

**ORANGE COUNTY MOSQUITO AND VECTOR CONTROL DISTRICT**

**BASIC FINANCIAL STATEMENTS**

**WITH REPORT ON AUDIT  
BY INDEPENDENT  
CERTIFIED PUBLIC ACCOUNTANTS**

**FISCAL YEAR ENDED JUNE 30, 2015**

ORANGE COUNTY MOSQUITO AND VECTOR CONTROL DISTRICT

TABLE OF CONTENTS

June 30, 2015

	<u>Page Number</u>
Independent Auditors' Report	1 - 2
Management's Discussion and Analysis (Required Supplementary Information)	3 - 11
Basic Financial Statements:	
Government-wide Financial Statements:	
Statement of Net Position	12
Statement of Activities	13
Fund Financial Statements:	
Balance Sheet - Governmental Funds	14
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position	15
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds	16
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	17
Budgetary Comparison Statements:	
General Fund - By Department	18
Facilities Improvement Special Revenue Fund	19
Fiduciary Fund:	
Statement of Fiduciary Net Position	20
Statement of Changes in Fiduciary Net Position	21
Notes to Basic Financial Statements	22 - 54
Required Supplementary Information:	55
Schedule of Proportionate Share of the Net Pension Liability	56
Schedule of Contributions - Defined Benefit Pension Plans	57
Schedule of Funding Progress:	
Other Post-Employment Benefits Plan	58
Schedule of Employer Contributions:	
Other Post-Employment Benefits Plan	58
Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	59 - 60

## INDEPENDENT AUDITORS' REPORT

Board of Trustees  
Orange County Mosquito and Vector Control District  
Garden Grove, California

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities and each major fund of the Orange County Mosquito and Vector Control District (the District), as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditors' Responsibility**

Our responsibility is to express opinions 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, the State Controller's Minimum Audit Requirements for the California Special Districts, 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

## Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the District as of June 30, 2015 and the respective changes in financial position and the respective budgetary comparison for the General Fund and the Facilities Improvement Special Revenue Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America, as well as the accounting systems prescribed by the State Controller's Office and State Regulations governing Special Districts.

## Emphasis of Matters

As discussed in Notes 1d and 11 to the financial statements, the District adopted Governmental Accounting Standards Board's Statement No. 68, "*Accounting and Financial Reporting for Pensions*" and Statement No. 71, "*Pension Transition for Contributions Made Subsequent to the Measurement Date, an Amendment of GASB Statement No. 68.*" The adoption of these standards required retrospective application resulting in a \$1,081,695 reduction of previously reported net position. Also, as discussed in Note 11 to the financial statements, the District is now reporting an other post-employment benefit (OPEB) fiduciary trust fund as part of its basic financial statements. Beginning net position of the OPEB Trust Fund as of July 1, 2014 was \$2,930,117. Our opinions are not modified with respect to these matters.

## Other Matters

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the schedule of proportionate share of the net pension liability, the schedule of contributions - defined benefit pension plans, the schedule of funding progress - other post-employment benefits plan, and the schedule of employer contributions - other post-employment benefits plan, identified as Required Supplementary Information (RSI) in the accompanying table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the RSI in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during the audit of the basic financial statements. We do not express an opinion or provide any assurance on the RSI because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

## Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 17, 2015, on our consideration of the 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

*White Nelson Dick Evans LLP*

Irvine, California  
December, 17, 2015

# **ORANGE COUNTY MOSQUITO AND VECTOR CONTROL DISTRICT**

Management's Discussion and Analysis  
June 30, 2015

This section of the financial statements of the Orange County Mosquito and Vector Control District (District) is management's overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2015. We encourage readers to consider the information presented here in conjunction with the District's financial statements and accompanying notes.

## **Background**

The Orange County Mosquito and Vector Control District is a special district originally formed in 1947 as the Orange County Mosquito Abatement District with the purpose of protecting the County from mosquitoes and mosquito-borne diseases. In 1975, the District was renamed as the Orange County Vector Control District and assumed responsibility for comprehensive vector control, specifically adding fly and rat control services. Then in 2004, the District established a Red Imported Fire Ant program. In 2015, the District was renamed to Orange County Mosquito and Vector Control District to better identify the District's purpose.

The District's operation is overseen by a 35 member Board of Trustees with one member appointed by each of the 34 cities within the District's boundaries and one member appointed by the County of Orange.

## **Financial Highlights**

The comparisons in the discussion and analysis below are between FY 2013-14 and FY 2014-15. All increases and decreases are expressed relative to FY 2013-14 amounts as restated in accordance with implementation of Governmental Accounting Standards Board Statements No. 68 and 71 (see Notes to Basic Financial Statements Number 1d).

### **Government-wide Financial Statements**

- The assets and deferred outflows of resources of the District exceeded liabilities and deferred inflows of resources at the close of the fiscal year ended June 30, 2015 by \$16.4 million (net position). Of this amount, \$11.2 million (unrestricted net position) may be used to meet the District's ongoing obligations to citizens and creditors.
- The District's total net position increased by \$3.6 million (28.7 percent).
- Revenues from governmental activities and general revenues totaled \$11.7 million, an increase of \$0.5 million over the prior year.
- Expenses of governmental activities totaled \$10.6 million, an increase of \$1.1 million over the prior year.

### **Fund Financial Statements**

- As of June 30, 2015, the District's governmental funds reported a combined ending fund balance of \$12.0 million, an increase of \$1.3 million over the prior year. Of this amount, \$7.2 million is available for spending at the District's discretion (unassigned fund balance).

## **Overview of the Basic Financial Statements**

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements, which are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the basic financial statements.

# ORANGE COUNTY MOSQUITO AND VECTOR CONTROL DISTRICT

Management's Discussion and Analysis  
June 30, 2015

**Government-wide financial statements.** The government-wide financial statements are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business.

In accordance with the Governmental Accounting Standards Board (GASB) Codification of Governmental Accounting and Financial Reporting Standards, the District's government-wide financial statements include a Statement of Net Position and a Statement of Activities.

The Statement of Net Position presents information on all of the District's assets, deferred inflows of resources, liabilities, deferred outflows of resources, and net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating. The Statement of Net Position also provides the basis for evaluating the capital structure and assessing the liquidity and financial flexibility of the District.

The Statement of Activities presents information showing how the government's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g. uncollected taxes and earned but unused vacation leave). This statement measures the success of the District's activities over the past year and can be used to determine whether the District has successfully recovered all of its costs.

The government-wide financial statements are in this report's financial section immediately following the Management's Discussion and Analysis (MD&A), beginning on page 12.

**Fund financial statements.** A fund is a grouping of related accounts that is 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 uses governmental funds to report its activities. The District's governmental fund statements include the Balance Sheet and the Statement of Revenues, Expenditures, and Changes in Fund Balances. In addition, the District uses a fiduciary fund to account for the activity of the trust fund established to administer the District's plan for post-retirement medical benefits. The fiduciary statements include a Statement of Fiduciary Net Position and a Statement of Changes in Fiduciary Net Position.

**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 a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-

# ORANGE COUNTY MOSQUITO AND VECTOR CONTROL DISTRICT

Management's Discussion and Analysis  
June 30, 2015

wide financial statements. By doing so, readers may better understand the long-term impact of the District's near-term financing decisions. Both the governmental fund balance sheet and governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The District adopts an annual appropriated budget for each of its governmental funds. A budgetary comparison statement has been provided for each governmental fund to demonstrate compliance with this budget.

The governmental fund financial statements are found in the financial section of this report following the government-wide financial statements, beginning on page 14.

**Fiduciary funds.** The District uses a fiduciary fund to account for the activity of the trust fund established to administer the District's plan for post-retirement medical benefits. The fiduciary fund financial statements are found in the financial section of this report following the governmental fund financial statements, beginning on page 20.

**Notes to the basic financial statements.** The notes 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 are found in the financial section of this report following the fund financial statements, beginning on page 22.

## Government-wide Financial Analysis

As noted earlier, over time the increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating. Following is a table which compares the District's net position at the end of the current and prior fiscal years.

### Net Position

	Governmental Activities	
	(as restated) 30-Jun-14	30-Jun-15
Current and other assets	\$11,263,428	\$12,572,579
Net OPEB asset	1,004,432	949,012
Capital assets	5,310,438	5,232,039
<b>Total assets</b>	<b>17,578,298</b>	<b>18,753,630</b>
Deferred outflows	438,007	483,044
<b>Total deferred outflows</b>	<b>438,007</b>	<b>483,044</b>
Long-term liabilities	4,699,293	1,899,307
Other liabilities	582,277	553,710
<b>Total liabilities</b>	<b>5,281,570</b>	<b>2,453,017</b>
Deferred inflows	-	399,847
<b>Total deferred inflows</b>	<b>-</b>	<b>399,847</b>
Net investment in capital assets	5,310,438	5,232,039
Unrestricted	7,424,297	11,151,771
<b>Total net position</b>	<b>\$12,734,735</b>	<b>\$16,383,810</b>

# ORANGE COUNTY MOSQUITO AND VECTOR CONTROL DISTRICT

Management's Discussion and Analysis  
June 30, 2015

At June 30, 2015, assets and deferred outflows exceed liabilities and deferred inflows, resulting in a \$16.4 million net position for the District. Assets and deferred outflows increased by \$1.2 million and liabilities and deferred inflows decreased by \$2.4 million over the prior year.

The majority of the increase in assets is due to general operating activities and is reflected by an increase to cash of \$1.3 million offset by a \$0.1 million decrease to capital assets. The decrease in liabilities resulted from a net reduction of \$2.5 million to the pension-related debt of the terminated OCERS defined benefit pension plan, mainly due to changes in actuarial assumptions and to differences between actual activity and actuarial assumptions (for additional information, see Note 7B of the Notes to Basic Financial Statements).

Pension-related deferred inflows increased by \$0.4 million, see Note 7A(b) of the Notes to Basic Financial Statements for additional information.

Net investment in capital assets: An important component of net position is capital assets (e.g., land, structures, and vehicles). The District's net investment in capital assets is \$5.2 million, representing 32 percent of the total net position at fiscal year-end. The District uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending.

Unrestricted: The remainder of the District's net position is categorized as unrestricted net position, totaling \$11.2 million or 68 percent of the total net position. Unrestricted net position may be used to meet the District's ongoing obligations to citizens and creditors. The District's unrestricted net position increased by \$3.7 million over the prior year. The reasons for this increase are identified by analyzing the changes in net position.

