

**ORANGE COUNTY MOSQUITO AND
VECTOR CONTROL DISTRICT**

BASIC FINANCIAL STATEMENTS

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

FISCAL YEAR ENDED JUNE 30, 2020

ORANGE COUNTY MOSQUITO AND VECTOR CONTROL DISTRICT

For the Fiscal Year Ended June 30, 2020

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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, the major fund, 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, 2020, 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, 2020 and the respective changes in financial position and the respective budgetary comparison statement for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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 October 27, 2020, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

White Nelson Dick Evans LLP

Irvine, California
October 27, 2020

ORANGE COUNTY MOSQUITO AND VECTOR CONTROL DISTRICT

Management's Discussion and Analysis
June 30, 2020

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, 2020. 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 2018-19 and FY 2019-20. All increases and decreases are expressed relative to FY 2018-19 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 \$25.8 million (net position). Of this amount, \$20.7 million may be used to meet the District's ongoing obligations to citizens and creditors (unrestricted net position).
- The District's revenues of \$16.3 million exceeded expenses of \$13.6 million, resulting in an increase to net position of \$2.7 million from the year's activities.

Fund Financial Statements

- As of June 30, 2020, the District's governmental funds reported an ending fund balance of \$22.2 million, an increase of \$3.3 million over the prior year. Of this amount, \$9.3 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.

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.

ORANGE COUNTY MOSQUITO AND VECTOR CONTROL DISTRICT

Management's Discussion and Analysis
June 30, 2020

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.

All of the District's governmental activity is reported in the General Fund, and the District adopts an annual appropriated budget for the General Fund. 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.

ORANGE COUNTY MOSQUITO AND VECTOR CONTROL DISTRICT

Management's Discussion and Analysis
June 30, 2020

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-19	30-Jun-20
Current and other assets	\$19,401,738	\$22,639,140
Capital assets	5,090,938	5,089,260
Total assets	24,492,676	27,728,400
Deferred outflows	1,518,464	1,718,144
Total deferred outflows	1,518,464	1,718,144
Long-term liabilities	2,387,763	3,170,406
Other liabilities	454,313	415,594
Total liabilities	2,842,076	3,586,000
Deferred inflows	77,078	88,839
Total deferred inflows	77,078	88,839
Net investment in capital assets	5,090,938	5,089,260
Restricted	157,727	-
Unrestricted	17,843,321	20,682,445
Total net position	\$23,091,986	\$25,771,705

At June 30, 2020, assets and deferred outflows exceed liabilities and deferred inflows, resulting in a net position of \$25.8 million. This is an increase of \$2.7 million over the net position of \$23.1 million at June 30, 2019. 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 \$5.1 million, representing 20 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.

ORANGE COUNTY MOSQUITO AND VECTOR CONTROL DISTRICT

Management's Discussion and Analysis
June 30, 2020

Unrestricted net position: The remainder of the District's net position is categorized as unrestricted, totaling \$20.7 million or 80 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 \$2.7 million increase in the District's net position resulting from revenues of \$16.3 million exceeding expenses of \$13.6 million. Discussion regarding significant changes in revenue and expenses follows the table.

Change in Net Position – Governmental Activities

	30-Jun-19	30-Jun-20
Program revenues:		
Charges for services	\$ 98,380	\$ 100,643
Rental income	314,902	348,461
Operating contributions and grants	85,901	72,429
General revenues:		
Property taxes and assessments	14,740,934	15,344,833
Interest income	331,210	447,486
Other revenues	183	25,977
Total revenues	15,571,510	16,339,829
Expenses:		
General government	2,427,250	2,473,791
Health and sanitation	10,711,665	11,175,197
Interest on pension-related debt	-	11,122
Total expenses	13,138,915	13,660,110
Increase/(decrease) in net position	2,432,595	2,679,719
Net position - July 1	20,659,391	23,091,986
Net position - June 30	\$23,091,986	\$25,771,705

Overall, revenues increased by \$0.7 million while expenses increased by \$0.5 million. Key elements of the changes in revenues and expenses include:

Revenues

- An increase of \$0.3 million in property taxes resulting from an increase in ad valorem property taxes due to a rise in assessed value.
- An increase of \$0.3 million in assessment revenue resulting from a \$0.22 increase per benefit assessment during the year for Assessment District No. 2.
- An increase of \$0.1 million in interest income, mainly a result of an unrealized market value gain at year-end which was reported as part of investment income.

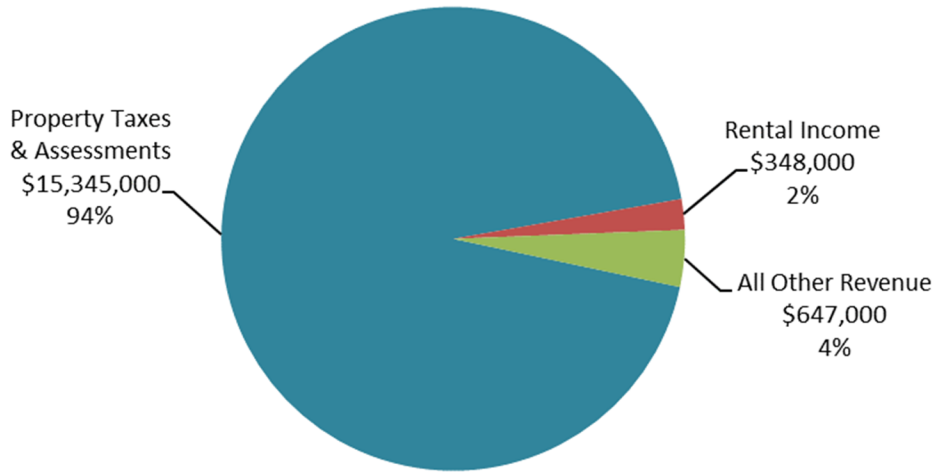
Expenses

Government-wide expenses increased by \$0.5 million as a result of increases in a) the net pension liability of \$0.3 million, mainly a result of the difference between expected and actual experience, and b) the net OPEB liability of \$0.2 million, mainly resulting from differences between actual and expected experience and lower than expected investment income.

