

**ORANGE COUNTY MOSQUITO AND
VECTOR CONTROL DISTRICT**

BASIC FINANCIAL STATEMENTS

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

FISCAL YEAR ENDED JUNE 30, 2018

ORANGE COUNTY MOSQUITO AND VECTOR CONTROL DISTRICT

For the Fiscal Year Ended June 30, 2018

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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 the aggregate remaining fund information of the Orange County Mosquito and Vector Control District (the District), as of and for the year ended June 30, 2018, 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 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 the aggregate remaining fund information of the District as of June 30, 2018 and the respective changes in financial position and the respective budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Notes 1d and 11 to the financial statements, the District adopted Governmental Accounting Standards Board's Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which required retrospective application resulting in a reduction of previously reported net position. Our opinions are not modified with respect to this matter.

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 - pension, the schedule of changes in the net OPEB liability and related ratios, the schedule of contributions - OPEB, and the annual money - weighted return on investments - OPEB 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 February 19, 2019, 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 Nick Evans LLP

Irvine, California
February 19, 2019

ORANGE COUNTY MOSQUITO AND VECTOR CONTROL DISTRICT

Management's Discussion and Analysis
June 30, 2018

This section of the financial statements of the Orange County Mosquito and Vector Control District (District) is management's narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2018. 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 2016-17 and FY 2017-18. All increases and decreases are expressed relative to FY 2016-17 amounts.

Government-wide Financial Statements

- At the close of the fiscal year, the assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$20.7 million (net position). Of this amount, \$15.5 million may be used to meet the District's ongoing obligations to citizens and creditors (unrestricted net position).
- As of July 1, 2017, net position was restated with a reduction of \$0.8 million as a result of adjusting the Other Post-Employment Benefits (OPEB) liability by implementing Governmental Accounting Standards Board Statement No. 75. Refer to Notes to Basic Financial Statements No. 1(d) and No. 11 for additional information on this restatement.
- The District's revenues of \$14.6 million exceeded expenses of \$13.3 million, resulting in an increase to net position of \$1.3 million from the year's activities.

Fund Financial Statements

- As of June 30, 2018, the District's governmental funds reported an ending fund balance of \$16.3 million, an increase of \$0.8 million over the prior year. Of this amount, \$6.7 million is available for spending at the District's discretion (unassigned fund balance).

Overview of the Basic Financial Statements

This discussion and analysis serves 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, 2018

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 governmental accounting 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. All of the District's funds are reported within two categories: governmental funds and fiduciary funds.

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-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.

ORANGE COUNTY MOSQUITO AND VECTOR CONTROL DISTRICT

Management's Discussion and Analysis
June 30, 2018

In previous years, the District reported two governmental funds – the General Fund and the Facilities Improvement Special Revenue Fund. The Facilities Improvement Special Revenue Fund no longer qualifies as a separate fund for reporting purposes, and as of July 1, 2017, the District transferred the fund balance of the Facilities Improvement Special Revenue Fund to the General Fund. All of the District's governmental activity is reported in the General Fund for FY 2017-18. The District adopts an annual appropriated budget for the General Fund, and a budgetary comparison statement has been provided 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 19.

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 21.

Government-wide Financial Analysis

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

	30-Jun-17**	30-Jun-18
Current and other assets	\$16,076,500	\$17,846,376
Net OPEB asset	653,117	-
Capital assets	5,038,957	5,181,625
Total assets	21,768,574	23,028,001
Deferred outflows	1,673,555	1,752,777
Total deferred outflows	1,673,555	1,752,777
Long-term liabilities	2,525,210	3,423,878
Other liabilities	599,977	608,483
Total liabilities	3,125,187	4,032,361
Deferred inflows	152,479	89,026
Total deferred inflows	152,479	89,026
Net investment in capital assets	5,038,957	5,181,625
Unrestricted	15,125,506	15,477,766
Total net position	\$20,164,463	\$20,659,391

** Prior year information has not been restated for prior period adjustments.

ORANGE COUNTY MOSQUITO AND VECTOR CONTROL DISTRICT

Management's Discussion and Analysis
June 30, 2018

At June 30, 2018, assets and deferred outflows exceed liabilities and deferred inflows, resulting in a net position of \$20.7 million. This is an increase of \$1.3 million from the restated net position of \$19.4 million at June 30, 2017. The excess of revenues over expenses will be analyzed in conjunction with the Statement of Activities.

The District's net position is comprised of two categories: net investment in capital assets and unrestricted net position.

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 25 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 net position: The remainder of the District's net position is categorized as unrestricted, totaling \$15.5 million or 75 percent of total net position. Unrestricted net position may be used to meet the District's ongoing obligations to citizens and creditors.

Following is a summary of the government-wide Statement of Activities. This table illustrates the \$1.3 million increase in the District's net position resulting from revenues of \$14.6 million exceeding expenses of \$13.3 million. Discussion regarding significant changes in revenue and expenses follows the table.

Changes in Net Position – Governmental Activities

	30-Jun-17**	30-Jun-18
Program revenues:		
Charges for services	\$ 293,225	\$ 223,197
Rental income	341,873	306,250
Operating contributions and grants	93,938	194,939
General revenues:		
Property taxes and assessments	13,147,070	13,624,287
Interest income	65,366	138,917
Other revenues	19,912	73,060
Total revenues	13,961,384	14,560,650
Expenses:		
General government	3,393,537	2,716,436
Health and sanitation	8,695,093	10,565,796
Total expenses	12,088,630	13,282,232
Increase/(decrease) in net position	1,872,754	1,278,418
Net position - July 1	18,291,709	20,164,463
Restatement for OPEB liability	-	(783,490)
Net position - June 30	\$20,164,463	\$20,659,391

** Prior year information has not been restated for prior period adjustments.

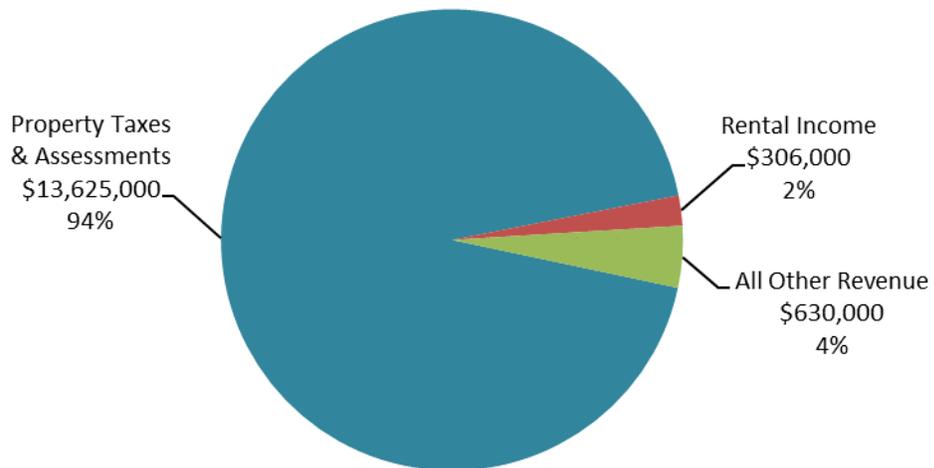
ORANGE COUNTY MOSQUITO AND VECTOR CONTROL DISTRICT

Management's Discussion and Analysis
June 30, 2018

Key elements of the changes in revenues and expenses include:

- Total revenues increased by \$0.6 million, mainly a result of 1) an additional \$0.1 million in state grant revenues received for Zika-related treatment and 2) an additional \$0.5 million in property tax revenues as a result of increased property values. The District's benefit assessments were assessed at the same rate in FY 2016-17 and FY 2017-18.
- Total expenses increased by \$1.2 million mainly due to the following reasons:
 - Pension expense increased by \$0.4 million due to changes in the prior year estimate of the pension true-up costs for the District's closed plan with OCERS.
 - Retiree medical insurance costs increased by \$0.1 million due to not drawing from the OPEB trust in FY 2017-18 for the year's pay-as-you-go plan payments.
 - District-wide personnel costs increased by \$0.6 million from implementation of the second year of a three-year labor agreement.