## Changes in Net Position

	Governmental Activities	
	(as restated) 30-Jun-14	30-Jun-15
Program revenues:		
Charges for services	\$ 131,117	\$ 178,413
Rental income	359,599	368,006
General revenues:		
Property taxes	10,630,592	10,994,857
Interest income	23,882	28,379
Other revenues	14,885	122,212
<b>Total revenues</b>	<b>11,160,075</b>	<b>11,691,867</b>
Expenses:		
General government	1,655,578	2,986,091
Health and sanitation	7,625,536	7,525,594
Interest on pension-related debt	225,330	107,175
<b>Total expenses</b>	<b>9,506,444</b>	<b>10,618,860</b>
<b>Change in net position before special item</b>	<b>1,653,631</b>	<b>1,073,007</b>
Special item: Net change in pension-related debt	425,577	2,576,068
<b>Increase/(decrease) in net position</b>	<b>2,079,208</b>	<b>3,649,075</b>
Net position - July 1, as restated	10,655,527	12,734,735
<b>Net position - June 30</b>	<b>\$ 12,734,735</b>	<b>\$ 16,383,810</b>

# ORANGE COUNTY MOSQUITO AND VECTOR CONTROL DISTRICT

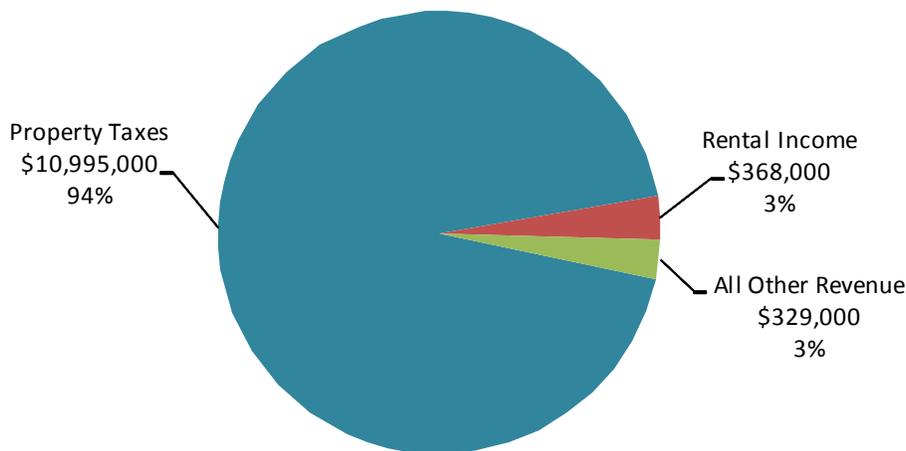
Management's Discussion and Analysis  
June 30, 2015

The District's current year net position increased by \$3.6 million in contrast to the prior year's \$2.1 million increase in net position, resulting in a current year increase in activity of \$1.5 million. This increase in activity is explained by a) the special item gain of \$2.5 million for pension-related debt in contrast to the prior year gain of \$0.4 million (more information on this gain is found in Note 7B of the Notes to Basic Financial Statements), and b) total revenues exceeding expenses by \$1.1 million in the current year and by \$1.7 million in the prior year (a decrease of \$0.6 million).

Key elements of the \$600,000 change in revenues and expenses include:

- An increase of \$360,000 in property taxes resulting from a) an increase of \$300,000 in ad valorem property taxes due to a rise in assessed value and b) an increase of \$60,000 in monies received as pass-through from the dissolution of redevelopment agencies.
- An increase in overall expenses of \$1.1 million. This increase is due to a \$500,000 contribution to the Discovery Cube Science Center for a vector-related interactive display, a \$300,000 increase in field operations costs, a \$100,000 increase due to an increase in claims costs, and a general increase in costs across all departments of \$200,000. The field operations costs increased for salary-related costs and chemicals used in response to the long warm-weather mosquito season experienced during FY 2014-15.

## Revenues by Source (Government-wide)

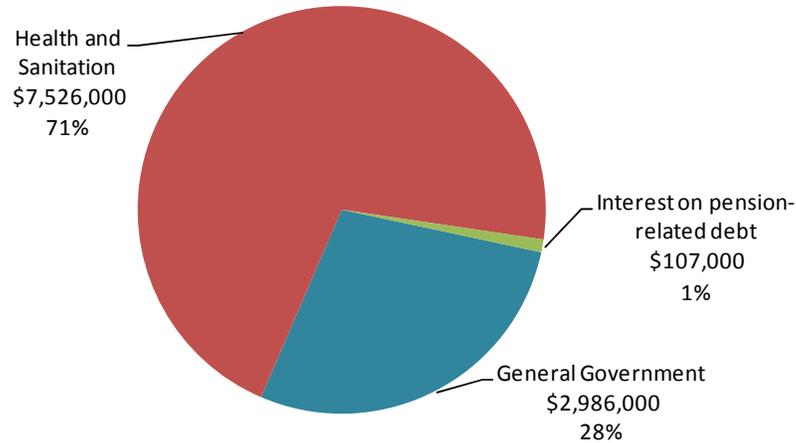


As identified in the graph of revenues by source, nearly all of the District's revenues (94 percent) come from the District's share of the ad valorem property tax and property tax assessments. Of the \$10,995,000 property tax revenue, 49 percent is from the District's share of the ad valorem property tax and the remaining 51 percent is from the District's property tax benefit assessments. The District's benefit assessment rates of \$1.92 per parcel for Assessment District No. 1 and \$5.02 per parcel for Assessment District No. 2 remained unchanged from FY 2013-14.

# ORANGE COUNTY MOSQUITO AND VECTOR CONTROL DISTRICT

Management's Discussion and Analysis  
June 30, 2015

## Expenses by Function (Government-wide)



The District's expenses totaled \$10.6 million in fiscal year 2014-15. Of that total, \$7.5 million (71 percent) was spent for health and sanitation purposes. The remaining costs were for general administrative functions of the District.

During fiscal year 2014-15, the District's Health and Sanitation functional expense category had \$178,000 of program revenues (charges for services) and the General Government functional expense category had \$368,000 of program revenues (charges for services – rental income on District property).

## Financial Analysis of the District's Funds

The focus of the District's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information may be useful in assessing the District's financial requirements. In particular, unassigned fund balance may serve as a useful measure of the District's net resources available for spending at the end of the fiscal year.

At the end of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$12.0 million, an increase of \$1.3 million over the prior year. Revenues of \$11.7 million exceeded expenditures of \$10.4 million.

Approximately 60% (\$7.2 million) of the combined ending fund balances constitutes unassigned fund balance, which is available for spending at the District's discretion. The remainder of the combined ending fund balances is categorized as nonspendable (1% of total fund balance) or committed (39% of total fund balance), indicating that it is not available for new spending because it has already been designated as:

# ORANGE COUNTY MOSQUITO AND VECTOR CONTROL DISTRICT

Management's Discussion and Analysis  
June 30, 2015

<u>Nonspendable</u>	
Inventories	\$96,858
<u>Committed</u>	
Retiree medical insurance	171,030
Retirement contingency	1,050,933
Vehicle replacement	646,819
Liability reserve	405,759
Equipment replacement	357,642
Emergency vector control	890,099
Habitat remediation	186,731
Facilities improvement	957,204
Environmental issues	7,397

**General Fund.** The General Fund is the chief operating fund of the District and comprises 98% of the expenditures of the District. At the end of the current fiscal year the unassigned fund balance of the General Fund was \$7,248,397 while the total fund balance was \$11,061,665. As a measure of the General Fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. The General Fund's unassigned fund balance represents 71% of General Fund expenditures while the General Fund's total fund balance represents 109% of General Fund expenditures.

The General Fund's fund balance increased in fiscal year 2014-15 by \$1.2 million, similar to the amount of increase in fiscal year 2013-14. Although the net change in fund balance was similar, revenues were higher in FY 2014-15 by \$500,000 and expenditures were higher in FY 2014-15 by \$600,000. Property taxes were higher in FY 2014-15 by \$360,000 resulting from a) an increase of \$300,000 in ad valorem property taxes due to a rise in assessed value and b) an increase of \$60,000 in monies received as pass-through from the dissolution of redevelopment agencies. The remaining increase in revenues resulted from one-time receipts of miscellaneous revenues.

The significant changes in expenditures which resulted in the \$600,000 net increase over FY 2013-14 were a) \$500,000 reduction in payments made toward the retirement-related liability, b) \$500,000 increase in contributions to the Discovery Cube for a vector-related interactive display, c) \$100,000 increase in claims expenditures, d) \$300,000 increase in field operations costs for an extended warm-weather mosquito season in FY 2014-15, and e) a general increase in costs across all departments of \$200,000.

**Facilities Improvement Special Revenue Fund.** This fund is used to account for monies set aside for future building needs and for rehabilitation of current facilities. For fiscal year 2014-15, revenues of \$332,000 exceeded expenditures of \$195,000, resulting in an increase of \$137,000 to fund balance. The total fund balance at year end is \$957,000 and it is all committed for facility improvements.

## Budgetary Highlights

In preparing its budget, the District attempts to estimate its revenues using realistic, but conservative, methods so as to budget its expenditure appropriations and activities in a prudent manner. As a result, the Board of Trustees adopts budget adjustments during the fiscal year to reflect both changed priorities and availability of additional revenues.

# ORANGE COUNTY MOSQUITO AND VECTOR CONTROL DISTRICT

Management's Discussion and Analysis  
June 30, 2015

During the course of the year, the Board of Trustees amended the District's originally adopted expenditure budget in the General Fund by \$798,000. The majority of this budget increase was to provide for the \$500,000 contribution to the Discovery Cube's vector-related interactive exhibit, to provide for additional maintenance costs in the facilities improvement fund, as well as to increase the budget for Field Operations as a result of the extended FY 2014-15 warm weather mosquito-abatement season.

**General Fund.** The General Fund balance reflected a positive net budget variance of \$699,000 when comparing actual amounts to the final budget for the current fiscal year. This amount reflects a positive variance of \$319,000 in revenues and a positive variance of \$380,000 in expenditures. The positive revenue variance resulted from actual revenues exceeding the budget for property taxes and for miscellaneous revenues. The positive expenditure variance resulted from actual expenditures being less than the final budget in all divisions except for Legal services, Nondepartmental, Technical services, and Building maintenance.

The difference between the General Fund's original budget and the final amended budget for expenditures was an increase of \$798,000. This budget increase was to provide for the \$500,000 contribution to the Discovery Cube's vector-related interactive exhibit and to provide necessary increased funding for Field Operations for the mosquito-abatement season.

## Capital Asset and Debt Administration

**Capital assets.** The District's capital assets for governmental activities as of June 30, 2015, total \$5,232,039, (net of accumulated depreciation). This is a net decrease of \$78,399 from June 30, 2014. The capital assets include land, structure and improvements, equipment and furniture, and vehicles. Capital asset additions totaled \$231,874 and depreciation expense totaled \$303,412. Capital asset disposals resulted in a \$6,861 loss.

### **Capital Assets (net of depreciation)**

	Governmental Activities	
	30-Jun-14	30-Jun-15
Land	\$ 2,010,329	\$ 2,010,329
Construction in progress	-	70,090
Structures and improvements	2,509,980	2,393,279
Equipment and furniture	144,348	205,193
Vehicles	645,781	553,148
<b>Total</b>	<b>\$ 5,310,438</b>	<b>\$ 5,232,039</b>

Additional information on the District's capital assets can be found in the Capital Assets Note (Note 4) of the Notes to Basic Financial Statements.

# ORANGE COUNTY MOSQUITO AND VECTOR CONTROL DISTRICT

Management's Discussion and Analysis  
June 30, 2015

**Long-term debt.** At the end of the current fiscal year, the District had total debt outstanding of \$1,899,307.

## Outstanding Debt

	Governmental Activities	
	30-Jun-14	30-Jun-15
Employee compensated absences	\$ 405,156	\$ 481,538
Pension-related debt	2,774,435	305,542
Net pension liability, as restated	1,519,702	1,112,227
<b>Total</b>	<b>\$ 4,699,293</b>	<b>\$ 1,899,307</b>

Information on employee compensated absences can be found in Note 1(k) of the Notes to the Basic Financial Statements. Information on the pension-related debt can be found in Note 7B of the Notes to Basic Financial Statements, under the heading of Terminated OCERS Defined Benefit Pension Plan. Information on the Net pension liability can be found in Note 7A of the Notes to Basic Financial Statements, under the heading of CalPERS Defined Benefit Pension Plan.