ORANGE COUNTY MOSQUITO AND VECTOR CONTROL DISTRICT

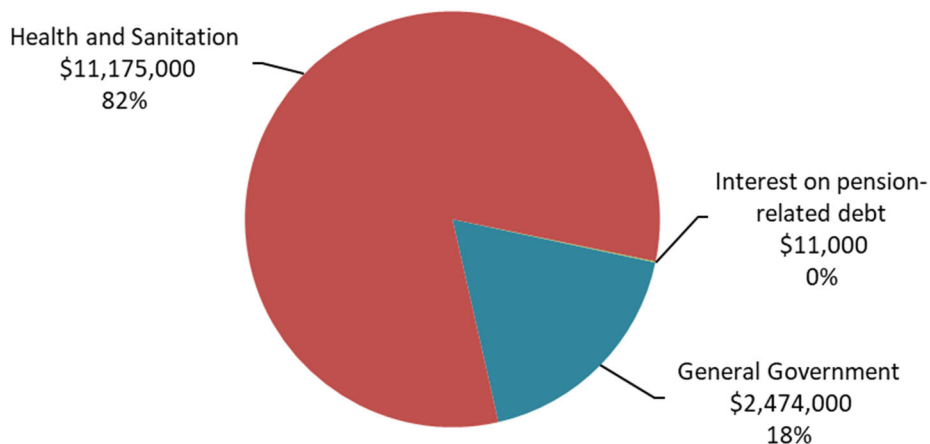
Management's Discussion and Analysis
June 30, 2020

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 \$15.3 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 2019-20 the benefit assessment rate remained the same for Assessment District No. 1 at \$1.92 per parcel but increased from \$7.48 to \$7.70 per parcel for Assessment District No. 2. This increase in the benefit assessment rate accounts for nearly all of the increased assessment revenue.

Expenses by Function - Government-wide



The District's expenses totaled \$13.6 million in fiscal year 2019-20. Of that total, \$11.2 million (82 percent) was for health and sanitation purposes, \$2.4 million was for general administrative functions of the District, and the remainder was for interest on pension-related debt.

ORANGE COUNTY MOSQUITO AND VECTOR CONTROL DISTRICT

Management's Discussion and Analysis
June 30, 2020

During fiscal year 2019-20, the District's Health and Sanitation functional expense category had \$173,000 of program revenues (\$101,000 of charges for services and \$72,000 of operating contributions); the General Government functional expense category had \$348,000 of program revenues (charges for services – rental income on District property).

Financial Analysis of the District's Funds

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 \$22.2 million, an increase of \$3.3 million over the prior year. Revenues of \$16.3 million exceeded expenditures of \$13.0 million.

Approximately 42 percent (\$9.3 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), restricted (10 percent of total fund balance), or committed (47 percent of total fund balance), indicating that it is not available for new spending because it has already been designated as:

<u>Nonspendable</u>	
Inventory	\$ 171,141
Prepaid items & computer loans	17,653
<u>Restricted</u>	
Assets held in trust (pension)	2,117,510
<u>Committed</u>	
Retiree Medical insurance	168,594
Retirement contingency	253,185
Liability reserve	360,611
Emergency vector control	1,675,027
Habitat remediation	100,000
Facilities improvement	8,064,688

At the end of the current fiscal year the unassigned fund balance of the General Fund was \$9,263,355 while the total fund balance was \$22,191,764. 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 71 percent of the year's expenditures while the total fund balance represents 170 percent of expenditures.

Fund balance increased in fiscal year 2019-20 by \$3.3 million while in the prior year, fund balance increased by \$2.6 million. The \$0.7 million increase over FY 2018-19 was a result of \$0.7 million higher revenues in FY 2019-20. Expenditures rose slightly in FY 2019-20, increasing by only \$49,000.

ORANGE COUNTY MOSQUITO AND VECTOR CONTROL DISTRICT

Management's Discussion and Analysis
June 30, 2020

The reasons for the change in revenues are essentially the same as the reasons for the change in government-wide revenues since the General Fund comprises all of the governmental activities of the District. Revenues increased as a result of 1) higher property taxes due to increased assessed values, 2) higher assessment revenue resulting from a \$0.22 increase per benefit assessment during the year for Assessment District No. 2, and 3) higher interest earnings from an unrealized market value gain at year-end which was reported as part of investment income.

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. During the course of the year, the Board of Trustees amended the District's originally adopted expenditure budget by \$63,000 for prior year encumbrances that were carried over after the adoption of the budget.

The General Fund balance reflected a positive net budget variance of \$2,227,000 when comparing actual amounts to the final budget for the current fiscal year. This amount reflects a positive variance of \$822,000 in revenues and a positive variance of \$1,405,000 in expenditures. The positive revenue variance mainly resulted from actual revenues exceeding the budget for property and assessment taxes and investment income. The positive expenditure variance resulted from actual expenditures being less than the final budget in all divisions except for Retiree Medical Insurance and Retirement Trust Administrative Fees.

Capital Asset and Debt Administration

Capital assets. The District's capital assets for governmental activities as of June 30, 2020, total \$5,089,260, net of accumulated depreciation. This is a net decrease of \$1,678 from June 30, 2019. The capital assets include land, structure and improvements, equipment and furniture, and vehicles. Capital asset additions totaled \$290,087 and depreciation expense totaled \$291,765. All capital asset disposals were fully depreciated assets and resulted in no loss. 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-19	30-Jun-20
Land	\$ 2,010,329	\$ 2,010,329
Structures and improvements	1,926,475	1,809,774
Equipment and furniture	535,933	568,770
Vehicles	618,201	700,387
Total	\$ 5,090,938	\$ 5,089,260

ORANGE COUNTY MOSQUITO AND VECTOR CONTROL DISTRICT

Management's Discussion and Analysis
June 30, 2020

Long-term debt. At the end of the current fiscal year, the District had total debt outstanding of \$3,170,406. 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-19	30-Jun-20
Employee compensated absences	\$ 498,222	\$ 586,722
Pension-related debt	-	99,363
Net pension liability	1,880,117	2,233,924
Net OPEB liability	9,424	250,397
Total	\$ 2,387,763	\$ 3,170,406

Economic Factors and Next Year's Budget

The District's overall revenues for FY 2020-21 are budgeted to be \$15.5 million while expenditures are budgeted to be \$14.6 million. These budgetary expectations reflect the continuation of program enhancements of such as the education and outreach programs and the *Aedes* Response Team, as well as the expansion of the fish program. The FY 2020-21 budget continues the fund balance reserve policy whereby \$500,000 is annually added to the facilities improvement fund balance commitment.

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

- Property taxes are budgeted at \$6.3 million, the same as prior year.
- Assessments for Assessment District No. 1 will remain at \$1.92 per parcel and are projected to yield \$1.5 million, similar to prior year.
- Assessments for Assessment District No. 2 will remain at \$7.70 per parcel and are projected to yield \$6.7 million, an increase of less than 1% from prior year.

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 2020-21 will be the second year of a new four-year labor agreement, and personnel costs are anticipated to increase slightly to \$10.4 million in accordance with the agreement and are estimated to account for 73 percent of the District's operating expenditures which is consistent with prior years.

Capital outlay costs are budgeted to be \$281,000 for vehicles and equipment in fiscal year 2020-21 which is consistent with prior years. The most significant proposed capital purchases include \$228,000 for vehicle replacements/additions.

The District's total fund balance is estimated to be \$19.2 million as of June 30, 2021.

