented to other agencies.

## 3. Changes in Long-Term Liabilities

The District long-term liabilities consist of compensated absences for employee vacation, sick leave and compensatory time benefits. These benefits are determined based on a formula with a maximum number of hours accumulated and are payable upon death, termination or retirement. Calculations include employer's share of Social Security and Medicare taxes. The current portion of this liability is reflected in the general fund, while the total liability is reflected in the government-wide Statement of Net Assets under the heading Employee Benefits Payable.

The following is a summary of employee benefit transactions of the Metropolitan Mosquito Control District for the year ended December 31, 2006. Employees accumulate earned but unused vacation and sick leave, some of which is available for severance or retirement payments.

| Total | |
|---|---|
| Employee benefits payable at Jan. 1, 2006 | $751,505 |
| Portion currently payable in 2006 | (28,390) |
| Long term employee benefits payable at Jan. 1, 2006 | 723,115 |
| Net change in compensated absences | 51,974 |
| Long term employee benefits payable at December 31, 2006 | $775,089 |

## 4. Deferred Revenue

The deferred revenue balance at December 31, 2006 was $358,212 consisting of taxes and other receivables which are not expected to be collected within 60 days as required by GASB 33 and NCGA Interpretation 3. In addition, $670,732 is estimated uncollectible in the future based on historical experience.

## 5. Leases

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

| | |
|---|---|
| 2007 | 209,536 |
| 2008 | 197,952 |
| 2009 | 188,095 |
| 2010 | 190,901 |
| 2011 | 193,762 |
| Total minimum lease payments | $980,246 |

The District has renewed the East Region headquarters lease agreement through 2008 and can extend it until 2013 at an increase of 2 percent per year. The lease for the telephone system is a five year operating lease expiring in 2008. The lease for the phone is treated as a capital lease for reporting purposes and is included in capital and related accounts on the financial statements as the lease term is equal to more than 75% of the economic life of the system. Total rental expense is as follows:

| | |
|---|---|
| 2005 | $196,825 |
| 2006 | $198,642 |

## 6. Retirement Plan

### A. Plan Description

All full-time and certain part-time employees of the Metropolitan Mosquito Control District are covered by a defined benefit pension plan 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. This plan is established and administered in accordance with *Minnesota Statutes* Chapters 353 and 356.

PERF members belong to either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security and Basic Plan members are not. All new members must participate in the Coordinated Plan.

PERA provides retirement benefits as well as disability benefits to members, and benefits to survivors upon death of eligible members. Benefits are established by state statute, and vest after three years of credited service. The defined retirement benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service.

Two methods are used to compute benefits for PERA's Coordinated and Basic Plan members. The retiring member receives the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Basic Plan member is 2.2 percent of average salary for each of the first ten years of service and 2.7 percent for each remaining year. The annuity accrual rate for a Coordinated Plan member is 1.2 percent of average salary for each of the first ten years and 1.7 percent for each remaining year. Under Method 2, the annuity accrual rate is 2.7 percent of average salary for Basic Plan members and 1.7 percent for Coordinated Plan members for each year of service. For PERF members hired prior to July 1, 1989 whose annuity is calculated using Method 1, a full annuity is available when age plus years of service equal 90. Normal retirement age is 65 for Basic and Coordinated members hired prior to July 1, 1989. Normal retirement age is the age for unreduced Social Security benefits capped at 66 for coordinated members hired on or after July 1, 1989. A reduced retirement annuity is also available to eligible members seeking early retirement.

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

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

PERA issues a publicly available financial report that includes financial statements and required supplementary information for PERF. That report may be obtained on the internet at www.mnpera.org, by writing to PERA, 60 Empire Drive Suite 200, St. Paul, Minnesota, 55103-2088 or by calling (651) 296-7460 or 1-800-652-9026.

### B. Funding Policy

*Minnesota Statutes* Chapter 353 sets the rates for employer and employee contributions. These statutes are established and amended by the state legislature. The District makes annual contributions to the pension plan equal to the amount required by state statutes. Coordinated Plan members are required to contribute 5.50 percent of their annual covered salary in 2006. Contribution rates in the Coordinated Plan will increase in 2007 to 5.75 percent. The District is required to contribute the following percentage of annual covered payroll: 6.0 percent for Coordinated Plan PERF members. The District's contribution rates for the Coordinated Plan will increase to 6.25 percent, effective January 1, 2007. The District's contributions to the Public Employees Retirement Fund for the years ending December 31, 2004, 2005, and 2006 were $343,357, $340,803 and $369,590 respectively. The District's contributions were equal to the contractually required contributions for each year as set by state statute.

## 7. Patents

The District has received two patents from the U.S. Patent Office. 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 did accrue to the District from sales to entities other than the District. The first patent was issued on June 2, 1987; the second on March 22, 1988. The patents have now expired as their duration was seventeen years. No royalties were collected in 2006 and no further royalties will be collected from these.

**Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards***

Representative Rick Hansen, Chair
Legislative Audit Commission

Members of the Legislative Audit Commission

Ms. Penny Steele, Chair
Metropolitan Mosquito Control Commission

Members of the Metropolitan Mosquito Control Commission

Mr. James Stark, Executive Director
Metropolitan Mosquito Control District

In auditing the Metropolitan Mosquito Control District's basic financial statements for the year ended December 31, 2006, we considered the District's internal controls over financial reporting and tested the District's compliance with significant legal provisions. This report contains our findings and recommendations. However, given the limited nature of our audit work, we do not express an overall opinion on the effectiveness of the District's internal controls or compliance. In addition, our work may not have identified all significant control deficiencies or instances of noncompliance with legal requirements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. These standards require that we communicate significant internal control deficiencies and noncompliance to management and those charged with governance. In developing this report, we applied the criteria included in the recently issued Statement of Auditing Standards #112, Communicating Internal Control Related Matters Identified in an Audit, for assessing the sufficiency of internal controls over financial reporting. We did not identify any significant deficiencies in internal control over financial reporting or instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards.*



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This report is intended solely for the information and use of the Legislative Audit Commission and the Metropolitan Mosquito Control District's management and is not intended to be and should not be used by anyone other than these specified parties. This restriction is not intended to limit the distribution of this report, which was released as a public document on August 21, 2007.

| | |
|---|---|
| */s/ James R. Nobles* | */s/ Cecile M. Ferkul* |
| James R. Nobles<br>Legislative Auditor | Cecile M. Ferkul, CPA, CISA<br>Deputy Legislative Auditor |

End of Fieldwork: June 8, 2007

Report Signed On: August 17, 2007

# Status of Prior Audit Issues
# As of June 8, 2007

## Most Recent Audit

The Office of the Legislative Auditor performs an annual audit of the Metropolitan Mosquito Control District. Legislative Audit Report 06-23, dated August 3, 2006, covered the year ended December 31, 2005. The audit scope included those areas material to the District's financial statements including cash, inventory and capital assets, revenues, and expenses. The report did not contain any audit findings.

**State of Minnesota Audit Follow-Up Process**

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