## **Economic Factors and Next Year's Budget**

The District's overall fiscal year 2015-16 revenues are budgeted to be \$12.2 million while expenditures are budgeted to be \$14.2 million. These budgetary expectations reflect:

- Local property values will increase by 1.5% growth resulting in estimated property tax revenues of nearly \$5.0 million.
- The assessment for Assessment District No. 1 will remain at \$1.92 per parcel and is projected to yield \$1.5 million.
- The assessment for Assessment District No. 2 increased to \$6.02 per parcel and is projected to yield \$4.9 million.
- Other revenues are expected to remain generally stable from the prior fiscal year.
- Personnel costs are anticipated to increase to \$7.6 million and are estimated to account for 71 percent of the District's operating expenditures in fiscal year 2015-16.
- Capital outlay costs are proposed to be \$249,100 in fiscal year 2015-16. The most significant proposed capital purchases include \$140,000 to replace five trucks, \$30,000 for additional adulticiding equipment and \$20,000 for equipment calibration system.

The District's total fund balance is estimated to increase by \$1.7 million as of June 30, 2016.

## **Requests for Information**

This financial report is designed to provide a general overview of the financial position of the Orange County Mosquito and Vector Control District for all those with an interest in the District's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Administrative Services Department, 13001 Garden Grove Boulevard, Garden Grove, CA 92843.

ORANGE COUNTY MOSQUITO AND VECTOR CONTROL DISTRICT

STATEMENT OF NET POSITION

June 30, 2015

	<u>Governmental Activities</u>
<b>ASSETS:</b>	
Cash and investments	\$ 12,261,092
Receivables:	
Accounts	21,796
Taxes	78,520
Loans	6,468
Accrued interest	7,041
Due from other governments	100,804
Inventory	96,858
Net OPEB asset	949,012
Capital assets, not being depreciated	2,080,419
Capital assets, net of depreciation	<u>3,151,620</u>
 TOTAL ASSETS	 <u>18,753,630</u>
 <b>DEFERRED OUTFLOWS OF RESOURCES:</b>	
Deferred amount from pension	<u>483,044</u>
 <b>LIABILITIES:</b>	
Accounts payable	92,870
Accrued liabilities	327,255
Claims liability	100,000
Deposits payable	33,585
Compensated absences, due within one year	158,908
Noncurrent liabilities:	
Compensated absences, due in more than one year	322,630
Pension-related debt, due in more than one year	305,542
Net pension liability	<u>1,112,227</u>
 TOTAL LIABILITIES	 <u>2,453,017</u>
 <b>DEFERRED INFLOWS OF RESOURCES:</b>	
Deferred amounts from pension	<u>399,847</u>
 <b>NET POSITION:</b>	
Net investment in capital assets	5,232,039
Unrestricted	<u>11,151,771</u>
 TOTAL NET POSITION	 <u><u>\$ 16,383,810</u></u>

See accompanying notes to the basic financial statements.

ORANGE COUNTY MOSQUITO AND VECTOR CONTROL DISTRICT

STATEMENT OF ACTIVITIES

For the year ended June 30, 2015

Functions/programs	Expenses	Program Revenues			Net (Expense)
		Charges for Services	Operating Contributions and Grants	Capital Contributions and Grants	Revenue and Changes in Net Position
					Governmental Activities
<b>Governmental activities:</b>					
General government	\$ 2,986,091	\$ 368,006	\$ -	\$ -	\$ (2,618,085)
Health and sanitation	7,525,594	178,413			(7,347,181)
Interest on pension-related debt	107,175	-	-	-	(107,175)
Total governmental activities	<u>\$ 10,618,860</u>	<u>\$ 546,419</u>	<u>\$ -</u>	<u>\$ -</u>	<u>(10,072,441)</u>

General revenues:

Taxes:

Property taxes, levied for general purpose	10,994,857
Investment income	28,379
Miscellaneous	<u>122,212</u>

Total general revenues 11,145,448

Change in net position before special item 1,073,007

Special item:

Net gain resulting from differences in actual activity and actuarial assumptions related to pension-related debt (Note 7)	<u>2,576,068</u>
---	------------------

Change in net position 3,649,075

Net Position at Beginning of Year, as Restated (Note 11) 12,734,735

Net Position at End of Year \$ 16,383,810

See accompanying notes to the basic financial statements.

ORANGE COUNTY MOSQUITO AND VECTOR CONTROL DISTRICT

BALANCE SHEET - GOVERNMENTAL FUNDS

June 30, 2015

	General	Special Revenue Fund Facilities Improvement	Total Governmental Funds
<b>ASSETS</b>			
Cash and investments	\$ 11,267,746	\$ 993,346	\$ 12,261,092
Receivables:			
Accounts	21,796	-	21,796
Taxes	78,520	-	78,520
Loans	6,468	-	6,468
Accrued interest	7,041	-	7,041
Due from other governments	100,804	-	100,804
Inventory	96,858	-	96,858
<b>TOTAL ASSETS</b>	<b>\$ 11,579,233</b>	<b>\$ 993,346</b>	<b>\$ 12,572,579</b>
<b>LIABILITIES AND FUND BALANCES</b>			
<b>LIABILITIES:</b>			
Accounts payable	\$ 90,313	\$ 2,557	\$ 92,870
Accrued liabilities	327,255	-	327,255
Claims liability	100,000	-	100,000
Deposits payable	-	33,585	33,585
<b>TOTAL LIABILITIES</b>	<b>517,568</b>	<b>36,142</b>	<b>553,710</b>
<b>FUND BALANCES:</b>			
Nonspendable:			
Inventory	96,858	-	96,858
Committed to:			
Retiree medical insurance	171,030	-	171,030
Retirement contingency	1,050,933	-	1,050,933
Vehicle replacement	646,819	-	646,819
Liability reserve	405,759	-	405,759
Equipment replacement	357,642	-	357,642
Emergency vector control	890,099	-	890,099
Habitat remediation	186,731	-	186,731
Facilities improvement	-	957,204	957,204
Environmental	7,397	-	7,397
Unassigned	7,248,397	-	7,248,397
<b>TOTAL FUND BALANCES</b>	<b>11,061,665</b>	<b>957,204</b>	<b>12,018,869</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 11,579,233</b>	<b>\$ 993,346</b>	<b>\$ 12,572,579</b>

See accompanying notes to the basic financial statements.

ORANGE COUNTY MOSQUITO AND VECTOR CONTROL DISTRICT

RECONCILIATION OF THE BALANCE SHEET OF  
GOVERNMENTAL FUNDS TO THE STATEMENT OF NET POSITION

June 30, 2015

Fund balances - total governmental funds	\$ 12,018,869
Amounts reported for governmental activities in the Statement of Net Position are different because:	
Capital assets net of depreciation have not been included as financial resources in the governmental fund activity.	5,232,039
Long-term liabilities are not available to pay for current-period expenditures and, therefore, are not reported in the governmental funds. Long-term liabilities consist of the following:	
Compensated absences	(481,538)
Pension-related debt	(305,542)
Net pension liability	(1,112,227)
Governmental funds report all OPEB contributions as expenditures, however, in the Statement of Net Position any excesses or deficiencies in contributions in relation to the Annual Required Contribution (ARC) are recorded as an asset or liability.	949,012
Pension related deferred outflows of resources, net of accumulated amortization, have not been reported in the governmental funds:	
Employer contributions subsequent to the measurement date	483,044
Pension related deferred inflows of resources, net of accumulated amortization, have not been reported in the governmental funds:	
Difference in projected and actual earnings on investments	(373,759)
Changes in proportion and differences between employer contributions and the proportionate share of contributions	(26,088)
Net position of governmental activities	<u><u>\$ 16,383,810</u></u>

See accompanying notes to the basic financial statements.

ORANGE COUNTY MOSQUITO AND VECTOR CONTROL DISTRICT

STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS

For the year ended June 30, 2015

	General	Special Revenue Fund Facilities Improvement	Total Governmental Funds
<b>REVENUES:</b>			
Taxes	\$ 10,994,857	\$ -	\$ 10,994,857
Intergovernmental	88,388	-	88,388
Charges for services	90,025	-	90,025
Investment income	25,837	2,542	28,379
Rental income	38,580	329,426	368,006
Miscellaneous	122,212	-	122,212
<b>TOTAL REVENUES</b>	<b>11,359,899</b>	<b>331,968</b>	<b>11,691,867</b>
<b>EXPENDITURES:</b>			
Current:			
General government	2,411,095	194,780	2,605,875
Health and sanitation	7,571,969	-	7,571,969
Capital outlay	176,305	-	176,305
<b>TOTAL EXPENDITURES</b>	<b>10,159,369</b>	<b>194,780</b>	<b>10,354,149</b>
<b>EXCESS OF REVENUES OVER EXPENDITURES</b>	<b>1,200,530</b>	<b>137,188</b>	<b>1,337,718</b>
<b>FUND BALANCES AT BEGINNING OF YEAR</b>	<b>9,861,135</b>	<b>820,016</b>	<b>10,681,151</b>
<b>FUND BALANCES AT END OF YEAR</b>	<b>\$ 11,061,665</b>	<b>\$ 957,204</b>	<b>\$ 12,018,869</b>

See accompanying notes to the basic financial statements.

ORANGE COUNTY MOSQUITO AND VECTOR CONTROL DISTRICT

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES

June 30, 2015

Net change in fund balances - total governmental funds \$ 1,337,718

Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the costs of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period:

Capital outlay	231,874
Depreciation	(303,412)
Loss on sale of capital assets	(6,861)

Compensated absences expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. (76,382)

Deletions to pension related debt (due to differences in actual activity as compared to actuarial assumptions) are reported as revenues in the Statement of Activities but do not require the use of current financial resources and, therefore, are excluded from governmental fund expenditures. 2,576,068

Interest expense for pension related debt is reported as an expense in the Statement of Activities but does not require the use of current financial resources and, therefore, is excluded from governmental fund expenditures. (107,175)

Governmental funds report contributions to the OPEB plan as expenditures when paid, however, in the Statement of Activities, the OPEB cost is the expense. (55,420)

Pension expense reported in the governmental funds includes the actual contributions made in the fiscal year. Pension expense reported in the Statement of Activities includes the changes in the net pension liability and pension related deferred outflows/inflows of resources.

Change in net pension liability	407,475
Change in deferred outflows of resources related to pensions	45,037
Change in deferred inflows of resources related to pensions	(399,847)

Change in net position of governmental activities \$ 3,649,075

See accompanying notes to the basic financial statements.