ORANGE COUNTY MOSQUITO AND VECTOR CONTROL DISTRICT

Management's Discussion and Analysis
June 30, 2020

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, 2020

	Governmental Activities
ASSETS:	
Cash and investments	\$ 19,945,284
Restricted - cash and investments held by pension trust	2,117,510
Receivables:	
Accounts	55,113
Taxes	133,277
Accrued interest	52,123
Due from other governments	147,039
Loans	5,906
Prepaid costs	11,747
Inventory	171,141
Capital assets, not being depreciated	2,010,329
Capital assets, net of depreciation	<u>3,078,931</u>
TOTAL ASSETS	<u>27,728,400</u>
DEFERRED OUTFLOWS OF RESOURCES:	
Deferred amounts from OPEB plan	239,506
Deferred amounts from pension plans	<u>1,478,638</u>
TOTAL DEFERRED OUTFLOWS OF RESOURCES	<u>1,718,144</u>
LIABILITIES:	
Accounts payable	119,266
Accrued liabilities	254,616
Unearned revenue	2,384
Deposits payable	39,328
Noncurrent liabilities:	
Due within one year:	
Compensated absences	193,618
Due in more than one year:	
Compensated absences	393,104
Net OPEB liability	250,397
Net pension liability	2,233,924
Pension-related debt	<u>99,363</u>
TOTAL LIABILITIES	<u>3,586,000</u>
DEFERRED INFLOWS OF RESOURCES:	
Deferred amounts from pension plans	<u>88,839</u>
NET POSITION:	
Net investment in capital assets	5,089,260
Unrestricted	<u>20,682,445</u>
TOTAL NET POSITION	<u><u>\$ 25,771,705</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, 2020

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	\$ 2,473,791	\$ 348,461	\$ -	\$ -	\$ (2,125,330)
Health and sanitation	11,175,197	100,643	72,429	-	(11,002,125)
Interest on pension-related debt	11,122	-	-	-	(11,122)
Total governmental activities	\$ 13,660,110	\$ 449,104	\$ 72,429	\$ -	(13,138,577)
General revenues:					
Taxes:					
Property taxes and assessments, levied for general purpose					15,344,833
Investment income					447,486
Miscellaneous					25,977
Total general revenues					15,818,296
Change in net position					2,679,719
Net Position at Beginning of Year					23,091,986
Net Position at End of Year					\$ 25,771,705

See accompanying notes to the basic financial statements.

ORANGE COUNTY MOSQUITO AND VECTOR CONTROL DISTRICT

BALANCE SHEET - GOVERNMENTAL FUNDS

June 30, 2020

	<u>General</u>
ASSETS	
Cash and investments	\$ 19,945,284
Restricted - cash and investments held by pension trust	2,117,510
Receivables:	
Accounts	55,113
Taxes	133,277
Accrued interest	52,123
Due from other governments	147,039
Loans	5,906
Prepaid items	11,747
Inventory	171,141
	<hr/>
TOTAL ASSETS	\$ 22,639,140
	<hr/> <hr/>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	
LIABILITIES:	
Accounts payable	\$ 119,266
Accrued liabilities	254,616
Unearned revenue	2,384
Deposits payable	39,328
TOTAL LIABILITIES	<hr/> 415,594
DEFERRED INFLOWS OF RESOURCES:	
Unavailable revenues	<hr/> 31,782
FUND BALANCES:	
Nonspendable:	
Prepaid items	11,747
Inventory	171,141
Loans	5,906
Restricted	
Pension trust	2,117,510
Committed:	
Retiree medical insurance	168,594
Retirement contingency	253,185
Liability reserve	360,611
Emergency vector control	1,675,027
Habitat remediation	100,000
Facilities improvements	8,064,688
Unassigned	9,263,355
TOTAL FUND BALANCES	<hr/> 22,191,764
	<hr/> <hr/>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	\$ 22,639,140
	<hr/> <hr/>

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, 2020

Fund balances - total governmental funds	\$ 22,191,764
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.	5,089,260
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	(586,722)
Pension-related debt	(99,363)
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.	31,782
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	239,506
Net OPEB liability	(250,397)
Deferred outflows of resources related to pensions	1,478,638
Deferred inflows of resources related to pensions	(88,839)
Net pension liability	<u>(2,233,924)</u>
Net position of governmental activities	<u>\$ 25,771,705</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, 2020

	<u>General</u>
REVENUES:	
Taxes and assessments	\$ 15,344,833
Intergovernmental	72,429
Charges for services	90,857
Investment income	447,486
Rental income	348,461
Miscellaneous	<u>25,977</u>
TOTAL REVENUES	<u>16,330,043</u>
EXPENDITURES:	
Current:	
General government	2,179,122
Health and sanitation	10,554,040
Capital outlay	<u>330,546</u>
TOTAL EXPENDITURES	<u>13,063,708</u>
EXCESS OF REVENUES OVER EXPENDITURES	3,266,335
FUND BALANCES AT BEGINNING OF YEAR	<u>18,925,429</u>
FUND BALANCES AT END OF YEAR	<u><u>\$ 22,191,764</u></u>

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, 2020

Net change in fund balances - total governmental funds	\$ 3,266,335
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	290,087
Depreciation	(291,765)
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.	
	(88,500)
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.	
	(88,241)
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.	
	(11,122)
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.	
	9,786
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.	
	(49,208)
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.	
	(357,653)
Change in net position of governmental activities	<u>\$ 2,679,719</u>

ORANGE COUNTY MOSQUITO AND VECTOR CONTROL DISTRICT

BUDGETARY COMPARISON STATEMENT BY DEPARTMENT

GENERAL FUND

For the year ended June 30, 2020

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
FUND BALANCE				
AT BEGINNING OF YEAR	\$ 18,925,429	\$ 18,925,429	\$ 18,925,429	\$ -
RESOURCES (INFLOWS):				
Taxes and assessments	14,892,450	14,892,450	15,344,833	452,383
Intergovernmental	75,000	75,000	72,429	(2,571)
Charges for services	38,000	38,000	90,857	52,857
Investment income	132,000	132,000	447,486	315,486
Rental income	355,810	355,810	348,461	(7,349)
Miscellaneous	15,000	15,000	25,977	10,977
TOTAL RESOURCES (INFLOWS)	15,508,260	15,508,260	16,330,043	821,783
CHARGES TO APPROPRIATIONS (OUTFLOWS):				
Current:				
General government:				
Trustees	78,750	78,750	34,451	44,299
District Manager	415,700	415,700	396,946	18,754
Legal services	120,000	120,000	104,877	15,123
Nondepartmental	312,600	312,600	236,362	76,238
Administrative services	882,600	882,600	682,675	199,925
Insurance	703,500	703,500	691,876	11,624
Facilities improvements	44,000	44,000	31,935	12,065
Health and sanitation:				
Technical services	1,812,440	1,812,440	1,600,579	211,861
Field operations	6,985,290	6,985,290	6,476,284	509,006
Vehicle maintenance	681,670	681,670	541,643	140,027
Building maintenance	257,620	257,620	243,091	14,529
Public information	796,080	821,177	671,499	149,678
Information technology	728,340	728,340	692,702	35,638
Public service	169,950	169,950	163,149	6,801
Retiree medical insurance	154,160	154,160	152,533	1,627
Retirement trust administrative fees	-	-	12,560	(12,560)
Capital outlay	263,360	301,615	330,546	(28,931)
TOTAL CHARGES TO APPROPRIATIONS (OUTFLOWS)	14,406,060	14,469,412	13,063,708	1,405,704
EXCESS OF RESOURCES OVER CHARGES TO APPROPRIATIONS	1,102,200	1,038,848	3,266,335	2,227,487
FUND BALANCE				
AT END OF YEAR	\$ 20,027,629	\$ 19,964,277	\$ 22,191,764	\$ 2,227,487