Revenues by Source - Government-wide

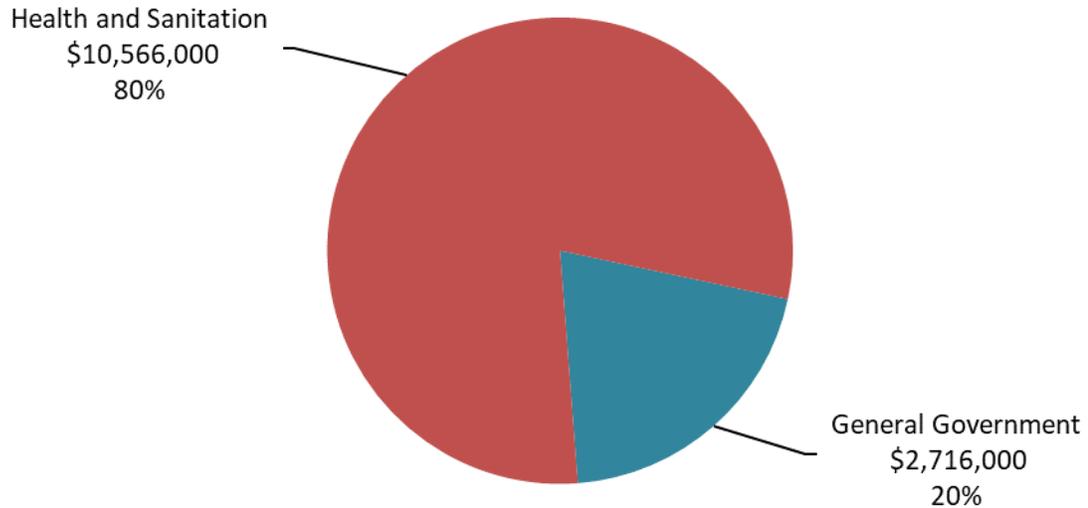


As identified in the revenue graph, nearly all of the District's revenues (94 percent) come from the District's share of the ad valorem property tax and property tax assessments. Of the \$13.6 million property tax and assessment revenue, 47 percent is from the District's share of the ad valorem property tax and the remaining 53 percent is from the District's property tax benefit assessments. In FY 2017-18 the benefit assessment rate remained the same for Assessment District No. 1 at \$1.92 per parcel and for Assessment District No. 2 at \$6.72 per parcel.

ORANGE COUNTY MOSQUITO AND VECTOR CONTROL DISTRICT

Management's Discussion and Analysis
June 30, 2018

Expenses by Function - Government-wide



The District's expenses totaled \$13.3 million in fiscal year 2017-18. Of that total, \$10.6 million (80 percent) was for health and sanitation purposes while the remainder was for general administrative functions of the District.

During fiscal year 2017-18, the District's Health and Sanitation functional expense category had \$418,000 of program revenues (\$223,000 of charges for services and \$195,000 of operating grants); the General Government functional expense category had \$306,000 of program revenues (charges for services – rental income on District property).

Financial Analysis of the District's Funds

In previous years, the District reported two governmental funds – the General Fund and the Facilities Improvement Special Revenue Fund. The Facilities Improvement Special Revenue Fund no longer qualifies as a separate fund for reporting purposes, and as of July 1, 2017, the District transferred the fund balance of the Facilities Improvement Special Revenue Fund to the General Fund. All of the District's governmental activity is reported in the General Fund for FY 2017-18. Consequently, the remainder of this section will reference the activity and balances of the District's sole fund, the General Fund.

The focus of 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 funds reported an ending fund balance of \$16.3 million, an increase of \$0.8 million over the prior year. Revenues of \$14.4 million exceeded expenditures of \$13.6 million.

ORANGE COUNTY MOSQUITO AND VECTOR CONTROL DISTRICT

Management's Discussion and Analysis

June 30, 2018

Approximately 41 percent (\$6.7 million) of the ending fund balance constitutes unassigned fund balance, which means it is available for spending at the District's discretion. The remainder of the ending fund balance is categorized as nonspendable (1 percent of total fund balance) or committed (58 percent of total fund balance), indicating that it is not available for new spending because it has already been designated as:

Nonspendable

Inventory	\$ 114,288
Prepaid items & computer loans	10,767

Committed

Retiree medical insurance	41,677
Retirement contingency	1,164,366
Liability reserve	344,083
Emergency vector control	1,611,814
Habitat remediation	96,902
Facilities improvement	6,235,047

At the end of the current fiscal year the unassigned fund balance of the General Fund was \$6,668,942 while the total fund balance was \$16,287,886. As a measure of liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. The unassigned fund balance represents 49 percent of the year's expenditures while the total fund balance represents 119 percent of expenditures.

Fund balance increased in fiscal year 2017-18 by \$0.8 million while in the prior year, fund balance increased by \$2.3 million. The \$1.5 million decrease from FY 2016-17 was a result of \$2.0 million higher expenditures in FY 2017-18 offset by \$0.5 million higher revenues in FY 2017-18. The main reasons that expenditures were higher in FY 2017-18 are 1) a fund expenditure of \$0.8 million was recorded for the current pension liability due to OCERS for the closed plan true-up costs and 2) District-wide personnel cost increases from implementing cost adjustments as outlined in the second year of a three-year labor agreement. The main reason that current year revenues were higher is due to higher property tax revenue as a result of a rise in assessed value.

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. During the course of the year, the Board of Trustees amended the District's originally adopted expenditure budget by \$90,600.

The General Fund balance reflected a positive net budget variance of \$972,800 when comparing actual amounts to the final budget for the current fiscal year. This amount reflects a positive variance of \$409,500 in revenues and a positive variance of \$563,300 in expenditures. The positive revenue variance mainly resulted from actual revenues exceeding the budget for property and assessment taxes. The positive expenditure variance resulted from actual expenditures being less than the final budget in all divisions except for Facilities Improvements, Public Service, Retiree Medical Insurance, Retirement Contingency, and Habitat Remediation.

ORANGE COUNTY MOSQUITO AND VECTOR CONTROL DISTRICT

Management's Discussion and Analysis
June 30, 2018

Capital Asset and Debt Administration

Capital assets. The District's capital assets for governmental activities as of June 30, 2018, total \$5,181,625, net of accumulated depreciation. This is a net increase of \$142,668 from June 30, 2017. The capital assets include land, structure and improvements, equipment and furniture, and vehicles. Capital asset additions totaled \$404,270 and depreciation expense totaled \$253,882. Capital asset disposals resulted in a loss of \$7,720. 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.

Capital Assets, net of depreciation

	30-Jun-17	30-Jun-18
Land	\$ 2,010,329	\$ 2,010,329
Structures and improvements	2,159,877	2,043,176
Equipment and furniture	318,143	530,637
Vehicles	550,608	597,483
Total	\$ 5,038,957	\$ 5,181,625

Long-term debt. At the end of the current fiscal year, the District had total debt outstanding of \$3,423,878. 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. Information on the net OPEB liability can be found in Note 8 of the Notes to Basic Financial Statements.

Outstanding Debt

	30-Jun-17**	30-Jun-18
Employee compensated absences	\$ 447,499	\$ 471,911
Pension-related debt	556,381	847,641
Net pension liability	1,521,330	1,948,055
Net OPEB liability	-	156,271
Total	\$ 2,525,210	\$ 3,423,878

** Prior year information has not been restated for prior period adjustments.

Economic Factors and Next Year's Budget

The District's overall revenues for FY 2018-19 are budgeted to be \$14.9 million while expenditures are budgeted to be \$15.6 million. These budgetary expectations reflect the continuation of program enhancements of the Aedes Response Team, the West Nile Virus Strike Team, expansion of the underground storm drain teams, and the implementation of the education and outreach programs. The FY 2018-19 budget includes a proposed revision to the fund balance reserve policy whereby an additional \$500,000 will be added to the facilities improvement fund balance commitment.

ORANGE COUNTY MOSQUITO AND VECTOR CONTROL DISTRICT

Management's Discussion and Analysis

June 30, 2018

The majority of the funding for the District's programs comes from property taxes and assessments:

- Property taxes are budgeted at \$5.9 million, anticipating only a small increase from the prior year.
- Assessments for Assessment District No. 1 will remain at \$1.92 per parcel and are projected to yield \$1.5 million.
- Assessments for Assessment District No. 2 will be raised from \$6.72 to \$7.48 per parcel and are projected to yield \$6.3 million.

The state grant program for Zika-related treatments is not continuing, but all other revenues are expected to remain generally stable with the prior fiscal year.

FY 2018-19 is the third year of the three-year labor agreement, and personnel costs are anticipated to increase to \$10.2 million in accordance with the agreement and are estimated to account for 74 percent of the District's operating expenditures in fiscal year 2018-19.

Capital outlay costs are budgeted to be \$230,500 for vehicles and equipment and \$315,000 for facility improvements in fiscal year 2018-19. The most significant proposed capital purchases include \$115,000 for vehicle replacements/additions, \$82,000 for computer and security equipment, \$115,000 for repaving the parking lot, and \$200,000 for a new roof on the Haster Business Park (HBP) facility.