ORANGE COUNTY MOSQUITO AND VECTOR CONTROL DISTRICT

BUDGETARY COMPARISON STATEMENT BY DEPARTMENT

GENERAL FUND

For the year ended June 30, 2015

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
FUND BALANCE				
AT BEGINNING OF YEAR	\$ 9,861,135	\$ 9,861,135	\$ 9,861,135	\$ -
RESOURCES (INFLOWS):				
Taxes	10,637,700	10,813,850	10,994,857	181,007
Intergovernmental	35,000	88,388	88,388	-
Charges for services	110,000	71,400	90,025	18,625
Investment income	13,400	13,400	25,837	12,437
Rental income	36,000	36,000	38,580	2,580
Miscellaneous	5,000	18,000	122,212	104,212
TOTAL RESOURCES (INFLOWS)	10,837,100	11,041,038	11,359,899	318,861
CHARGES TO APPROPRIATIONS (OUTFLOWS):				
Current:				
General government:				
Trustees	48,750	48,750	43,289	5,461
District Manager	327,485	339,985	333,519	6,466
Legal services	80,000	105,000	137,889	(32,889)
Nondepartmental	203,200	771,100	842,155	(71,055)
Administrative services	652,770	652,770	619,908	32,862
Insurance	491,350	440,450	434,335	6,115
Health and sanitation:				
Technical services	1,206,760	1,269,610	1,283,563	(13,953)
Field operations	4,859,040	4,955,540	4,890,972	64,568
Vehicle maintenance	564,960	573,760	457,925	115,835
Building maintenance	158,080	161,580	163,571	(1,991)
Public information	400,645	437,823	317,153	120,670
Information technology	331,610	366,610	310,269	56,341
Public service	148,765	148,765	140,824	7,941
Habitat Remediation	50,000	50,000	7,692	42,308
Capital outlay	218,000	217,577	176,305	41,272
TOTAL CHARGES TO APPROPRIATIONS (OUTFLOWS)	9,741,415	10,539,320	10,159,369	379,951
EXCESS OF RESOURCES OVER CHARGES TO APPROPRIATIONS	1,095,685	501,718	1,200,530	698,812
FUND BALANCE				
AT END OF YEAR	\$ 10,956,820	\$ 10,362,853	\$ 11,061,665	\$ 698,812

See accompanying notes to the basic financial statements.

ORANGE COUNTY MOSQUITO AND VECTOR CONTROL DISTRICT

BUDGETARY COMPARISON STATEMENT

FACILITIES IMPROVEMENT SPECIAL REVENUE FUND

For the year ended June 30, 2015

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
FUND BALANCE				
AT BEGINNING OF YEAR	\$ 820,016	\$ 820,016	\$ 820,016	\$ -
RESOURCES (INFLOWS):				
Investment income	2,100	2,100	2,542	442
Rental income	320,000	320,000	329,426	9,426
TOTAL RESOURCES (INFLOWS)	322,100	322,100	331,968	9,868
CHARGES TO APPROPRIATIONS (OUTFLOWS):				
Current:				
General government	75,500	174,224	194,780	(20,556)
TOTAL CHARGES TO APPROPRIATIONS (OUTFLOWS)	75,500	174,224	194,780	(20,556)
EXCESS OF RESOURCES OVER CHARGES TO APPROPRIATIONS	246,600	147,876	137,188	(10,688)
FUND BALANCE				
AT END OF YEAR	\$ 1,066,616	\$ 967,892	\$ 957,204	\$ (10,688)

See accompanying notes to the basic financial statements.

ORANGE COUNTY MOSQUITO AND VECTOR CONTROL DISTRICT

STATEMENT OF FIDUCIARY NET POSITION

June 30, 2015

	<u>Other Post-Employment Benefit (OPEB) Trust Fund</u>
ASSETS:	
Cash and investments	<u>\$ 2,874,621</u>
TOTAL ASSETS	<u>2,874,621</u>
NET POSITION:	
Held in trust for OPEB benefits	<u>2,874,621</u>
TOTAL NET POSITION	<u><u>\$ 2,874,621</u></u>

See accompanying notes to basic financial statements.

ORANGE COUNTY MOSQUITO AND VECTOR CONTROL DISTRICT

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION

For the year ended June 30, 2015

	Other Post-Employment Benefit (OPEB) Trust Fund
ADDITIONS:	
Investment income	\$ 72,635
TOTAL ADDITIONS	<u>72,635</u>
DEDUCTIONS:	
Benefits	111,205
Administrative expense	<u>16,926</u>
TOTAL DEDUCTIONS	<u>128,131</u>
CHANGE IN NET POSITION	(55,496)
NET POSITION - BEGINNING OF YEAR, AS RESTATED (NOTE 11)	<u>2,930,117</u>
NET POSITION - END OF YEAR	<u><u>\$ 2,874,621</u></u>

See accompanying notes to basic financial statements.

# ORANGE COUNTY MOSQUITO AND VECTOR CONTROL DISTRICT

## NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2015

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

#### a. Description of Reporting Entity:

The Orange County Mosquito Abatement District was formed in 1947, in accordance with Division 3, Chapter 5, of the California Health and Safety Code. By resolution of the Board of Trustees, the name of the District was changed to Orange County Vector Control District, effective January 1, 1976, and to Orange County Mosquito and Vector Control District effective January 15, 2015. The District encompasses all of Orange County. The governing power of the District is vested in a Board of Trustees, consisting of one member appointed by the Orange County Board of Supervisors for the County at large and one member appointed by each City Council within the District. Members are appointed and serve a two to four year term and are provided \$100 per monthly meeting attended in lieu of travel expenses.

#### b. Government-wide and Fund Financial Statements:

##### **Government-wide Financial Statements:**

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the activities of the District, except for its fiduciary activities. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. The District has no business-type activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

##### **Fund Financial Statements:**

The underlying accounting system of the District is organized and operated on the basis of separate funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, deferred outflows of resources, liabilities, deferred inflows of resources, fund equity, revenues and expenditures or expenses, as appropriate. District resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

ORANGE COUNTY MOSQUITO AND VECTOR CONTROL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

b. Government-wide and Fund Financial Statements (Continued):

**Fund Financial Statements (Continued):**

The fund financial statements provide information about the District's funds. Separate financial statements for the government's governmental funds are presented after the Government-wide Financial Statements. These statements display information about major funds individually.

The District reports the following major governmental funds:

The General Fund is used to account for all financial activity in the District except for that which is required to be accounted for in other funds.

The Facilities Improvement Special Revenue Fund is used to account for the collection of rents on District properties and the expending of this revenue source on building and facility rehabilitation and development needs.

The fiduciary fund financial statements include a Statement of Fiduciary Net Position and a Statement of Changes in Fiduciary Net Position. The District's other post-employment benefit (OBEP) trust fund accounts for the activity of the District's plan for post-retirement medical benefits.

c. Measurement Focus and Basis of Accounting:

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as current financial resources or economic resources. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as is the other post-employment benefit trust fund. Under the economic resources measurement focus, all (both current and long-term) economic resources and obligations are reported in the government-wide financial statements. Under the accrual basis of accounting, revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

ORANGE COUNTY MOSQUITO AND VECTOR CONTROL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

c. Measurement Focus and Basis of Accounting (Continued):

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under the current financial resources measurement focus, current assets, deferred outflows of resources, current liabilities and deferred inflows of resources are generally included on the balance sheets. The reported fund balance is considered to be a measure of “available spendable resources”. Governmental fund financial statements present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in fund balance. Accordingly, they are said to present a summary of sources and uses of “available spending resources” during a period.

Under the modified accrual basis of accounting, revenues are recognized as soon as they are both measurable and available. Measurable means that amounts can be estimated, or otherwise determined. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, are recorded only when payment is due.

Property taxes, rental income, charges for services and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the District.

d. New Accounting Pronouncements:

**GASB Current Year Standards:**

In fiscal year 2014-2015, the District implemented Governmental Accounting Standards Board (GASB) Statement No. 68, “*Accounting and Financial Reporting for Pensions, an Amendment of GASB Statement No. 27*” and GASB Statement No. 71, “*Pension Transition for Contributions Made Subsequent to the Measurement Date, an Amendment of GASB Statement No. 68*”. These Statements establish standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expenses. For defined benefit pension plans, these Statements identify the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. Accounting changes adopted to conform to the provisions of these statements should be applied retroactively. The result of the implementation of these standards decreased the net position at July 1, 2014 by \$1,081,695 in the statement of net position.

ORANGE COUNTY MOSQUITO AND VECTOR CONTROL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

d. New Accounting Pronouncements (Continued):

**GASB Current Year Standards (Continued):**

GASB Statement No. 69 - "*Government Combinations and Disposals of Government Operations*" was required to be implemented in the current fiscal year and did not impact the District.

**GASB Pending Accounting Standards:**

GASB has issued the following statements which may impact the District's financial reporting requirements in the future.

- GASB 72 - "*Fair Value Measurement and Application*", effective for periods beginning after June 15, 2015.
- GASB 73 - "*Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*", effective for periods beginning after June 15, 2015 - except for those provisions that address employers and governmental nonemployer contributing entities for pensions that are not within the scope of Statement 68, which are effective for periods beginning after June 15, 2016.
- GASB 74 - "*Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*", effective for periods beginning after June 15, 2016.
- GASB 75 - "*Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*", effective for periods beginning after June 15, 2017.
- GASB 76 - "*The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*", effective for periods beginning after June 15, 2015.

e. Investments:

Investments are reported at the fair market value, which represents the quoted or stated market value. All investment income, including changes in the fair value of investments, is recognized as revenue in the operating statement.

ORANGE COUNTY MOSQUITO AND VECTOR CONTROL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

f. Receivables:

Management has determined that all receivables are collectible for the year ended June 30, 2015.

g. Inventory:

The District's inventory consists of chemicals used in the abatement of vectors within the County of Orange. The inventory has been valued using the first-in, first-out cost method.

h. Capital Assets:

Capital assets that include land, structures and improvements, equipment and furniture, and vehicles, are reported in the government-wide financial statements. Capital assets are defined by the District as assets with an initial cost of more than \$3,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

<u>Asset</u>	<u>Useful Life</u>
Structures and improvements	30 years
Equipment and furniture	5 to 20 years
Vehicles	8 to 10 years

i. Deferred Outflows/Inflows of Resources:

In addition to assets, the Statement of Net Position and the Governmental Funds Balance Sheet will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to future periods and so will not be recognized as an outflow of resources (expense/expenditure) until that time. The District has one item that qualifies for reporting in this category. That item is the deferred outflow related to pensions. This amount is equal to employer contributions made after the measurement date of the net pension liability.

ORANGE COUNTY MOSQUITO AND VECTOR CONTROL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

i. Deferred Outflows/Inflows of Resources (Continued):

In addition to liabilities, the Statement of Net Position and the Governmental Funds Balance Sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to future periods and will not be recognized as an inflow of resources (revenue) until that time. The District has two items that qualify for reporting in this category. The first item is a deferred inflow related to pensions resulting from the difference in projected and actual earnings on investments of the pension plan fiduciary net position. This amount is amortized over five years. The second item is a deferred inflow related to pensions for the changes in proportion and differences between employer contributions and the proportionate share of contributions. This amount is amortized over a closed period equal to the average of the expected remaining services lives of all employees that are provided with pensions through the Plans determined as of June 30, 2013 (the beginning of the measurement period ended June 30, 2014), which is 3.8 years.

j. Claims and Judgments:

When it is probable that a claim liability has been incurred and the amount of the loss can be reasonably estimated, the District records the loss, net of any insurance coverage. The District recorded \$100,000 of claims liability in the fiscal year ended June 30, 2015 in statement of activities and the balance sheet – governmental funds.

k. Compensated Absences:

Compensated absences (vacation, compensatory time off and sick leave) are reported as expenditures in the general fund when paid. Any remaining unpaid liability at year-end is recorded on the Statement of Net Position since such obligation is not payable with currently available financial resources, and paid by resources in the District’s General Fund.

Upon termination, the District is obligated to compensate employees the earned, but unused vacation and compensatory time. Unused sick leave is not paid out by the District except as allowed in specific employee contracts.

The change in the District’s compensated absences liability during the year ended June 30, 2015 consisted of the following:

	Balance at July 1, 2014	Additions	Deletions	Balance at June 30, 2015	Due Within One Year
Compensated absences	<u>\$ 405,156</u>	<u>\$ 527,557</u>	<u>\$ (451,175)</u>	<u>\$ 481,538</u>	<u>\$ 158,908</u>

ORANGE COUNTY MOSQUITO AND VECTOR CONTROL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

l. Net Position:

The financial statements utilize a net position presentation. Net position is categorized as follows:

Net Investment in Capital Assets - This component of net position consists of capital assets, net of accumulated depreciation and reduced by any debt outstanding against the acquisition, construction or improvement of those assets.