See accompanying notes to the basic financial statements.

ORANGE COUNTY MOSQUITO AND VECTOR CONTROL DISTRICT

STATEMENT OF FIDUCIARY NET POSITION

June 30, 2020

	Other Post-Employment Benefits (OPEB) Trust Fund
ASSETS:	
Cash and investments	<u>\$ 3,542,720</u>
TOTAL ASSETS	<u>3,542,720</u>
NET POSITION:	
Held in trust for OPEB benefits	<u>3,542,720</u>
TOTAL NET POSITION	<u><u>\$ 3,542,720</u></u>

ORANGE COUNTY MOSQUITO AND VECTOR CONTROL DISTRICT

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION

For the year ended June 30, 2020

	Other Post-Employment Benefits (OPEB) Trust Fund
ADDITIONS:	
Net investment income	<u>\$ 154,442</u>
TOTAL ADDITIONS	<u>154,442</u>
DEDUCTIONS:	
Administrative expense	<u>21,011</u>
TOTAL DEDUCTIONS	<u>21,011</u>
CHANGE IN NET POSITION	133,431
NET POSITION - BEGINNING OF YEAR	<u>3,409,289</u>
NET POSITION - END OF YEAR	<u><u>\$ 3,542,720</u></u>

ORANGE COUNTY MOSQUITO AND VECTOR CONTROL DISTRICT

Notes to Basic Financial Statements

June 30, 2020

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, 2020

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 fund:

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 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.

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.

ORANGE COUNTY MOSQUITO AND VECTOR CONTROL DISTRICT

Notes to Basic Financial Statements

June 30, 2020

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

c. Measurement Focus and Basis of Accounting (Continued)

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

GASB 95

In May 2020, GASB issued Statement No. 95, *Postponement of the Effective Dates of Certain Authority Guidance*, which was effective immediately. This Statement provided temporary relief to governments and other stakeholders in light of the COVID-19 pandemic and postponed the effective dates of certain provisions in Statements and Implementation Guides that first became effective or are scheduled to become effective for periods beginning after June 15, 2018, and later.

GASB 97

In June 2020, GASB issued Statement No. 97 – *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans— an amendment of GASB Statements No. 14 and No. 84*, and a supersession of GASB Statement No. 32. This Statement requires that for purposes of determining whether a primary government is financially accountable for a potential component unit, except for a potential component unit that is a defined contribution pension plan, a defined contribution OPEB plan, or an other employee benefit plan (for example, certain Section 457 plans), the absence of a governing board should be treated the same as the appointment of a voting majority of a governing board if the primary government performs the duties that a governing board typically would perform.

ORANGE COUNTY MOSQUITO AND VECTOR CONTROL DISTRICT

Notes to Basic Financial Statements

June 30, 2020

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

d. New Accounting Pronouncements (Continued)

Current Year Standards (Continued)

GASB 97 (Continued)

This Statement also requires that the financial burden criterion in paragraph 7 of Statement No. 84, *Fiduciary Activities*, be applicable to only defined benefit pension plans and defined benefit OPEB plans that are administered through trusts that meet the criteria in paragraph 3 of Statement No. 67, *Financial Reporting for Pension Plans*, or paragraph 3 of Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, respectively.

The requirements of these paragraphs 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 84

In January 2017, GASB issued Statement No. 84 – *Fiduciary Activities*. This Statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. An activity meeting the criteria should be reported in a fiduciary fund in the basic financial statements.

This Statement also provides for recognition of a liability to the beneficiaries in a fiduciary fund when an event has occurred that compels the government to disburse fiduciary resources. Events that compel a government to disburse fiduciary resources occur when a demand for the resources has been made or when no further action, approval, or condition is required to be taken or met by the beneficiary to release the assets. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019, early application is encouraged.

ORANGE COUNTY MOSQUITO AND VECTOR CONTROL DISTRICT

Notes to Basic Financial Statements

June 30, 2020

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

d. New Accounting Pronouncements (Continued)

Pending Accounting Standards (Continued)

GASB 87

In June 2017, GASB issued Statement No. 87 – *Leases*. This statement requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset for leases with a term of more than 12 months. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. For leases with a term of 12 months or less, lessees and lessors should recognize short-term lease payments as outflows of resources or inflows of resources, respectively, based on the payment provisions of the lease contract. The requirements of this Statement are effective for reporting periods beginning after June 15, 2021, early application is encouraged.

GASB 92

In January 2020, GASB issued Statement No. 92 – *Omnibus 2020*. This Statement addresses practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to leases, fiduciary activities, measurement of liabilities (and assets, if any) related to asset retirement obligations (AROs) in a government acquisition, reporting by public entity risk pools for amounts that are recoverable from reinsurers or excess insurers, reference to nonrecurring fair value measurements of assets or liabilities in authoritative literature and terminology used to refer to derivative instruments.

The requirements of this Statement are effective as follows:

- The requirements related to the effective date of Statement 87 and Implementation Guide 2019-3, reinsurance recoveries, and terminology used to refer to derivative instruments are effective upon issuance.
- The requirements related to intra-entity transfers of assets and those related to the applicability of Statements 73 and 74 are effective for fiscal years beginning after June 15, 2021.
- The requirements related to application of Statement 84 to postemployment benefit arrangements and those related to nonrecurring fair value measurements of assets or liabilities are effective for reporting periods beginning after June 15, 2021.

ORANGE COUNTY MOSQUITO AND VECTOR CONTROL DISTRICT

Notes to Basic Financial Statements

June 30, 2020

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

d. New Accounting Pronouncements (Continued)

Pending Accounting Standards (Continued)

GASB 92 (Continued)

The requirements related to the measurement of liabilities (and assets, if any) associated with AROs in a government acquisition are effective for government acquisitions occurring in reporting periods beginning after June 15, 2021.