The District's total fund balance is estimated to be \$15.4 million as of June 30, 2019.

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, 2018

	Governmental Activities
ASSETS:	
Cash and investments	\$ 17,354,001
Receivables:	
Accounts	54,910
Taxes	88,394
Accrued interest	44,365
Due from other governments	179,651
Loans	3,265
Prepaid costs	7,502
Inventory	114,288
Capital assets, not being depreciated	2,010,329
Capital assets, net of depreciation	<u>3,171,296</u>
 TOTAL ASSETS	 <u>23,028,001</u>
DEFERRED OUTFLOWS OF RESOURCES:	
Deferred amounts from OPEB plan	28,042
Deferred amounts from pension plans	<u>1,724,735</u>
 TOTAL DEFERRED OUTFLOWS OF RESOURCES	 <u>1,752,777</u>
LIABILITIES:	
Accounts payable	390,459
Accrued liabilities	188,198
Unearned revenue	193
Deposits payable	29,633
Noncurrent liabilities:	
Due within one year:	
Compensated absences	155,731
Pension-related debt	847,641
Due in more than one year:	
Compensated absences	316,180
Net OPEB liability	156,271
Net pension liability	<u>1,948,055</u>
 TOTAL LIABILITIES	 <u>4,032,361</u>
DEFERRED INFLOWS OF RESOURCES:	
Deferred amounts from pension plans	<u>89,026</u>
NET POSITION:	
Net investment in capital assets	5,181,625
Unrestricted	<u>15,477,766</u>
 TOTAL NET POSITION	 <u><u>\$ 20,659,391</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, 2018

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
Governmental activities:					
General government	\$ 2,716,436	\$ 306,250	\$ -	\$ -	\$ (2,410,186)
Health and sanitation	10,565,796	223,197	194,939	-	(10,147,660)
Total governmental activities	<u>\$ 13,282,232</u>	<u>\$ 529,447</u>	<u>\$ 194,939</u>	<u>\$ -</u>	<u>(12,557,846)</u>
General revenues:					
Taxes:					
Property taxes and assessments, levied for general purpose					13,624,287
Investment income					138,917
Miscellaneous					<u>73,060</u>
Total general revenues					<u>13,836,264</u>
Change in net position					1,278,418
Net Position at Beginning of Year, as Restated					<u>19,380,973</u>
Net Position at End of Year					<u>\$ 20,659,391</u>

See accompanying notes to the basic financial statements.

ORANGE COUNTY MOSQUITO AND VECTOR CONTROL DISTRICT

BALANCE SHEET - GOVERNMENTAL FUNDS

June 30, 2018

	General	Special Revenue Fund Facilities Improvement	Total Governmental Funds
ASSETS			
Cash and investments	\$ 17,354,001	\$ -	\$ 17,354,001
Receivables:			
Accounts	54,910	-	54,910
Taxes	88,394	-	88,394
Accrued interest	44,365	-	44,365
Due from other governments	179,651	-	179,651
Loans	3,265	-	3,265
Prepaid costs	7,502	-	7,502
Inventory	114,288	-	114,288
TOTAL ASSETS	\$ 17,846,376	\$ -	\$ 17,846,376
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES			
LIABILITIES:			
Accounts payable	\$ 390,459	\$ -	\$ 390,459
Accrued liabilities	188,198	-	188,198
Unearned revenue	193	-	193
Deposits payable	29,633	-	29,633
Pension-related debt (current)	847,641	-	847,641
TOTAL LIABILITIES	1,456,124	-	1,456,124
DEFERRED INFLOWS OF RESOURCES:			
Unavailable revenues	102,366	-	102,366
FUND BALANCES:			
Nonspendable:			
Prepaid costs	7,502	-	7,502
Inventory	114,288	-	114,288
Loans	3,265	-	3,265
Committed:			
Retiree medical insurance	41,677	-	41,677
Retirement contingency	1,164,366	-	1,164,366
Liability reserve	344,083	-	344,083
Emergency vector control	1,611,814	-	1,611,814
Habitat remediation	96,902	-	96,902
Facilities improvements	6,235,047	-	6,235,047
Unassigned	6,668,942	-	6,668,942
TOTAL FUND BALANCES	16,287,886	-	16,287,886
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	\$ 17,846,376	\$ -	\$ 17,846,376

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, 2018

Fund balances - total governmental funds	\$ 16,287,886
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 funds' activity.	5,181,625
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	(471,911)
Certain revenues in the governmental funds are deferred inflows of resources because they are not collected within the prescribed time period after year-end. However, these revenues are included in the government-wide statements.	102,366
Pension and OPEB related debt applicable to the District's governmental activities are not due and payable in the current period and, accordingly, are not reported as fund liabilities. Deferred outflows of resources and deferred inflows of resources related to pensions and OPEB are only reported in the Statement of Net Position as the changes in these amounts affects only the government-wide statements for governmental activities.	
Deferred outflows of resources related to OPEB	28,042
Net OPEB liability	(156,271)
Deferred outflows of resources related to pensions	1,724,735
Deferred inflows of resources related to pensions	(89,026)
Net pension liability	<u>(1,948,055)</u>
Net position of governmental activities	<u>\$ 20,659,391</u>

ORANGE COUNTY MOSQUITO AND VECTOR CONTROL DISTRICT

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

For the year ended June 30, 2018

	General	Special Revenue Fund Facilities Improvement	Total Governmental Funds
REVENUES:			
Taxes and assessments	\$ 13,624,287	\$ -	\$ 13,624,287
Intergovernmental	310,755	-	310,755
Charges for services	30,887	-	30,887
Investment income	138,917	-	138,917
Rental income	306,250	-	306,250
Miscellaneous	73,060	-	73,060
TOTAL REVENUES	14,484,156	-	14,484,156
EXPENDITURES:			
Current:			
General government	2,276,622	-	2,276,622
Health and sanitation	10,837,584	-	10,837,584
Capital outlay	532,715	-	532,715
TOTAL EXPENDITURES	13,646,921	-	13,646,921
EXCESS OF REVENUES OVER EXPENDITURES	837,235	-	837,235
OTHER FINANCING SOURCES (USES):			
Transfers in	1,443,668	-	1,443,668
Transfers out	-	(1,443,668)	(1,443,668)
TOTAL OTHER FINANCING SOURCES (USES)	1,443,668	(1,443,668)	-
NET CHANGE IN FUND BALANCES	2,280,903	(1,443,668)	837,235
FUND BALANCES AT BEGINNING OF YEAR	14,006,983	1,443,668	15,450,651
FUND BALANCES AT END OF YEAR	<u>\$ 16,287,886</u>	<u>\$ -</u>	<u>\$ 16,287,886</u>

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, 2018

Net change in fund balances - total governmental funds	\$ 837,235
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 are 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	404,270
Depreciation	(253,882)
Loss on sale of capital assets	(7,720)
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 the governmental funds.	(24,412)
Additions to pension related debt (due to differences in actual activity as compared to actuarial assumptions) are reported as expenses in the Statement of Activities but do not require the use of current financial resources and, therefore, are excluded from the governmental funds expenditures.	(226,343)
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 the governmental funds expenditures.	(64,917)
Reclassification of pension related debt from long-term that was only included in the governmental activities in the Statement of Activities to current, which is already included in the governmental funds expenditures.	847,641
Certain revenues in the governmental funds are deferred inflows of resources because they are not collected within the prescribed time period after year-end. However, these revenues are included in the government-wide statements.	76,494
OPEB expense reported in the governmental funds includes the insurance premiums paid. In the Statement of Activities, OPEB expense includes the change in the OPEB liability, and related change in OPEB amounts for deferred outflows of resources and deferred inflows of resources.	2,144
Pension expense reported in the governmental funds includes the annual required contributions. In the Statement of Activities, pension expense includes the change in the net pension liability, and related change in pension amounts for deferred outflows of resources and deferred inflows of resources.	(312,092)
Change in net position of governmental activities	<u>\$ 1,278,418</u>