Restricted Net Position - This component of net position consists of constraints placed on net position use through external constraints imposed by creditors, grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation. The District has no restricted net position.

Unrestricted Net Position - This component of net position consists of net position that does not meet the definition of “net investment in capital assets” or “restricted”.

Sometimes the District will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted - net position and unrestricted - net position in the government-wide, a flow assumption must be made about the order in which the resources are considered to be applied.

It is the District’s practice to consider restricted - net position to have been depleted before unrestricted - net position is applied.

m. Fund Equity:

In the fund financial statements, governmental funds report the following fund balance classifications:

Nonspendable include amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact.

Restricted include amounts that are constrained on the use of resources by either (a) external creditors, grantors, contributors, or laws of regulations of other governments or (b) by law through constitutional provisions or enabling legislation.

ORANGE COUNTY MOSQUITO AND VECTOR CONTROL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

m. Fund Equity (Continued):

Committed include amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the District's highest authority, Board of Trustees. The formal action that is required to be taken to establish, modify, or rescind a fund balance commitment is a resolution.

Assigned include amounts that are constrained by the District's intent to be used for specific purposes, but are neither restricted nor committed. The District Manager is authorized to assign amounts to a specific purpose, which was established by the governing body in the Fund Balance Policy.

Unassigned include the residual amounts that have not been restricted, committed, or assigned to specific purposes.

Restricted amounts are to be considered spent when an expenditure is incurred for purposes for which the restricted fund balance is available. Committed, assigned, and unassigned amounts are considered to have been spent when an expenditure is incurred for purposes for which amounts in any of those unrestricted fund balance classifications can be used.

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balances are available, the District's policy is to apply restricted fund balance first. When an expenditure is incurred for purposes for which committed, assigned or unassigned fund balances are available, the District's policy is to apply committed fund balance first, then assigned fund balance, and finally unassigned fund balance.

n. Property Taxes:

Property taxes attach as an enforceable lien on property as of January 1. Taxes are levied on July 1, and are payable in two installments on November 1 and February 1, and become delinquent December 11 and April 11. The County bills and collects the property taxes and remits them to the District in installments during the year. District property tax revenues are recognized when levied to the extent that they result in current receivables.

The County is permitted by State law (Proposition 13) to levy taxes at 1 % of full market value (at time of purchase) and can increase the assessed values no more than 2% per year. The District receives a share of this basic levy proportionate to what was received in the 1976 to 1978 period.

ORANGE COUNTY MOSQUITO AND VECTOR CONTROL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

o. Pensions:

For purposes of measuring the net pension liability and deferred outflows/inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the District's California Public Employees' Retirement System (CalPERS) plans (Plans) and additions to/deductions from the Plans' fiduciary net position have been determined on the same basis as they are reported by CalPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

p. Use of Estimates:

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from the estimates.

2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY:

**Budgetary Data:**

The District adopts an itemized budget statement of anticipated revenues, estimated operating expenditures and reserve requirements for the General Fund and Facilities Improvement Special Revenue Fund and files it with the County Auditor's office annually. The sources of financing operating costs and reserve requirements are: (1) available balance carried forward from the preceding year, (2) property taxes, (3) interest, and (4) other miscellaneous items. The legal level of control is by department.

**Excess of Expenditures Over Appropriations:**

Excess of expenditures over appropriations by department in individual funds is as follows:

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
Major Funds:			
General Fund:			
Legal services	\$ 105,000	\$ 137,889	\$ (32,889)
Nondepartmental	771,100	842,155	(71,055)
Technical services	1,269,610	1,283,563	(13,953)
Building maintenance	161,580	163,571	(1,991)
Facilities Improvement Special Revenue Fund:			
General government	174,224	194,780	(20,556)

ORANGE COUNTY MOSQUITO AND VECTOR CONTROL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2015

3. CASH AND INVESTMENTS:

**Cash and Investments:**

Cash and investments as of June 30, 2015 are classified in the accompanying financial statements as follows:

	Government Wide Statement of <u>Net Position</u>	Fiduciary Fund Statement of <u>Net Position</u>	<u>Total</u>
Cash and investments	\$ <u>12,261,092</u>	\$ <u>2,874,621</u>	\$ <u>15,135,713</u>

Cash and investments consist of deposits and investments, as noted below:

	<u>District Funds</u>	<u>OBEP Trust</u>	<u>Total</u>
Deposits with financial institutions	\$ 717,572	\$ -	\$ 717,572
Investments	<u>11,543,520</u>	<u>2,874,621</u>	<u>14,418,141</u>
Total cash and investments	\$ <u>12,261,092</u>	\$ <u>2,874,621</u>	\$ <u>15,135,713</u>

**Investments Authorized by the California Government Code and the District's Investment Policy:**

The District's Investment Policy is reviewed and adopted by the Board of Trustees each year. Investment vehicles not specifically mentioned in the District's investment policy, are not authorized unless the policy is amended by the Board of Trustees. The table below identifies the investment types that are authorized for the District by the California Government Code (or the District's investment policy, where more restrictive). The table also identifies certain provisions of the California Government Code (or the District's investment policy, where more restrictive) that address interest rate risk, credit risk, and concentration of credit risk. This table does not address investments of the employer contributions to the other post-employment benefit trust that are governed by the trust agreement.

ORANGE COUNTY MOSQUITO AND VECTOR CONTROL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2015

3. CASH AND INVESTMENTS (CONTINUED):

**Cash and Investments (Continued):**

**Investments Authorized by the California Government Code and the District's Investment Policy (Continued):**

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum Percentage of Portfolio</u>	<u>Maximum Investment in One Issuer</u>
United States Treasury Issues	5 years	None	None
Federal Agency Issues	5 years	None	50%
Banker's Acceptances	180 days	40%	30%
Certificates of Deposit	5 years	None	None
Local Agency Investment Fund (LAIF)	N/A	None	N/A
Passbook Savings Account	None	None	None
Orange County Investment Pool (OCIP)	N/A	None	None
Money Market Mutual Fund	N/A	20%	10%

N/A - Not Applicable

**Interest Rate Risk:**

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The District's investment policy states that at no time will more than 50% of the District's funds be invested longer than one year. Purchases greater than two years will meet the following requirements and restrictions:

1. The security must be a U.S. Treasury Note or Bond, or Federal Agency Issue.
2. A maximum of 25% of the District's invested funds can be invested in securities over two years.
3. No securities can be purchased by the District with a maturity greater than five years unless matched to a specific cash flow or asset acquisition.

ORANGE COUNTY MOSQUITO AND VECTOR CONTROL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2015

3. CASH AND INVESTMENTS (CONTINUED):

**Interest Rate Risk (Continued):**

As of June 30, 2015, the District had the following investments and original maturities:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Remaining Maturity 6 Months or Less</u>
California Local Agency Investment Fund	\$ 9,930,019	\$ 9,930,019
Orange County Investment Pool (OCIP)	1,613,501	1,613,501
Money Market Mutual Funds - OPEB Trust	<u>2,874,621</u>	<u>2,874,621</u>
	<u>\$ 14,418,141</u>	<u>\$ 14,418,141</u>

**Disclosures Relating to Credit Risk:**

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The District's investments in the California Local Agency Investment Fund, Orange County Investment Pool, and Money Market Mutual Funds - OPEB Trust are not rated.

**Concentration of Credit Risk:**

The District's investment policy imposes restrictions for certain types of investments with any one issuer beyond that stipulated by the California Government Code; however, external investment pools are excluded from this requirement. At June 30, 2015, the District's investments consisted entirely of investments in external investment pools (including the OPEB Trust).

**Custodial Credit Risk:**

Custodial credit risk for *deposits* is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for *investments* is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party.

ORANGE COUNTY MOSQUITO AND VECTOR CONTROL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2015

3. CASH AND INVESTMENTS (CONTINUED):

**Custodial Credit Risk (Continued):**

The California Government Code and the District's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110 percent of the total amount deposited by the public agencies. California law also allows financial institutions to secure District deposits by pledging first trust deed mortgage notes having a value of 150 percent of the secured public deposits. At June 30, 2015, the District deposits (bank balances) were insured by the Federal Deposit Insurance Corporation up to \$250,000 or collateralized as required under California Law.

**District Investments in State Investment Pool and County Investment Pool:**

The District is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California. LAIF is overseen by the Local Agency Investment Advisory Board, which consists of five members, in accordance with State statute. The State Treasurer's Office audits the fund annually. The District is also a voluntary participant in the Orange County Investment Pool (OCIP) that is regulated by California Government Code and the Orange County Board of Supervisors under the oversight of the County of Orange Treasury Oversight Committee. The fair value of the District's investments in these pools is reported in the accompanying financial statements at amounts based upon the District's pro-rata share of the fair value provided by LAIF and OCIP for each respective portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF and OCIP, which are recorded on an amortized cost basis.

**Cash and Investments - Other Post-Employment Benefit (OPEB) Trust:**

The District established a trust account with Public Agency Retirement Services (PARS) to hold assets that are legally restricted for use in administering the District's other post-employment benefit (OPEB) health plan. The OPEB Trust's specific cash and investments are managed by a third-party portfolio manager under guidelines approved by the District.

ORANGE COUNTY MOSQUITO AND VECTOR CONTROL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2015

3. CASH AND INVESTMENTS (CONTINUED):

**Cash and Investments - Other Post-Employment Benefit (OPEB) Trust (Continued):**

Those guidelines are as follows:

Risk Tolerance:	Moderate
Time Horizon:	Long-Term
Income or Liquidity Needs:	As Requested
Account of Trust Restrictions:	None
Unique Needs and Circumstances:	None
Investment Objective:	Moderate Index Plus
Strategic Ranges:	0% - 20% Cash 40% - 60% Fixed Income 40% - 60% Equity

Acceptable Investments:

The following is a list of acceptable investments for the OPEB Trust:

Equity Securities:	Fixed Income Mutual Funds:
Domestic	Corporate
American Depository Receipts (ADRs)	Government
Equity Mutual Funds:	High Yield
Large Cap Growth and Value	International and Emerging Market
Mid Cap Core	Convertible
Small Cap Growth and Value	Preferred
International and Emerging Markets	Closed End Funds
REITs	Cash and Cash Equivalents:
Exchange Traded Funds (ETFs)	Money Market Mutual Fund
Fixed Income Securities:	Commercial Paper
Government/Agencies	CDs and Bankers Acceptance
Mortgage Backed Bonds	
Corporate Bonds and Notes	
Unit Trusts	

ORANGE COUNTY MOSQUITO AND VECTOR CONTROL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2015

3. CASH AND INVESTMENTS (CONTINUED):

**Cash and Investments - Other Post-Employment Benefit (OPEB) Trust (Continued):**

Fixed Income Guidelines:

The fixed income guidelines consist of (a) the long-term fixed income investments (greater than seven years in maturity) shall constitute no more than 20%, and as little as 0% of the total Plan assets, (b) the intermediate-term fixed income investments (between three and seven years in maturity) shall constitute no more than 60%, nor less than 20% of the total Plan assets, (c) the high-yield portion of the Plan shall constitute no more than 10%, and as little as 0% of the total Plan assets, (d) the convertible bond exposure shall constitute no more than 10%, and as little as 0% of the total Plan assets, and (e) the short-term fixed income investments (between one and three years in maturity) shall constitute no more than 20%, and as little as 0% of the total Plan assets.