GASB 97

In June 2020, GASB issued Statement No. 97 – *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans— an amendment of GASB Statements No. 14 and No. 84*, and a supersession of GASB Statement No. 32. This Statement requires that a Section 457 plan be classified as either a pension plan or an other employee benefit plan depending on whether the plan meets the definition of a pension plan and clarifies that Statement 84, as amended, should be applied to all arrangements organized under IRC Section 457 to determine whether those arrangements should be reported as fiduciary activities.

This Statement supersedes the remaining provisions of Statement No. 32, *Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*, as amended, regarding investment valuation requirements for Section 457 plans. As a result, investments of all Section 457 plans should be measured as of the end of the plan’s reporting period in all circumstances.

The requirements of this Statement are effective for fiscal years beginning after June 15, 2021. Earlier application of those requirements is encouraged and permitted.

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.

f. Receivables

Management has determined that all receivables are collectible for the year ended June 30, 2020.

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 under the consumption method.

ORANGE COUNTY MOSQUITO AND VECTOR CONTROL DISTRICT

Notes to Basic Financial Statements

June 30, 2020

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 outflows 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 changes 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.
- Deferred outflows related to the OPEB for differences between actual and expected experience and changes 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 retiree healthcare through the plan.
- Deferred outflow related to the 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.

ORANGE COUNTY MOSQUITO AND VECTOR CONTROL DISTRICT

Notes to Basic Financial Statements

June 30, 2020

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

i. Deferred Outflows/Inflows of Resources (Continued)

In addition to liabilities, the statement of net position and the governmental funds balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to 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 one source: charges for services. 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.
- Deferred inflow related to pensions for the net differences between projected and actual earnings on pension plan investments. Each annual amount is amortized over five years.

j. Claims and Judgments

When it is probable that a claim liability has been incurred and the amount of the loss can be reasonably estimated, the District records the loss, net of any insurance coverage.

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, 2020, 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, 2020

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, 2020 consisted of the following:

	Balance at July 1, 2019	Additions	Deletions	Balance at June 30, 2020	Due Within One Year
Compensated absences	<u>\$ 498,222</u>	<u>\$ 508,730</u>	<u>\$ (420,230)</u>	<u>\$ 586,722</u>	<u>\$ 193,618</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. The District has no such debt outstanding.

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, 2020

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

m. Fund Equity (Continued)

In the fund financial statements, governmental funds report the following fund balance classifications (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, 2020, 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, 2020, the balance in the vehicle and equipment replacement reserves was \$555,206 and \$836,602, 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, 2020

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, 2020

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 and assessments, (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 fund is as follows:

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
Major Fund:			
General Fund:			
Retirement trust administrative fees	\$ -	\$ 12,560	\$ (12,560)
Capital outlay	301,615	330,546	(28,931)

NOTE 3 - CASH AND INVESTMENTS

Cash and Investments

Cash and investments as of June 30, 2020 are classified in the accompanying financial statements as follows:

	<u>Government Wide Statement of Net Position</u>	<u>Fiduciary Fund Statement of Net Position</u>	<u>Total</u>
Cash and investments	\$ 19,945,284	\$ -	\$ 19,945,284
Restricted cash and investments:			
Held by OPEB trust	-	3,542,720	3,542,720
Held by pension trust	2,117,510	-	2,117,510
Total cash and investments	<u>\$ 22,062,794</u>	<u>\$ 3,542,720</u>	<u>\$ 25,605,514</u>

ORANGE COUNTY MOSQUITO AND VECTOR CONTROL DISTRICT

Notes to Basic Financial Statements

June 30, 2020

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	\$ 8,149,383	\$ -	\$ 8,149,383
Investments	11,795,901	-	11,795,901
Restricted Investments:			
Held by OPEB trust	-	3,542,720	3,542,720
Held by pension trust	2,117,510	-	2,117,510
Total cash and investments	<u>\$ 22,062,794</u>	<u>\$ 3,542,720</u>	<u>\$ 25,605,514</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 and pension trusts that are governed by the trust agreement.

ORANGE COUNTY MOSQUITO AND VECTOR CONTROL DISTRICT

Notes to Basic Financial Statements

June 30, 2020

NOTE 3 - CASH AND INVESTMENTS (CONTINUED)

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

Authorized Investment Type	Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
Local Agency Bonds	5 years	15%	5%*
U.S. Treasury Issues	5 years	None	None
State Obligations: CA and Others	5 years	15%	5%*
CA Local Agency Obligations	5 years	15%	5%*
US Agency Obligations (Federal Agency Issues)	5 years	None	50%*
Bankers Acceptances	180 days	15%*	5%*
Commercial Paper	270 days	15%*	5%*
Negotiable Certificates of Deposit	5 years	15%*	5%*
Non-negotiable Certificates of Deposit	5 years	15%*	5%*
Placement Service Deposits	5 years	15%*	5%*
Placement Service Certificates of Deposit	5 years	15%*	5%*
Repurchase Agreements	1 year	15%*	5%*
Reverse Repurchase Agreements and Securities Lending Agreements	92 days	15%*	5%*
Medium-term Notes	5 years	15%*	5%*
Mutal Funds and Money Market Mutual Funds	N/A	15%*	5%*
Mortgage Pass-through and Asset Backed Securities	5 years	15%*	5%*
Supranational Obligations	5 years	15%*	5%*
Local Agency Investment Fund (LAIF)	N/A	None	None
Orange County Investment Pool (OCIP)	N/A	None	None
CaITRUST	N/A	None	None

N/A - Not Applicable

*District's policy is more restrictive than the state code.

ORANGE COUNTY MOSQUITO AND VECTOR CONTROL DISTRICT**Notes to Basic Financial Statements****June 30, 2020****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. One of the ways the District manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer-term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity as necessary to provide the cash flow and liquidity needed for operations

Information about the sensitivity of the fair values of the District's investments to market interest rate fluctuations is provided by the following table that shows the distribution of the District's investments by maturity as of June 30, 2020:

Investment Type	Fair Value	Remaining Maturity			
		12 Months or Less	13 to 24 Months	25 to 36 Months	37 to 60 Months
Local Agency Investment Fund (LAIF)	\$ 4,852,667	\$ 4,852,667	\$ -	\$ -	\$ -
Orange County Investment Pool (OCIP)	1,730,410	1,730,410	-	-	-
Money Market Mutual Funds	8,452	8,452	-	-	-
Medium Term Notes	1,200,515	255,450	261,065	684,000	-
Local Agency Bonds	843,360	-	306,708	422,893	113,759
United States Treasury Issues	765,085	765,085	-	-	-
Federal Agency Issues	914,067	759,957	154,110	-	-
Negotiable Certificates of Deposit	1,481,345	102,044	104,407	663,870	611,024
PARS OPEB Trust Fund	3,542,720	3,542,720	-	-	-
PARS Pension Trust Fund	2,117,510	2,117,510	-	-	-
Total	<u>\$17,456,131</u>	<u>\$14,134,295</u>	<u>\$ 826,290</u>	<u>\$ 1,770,763</u>	<u>\$ 724,783</u>

Disclosures Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The only minimum rating required by the California Government Code that is applicable to the District's investments is a rating of "A" or better for medium term notes and a rating of "AAA" for money market mutual funds.