ORANGE COUNTY MOSQUITO AND VECTOR CONTROL DISTRICT

BUDGETARY COMPARISON STATEMENT BY DEPARTMENT

GENERAL FUND

For the year ended June 30, 2018

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
FUND BALANCE				
AT BEGINNING OF YEAR	\$ 14,006,983	\$ 14,006,983	\$ 14,006,983	\$ -
RESOURCES (INFLOWS):				
Taxes and assessments	13,251,600	13,251,600	13,624,287	372,687
Intergovernmental	238,000	308,000	310,755	2,755
Charges for services	70,000	70,000	30,887	(39,113)
Investment income	113,500	113,500	138,917	25,417
Rental income	301,600	301,600	306,250	4,650
Miscellaneous	30,000	30,000	73,060	43,060
TOTAL RESOURCES (INFLOWS)	14,004,700	14,074,700	14,484,156	409,456
CHARGES TO APPROPRIATIONS (OUTFLOWS):				
Current:				
General government:				
Trustees	54,950	54,950	43,411	11,539
District Manager	383,360	383,360	378,882	4,478
Legal services	130,000	130,000	67,587	62,413
Nondepartmental	279,800	281,900	246,763	35,137
Administrative services	810,210	819,866	819,731	135
Insurance	712,500	712,500	681,930	30,570
Facilities improvements	32,500	32,500	38,318	(5,818)
Health and sanitation:				
Technical services	1,582,310	1,596,645	1,539,278	57,367
Field operations	6,944,900	6,992,195	6,152,660	839,535
Vehicle maintenance	614,440	614,440	589,009	25,431
Building maintenance	220,030	220,030	194,329	25,701
Public information	813,080	825,940	712,053	113,887
Information technology	575,700	537,700	509,212	28,488
Public service	155,920	155,920	156,981	(1,061)
Retiree medical insurance	-	-	133,323	(133,323)
Retirement contingency	-	-	847,641	(847,641)
Habitat remediation	-	-	3,098	(3,098)
Capital outlay	810,000	852,310	532,715	319,595
TOTAL CHARGES TO APPROPRIATIONS (OUTFLOWS)	14,119,700	14,210,256	13,646,921	563,335
EXCESS OF RESOURCES OVER (UNDER) CHARGES TO APPROPRIATIONS	(115,000)	(135,556)	837,235	972,791
TRANSFERS IN	1,443,668	1,443,668	1,443,668	-
FUND BALANCE				
AT END OF YEAR	\$ 15,335,651	\$ 15,315,095	\$ 16,287,886	\$ 972,791

See accompanying notes to the basic financial statements.

ORANGE COUNTY MOSQUITO AND VECTOR CONTROL DISTRICT

STATEMENT OF FIDUCIARY NET POSITION

June 30, 2018

	Other Post-Employment Benefits (OPEB) Trust Fund
ASSETS:	
Cash and investments	<u>\$ 3,080,525</u>
TOTAL ASSETS	<u>3,080,525</u>
NET POSITION:	
Held in trust for OPEB benefits	<u>3,080,525</u>
TOTAL NET POSITION	<u><u>\$ 3,080,525</u></u>

ORANGE COUNTY MOSQUITO AND VECTOR CONTROL DISTRICT

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION

For the year ended June 30, 2018

	Other Post-Employment Benefits (OPEB) Trust Fund
ADDITIONS:	
Employer contributions	\$ 157,788
Net investment income	172,915
	<hr/>
TOTAL ADDITIONS	330,703
	<hr/>
DEDUCTIONS:	
Benefits	157,788
Administrative expense	17,814
	<hr/>
TOTAL DEDUCTIONS	175,602
	<hr/>
CHANGE IN NET POSITION	155,101
	<hr/>
NET POSITION - BEGINNING OF YEAR	2,925,424
	<hr/>
NET POSITION - END OF YEAR	<u>\$ 3,080,525</u>

ORANGE COUNTY MOSQUITO AND VECTOR CONTROL DISTRICT

Notes to Basic Financial Statements

June 30, 2018

NOTE 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 (the 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. The effect of interfund activity has been eliminated from the government-wide financial statements.

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

June 30, 2018

NOTE 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 District'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 was used in prior years' to account for the collection of rents on District properties that were committed to building and facility rehabilitation and development needs. The remaining fund balance within this fund was moved to the General Fund as of July 1, 2017 due to the adoption of a fund balance policy that did not permit this fund to qualify as a special revenue fund. The activities of this fund for the fiscal year ended June 30, 2018 are shown within the General Fund.

The fiduciary fund financial statements include a statement of fiduciary net position and a statement of changes in fiduciary net position. The District's OPEB 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 fiduciary other post-employment benefits 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

June 30, 2018

NOTE 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, 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 spendable 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

Current Year Standards

Governmental Accounting Standards Board (GASB) 74 - *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, implemented by the District in fiscal year 2016-2017 that resulted in additional note disclosures and required supplementary information.

In fiscal year 2017-2018, the District implemented Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. This statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expenses for postemployment benefits other than pension. Accounting changes adopted to conform to the provisions of this statement should be applied retroactively. The result of the implementation of this statement decreased the net position at July 1, 2017 of the governmental activities by \$783,490.

ORANGE COUNTY MOSQUITO AND VECTOR CONTROL DISTRICT

Notes to Basic Financial Statements

June 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

d. New Accounting Pronouncements (Continued)

Current Year Standards (Continued)

GASB 82 - *Pension Issues*, effective for periods beginning after June 15, 2016, except for certain provisions on selection of assumptions, which are effective in the first reporting period in which the measurement date of the pension liability is on or after June 15, 2017, and did not impact the District.

GASB 85 - *Omnibus 2017*, effective for periods beginning after June 15, 2017, and did not impact the District.

GASB 86 - *Certain Debt Extinguishment Issues*, effective for periods beginning after June 15, 2017, and did not impact the District.

Pending Accounting Standards

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

- GASB 83 - *Certain Asset Retirement Obligations*, effective for periods beginning after June 15, 2018.
- GASB 84 - *Fiduciary Activities*, effective for periods beginning after December 15, 2018.
- GASB 87 - *Leases*, effective for periods beginning after December 15, 2019.
- GASB 88 - *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements*, effective for periods beginning after June 15, 2018.
- GASB 89 - *Accounting for Interest Cost Incurred before the End of a Construction Period*, effective for periods beginning after December 15, 2019.
- GASB 90 - *Majority Equity Interests – an amendment of GASB Statements No. 14 and No. 61*, effective for periods beginning after December 15, 2018.

e. Investments

Investments are reported at the fair value, which represents the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. 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

June 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

f. Receivables

Management has determined that all receivables are collectible for the year ended June 30, 2018.

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 at original cost using the first-in, first-out 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 acquisition 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 15 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) until that time. The District has the following items that qualify for reporting in this category:

- Deferred outflow related to the pension plans equal to employer contributions made after the measurement date of the net pension liability.
- Deferred outflow related to the pension plans for annual changes in employer's proportion and differences between employer contributions and the proportionate share of contributions, differences between actual and expected experience, and change in assumptions. Each annual 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.

ORANGE COUNTY MOSQUITO AND VECTOR CONTROL DISTRICT

Notes to Basic Financial Statements

June 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

i. Deferred Outflows/Inflows of Resources (Continued)

Deferred Outflows of Resources (Continued):

- Deferred outflow related to the pension and OPEB plans resulting from the annual differences in projected and actual earnings on investments of the pension plan fiduciary net position. Each annual amount is amortized over five years.

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 a future period and will not be recognized as an inflow of resources (revenue) until that time. The District has the following items that qualify for reporting in this category:

- Deferred inflow for *unavailable revenues* is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from two sources: charges for services and operating grants. This amount is deferred and recognized as an inflow of resources in the period that the amount becomes available.
- Deferred inflow related to pensions for annual differences between actual and expected experiences and change in assumptions. Each annual amount is amortized over a closed period equal to the average of the expected remaining service lives of all employees that are provided with pensions through the plans.

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.

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. At June 30, 2018, there were no employee contracts which included provisions to pay out unused sick leave.

ORANGE COUNTY MOSQUITO AND VECTOR CONTROL DISTRICT

Notes to Basic Financial Statements

June 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

k. Compensated Absences (Continued)

The change in the District's compensated absences liability during the year ended June 30, 2018 consisted of the following:

	Balance at July 1, 2017	Additions	Deletions	Balance at June 30, 2018	Due Within One Year
Compensated absences	<u>\$ 447,499</u>	<u>\$ 549,616</u>	<u>\$ (525,204)</u>	<u>\$ 471,911</u>	<u>\$ 155,731</u>

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 external constraints placed on net position 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 statements, 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 or 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

June 30, 2018

NOTE 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, the 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 General 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. In other funds, the unassigned classification is used only to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned. The unassigned fund balance classification includes the below reserves:

An operating reserve equal to two to three months (17-25%) of annual operating fund revenues. These funds are set aside to address risks facing the District related to revenue stability and expenditure volatility, including such items as economic downturns, limitations on increases to the District's benefit assessments, insurance and claims experience, and future operating needs. As of June 30, 2018, the balance in this reserve is \$2,600,000.