Equity Guidelines:

The equity guidelines consist of (a) the domestic large cap equity investments of the Plan shall constitute no more than 50% nor less than 20% of the total Plan assets, (b) the domestic mid-capitalization equity investments of the Plan shall constitute no more than 20%, and as little as 0% of the total Plan assets, (c) the domestic small capitalization equity investments of the Plan shall constitute no more than 20%, nor less than 0% of the total Plan assets, (d) the international equity investments of the Plan shall constitute no more than 20% and as little as 0% of the total Plan assets, and (e) the real estate investments of the Plan shall constitute no more than 10%, and as little as 0% of the total Plan assets.

ORANGE COUNTY MOSQUITO AND VECTOR CONTROL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2015

4. CAPITAL ASSETS:

Capital assets activity for the year ended June 30, 2015 is as follows:

	Balance at July 1, 2014	Additions	Deletions	Balance at June 30, 2015
Capital assets, not being depreciated:				
Land	\$ 2,010,329	\$ -	\$ -	\$ 2,010,329
CIP	<u>-</u>	<u>70,090</u>	<u>-</u>	<u>70,090</u>
Total capital assets, not being depreciated	<u>2,010,329</u>	<u>70,090</u>	<u>-</u>	<u>2,080,419</u>
Capital assets, being depreciated:				
Structures and improvements	4,548,177	-	-	4,548,177
Equipment and furniture	619,264	110,021	-	729,285
Vehicles	<u>1,786,077</u>	<u>51,763</u>	<u>(45,095)</u>	<u>1,792,745</u>
Total capital assets, being depreciated	<u>6,953,518</u>	<u>161,784</u>	<u>(45,095)</u>	<u>7,070,207</u>
Less accumulated depreciation for:				
Structures and improvements	(2,038,197)	(116,701)	-	(2,154,898)
Equipment and furniture	(474,916)	(49,176)	-	(524,092)
Vehicles	<u>(1,140,296)</u>	<u>(137,535)</u>	<u>38,234</u>	<u>(1,239,597)</u>
Total accumulated depreciation	<u>(3,653,409)</u>	<u>(303,412)</u>	<u>38,234</u>	<u>(3,918,587)</u>
Total capital assets, being depreciated, net	<u>3,300,109</u>	<u>(141,628)</u>	<u>(6,861)</u>	<u>3,151,620</u>
Governmental Activity capital assets, net	<u>\$ 5,310,438</u>	<u>\$ (71,538)</u>	<u>\$ (6,861)</u>	<u>\$ 5,232,039</u>

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental Activities:	
General government	<u>\$ 303,412</u>

ORANGE COUNTY MOSQUITO AND VECTOR CONTROL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2015

5. DEFERRED COMPENSATION PLAN:

The District offers its employees a deferred compensation plan in accordance with Internal Revenue Code Section 457 whereby employees authorize the District to withhold funds from their wages to be invested in individual savings accounts and other investments. Funds may be withdrawn by participants at termination of employment or retirement. Pursuant to Section 457, the District established trusts in which all assets are held by ICMA Retirement Corporation and Nationwide Retirement Solutions. All assets are held for the exclusive benefit of the plan participants and their beneficiaries and the assets shall not be diverted for any other purpose. Each participant directs the investments of their respective accounts and the District has no liability for any losses that may be incurred. Pursuant to federal legislation, the Section 457 plan assets were placed in trust for the exclusive benefit of all employees and their beneficiaries and are not available to the creditors of the District. For this reason, the assets and related liabilities of the plan are not included in the financial records of the District and are not included in the accompanying financial statements.

6. SELF-INSURANCE PROGRAM:

The District is a member of the Vector Control Joint Powers Agency (Agency).

**Description of Joint Powers Agency:**

The Agency is comprised of California member districts and is organized under a Joint Powers Agreement pursuant to the California Government Code. The purpose of the Agency is to arrange and administer programs of insurance for the pooling of specific self-insurance limits and purchase excess insurance coverage above those limits. Each member District is represented on the Board of Directors. Officers of the Agency are elected annually by the Board members.

**Self-insurance Programs of the Agency:**

Liability and Workers' Compensation

Periodic deposits/expenditures are paid by member districts and are adjusted retrospectively to cover actual costs. Each member district has a specific retention level. The Orange County Mosquito and Vector Control District has a retention level of \$25,000 for general liability, automobile liability, and errors of omissions, and \$50,000 for workers' compensation and pays 100% of all losses incurred under those amounts. The District does not share or pay for losses of other districts under their retention level. Losses of \$50,000 to \$500,000 are pooled among all participating districts for workers' compensation and losses in excess of \$25,000 to \$1,000,000 for general liability. These limits are covered by excess insurance purchased by the Agency to a limit of \$17,000,000 for general liability and Statutory coverage plus \$5,000,000 for workers' compensation. There were no instances in the past three years where a settlement exceeded the District's coverage, and no significant reductions in the insurance have occurred.

ORANGE COUNTY MOSQUITO AND VECTOR CONTROL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2015

7. RETIREMENT PLANS:

A. CalPERS Defined Benefit Pension Plans:

a. General Information about the Pension Plans:

Plan Descriptions:

All qualified permanent and probationary employees are eligible to participate in the District's 2.0% at 55 (Tier I), 2.0% at 60 (Tier II), and 2.0% at 62 (Tier III PEPPRA) Miscellaneous Employee Pension Plans, cost-sharing multiple employer defined benefit pension plans administered by the California Public Employees' Retirement System (CalPERS). Benefit provisions under the Plans are established by State statute and District resolution. CalPERS issues publicly available reports that include a full description of the pension plans regarding benefit provisions, assumptions and membership information that can be found on the CalPERS website.

Benefits Provided:

CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service, equal to one year of full time employment. Members with five years of total service are eligible to retire at age fifty (50) with statutorily reduced benefits. All members are eligible for non-industrial disability benefits after five (5) years of service. The death benefit is one of the following: the Basic Death Benefit, the 1957 Survivor Benefit, or the Optional Settlement 2W Death Benefit. The cost of living adjustments for each plan are applied as specified by the Public Employees' Retirement Law.

The Plans' provisions and benefits are summarized as follows:

	Miscellaneous		
	Tier I Prior to July 13, 2012	Tier II On or After July 13, 2012	Tier III - PEPPRA On or After January 1, 2013
Hire date			
Benefit formula	2% @55	2% @60	2% @62
Benefit vesting schedule	5 years of service	5 years of service	5 years of service
Benefit payments	monthly for life	monthly for life	monthly for life
Retirement age	50 - 63	50 - 63	52 - 67
Monthly benefits, as a % of eligible compensation	1.426% to 2.418%	1.092% to 2.418%	1.0% to 2.5%
Required employee contribution rates	7%	7%	6.25%
Required employer contribution rates	10.781%	8.049%	6.25%

ORANGE COUNTY MOSQUITO AND VECTOR CONTROL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2015

7. RETIREMENT PLANS (CONTINUED):

A. CalPERS Defined Benefit Pension Plans (Continued):

a. General Information about the Pension Plans (Continued):

Contributions:

Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Funding contributions for both Plans are determined annually on an actuarial basis as of June 30 by CalPERS. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The District is required to contribute the difference between the actuarially determined rate and the contribution rate of employees.

b. Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions:

As of June 30, 2015, the District reported net pension liabilities for its proportionate shares of the net pension liability of each Plan as follows:

	Proportionate Share of Net Pension Liability
Miscellaneous	<u>\$ 1,112,227</u>

The District's net pension liability for each Plan is measured as the proportionate share of the net pension liability. The net pension liability of each of the Plans is measured as of June 30, 2014, and the total pension liability for each Plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2013 rolled forward to June 30, 2014 using standard update procedures. The District's proportionate share of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plans relative to the projected contributions of all participating employers, actuarially determined.

The District's proportionate share of the net pension liability for all Plans as of June 30, 2013 and 2014 was as follows:

	<u>Miscellaneous</u>
Proportion - June 30, 2013	0.04638%
Proportion - June 30, 2014	0.04500%
Change - Increase (Decrease)	-0.00138%

ORANGE COUNTY MOSQUITO AND VECTOR CONTROL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2015

7. RETIREMENT PLANS (CONTINUED):

A. CalPERS Defined Benefit Pension Plans (Continued):

b. Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions (Continued):

For the year ended June 30, 2015, the District recognized pension expense of \$430,379. At June 30, 2015, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Pension contributions subsequent to measurement date	\$ 483,044	\$ -
Differences between actual and expected experience	-	-
Change in assumptions	-	-
Change in employer's proportion and differences between the employer's contributions and the employer's proportionate share of contributions	-	(373,759)
Net differences between projected and actual earnings on plan investments	-	(26,088)
Total	<u>\$ 483,044</u>	<u>\$ (399,847)</u>

\$483,044 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2016. Other amounts reported as deferred inflows of resources related to pensions will be recognized as pension expense as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2016	\$ (102,757)
2017	(102,757)
2018	(100,894)
2019	(93,439)
2020	-
Thereafter	-

ORANGE COUNTY MOSQUITO AND VECTOR CONTROL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2015

7. RETIREMENT PLANS (CONTINUED):

A. CalPERS Defined Benefit Pension Plans (Continued):

b. Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions (Continued):

Actuarial Assumptions:

The total pension liabilities in the June 30, 2013 actuarial valuations were determined using the following actuarial assumptions:

	<u>Miscellaneous</u>
Valuation Date	June 30, 2013
Measurement Date	June 30, 2014
Actuarial Cost Method	Entry-Age Normal Cost Method
Actuarial Assumptions:	
Discount Rate	7.50%
Inflation	2.75%
Payroll Growth	3.00%
Projected Salary Increase	3.3% - 14.2% (1)
Investment Rate of Return	7.5% (2)
Mortality	(3)

(1) Depending on age, service and type of employment

(2) Net of pension plan investment expenses, including inflation

(3) The probabilities of mortality are derived using CalPERS' membership data for all funds. The mortality table used was developed based on CalPERS' specific data. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB. For more details on this table, please refer to the 2014 experience study report.

The underlying mortality assumptions and all other actuarial assumptions used in the June 30, 2013 valuation were based on the results of a January 2014 actuarial experience study for the period 1997 to 2011. Further details of the Experience Study can found on the CalPERS website.

ORANGE COUNTY MOSQUITO AND VECTOR CONTROL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2015

7. RETIREMENT PLANS (CONTINUED):

A. **CalPERS Defined Benefit Pension Plans (Continued):**

- b. Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions (Continued):

Discount Rate:

The discount rate used to measure the total pension liability was 7.50% for each Plan. To determine whether the municipal bond rate should be used in the calculation of a discount rate for each plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans run out of assets. Therefore, the current 7.50 percent discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long term expected discount rate of 7.50 percent will be applied to all plans in the Public Employees Retirement Fund (PERF). The stress test results are presented in a detailed report that can be obtained from the CalPERS website.

According to Paragraph 30 of Statement 68, the long-term discount rate should be determined without reduction for pension plan administrative expense. The 7.50 percent investment return assumption used in this accounting valuation is net of administrative expenses. Administrative expenses are assumed to be 15 basis points. An investment return excluding administrative expenses would have been 7.65 percent. Using this lower discount rate has resulted in a slightly higher Total Pension Liability and Net Pension Liability. CalPERS checked the materiality threshold for the difference in calculation and did not find it to be a material difference.