ORANGE COUNTY MOSQUITO AND VECTOR CONTROL DISTRICT

Notes to Basic Financial Statements

June 30, 2020

NOTE 3 - CASH AND INVESTMENTS (CONTINUED)

Disclosures Relating to Credit Risk (Continued)

Presented below are the actual ratings by Standard & Poor's as of year-end for each investment type for the fiscal year ended June 30, 2020:

Investment Type	AAA	AA+	AA	AA-	Other	Not Rated	Not Required to be Rated	Total
Local Agency Investment Fund (LAIF)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 4,852,667	\$ -	\$ 4,852,667
Orange County Investment Pool (OCIP)	1,730,410	-	-	-	-	-	-	1,730,410
Money Market Mutual Funds	-	-	-	-	-	8,452	-	8,452
Medium Term Notes	105,299	255,450	-	104,124	735,642	-	-	1,200,515
Local Agency Bonds	154,322	105,275	112,888	152,386	318,489	-	-	843,360
United States Treasury Issues	-	-	-	-	-	-	765,085	765,085
Federal Agency Issues	-	914,067	-	-	-	-	-	914,067
Negotiable Certificates of Deposit	-	-	-	-	-	1,481,345	-	1,481,345
PARS OPEB Trust Fund	-	-	-	-	-	3,542,720	-	3,542,720
PARS Pension Trust Fund	-	-	-	-	-	2,117,510	-	2,117,510
Total	\$ 1,990,031	\$ 1,274,792	\$ 112,888	\$ 256,510	\$ 1,054,131	\$12,002,694	\$ 765,085	\$17,456,131

Investment Type	A+	A	A-	Total Other
Local Agency Investment Fund (LAIF)	\$ -	\$ -	\$ -	\$ -
Orange County Investment Pool (OCIP)	-	-	-	-
Money Market Mutual Funds	-	-	-	-
Medium Term Notes	156,945	312,900	265,797	735,642
Local Agency Bonds	-	318,489	-	318,489
United States Treasury Issues	-	-	-	-
Federal Agency Issues	-	-	-	-
Negotiable Certificates of Deposit	-	-	-	-
PARS OPEB Trust Fund	-	-	-	-
PARS Pension Trust Fund	-	-	-	-
Total	\$ 156,945	\$ 631,389	\$ 265,797	\$ 1,054,131

Concentration of Credit Risk

Concentration credit risk is the heightened risk of potential loss when investments are concentrated in one issuer; however, external investment pools (such as LAIF, OCIP, PARS OPEB Trust, and PARS Pension Trust) are excluded from this requirement. The District's investment policy contains a 50% limitation on the amount that can be invested in any single federal agency security issuer, a 15% limitation on the amount that can be invested in a single security type, and a 5% limitation on the amount that can be invested in any one issuer (other than federal agency security issuers). The District has no investments in excess of these limitations.

Custodial Credit Risk

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

ORANGE COUNTY MOSQUITO AND VECTOR CONTROL DISTRICT

Notes to Basic Financial Statements

June 30, 2020

NOTE 3 - CASH AND INVESTMENTS (CONTINUED)

Custodial Credit Risk (Continued)

The California Government Code and the District's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit).

The market value of the pledged securities in the collateral pool must equal at least 110% 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% of the secured public deposits. At June 30, 2020, 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.

ORANGE COUNTY MOSQUITO AND VECTOR CONTROL DISTRICT

Notes to Basic Financial Statements

June 30, 2020

NOTE 3 - CASH AND INVESTMENTS (CONTINUED)

Cash and Investments - PARS OPEB and Pension Trusts

Investment Policy

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 and Pension Plan. The PARS OPEB and Pension Trust's specific cash and investments are managed by a third-party portfolio manager under guidelines approved by the District.

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 current income and moderate capital appreciation. 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

Cash and Investments - PARS OPEB and Pension Trusts

Rate of Return

For the year ended June 30, 2020, the annual money-weighted rate of return on investments, net of investment expense, was 4.55%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

ORANGE COUNTY MOSQUITO AND VECTOR CONTROL DISTRICT

Notes to Basic Financial Statements

June 30, 2020

NOTE 3 - CASH AND INVESTMENTS (CONTINUED)

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 valuation 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 had the following recurring fair value measurements as of June 30, 2020:

	Fair Value	Quoted Prices Level 1	Observable Inputs Level 2	Unobservable Inputs Level 3
Investment Type (Subject to Hierarchy):				
Medium Term Notes	\$ 1,200,515	\$ -	\$ 1,200,515	\$ -
Local Agency Bonds	843,360	-	843,360	-
United States Treasury Issues	765,085	-	765,085	-
Federal Agency Issues	914,067	-	914,067	-
Negotiable Certificates of Deposit	1,481,345	-	1,481,345	-
Total Subject to Hierarchy	<u>5,204,372</u>	<u>\$ -</u>	<u>\$ 5,204,372</u>	<u>\$ -</u>
Uncategorized (Not Subject to Hierarchy)				
Local Agency Investment Fund (LAIF)	4,852,667			
Orange County Investment Pool (OCIP)	1,730,410			
Money Market Mutual Funds	8,452			
PARS OPEB Trust Fund	3,542,720			
PARS Pension Trust Fund	2,117,510			
Total Investment Portfolio	<u>\$17,456,131</u>			

ORANGE COUNTY MOSQUITO AND VECTOR CONTROL DISTRICT

Notes to Basic Financial Statements

June 30, 2020

NOTE 4 - CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2020, is as follows:

	Balance at July 1, 2019	Additions	Deletions/ Transfers	Balance at June 30, 2020
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	989,205	112,972	-	1,102,177
Vehicles	<u>2,173,337</u>	<u>177,115</u>	<u>(77,047)</u>	<u>2,273,405</u>
Total capital assets, being depreciated	<u>7,710,719</u>	<u>290,087</u>	<u>(77,047)</u>	<u>7,923,759</u>
Less accumulated depreciation for:				
Structures and improvements	(2,621,702)	(116,701)	-	(2,738,403)
Equipment and furniture	(453,272)	(80,135)	-	(533,407)
Vehicles	<u>(1,555,136)</u>	<u>(94,929)</u>	<u>77,047</u>	<u>(1,573,018)</u>
Total accumulated depreciation	<u>(4,630,110)</u>	<u>(291,765)</u>	<u>77,047</u>	<u>(4,844,828)</u>
Total capital assets, being depreciated, net	<u>3,080,609</u>	<u>(1,678)</u>	<u>-</u>	<u>3,078,931</u>
Governmental activity capital assets, net	<u>\$ 5,090,938</u>	<u>\$ (1,678)</u>	<u>\$ -</u>	<u>\$ 5,089,260</u>