Vehicle and equipment replacement reserves for future vehicle and equipment replacements and improvements. This reserve will be maintained at the estimated amount of resources needed to replace assets for the next five years. Additional resources may be maintained such that the total reserves equal the amount of accumulated depreciation of assets, based on estimated replacement costs. As of June 30, 2018, the balance in the vehicle and equipment replacement reserves was \$515,454 and \$805,030, respectively.

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.

ORANGE COUNTY MOSQUITO AND VECTOR CONTROL DISTRICT

Notes to Basic Financial Statements

June 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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. OPEB Plan

For purposes of measuring the net OPEB liability and deferred outflows/inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the District's OPEB Plan and additions to/deductions from the OPEB Plans' fiduciary net position have been determined on the same basis as they are reported by the Plan. For this purpose, the District's OPEB Plan recognizes benefit payments when due and payable in accordance with the benefit terms. Investments are reported at fair value.

q. 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.

ORANGE COUNTY MOSQUITO AND VECTOR CONTROL DISTRICT

Notes to Basic Financial Statements

June 30, 2018

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Data

The District adopts an itemized budget statement of anticipated revenues, estimated operating expenditures and reserve requirements 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:

	Final Budget	Actual	Variance with Final Budget
Major Fund:			
General Fund:			
Facilities improvements	\$ 32,500	\$ 38,318	\$ (5,818)
Public service	155,920	156,981	(1,061)
Medical insurance	-	133,323	(133,323)
Retirement contingency	-	847,641	(847,641)
Habitat remediation	-	3,098	(3,098)

NOTE 3 - CASH AND INVESTMENTS

Cash and Investments

Cash and investments as of June 30, 2018 are classified in the accompanying financial statements as follows:

	Government Wide Statement of Net Position	Fiduciary Fund Statement of Net Position	Total
Cash and investments	<u>\$ 17,354,001</u>	<u>\$ 3,080,525</u>	<u>\$ 20,434,526</u>

ORANGE COUNTY MOSQUITO AND VECTOR CONTROL DISTRICT**Notes to Basic Financial Statements****June 30, 2018****NOTE 3 - CASH AND INVESTMENTS (CONTINUED)****Cash and Investments (Continued)**

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

	District Funds	OPEB Trust	Total
Deposits with financial institutions	\$ 7,696,007	\$ -	\$ 7,696,007
Investments	9,657,994	3,080,525	12,738,519
Total cash and investments	<u>\$ 17,354,001</u>	<u>\$ 3,080,525</u>	<u>\$ 20,434,526</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.

Authorized Investment Type	Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
United States Treasury Issues	5 years	None	None
Federal Agency Issues	5 years	None	50%
Bankers' Acceptances	180 days	40%	15%
Negotiable Certificates of Deposit	5 years	None	15%
Local Agency Investment Fund (LAIF)	N/A	None	N/A
Orange County Investment Pool (OCIP)	N/A	None	None
CalTRUST	N/A	None	None
Money Market Mutual Fund	N/A	20%	10%

ORANGE COUNTY MOSQUITO AND VECTOR CONTROL DISTRICT

Notes to Basic Financial Statements

June 30, 2018

NOTE 3 - CASH AND INVESTMENTS (CONTINUED)

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 and the Board of Trustees has authorized the investment no less than three months prior to the purchase.

As of June 30, 2018, the District had the following investments and original maturities:

Investment Type	Fair Value	Remaining Maturity 6 Months or Less
Local Agency Investment Fund (LAIF)	\$ 8,017,037	\$ 8,017,037
Orange County Investment Pool (OCIP)	1,640,957	1,640,957
PARS OPEB Trust Fund	3,080,525	3,080,525
Total	\$ 12,738,519	\$ 12,738,519

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 LAIF, OCIP, and PARS OPEB Trust Fund 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, 2018, the District's investments consisted entirely of investments in external investment pools (including the PARS OPEB Trust).

ORANGE COUNTY MOSQUITO AND VECTOR CONTROL DISTRICT

Notes to Basic Financial Statements

June 30, 2018

NOTE 3 - CASH AND INVESTMENTS (CONTINUED)

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.

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, 2018, 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 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 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 - PARS 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 OPEB Plan. The PARS 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

June 30, 2018

NOTE 3 - CASH AND INVESTMENTS (CONTINUED)

Cash and Investments - PARS OPEB Trust (Continued)

Those guidelines are as follows:

Risk Tolerance	Moderate
Risk Management	The portfolio is constructed to control risk through four layers of diversification - asset classes (cash, fixed income, equity), investment styles (large cap, small cap, international, value, growth), managers and securities. Disciplined mutual fund selection and monitoring process helps to drive return potential while reducing portfolio risk.
Investment Objective	To provide growth of principal and income. It is expected that dividend and interest income will comprise a significant portion of total return, although growth through capital appreciation is equally important.
Strategic Ranges	0% - 20% Cash 40% - 60% Fixed Income 40% - 60% Equity

Fair Value Measurements

The District categorizes its fair value measurement within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the relative inputs used to measure the fair value of the investments. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). Level 1 inputs are quoted prices in active markets for identical assets, Level 2 inputs are quoted prices for similar assets in active markets (significant other observable inputs), and Level 3 inputs are significant unobservable inputs.

The District's investments in the LAIF, OCIP, and PARS OPEB Trust Fund are not subject to the fair value measurement hierarchy.

ORANGE COUNTY MOSQUITO AND VECTOR CONTROL DISTRICT

Notes to Basic Financial Statements

June 30, 2018

NOTE 4 - CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2018, is as follows:

	<u>Balance at July 1, 2017</u>	<u>Additions</u>	<u>Deletions/ Transfers</u>	<u>Balance at June 30, 2018</u>
Capital assets, not depreciated:				
Land	\$ 2,010,329	\$ -	\$ -	\$ 2,010,329
Total capital assets, not depreciated	<u>2,010,329</u>	<u>-</u>	<u>-</u>	<u>2,010,329</u>
Capital assets, being depreciated:				
Structures and improvements	4,548,177	-	-	4,548,177
Equipment and furniture	917,046	265,805	(252,035)	930,816
Vehicles	<u>2,037,540</u>	<u>138,465</u>	<u>(81,755)</u>	<u>2,094,250</u>
Total capital assets, being depreciated	<u>7,502,763</u>	<u>404,270</u>	<u>(333,790)</u>	<u>7,573,243</u>
Less accumulated depreciation for:				
Structures and improvements	(2,388,300)	(116,701)	-	(2,505,001)
Equipment and furniture	(598,903)	(45,591)	244,315	(400,179)
Vehicles	<u>(1,486,932)</u>	<u>(91,590)</u>	<u>81,755</u>	<u>(1,496,767)</u>
Total accumulated depreciation	<u>(4,474,135)</u>	<u>(253,882)</u>	<u>326,070</u>	<u>(4,401,947)</u>
Total capital assets, being depreciated, net	<u>3,028,628</u>	<u>150,388</u>	<u>(7,720)</u>	<u>3,171,296</u>
Governmental activity capital assets, net	<u>\$ 5,038,957</u>	<u>\$ 150,388</u>	<u>\$ (7,720)</u>	<u>\$ 5,181,625</u>

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

Governmental Activities:

 General government \$ 253,882

ORANGE COUNTY MOSQUITO AND VECTOR CONTROL DISTRICT

Notes to Basic Financial Statements

June 30, 2018

NOTE 5 - DEFERRED COMPENSATION PLAN

The District offers its employees a defined contribution 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. No contributions are required to be made by the District. 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.

NOTE 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

General 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 District has a self-insured 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 subject to \$500,000 self-insured retention level. 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

June 30, 2018

NOTE 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 PEPR) Miscellaneous Employee Pension Plans (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 50 to 62 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 in effect for the year ended June 30, 2018, are summarized as follows:

	Miscellaneous		
	Tier I Prior to July 13, 2012	Tier II On or After July 13, 2012	Tier III - PEPR 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:			
Normal cost rate	8.921%	7.200%	6.533%
Payment of unfunded liability	\$ 56,850	\$ 41	\$ 687

ORANGE COUNTY MOSQUITO AND VECTOR CONTROL DISTRICT

Notes to Basic Financial Statements

June 30, 2018

NOTE 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 are determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. The total plan contributions are determined through CalPERS' annual actuarial valuation process. 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. District contribution rates may change if plan contracts are amended. Payments made by the employer to satisfy contribution requirements that are identified by the pension plan terms as plan member contributions requirements are classified as plan member contributions.