CalPERS is scheduled to review all actuarial assumptions as part of its regular Asset Liability Management (ALM) review cycle that is scheduled to be completed in February 2018. Any changes to the discount rate will require Board action and proper stakeholder outreach. For these reasons, CalPERS expects to continue using a discount rate net of administrative expenses for GASB 67 and 68 calculations through at least the 2017-18 fiscal year. CalPERS will continue to check the materiality of the difference in calculation until such time as a change in the methodology occurs.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class.

ORANGE COUNTY MOSQUITO AND VECTOR CONTROL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2015

7. RETIREMENT PLANS (CONTINUED):

A. CalPERS Defined Benefit Pension Plans (Continued):

- b. Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions (Continued):

Discount Rate (continued):

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Using historical returns of all the funds' asset classes, expected compound (geometric) returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

The table below reflects the long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. These rates of return are net of administrative expenses.

Asset Class	New Strategic Allocation	Real Return Years 1 - 10 (a)	Real Return Years 11+ (b)
Global Equity	47.00%	5.25%	5.71%
Global Fixed Income	19.00%	0.99%	2.43%
Inflation Sensitive	6.00%	0.45%	3.36%
Private Equity	12.00%	6.83%	6.95%
Real Estate	11.00%	4.50%	5.13%
Infrastructure and Forestland	3.00%	4.50%	5.09%
Liquidity	2.00%	-0.55%	-1.05%
Total	100.00%		

(a) An expected inflation of 2.5% used for this period

(b) An expected inflation of 3.0% used for this period

ORANGE COUNTY MOSQUITO AND VECTOR CONTROL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2015

7. RETIREMENT PLANS (CONTINUED):

A. CalPERS Defined Benefit Pension Plans (Continued):

- b. Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions (Continued):

Sensitivity of the Proportionate Share of the Net Pension Liability to Changes in the Discount Rate:

The following presents the District's proportionate share of the net pension liability for each Plan, calculated using the discount rate for each Plan, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower or 1-percentage point higher than the current rate:

	<u>Miscellaneous</u>
1% Decrease	6.50%
Net Pension Liability	\$ 1,981,645
Current Discount Rate	7.50%
Net Pension Liability	\$ 1,112,227
1% Increase	8.50%
Net Pension Liability	\$ 390,692

Pension Plan Fiduciary Net Position:

Detailed information about each pension plan's fiduciary net position is available in the separately issued CalPERS financial reports.

- c. Payable to the Pension Plan:

At June 30, 2015, the District had no outstanding amount of contributions due to the pension plan required for the year ended June 30, 2015 for the CalPERS plans.

ORANGE COUNTY MOSQUITO AND VECTOR CONTROL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2015

7. RETIREMENT PLANS (CONTINUED):

**B. Terminated OCERS Defined Benefit Pension Plan:**

Plan Description:

The Orange County Mosquito and Vector Control District participated in the Orange County Employees' Retirement System (OCERS), a cost-sharing multiple employer, defined benefit pension plan, for all employees prior to January 5, 2007. The participating entities in OCERS share proportionally in all risks and costs, including benefit costs. The District's withdrawal as of January 4, 2007, precludes the District from sharing risks and costs with other participating entities. Only the District will be held responsible for costs of its plan. OCERS was established in 1945, under the provisions of the County Employees Retirement Law of 1937, and provides members with retirement, death, disability and cost-of-living benefits. Members employed prior to September 21, 1979, are designated as Tier I members. For Tier II members employed after September 20, 1979, the County Board of Supervisors adopted certain sections of the Government code which established formulas producing reduce allowances. OCERS issues a publicly available financial report that includes financial statements and required supplementary information for the cost-sharing plans that are administered by OCERS. The report can be obtained from OCERS at 2223 Wellington Avenue, Santa Ana, California 92701.

Funding Policy:

The District was a contracting employer with the Orange County Employees Retirement System (OCERS) before it withdrew from OCERS and contracted with CalPERS to provide retirement benefits for its members with respect to service after January 4, 2007. Effective from the date of withdrawal, OCERS is only responsible for providing benefits to employees or retirees of Orange County Mosquito and Vector Control District who were members of OCERS before January 5, 2007.

Per the termination and continuing contribution agreement entered into on June 1, 2008 with OCERS and Orange County Mosquito and Vector Control District, commencing as of December 31, 2010 and at least every three years thereafter OCERS will hire an actuary to recalculate the District's Unfunded Actuarial Accrued Liability (UAAL) obligation, based on accumulated assets and liabilities attributable to the District. All District members with OCERS will be considered a "closed group" for purposes of recalculating the UAAL. Based on the recalculation, in the event that there is any new UAAL obligation required of the District, it will be satisfied within 3 years following the effective date of each recalculation, including any accrued interest. In the event there is a surplus or negative UAAL, the surplus will remain in the retirement system as a credit against any future UAAL, unless the surplus exceeds 115%, which then it may be transferred to CalPERS.

ORANGE COUNTY MOSQUITO AND VECTOR CONTROL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2015

7. RETIREMENT PLANS (CONTINUED):

B. **Terminated OCERS Defined Benefit Pension Plan (Continued):**

Accounting and Reporting:

As a result of the withdrawal from OCERS and the terms of the termination and continuing contribution agreement, the related UAAL is considered to be a pension-related debt and, as such, is accounted for as a long-term liability of the District. The outstanding liability is reported as a noncurrent liability on the government-wide financial statements. Contributions are reported as debt service payments when made.

Interest accrues on the outstanding liability at the interest rate assumption utilized in the most recent actuarial valuation.

Changes to the UAAL for the year ended June 30, 2015 were as follows:

Unfunded actuarial accrued liability as of June 30, 2014	\$ 2,774,435
Interest for the period July 1, 2014 through December 31, 2014 at a rate of 7.25%	96,487
Net decrease due to differences in actual activity as compared to actuarial assumptions (1)	(2,576,068)
Interest for the period January 1, 2015 through June 30, 2015 at a rate of 7.25%	<u>10,688</u>
Unfunded actuarial accrued liability as of June 30, 2015	<u>\$ 305,542</u>

(1) The net decrease in the UAAL was due to the following differences in actual activity as compared to actuarial assumptions and changes in actuarial assumptions utilized in the most recent actuarial valuation as of December 31, 2014:

Gain due to favorable investment returns	\$ (22,183)
Gain due to lower-than-expected salary increases	(245,347)
Gain due to mortality experience	(1,330,227)
Gain due to COLA increases lower than expected	(315,598)
Gain due to changes in actuarial assumptions	(535,065)
Gain due to other actuarial experience	<u>(127,648)</u>
	<u>\$ (2,576,068)</u>

ORANGE COUNTY MOSQUITO AND VECTOR CONTROL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2015

7. RETIREMENT PLANS (CONTINUED):

**B. Terminated OCERS Defined Benefit Pension Plan (Continued):**

Summary of Principal Actuarial Assumptions and Methods:

The unfunded actuarial accrued liability was determined using assumptions as part of the December 31, 2014 valuation using the entry age normal actuarial cost method. These assumptions included (a) 7.25% investment rate of return (net of both investment and administrative expenses), (b) projected annual salary increases that vary by duration of service and (c) 3.0% cost-of-living adjustments. Both (a) and (b) included an inflation component of 3.0%. The actuarial value of OCERS assets was determined by using the market value of assets less unrecognized returns in each of the last five years. Unrecognized return is equal to the difference between the actual and the expected return on a market value basis, and is recognized over a five-year period. The valuation value of assets is the actuarial value of assets reduced by the value of the non-valuation reserves. It should be noted that the District has previously withdrawn from OCERS, the liabilities for the District have been determined using frozen service previously accrued while at OCERS but with projected salaries at retirement for current active employees.

Beginning with the December 31, 2013 valuation, all existing UAAL layers were combined into a single layer and are being amortized over 20 years. Any increases or decreases in the UAAL that arise in future years due to actuarial gains or losses or due to changes in actuarial assumptions will be amortized over separate 20 year closed (declining) periods. It should be noted that the above amortization policy is only applicable in determining the UAAL contribution for an on-going employer. For an employer like the District that has already withdrawn from OCERS, the rate of payment to fund the UAAL is governed by its termination agreement with OCERS.

**C. PARS Defined Contribution Benefit Plan:**

Effective December 22, 2006, the Orange County Mosquito and Vector Control District adopted the Public Agency Retirement System (PARS) 457 FICA Alternative Retirement Plan for part-time, seasonal and temporary employees.

The PARS plan is solely funded by the contributions from the employees. The contribution rate is 7.50% of gross earnings for employees. Total payroll for employees covered by this plan at June 30, 2015, was \$673,812. The amount of employee contributions for the year ended June 30, 2015 was \$50,535.

ORANGE COUNTY MOSQUITO AND VECTOR CONTROL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2015

8. OTHER POST-EMPLOYMENT BENEFITS (OPEB) PLAN:

**Plan Description:**

The District sponsors the California PERS (CalPERS) Health Plan (PEMHCA). The plan assets are held in a trust account held by the Public Agency Retirement Services (PARS) that was created in July 2008. The program provides comprehensive health insurance through a variety of Health Maintenance Organization (HMO) and Preferred Provider Organization (PPO) options. Participation in PEMHCA is financed in part by the District. District members become eligible to retire and receive District-paid healthcare benefits upon attainment of age 50 and 5 years of covered PERS service. Retired members over the age of 65 may join one of the Supplemental (Medicare-coordinated) options under PEMHCA. Benefits are paid for the lifetime of the retiree. The District's basic contribution on behalf of retirees is determined under the "Unequal Contribution Method" as described in Government Code Section 22892(c), as applied to the statutory minimum contribution for active employees of \$115/month (2013), \$119/month (2014), and \$122/month (2015). The contribution on behalf of retirees is 35% of \$115 (\$40.25) for 2013, 40% of \$119 (\$47.60) for 2014, and 45% of \$122 (\$54.90) for 2015. The percentage increases each year by 5% until it reaches 100% of the statutory minimum contribution for years 2026 and later.

Below is the plan participant data as of June 30, 2015:

Retirees and beneficiaries receiving benefit	56
Active plan members	<u>27</u>
Total plan participants	<u>83</u>

In addition to the generally applicable rules described above, there are two grandfathering provisions which apply as follows:

- (1) Employees hired prior to July 1, 2009 have an additional allowance of \$234.05 added to their statutory minimum as described above. The \$234.05 represents the medical allowance as of the date the new CalPERS resolution was adopted, and is frozen for all future years.
- (2) There are a number of grandfathered retirees who transferred from the Orange County Employees' Retirement System (OCERS) Health Plan to PEMHCA in April, 2006, which is administered by CalPERS. These grandfathered retirees are eligible to receive a monthly grant equal to the greater of their 2006 monthly grant (calculated as \$399.75 per month, reduced for service less than 25 years), or the current District contribution as determined under the rules described in paragraph (1) above.

ORANGE COUNTY MOSQUITO AND VECTOR CONTROL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2015

8. OTHER POST-EMPLOYMENT BENEFITS (OPEB) PLAN (CONTINUED):

**Accounting for the Plan:**

The other post-employment benefit trust is prepared using the accrual basis of accounting. Employer contributions to the plan are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits are recognized when due and payable in accordance with the terms of each plan.

**Method Used to Value Investments:**

Investments are reported at fair value, which is determined by the mean of the most recent bid and asked prices as obtained from dealers that make markets in such securities. Securities for which market quotations are not readily available are valued at their fair value as determined by the custodian with the assistance of a valuation service.