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

Governmental Activities:	
General government	<u>\$ 291,765</u>

ORANGE COUNTY MOSQUITO AND VECTOR CONTROL DISTRICT

Notes to Basic Financial Statements

June 30, 2020

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, 2020

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, 2020, 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	9.409%	7.634%	6.842%
Payment of unfunded liability	\$ 84,493	\$ 147	\$ 2,564

ORANGE COUNTY MOSQUITO AND VECTOR CONTROL DISTRICT

Notes to Basic Financial Statements

June 30, 2020

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, 2020, 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>\$ 2,233,924</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, 2019, 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, 2018 rolled forward to June 30, 2019 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, 2020

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, 2019 and 2018 was as follows:

	<u>Miscellaneous</u>
Proportion - June 30, 2018	0.04989%
Proportion - June 30, 2019	0.05579%
Change - Increase (Decrease)	0.00590%

For the year ended June 30, 2020, the District recognized pension expense of \$1,060,655. At June 30, 2020, 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	\$ 703,004	\$ -
Differences between actual and expected experience	155,155	(12,021)
Change in assumptions	106,524	(37,762)
Change in employer's proportion and differences between the employer's contributions and the employer's proportionate share of contributions	513,955	-
Net differences between projected and actual earnings on plan investments	-	(39,056)
Total	<u>\$ 1,478,638</u>	<u>\$ (88,839)</u>

ORANGE COUNTY MOSQUITO AND VECTOR CONTROL DISTRICT

Notes to Basic Financial Statements

June 30, 2020

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)

\$703,004 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, 2021. 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
2021	\$ 459,236
2022	140,923
2023	78,744
2024	7,892
2025	-
Thereafter	-

ORANGE COUNTY MOSQUITO AND VECTOR CONTROL DISTRICT

Notes to Basic Financial Statements

June 30, 2020

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

The total pension liability for the June 30, 2019 measurement period was determined by an actuarial valuation as of June 30, 2018, with update procedures used to roll forward the total pension liability to June 30, 2019. The total pension liability was based on the following assumptions:

Valuation Date	<u>Miscellaneous</u> June 30, 2018
Measurement Date	June 30, 2019
Actuarial Cost Method	Entry-Age Normal Cost Method
Actuarial Assumptions:	
Discount Rate	7.15%
Inflation	2.50%
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 probabilities of mortality are based on the 2017 CalPERS Experience Study for the period from 1997 to 2015. Pre-retirement and Post-retirement mortality rates includes 15 years of projected mortality improvement using 90% of Scale MP-2016 published by the Society of Actuaries. For more details on this table, please refer to the CalPERS Experience Study and Review of Actuarial Assumptions report from December 2017 that can be found on the CalPERS website.

ORANGE COUNTY MOSQUITO AND VECTOR CONTROL DISTRICT

Notes to Basic Financial Statements

June 30, 2020

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):

Long-term Expected Rate of Return

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 cash flows. Using historical returns of all the funds' asset classes, expected compound (geometric) returns were calculated over the short-term (first 10 years) and the long-term (11+ years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the rounded 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 equal to the single equivalent rate calculated above and adjusted to account for assumed administrative expenses.

The expected real rates of return by asset class are as follows:

Asset Class (a)	Assumed Asset Allocation	Real Return Years 1 - 10 (b)	Real Return Years 11+ (c)
Global Equity	50.00%	4.80%	5.98%
Fixed Income	28.00%	1.00%	2.62%
Inflation Assets	0.00%	0.77%	1.81%
Private Equity	8.00%	6.30%	7.23%
Real Assets	13.00%	3.75%	4.93%
Liquidity	1.00%	0.00%	-0.92%
Total	100.00%		

- (a) In the CalPERS CAFR, Fixed Income is included in Global Debt Securities; Liquidity is included in Short-term Investments; Inflation Assets are included in both Global Equity Securities and Global Debt Securities
- (b) An expected inflation of 2.0% used for this period
- (c) An expected inflation of 2.92% used for this period

ORANGE COUNTY MOSQUITO AND VECTOR CONTROL DISTRICT

Notes to Basic Financial Statements

June 30, 2020

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

The discount rate used to measure the total pension liability was 7.15%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current member contribution rates and that contributions from employers will be made at statutorily required rates, actuarially determined. Based on those assumptions, the Plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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	\$ 4,242,844
Current Discount Rate	7.15%
Net Pension Liability	\$ 2,233,924
1% Increase	8.15%
Net Pension Liability	\$ 575,703

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, 2020, the District had no outstanding amount of contributions due to the pension plan required for the year ended June 30, 2020 for the CalPERS plans.

ORANGE COUNTY MOSQUITO AND VECTOR CONTROL DISTRICT

Notes to Basic Financial Statements

June 30, 2020

NOTE 7 - RETIREMENT PLANS (CONTINUED)

A. CalPERS Defined Benefit Pension Plans (Continued)

d. Additional Funding of the Pension Plan:

In April 2019, the District approved the creation of a CalPERS defined benefit pension plan trust with PARS (Pension Trust). The PARS trust is legally restricted to providing benefits for members of the defined benefit pension plan. However, in accordance with GASB 68, the asset balance is not included in the calculation of the net pension liability above.

The District made no contributions to the Pension Trust in the fiscal year ended June 30, 2020. Investment earnings of \$92,226 and administrative expenses of \$12,560 resulted in an asset balance of \$2,117,510 as of June 30, 2020, which is shown as a restricted asset on both the Statement of Net Position and the Balance Sheet - Governmental Funds.

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.

ORANGE COUNTY MOSQUITO AND VECTOR CONTROL DISTRICT

Notes to Basic Financial Statements

June 30, 2020

NOTE 7 - RETIREMENT PLANS (CONTINUED)

B. Terminated OCERS Defined Benefit Pension Plan (Continued)

Funding Policy (Continued)

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.

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. The UAAL as of June 30, 2020 is \$99,363. The outstanding liability is reported as a noncurrent liability on the government-wide financial statements. Contributions are reported as expenditures when made.