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

As of June 30, 2018, the District reported net pension liabilities for its proportionate share of the net pension liability of each Plan as follows:

	Proportionate Share of Net Pension Liability
Miscellaneous	<u>\$ 1,948,055</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, 2017, 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, 2016 rolled forward to June 30, 2017 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.

ORANGE COUNTY MOSQUITO AND VECTOR CONTROL DISTRICT

Notes to Basic Financial Statements

June 30, 2018

NOTE 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)

The District's proportionate share of the net pension liability for all Plans as of the measurement dates ended June 30, 2017 and 2016 was as follows:

	<u>Miscellaneous</u>
Proportion - June 30, 2016	0.04379%
Proportion - June 30, 2017	0.04942%
Change - Increase (Decrease)	0.00563%

For the year ended June 30, 2018, the District recognized pension expense of \$844,776. At June 30, 2018, 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	\$ 532,683	\$ -
Differences between actual and expected experience	3,743	(53,618)
Change in assumptions	464,360	(35,408)
Change in employer's proportion and differences between the employer's contributions and the employer's proportionate share of contributions	618,930	-
Net differences between projected and actual earnings on plan investments	105,019	-
Total	<u>\$ 1,724,735</u>	<u>\$ (89,026)</u>

ORANGE COUNTY MOSQUITO AND VECTOR CONTROL DISTRICT

Notes to Basic Financial Statements

June 30, 2018

NOTE 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)

\$532,683 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, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Year Ending June 30,	Amount
2019	\$ 462,380
2020	425,116
2021	277,881
2022	(62,351)
2023	-
Thereafter	-

ORANGE COUNTY MOSQUITO AND VECTOR CONTROL DISTRICT

Notes to Basic Financial Statements

June 30, 2018

NOTE 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

For the measurement period ended June 30, 2017 (the measurement date), the total pension liability was determined by rolling forward the June 30, 2016 total pension liability determined in the June 30, 2016 actuarial accounting valuation. The June 30, 2017 total pension liability was based on the following actuarial methods and assumptions:

Valuation Date	<u>Miscellaneous</u> June 30, 2016
Measurement Date	June 30, 2017
Actuarial Cost Method	Entry-Age Normal Cost Method
Actuarial Assumptions:	
Discount Rate	7.15%
Inflation	2.75%
Salary Increases	(1)
Mortality Rate Table	(2)
Post Retirement Benefit Increase	(3)

(1) Varies by entry age and service.

(2) 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 April 2014 experience study report (based on CalPERS demographic data from 1997 to 2011) available on the CalPERS website.

(3) Contract COLA up to 2.75% until Purchasing Power Protection Allowance Floor on Purchasing Power applies, 2.75% thereafter.

All other actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period from 1997 to 2011, including updates to salary increase, mortality and retirement rates. The Experience Study report can be obtained at the CalPERS website under Forms and Publications.

ORANGE COUNTY MOSQUITO AND VECTOR CONTROL DISTRICT

Notes to Basic Financial Statements

June 30, 2018

NOTE 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):

Change of Assumptions

In fiscal year 2017-2018, the financial reporting discount rate was reduced from 7.65% to 7.15%. Deferred outflows of resources and deferred inflows of resources for changes of assumptions represent the unamortized portion of this assumption change and the unamortized portion of the changes of assumptions related to prior measurement periods.

Discount Rate

The discount rate used to measure the total pension liability was 7.15% for each Plan and reflects the long-term expected rate of return for the each Plan net of investment expenses and without reduction for administrative expenses. 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 of the Plans, the tests revealed the assets would not run out. Therefore, the current 7.15% discount rate is appropriate and the use of the municipal bond rate calculation is not deemed necessary. The long term expected discount rate of 7.15% is applied to all plans in the Public Employees Retirement Fund (PERF). The cash flows used in the testing were developed assuming that both members and employers will make their required contributions on time and as scheduled in all future years. The stress test results are presented in a detailed report called "GASB Crossover Testing Report" that can be obtained from the CalPERS website under the GASB 68 section.

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

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 (PERF) cash flows. Taking into account historical returns of all the Public Employees Retirement Funds' asset classes (which includes the agent plan and two cost-sharing plans or PERF A, B, and C funds), 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 PERF 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.

ORANGE COUNTY MOSQUITO AND VECTOR CONTROL DISTRICT

Notes to Basic Financial Statements

June 30, 2018

NOTE 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)

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. The target allocation shown was adopted by the CalPERS Board effective on July 1, 2014.

<u>Asset Class</u>	<u>New Strategic Allocation</u>	<u>Real Return Years 1 - 10 (a)</u>	<u>Real Return Years 11+ (b)</u>
Global Equity	47.00%	4.90%	5.38%
Global Fixed Income	19.00%	0.80%	2.27%
Inflation Sensitive	6.00%	0.60%	1.39%
Private Equity	12.00%	6.60%	6.63%
Real Estate	11.00%	2.80%	5.21%
Infrastructure and Forestland	3.00%	3.90%	5.36%
Liquidity	2.00%	-0.40%	-0.90%
Total	<u>100.00%</u>		

(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

June 30, 2018

NOTE 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	6.15%
Net Pension Liability	\$ 3,478,718
Current Discount Rate	7.15%
Net Pension Liability	\$ 1,948,055
1% Increase	8.15%
Net Pension Liability	\$ 680,333

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, 2018, the District had no outstanding amount of contributions due to the pension plan required for the year ended June 30, 2018 for the CalPERS plans.

ORANGE COUNTY MOSQUITO AND VECTOR CONTROL DISTRICT

Notes to Basic Financial Statements

June 30, 2018

NOTE 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 reduced 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

June 30, 2018

NOTE 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. However, the District has determined that this balance will be paid within the next year and, as such, is accounted for as a current liability of the District. The UAAL at June 30, 2018 is \$847,641. 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, 2018 were as follows:

UAAL as of June 30, 2017	\$ 556,381
Interest for fiscal year 2017-2018 at a rate of 7.25% calculated in accordance with the timing of the amounts noted in (1) below	64,917
Net increase due to changes in actuarial assumptions (1)	226,343
UAAL as of June 30, 2018	<u>\$ 847,641</u> ⁽²⁾

⁽¹⁾ The increase in the UAAL was due to the following changes in actuarial assumptions utilized in the most recent actuarial valuation as of December 31, 2015:

UAAL as of December 31, 2015	\$ 500,623
Interest on UAAL at 7.25% for 2016	36,295
Contributions made during 2016	-
Loss due to unfavorable investment returns during 2016	231,574
Interest on UAAL at 7.25% for 2017	55,716
Contributions made during 2017	(4,296)
Gain due to favorable investment returns during 2017	(47,948)
Gain during 2016 and 2017 due to salary increases lower than expected	(533,483)
Gain during 2016 and 2017 due to COLA increases lower than expected	(530,873)
Loss during 2016 and 2017 due to other actuarial experience	(6,846)
Changes in actuarial assumptions (3)	1,118,215
UAAL as of December 31, 2017	818,977
Interest on UAAL at 7.00% for first half of 2018	28,664
UAAL as of June 30, 2018	<u>\$ 847,641</u>

⁽²⁾ The next required actuarial valuation is scheduled to be as of December 31, 2020. The unfunded actuarial accrued liability calculated at that time could differ from the current estimate.

⁽³⁾ Approximately 90% of the increase was due to changes in the mortality assumptions.

ORANGE COUNTY MOSQUITO AND VECTOR CONTROL DISTRICT

Notes to Basic Financial Statements

June 30, 2018

NOTE 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 the assumptions as part of the December 31, 2017 valuation. These assumptions differed from the previous December 31, 2015 valuation as follows:

Valuation date	December 31, 2017	December 31, 2015
Actuarial cost method	Entry age normal	Entry age normal
Asset valuation method	Smoothed market value	Smoothed market value
Investment rate of return (net of both investment and administrative expenses)	7.00%	7.25%
Projected annual salary increase	(1)	(1)
Cost-of-living adjustment	3.25%	3.50%
General inflation	2.75%	3.00%

(1) Varies by duration of service.

It should be noted that the District has previously withdrawn from OCERS, and 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 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. 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.