**Funding Policy:**

The contribution requirements of plan members and the District are established and may be amended by the District, Board, and/or the employee associations. Currently, contributions are not required from plan members. Plan assets in the trust account held by PARS have an actuarial value of \$2,874,620 as of a July 1, 2015 actuarial report. The District made premium payments of \$111,205 during the 2014-2015 fiscal year, which were entirely reimbursed by funds in the PARS Trust and required retiree contributions. The purpose of the contributions was to cover the pay-as-you-go financing requirement.

**Annual OPEB Costs and Net OPEB Asset:**

As a result, the District calculated and recorded a Net OPEB Asset, representing the difference between the Annual Required Contribution (ARC) and actual contributions, as presented in the following table:

Annual required contribution		\$	44,786
Interest on net OPEB asset			(70,310)
Adjustment to annual required contribution			<u>80,944</u>
Annual OPEB cost			55,420
Premium payments made by the District	\$	111,205	
Less: Reimbursement from OPEB trust and required retiree contributions		<u>(111,205)</u>	
Actual contributions made to OPEB trust			<u>-</u>
Decrease in net OPEB asset			55,420
Net OPEB Asset - beginning of year			<u>(1,004,432)</u>
Net OPEB Asset - end of year		\$	<u><u>(949,012)</u></u>

ORANGE COUNTY MOSQUITO AND VECTOR CONTROL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2015

8. OTHER POST-EMPLOYMENT BENEFITS (OPEB) PLAN (CONTINUED):

**Annual OPEB Costs and Net OPEB Asset (Continued):**

The ARC of \$44,786, is an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis is projected to cover the annual normal cost and the amortization of unfunded actuarial liabilities (or funding excess) over an open thirty year period.

**Three-Year Trend Information:**

The District's annual OPEB cost, the actual contributions, percentage of annual OPEB cost contributed to the plan and the net OPEB asset for the year ended June 30, 2015 and the previous two years were as follows:

Fiscal Year Ended	Annual OPEB Cost	Actual Contributions (Net of Adjustments)	Percentage of Annual OPEB Cost Contributed	Net OPEB Asset (as restated)
06/30/2013	\$ 56,611	\$ -	0.00%	\$ (1,060,444)
06/30/2014	56,012	-	0.00%	(1,004,432)
06/30/2015	55,420	-	0.00%	(949,012)

**Funded Status and Funding Progress:**

As of July 1, 2015, the most recent actuarial valuation date, the plan was 104.56% funded (actuarial value of assets as a percentage of the actuarial accrued liability). The actuarial accrued liability for benefits was \$2,749,154 and the actuarial value of assets was \$2,874,620, resulting in a surplus of \$125,466. The covered payroll (annual payroll of active employees covered by the plan) was \$3,678,053, and the ratio of the UAAL to the covered payroll was (3.41)%.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about rates of employee turnover, retirement, mortality, as well as economic assumptions regarding claim costs per retiree, healthcare inflation and interest rates. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

The schedule of funding progress, presented as required supplementary information following the notes to the basic financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

ORANGE COUNTY MOSQUITO AND VECTOR CONTROL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2015

8. OTHER POST-EMPLOYMENT BENEFITS (OPEB) PLAN (CONTINUED):

**Actuarial Methods and Assumptions:**

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The unfunded actuarial accrued liability was determined using assumptions as part of the July 1, 2015 valuation using the projected unit credit actuarial cost method. These assumptions included (a) 6.5% investment rate of return (net of administrative expenses), (b) healthcare trend rates of 8% decreasing to an ultimate rate of 5% over a period of 3 years, and (c) Medical CPI of 4%. These assumptions all include an implicit inflation component of 2.5%. The actuarial value of plan assets was determined by using the market value of the PARS account as of June 30, 2015, without adjustment. The District's unfunded actuarial accrued liability is being amortized as a level dollar amount over an open period of 30 years. Any increases or decreases in UAAL that arise in future years due to actuarial gains or losses and/or changes in actuarial assumptions will be combined with the outstanding balance of the UAAL from the previous valuation and amortized over a new 30 year period.

Several factors have caused the actuarial accrued liability to increase from \$1,954,178 as calculated in the July 1, 2012 actuarial valuation to \$2,749,154 in the July 1, 2015 actuarial accrued liability. One of the most significant changes to the factors included in the actuarial valuation is the inclusion of the implicit subsidy that is required to be included in valuations beginning with July 1, 2015 fiscal year, which caused an increase to the actuarial accrued liability of \$476,093. In addition, the actuarial accrued liability increases as employees accrue more service and get closer to receiving benefits. The passage of time caused an increase in the actuarial accrued liability of \$390,816. Other actuarial valuation factors in the July 1, 2012 valuation were changed due to differences from actual results to expectations and updated information available at the time the valuation was performed, but did not have a significant impact on the actuarial accrued liability.

ORANGE COUNTY MOSQUITO AND VECTOR CONTROL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2015

9. OPERATING LEASES:

Operating leases arise from renting the District's property on Haster Street in Garden Grove, California. Initial lease terms generally range from 12 to 60 months. Future minimum rental payments to be received on non-cancelable operating leases are contractually due as follows as of June 30, 2015:

<u>Year Ending</u> <u>June 30</u>	<u>Amounts</u>
2015	\$ 111,733
2016	<u>25,024</u>
	<u>\$ 136,757</u>

Total rent revenue for the year ended June 30, 2015 was \$329,426.

10. COMMITMENTS AND CONTINGENCIES:

The District participates in certain state assisted programs. These programs are subject to program compliance audits by the grantors or their representatives. Any liability for reimbursement that may arise as the result of these audits is not believed to be material. The District holds title to certain capital assets that were purchased through these programs, and title may be delivered to the granting agency when the program is completed.

On November 20, 2014, the District entered into an agreement with Discovery Cube of Orange County, a California non-profit corporation, whereby the District pledged to contribute \$1,000,000 over three years for a public information and educational exhibit. The District paid \$500,000 in fiscal year 2014-2015. The remaining \$500,000 contribution is conditional upon certain events and eligibility requirements which had not been met as of June 30, 2015, and therefore, this remaining amount has not been accrued. On July 9, 2015, the District made a \$250,000 payment to the Discovery Cube of Orange County in accordance with the terms of the agreement.

11. RESTATEMENT OF NET POSITION:

The implementation of GASB Statement Numbers 68 and 71 requires reporting the net pension liability of the District's defined benefit pension plans in the financial statements and is applied retroactively by restating the net position as of the beginning of the fiscal year. The implementation of GASB Numbers 68 and 71 resulted in a reduction of net position by \$1,081,695 as of July 1, 2014.

ORANGE COUNTY MOSQUITO AND VECTOR CONTROL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS  
(CONTINUED)

June 30, 2015

11. RESTATEMENT OF NET POSITION (CONTINUED):

In connection with the District's Other Post-Employment Benefit (OPEB) Plan (see Note 8), a trust account was created to hold Plan assets. As a result of the level of responsibility that the District has in administering the OPEB Plan, it has been determined that the trust account should be reported in the District's financial statements as a fiduciary fund. Beginning net position of the OPEB Trust Fund as of July 1, 2014 was \$2,930,117.

12. SUBSEQUENT EVENTS:

Events occurring after June 30, 2015 have been evaluated for possible adjustments to the financial statements or disclosure as of December 17, 2015, which is the date these financial statements were available to be issued.

**REQUIRED SUPPLEMENTARY INFORMATION**

ORANGE COUNTY MOSQUITO AND VECTOR CONTROL DISTRICT  
 SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY

Last Ten Fiscal Years\*

	2015
Proportion of the net pension liability	0.01787%
Proportionate share of the net pension liability	\$ 1,112,227
Covered - employee payroll	\$ 4,479,991
Proportionate share of the net pension liability as percentage of covered - employee payroll	24.83%
Plan's fiduciary net position	\$ 5,441,367
Plan fiduciary net position as a percentage of the total pension liability	83.03%

Notes to Schedule:

Benefit Changes:

There were no changes in benefits.

Changes in Assumptions:

There were no changes in assumptions.

\* - Fiscal year 2015 was the 1st year of implementation, therefore only one year is shown.

ORANGE COUNTY MOSQUITO AND VECTOR CONTROL DISTRICT

SCHEDULE OF CONTRIBUTIONS

Last Ten Fiscal Years\*

	<u>2015</u>
Contractually required contribution (actuarially determined)	\$ 483,044
Contributions in relation to the actuarially determined contributions	<u>(483,044)</u>
Contribution deficiency (excess)	<u>\$ -</u>
Covered - employee payroll	\$ 4,479,991
Contributions as a percentage of covered - employee payroll	10.78%

Notes to Schedule:

Valuation Date 6/30/2012

Methods and Assumptions Used to Determine Contribution Rates:

Cost-sharing employers	Entry age normal cost method
Amortization method	Level percentage of payroll, closed
Remaining amortization period	20 years (2% @55), 30 years (2% @60), 30 years (2% @62)
Asset valuation method	15-year smoothed market
Inflation	2.75%
Salary increases	3.30% to 14.20% depending on age, service, and type of employment; including inflation of 2.75%
Investment rate of return	7.50%, net of pension plan investment expense, including inflation
Retirement age	50 years (2% @55 and 2% @60), 52 years (2% @62)
Mortality	Mortality assumptions are based on mortality rates resulting from the most recent CalPERS Experience Study adopted by the CalPERS Board, first used in the June 30, 2009 valuation. For purposes of the post-retirement mortality rates, those revised rates include 5 years of projected on-going mortality improvement using Scale AA published by the Society of Actuaries until June 30, 2010. There is no margin for future mortality improvement beyond the valuation date.

\* - Fiscal year 2015 was the 1st year of implementation, therefore only one year is shown.

ORANGE COUNTY MOSQUITO AND VECTOR CONTROL DISTRICT

SCHEDULE OF FUNDING PROGRESS

For the fiscal year ended June 30, 2015

**OTHER POST-EMPLOYMENT BENEFITS PLAN**

Actuarial Valuation Date	Actuarial Accrued Liability (AAL) (a)	Actuarial Value of Assets (AVA) (b)	Unfunded Actuarial Accrued Liability (Surplus) (UAAL) (a) - (b)	Funded Ratio AVA (b)/(a)	Annual Covered Payroll (c)	(Surplus) UAAL as a % of Covered Payroll [(a)-(b)]/c]
07/01/2009	\$ 3,377,688	\$ 1,445,996	\$ 1,931,692	42.81%	\$ 4,120,718	46.88%
07/01/2012	\$ 1,954,178	\$ 2,576,408	\$ (622,230)	131.84%	\$ 4,120,718	-15.10%
07/01/2015	\$ 2,749,154	\$ 2,874,620	\$ (125,466)	104.56%	\$ 3,678,053	-3.41%

**SCHEDULE OF EMPLOYER CONTRIBUTIONS**

Year Ended June 30,	Annual Required Contribution	Percentage Contributed
2010	\$ 397,333	124.50%
2011	397,333	33.22%
2012	397,333	71.40%
2013	44,786	0.00%
2014	44,786	0.00%
2015	44,786	0.00%

INDEPENDENT AUDITORS' 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*

Board of Trustees  
Orange County Mosquito and Vector Control District  
Garden Grove, California

We have audited, in accordance with the 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, the financial statements of the governmental activities and each major fund of the Orange County Mosquito and Vector Control District (the District) as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated December 17, 2015.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, 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 or other matters that are required to be reported under *Government Auditing Standards*.

## **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*White Nelson Dick Evans LLP*

Irvine, California  
December 17, 2015