ORANGE COUNTY MOSQUITO AND VECTOR CONTROL DISTRICT

Notes to Basic Financial Statements

June 30, 2018

NOTE 8 - OTHER POST-EMPLOYMENT BENEFITS (OPEB) PLAN

A. Plan Description

The District has an agent multiple-employer defined benefit other post-employment benefit plan that provides post-employment benefits, including medical insurance, to eligible employees and their dependents at retirement through the California Public Employees Medical and Hospital Care Act (PEMHCA) as provided under the District's memorandum of understanding with its employees. The plan provides comprehensive health insurance through a variety of Health Maintenance Organization (HMO) and Preferred Provider Organization (PPO) options.

In July 2008, the District elected to join the PARS OPEB Trust as a means to fund the actuarially determined contribution (ADC). The PARS OPEB Trust issues a publicly available financial report for the fiduciary net position that is available upon request. The PARS OPEB Trust is reported as a fiduciary fund. The plan itself does not issue a separate financial report.

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 or may have Medicare premiums reimbursed. 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 \$128/month (2017) and \$133/month (2018). The contribution on behalf of retirees is 55% of \$128 (\$70.40) for 2017 and 60% of \$133 (\$79.80) for 2018. The percentage increases each year by 5% until it reaches 100% of the statutory minimum contribution for years 2026 and later.

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. One retiree receives an additional \$200/month.
- (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.

Retirees not in PEMHCA receive reimbursement equivalent to the lesser of the grandfathered provisions and their premium. There are several retirees receiving reimbursements for non-PEMHCA Medicare premiums less than the caps. The District also pays the PEHCA administrative fee of 0.33% of the premium in fiscal year 2017-2018.

ORANGE COUNTY MOSQUITO AND VECTOR CONTROL DISTRICT

Notes to Basic Financial Statements

June 30, 2018

NOTE 8 - OTHER POST-EMPLOYMENT BENEFITS (OPEB) PLAN (CONTINUED)

A. Plan Description (Continued)

Employees Covered

As of the measurement date June 30, 2018, the following current and former employees were covered by the benefit terms under the plan:

Inactive employees or beneficiaries currently receiving benefits	33
Inactive employees or beneficiaries entitled to but not yet receiving benefits	-
Active employees	<u>65</u>
	<u>98</u>

Contributions

Benefit provisions and contribution requirements are established and may be amended by the District's Board and/or the employee associations through agreements and memorandums of understanding between the District and its employees. Currently, contributions are not required from plan members. Administrative costs of the OPEB plan are financed through investment earnings.

The District currently finances benefits on a pay-as-you-go basis (i.e. as medical insurance premiums become due). For the fiscal year ended June 30, 2018, the District paid \$133,323 for current premiums and the estimated implied subsidy was \$24,465, resulting in total payments of \$157,788. No contributions were made to the PARS OPEB Trust for the fiscal year ended June 30, 2018.

Accounting for the Plan

The other post-employment benefits 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 in the accompanying financial statements at fair value, which represents the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. 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.

ORANGE COUNTY MOSQUITO AND VECTOR CONTROL DISTRICT

Notes to Basic Financial Statements

June 30, 2018

NOTE 8 - OTHER POST-EMPLOYMENT BENEFITS (OPEB) PLAN (CONTINUED)

B. Total OPEB Liability (Continued)

The District's total OPEB liability was measured as of June 30, 2018 and was determined by an actuarial valuation as of July 1, 2017, rolled forward to June 30, 2018 using standard update procedures. A summary of the principal assumptions and methods used to determine the total OPEB liability is shown below.

Actuarial Assumptions

The total OPEB liability in the July 1, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Valuation Date	July 1, 2017
Measurement Date	June 30, 2018
Actuarial Cost Method	Entry age normal, level percentage of payroll
Asset Valuation Method	Market value
Actuarial Assumptions:	
Discount Rate	6.50%
Long-Term Expected	
Rate of Return on Investments	6.50%, net of OPEB plan investment expense
Salary increases	3.00%
PEMHCA Minimum Increase	3.50% after 2018
General Inflation	3.00%
Medical Trend	5.00% for 2018 and later years
Mortality	Pre-retirement mortality rates were based on the RP-2014 Employee Mortality Table for Males or Females, as appropriate, without projection. Post-retirement mortality rates were based on the RP-2014 Health Annuitant Mortality Table for Males or Females, as appropriate, without projection.
Retirement and termination	Retirement and termination assumptions used were based on a review of plan experience and a best estimate of future plan experience.

ORANGE COUNTY MOSQUITO AND VECTOR CONTROL DISTRICT

Notes to Basic Financial Statements

June 30, 2018

NOTE 8 - OTHER POST-EMPLOYMENT BENEFITS (OPEB) PLAN (CONTINUED)

B. Total OPEB Liability (Continued)

Actuarial Assumptions (Continued)

The long-term expected rate of return on OPEB 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 OPEB plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. To achieve the goal set by the investment policy, OPEB plan assets will be managed to earn, on a long-term basis, a rate of return equal to or in excess of the target rate of return of 6.5%. The target allocation and best estimates of the arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
PARS OPEB Trust:		
Equities	50.00%	5.45%
Fixed Income	45.00%	1.46%
Cash	5.00%	0.06%
Total	<u>100.00%</u>	

Discount Rate

The discount rate used to measure the total OPEB liability was 6.50%. The projection of cash flows used to determine the discount rate assumed that the District's contributions will be made at rates equal to the actuarially determined contribution rates. Based on those assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected OPEB payments for current active and inactive employees and beneficiaries. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

ORANGE COUNTY MOSQUITO AND VECTOR CONTROL DISTRICT

Notes to Basic Financial Statements

June 30, 2018

NOTE 8 - OTHER POST-EMPLOYMENT BENEFITS (OPEB) PLAN (CONTINUED)

C. Changes in the Total OPEB Liability

The changes in the total OPEB liability are as follows:

	Increase (Decrease)		
	Total OPEB Liability	Plan Fiduciary Net Position	Net OPEB Liability (Asset)
Balance at June 30, 2017			
(Measurement Date)	\$ 3,055,797	\$ 2,925,424	\$ 130,373
Changes in the Year:			
Service cost	145,208	-	145,208
Interest on the total OPEB liability	193,579	-	193,579
Contributions - employer	-	157,788	(157,788)
Net investment income	-	172,915	(172,915)
Benefit payments	(157,788)	(157,788)	-
Administrative expenses	-	(17,814)	17,814
Net Changes	<u>180,999</u>	<u>155,101</u>	<u>25,898</u>
Balance at June 30, 2018			
(Measurement Date)	<u>\$ 3,236,796</u>	<u>\$ 3,080,525</u>	<u>\$ 156,271</u>

Changes of Assumptions

There were no changes of assumptions.

Change of Benefit Terms

There were no changes of benefit terms.

Subsequent Events

There were no subsequent events that would materially affect the results presented in this disclosure.

Sensitivity of the Total OPEB Liability to the Changes in the Discount Rate

The following presents the total OPEB liability of the District, as well as what the District's total OPEB 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 discount rate:

	1% Decrease (5.5%)	Discount Rate (6.5%)	1% Increase (7.5%)
Net OPEB Liability	\$ 525,666	\$ 156,271	\$ (154,798)

ORANGE COUNTY MOSQUITO AND VECTOR CONTROL DISTRICT

Notes to Basic Financial Statements

June 30, 2018

NOTE 8 - OTHER POST-EMPLOYMENT BENEFITS (OPEB) PLAN (CONTINUED)

C. Changes in the Total OPEB Liability (Continued)

Sensitivity of the Total OPEB Liability to the Changes in Medical Trend Rates

The following presents the total OPEB liability of the District, as well as what the District's total OPEB liability would be, if it were calculated using a medical trend rate that is 1-percentage point lower or 1-percentage point higher than the current medical trend rate:

	1% Decrease (4% after 2018)	Trend Rate (5% after 2018)	1% Increase (6% after 2018)
Net OPEB Liability	\$ (82,832)	\$ 156,271	\$ 448,254

D. OPEB Expense and Deferred Outflows/Inflows of Resources Related to OPEB

For the year ended June 30, 2018, the District recognized OPEB expense of \$155,644. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between projected and actual earnings	\$ 28,042	\$ -

The differences between projected and actual earnings on plan investments is amortized over five years and will be recognized as OPEB expense as follows:

Year Ending June 30,	Amount
2019	\$ 7,010
2020	7,010
2021	7,010
2022	7,012
2023	-
Thereafter	-

E. Payable to the OPEB Plan

At June 30, 2018, the District had no outstanding amount of contributions to the OPEB plan required for the year ended June 30, 2018.

ORANGE COUNTY MOSQUITO AND VECTOR CONTROL DISTRICT

Notes to Basic Financial Statements

June 30, 2018

NOTE 9 - OPERATING LEASES

Operating leases arise from renting the District's property on Haster Street in Garden Grove, California. The cost and corresponding accumulated depreciation of the building and land related to these operating leases as of June 30, 2018 is \$3,823,288 and \$(437,128), respectively. 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, 2018:

Year Ending June 30	Amounts
2019	\$ 139,055
2020	120,326
2021	<u>24,613</u>
Total	<u>\$ 283,994</u>

Total rent revenue for the year ended June 30, 2018 was \$279,012.

NOTE 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.

NOTE 11 - RESTATEMENT

Restatement of the Government-Wide financial statements' net position as of July 1, 2017 is as follows:

	Governmental Activities
Net position at July 1, 2017, as originally reported	\$ 20,164,463
Implementation of GASB Statement 75 to record the net OPEB liability as of the beginning of the year	<u>(783,490)</u>
Net position at July 1, 2017, as restated	<u>\$ 19,380,973</u>

NOTE 12 - SUBSEQUENT EVENTS

Events occurring after June 30, 2018, have been evaluated for possible adjustments to the financial statements or disclosure as of February 19, 2019, 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*

Fiscal year ended	<u>June 30, 2018</u>	<u>June 30, 2017</u>	<u>June 30, 2016</u>	<u>June 30, 2015</u>
Measurement period	June 30, 2017	June 30, 2016	June 30, 2015	June 30, 2014
Plan's proportion of the net pension liability	0.01964%	0.01758%	0.01548%	0.01787%
Plan's proportionate share of the net pension liability	\$ 1,948,055	\$ 1,521,330	\$ 1,062,408	\$ 1,112,227
Plan's covered payroll	\$ 5,003,137	\$ 4,993,576	\$ 4,479,991	\$ 4,184,192
Plan's proportionate share of the net pension liability as a percentage of its covered payroll	38.94%	30.47%	23.71%	26.58%
Plan's proportionate share of the fiduciary net position as a percentage of the Plan's total pension liability	73.31%	74.06%	78.40%	79.82%
Plan's proportionate share of aggregate employer contributions	\$ 347,347	\$ 276,937	\$ 224,563	\$ 147,143

Notes to Schedule:

Benefit Changes:

There were no changes in benefits.

Changes in Assumptions:

From fiscal year June 30, 2015 to June 30, 2016:

GASB 68, paragraph 68 states that the long-term expected rate of return should be determined net of pension plan investment expense but without reduction for pension plan administrative expense. The discount rate of 7.50% used for the June 30, 2014 measurement date was net of administrative expenses. The discount rate of 7.65% used for the June 30, 2015 measurement date is without reduction of pension plan administrative expense.

From fiscal year June 30, 2016 to June 30, 2017:

There were no changes in assumptions.

From fiscal year June 30, 2017 to June 30, 2018:

The discount rate was reduced from 7.65% to 7.15%.

* - Fiscal year 2015 was the 1st year of implementation, therefore only four years are shown.

ORANGE COUNTY MOSQUITO AND VECTOR CONTROL DISTRICT

SCHEDULE OF CONTRIBUTIONS - PENSION

Last Ten Fiscal Years*

Fiscal year ended	<u>June 30, 2018</u>	<u>June 30, 2017</u>	<u>June 30, 2016</u>	<u>June 30, 2015</u>
Contractually required contribution (actuarially determined)	\$ 532,683	\$ 451,950	\$ 431,624	\$ 483,044
Contributions in relation to the actuarially determined contributions	<u>(532,683)</u>	<u>(451,950)</u>	<u>(431,624)</u>	<u>(483,044)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered payroll	\$ 5,930,211	\$ 5,003,137	\$ 4,993,576	\$ 4,479,991
Contributions as a percentage of covered payroll	8.98%	9.03%	8.64%	10.78%

Notes to Schedule:

Valuation Date	6/30/2015	6/30/2014	6/30/2013	6/30/2012
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Methods and Assumptions Used to Determine Contribution Rates:

Cost-sharing employers	Entry age normal cost method**
Amortization method	Level percentage of payroll, closed**
Asset valuation method	Market Value***
Inflation	2.75%**
Salary increases	Depending on age, service, and type of employment**
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.**

* - Fiscal year 2015 was the 1st year of implementation, therefore only four years are shown.

** - The valuation for June 30, 2012, 2013, and 2014 (applicable to fiscal years ended June 30, 2015, 2016, and 2017 respectively) included the same actuarial assumptions.

*** - The valuation for June 30, 2012 (applicable to fiscal year ended June 30, 2015) valued assets using a 15 Year Smoothed Market method. The market value asset valuation method was utilized for the June 30, 2013, 2014, and 2015 valuations (applicable to fiscal years ended June 30, 2016, 2017, and 2018 respectively).

ORANGE COUNTY MOSQUITO AND VECTOR CONTROL DISTRICT

SCHEDULE OF CHANGES IN THE NET OPEB LIABILITY AND RELATED RATIOS

Last Ten Fiscal Years*

Fiscal year ended	<u>June 30, 2018</u>
Measurement period	June 30, 2018
Total OPEB Liability:	
Service cost	\$ 145,208
Interest on total OPEB liability	193,579
Benefit payments, including refunds and the implied subsidy benefit payments	<u>(157,788)</u>
Net Change in Total OPEB Liability	180,999
Total OPEB Liability - Beginning of Year	<u>3,055,797</u>
Total OPEB Liability - End of Year (a)	<u>3,236,796</u>
Plan Fiduciary Net Position:	
Contributions - employer	157,788
Net investment income	172,915
Administrative expenses	(17,814)
Benefit payments, including refunds and the implied subsidy benefit payments	<u>(157,788)</u>
Net Change in Plan Fiduciary Net Position	155,101
Plan Fiduciary Net Position - Beginning of Year	<u>2,925,424</u>
Plan Fiduciary Net Position - End of Year (b)	<u>3,080,525</u>
Net OPEB Liability - Ending (a)-(b)	<u>\$ 156,271</u>
Plan fiduciary net position as a percentage of the total OPEB liability	95.17%
Covered payroll	\$ 6,216,041
Net OPEB liability as percentage of covered payroll	2.51%

Notes to Schedule:

Benefit Changes:

There were no changes in benefits.

Changes in Assumptions:

The fiscal year ended June 30, 2018 is the first year of implementation; therefore, there are no previous GASB 75 actuarial reports for comparison.

* Fiscal year 2018 was the first year of implementation; therefore, only one year is shown.

ORANGE COUNTY MOSQUITO AND VECTOR CONTROL DISTRICT

SCHEDULE OF CONTRIBUTIONS - OPEB

Last Ten Fiscal Years*

Fiscal year ended	<u>June 30, 2018</u>
Contractually required contribution (actuarially determined)	\$ 152,416
Contributions in relation to the actuarially determined contributions	<u>(157,788)</u>
Contribution deficiency (excess)	<u>\$ (5,372)</u>
Covered payroll	\$ 6,216,041
Contributions as a percentage of covered payroll	2.54%

Notes to Schedule:

Valuation Date 7/1/2017

Methods and Assumptions Used to Determine Contribution Rates:

Actuarial cost method	Entry age normal, level percentage of payroll
Amortization method	Level percent of pay
Amortization period	30-years
Asset valuation method	Market value
Discount rate	6.50%
Salary increases	3.00%
PEMHCA minimum increase	3.50% after 2018
General Inflation	3.00%
Medical trend	5% for 2018 and later years
Mortality	Pre-retirement mortality rates were based on the RP-2014 Employee Mortality Table for Males or Females, as appropriate, without projection. Post-retirement mortality rates were based on the RP-2014 Health Annuitant Mortality Table for Males or Females, as appropriate, without projection.
Retirement and termination	Retirement and termination assumptions used were based on a review of plan experience and a best estimate of future plan experience.

* - Fiscal year 2018 was the 1st year of implementation, therefore only one year is shown.

ORANGE COUNTY MOSQUITO AND VECTOR CONTROL DISTRICT

ANNUAL MONEY-WEIGHTED RETURN ON INVESTMENTS - OPEB

Last Ten Fiscal Years*

<u>Fiscal Year Ended</u>	<u>Annual Money-Weighted Rate of Return, Net of Investment Expense (1)</u>
6/30/17	8.98%
6/30/18	5.95%

(1) Ten years of historical information is required by the Governmental Accounting Standards Board Statement No. 74. Fiscal year ended June 30, 2017 was the first year of implementation; therefore, only two years are presented.

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 the aggregate remaining fund information of the Orange County Mosquito and Vector Control District (the District) as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated February 19, 2019.

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
February 19, 2019