ORANGE COUNTY MOSQUITO AND VECTOR CONTROL DISTRICT

Notes to Basic Financial Statements

June 30, 2020

NOTE 7 - RETIREMENT PLANS (CONTINUED)

B. Terminated OCERS Defined Benefit Pension Plan (Continued)

Accounting and Reporting (Continued)

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, 2020 were as follows:

UAAL as of June 30, 2019	\$	-	
Interest for the period of January 1, 2019 through June 30, 2020 at a rate of 7.00%		11,122	
Net increase due to changes in actuarial assumptions (1)		88,241	
UAAL as of June 30, 2020	<u>\$</u>	<u>99,363</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, 2018 and subsequent interest amounts calculated by the District:

UAAL as of December 31, 2017 actuarial report	\$	818,977	
Interest on UAAL at 7.00% for 2018		57,328	
Contributions made during 2018		-	
Loss due to unfavorable investment returns during 2018		460,667	
Gain during 2018 due to salary increases lower than expected		(361,971)	
Loss during 2018 due to other COLA increases higher than expected		47,021	
Gain during 2018 due to other actuarial experience		(56,012)	
UAAL as of December 31, 2018 actuarial report		966,010	
Interest on UAAL at 7.00% through January 8, 2019		1,482	
Contributions made in January 2019		(877,769)	
UAAL as of January 8, 2019	<u>\$</u>	<u>89,723</u>	
Interest on UAAL at 7.00% through June 30, 2019		3,140	
Interest on UAAL at 7.00% through December 31, 2019		3,140	
Interest on UAAL at 7.00% through June 30, 2020 (compounded)		3,360	
UAAL as of June 30, 2020	<u>\$</u>	<u>99,363</u>	

(2) The next required actuarial valuation is scheduled to be as of December 31, 2019. The unfunded actuarial accrued liability calculated at that time could differ from the current estimate.

ORANGE COUNTY MOSQUITO AND VECTOR CONTROL DISTRICT

Notes to Basic Financial Statements

June 30, 2020

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, 2018 valuation. These assumptions were the same as the previous December 31, 2017 valuation as shown below:

Valuation date	December 31, 2018	December 31, 2017
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%	7.00%
Projected annual salary increase	(1)	(1)
Cost-of-living adjustment	3.25%	3.25%
General inflation	2.75%	2.75%

(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, 2020

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.

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 \$136/month (2019) and \$139/month (2020). The contribution on behalf of retirees is 65% of \$136 (\$88) for 2019 and 70% of \$139 (\$97) for 2020. 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 added to their statutory minimum as described above. The \$234 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 \$400 per month, reduced for service less than 25 years), or the current District contribution as determined under the rules described in paragraph (1) above.

Employees hired on or after July 1, 2009, receive a supplemental benefit based on longevity with the District:

<u>Continuous Full-Time Years of Service</u>	<u>Monthly Stipend</u>
10-15	\$100
15-20	150
20 or more	200

ORANGE COUNTY MOSQUITO AND VECTOR CONTROL DISTRICT

Notes to Basic Financial Statements

June 30, 2020

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

A. Plan Description (Continued)

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 PEMHCA administrative fee of 0.27% of the premium in fiscal year 2019-2020.

Employees Covered

As of the measurement date June 30, 2020, the following current and former employees were covered by the benefit terms under the plan:

Inactive employees or beneficiaries currently receiving benefits	40
Inactive employees or beneficiaries entitled to but not yet receiving benefits	1
Active employees	67
	<hr/>
	108
	<hr/> <hr/>

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 based on the actuarially determined contribution. For the fiscal year ended June 30, 2020, the District paid \$152,070 for current premiums and the estimated implied subsidy was \$34,581, resulting in total payments of \$186,651. The payments for current premiums of \$152,070 were not reimbursed by the OPEB trust. There were no contributions to the OPEB trust for the fiscal year ended June 30, 2020.

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.

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.

ORANGE COUNTY MOSQUITO AND VECTOR CONTROL DISTRICT

Notes to Basic Financial Statements

June 30, 2020

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

B. Total OPEB Liability (Continued)

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.

The District's total OPEB liability was measured as of June 30, 2020 and was determined by an actuarial valuation as of July 1, 2019, rolled forward to June 30, 2020, 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, 2019 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Valuation Date	July 1, 2019
Measurement Date	June 30, 2020
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%
General Inflation	3.00%
Medical Trend	5.9% for 2020 decreasing by 0.1% per year to an ultimate rate of 5.0% for 2029 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, 2020

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. The calculated investment rate of return was set equal to the expected ten-year compound (geometric) real return plus inflation (rounded to the nearest 25 basis points, where appropriate). The table below provides the long-term expected real rates of return by asset class (based on published capital market assumptions):

<u>Asset Class</u>	<u>Assumed Asset Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
PARS OPEB Trust:		
Broad U.S. Equity	50.00%	4.40%
U.S. Fixed	45.00%	1.50%
Cash Equivalents	5.00%	0.10%
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, 2020

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, 2019 (Measurement Date)	\$ 3,418,713	\$ 3,409,289	\$ 9,424
Changes in the Year:			
Service cost	133,979	-	133,979
Interest on the total OPEB liability	237,289	-	237,289
Differences between actual and expected experience	162,711	-	162,711
Changes in assumptions	311	-	311
Changes in benefit terms	26,765	-	26,765
Contributions - employer	-	186,651	(186,651)
Net investment income	-	154,442	(154,442)
Benefit payments	(186,651)	(186,651)	-
Administrative expenses	-	(21,011)	21,011
Net Changes	<u>374,404</u>	<u>133,431</u>	<u>240,973</u>
Balance at June 30, 2020 (Measurement Date)	<u>\$ 3,793,117</u>	<u>\$ 3,542,720</u>	<u>\$ 250,397</u>

Changes of Assumptions

The measurement period ended June 30, 2020 contained a medical trend rate of 5.9% for 2020 decreasing by 0.1% per year to an ultimate rate of 5.0% for 2029 and later years while the measurement period ended June 30, 2019 included a medical trend rate of 5.0% for 2018 and later years.

Change of Benefit Terms

During the measurement period ended June 30, 2020, the District approved a supplemental benefit for employees based on longevity as follows: employees with 10-15 years receive a \$100 monthly stipend; employees with 15-20 years receive a \$150 monthly stipend; employees with 20 or more years receive a \$200 monthly stipend.

Subsequent Events

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

ORANGE COUNTY MOSQUITO AND VECTOR CONTROL DISTRICT

Notes to Basic Financial Statements

June 30, 2020

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 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 (Asset)	\$ 668,430	\$ 250,397	\$ (103,590)

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 (4.9% decreasing to 4.0% for 2029)	Trend Rate (5.9% decreasing to 5.0% for 2029)	1% Increase (6.9% decreasing to 6.0% for 2029)
Net OPEB Liability (Asset)	\$ (18,603)	\$ 250,397	\$ 577,713

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

For the year ended June 30, 2020, the District recognized OPEB expense of \$165,974. At June 30, 2020, 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 actual and expected experience	\$ 134,657	\$ -
Changes in assumptions	257	-
Differences between projected and actual earnings	104,592	-
Total	<u>\$ 239,506</u>	<u>\$ -</u>

ORANGE COUNTY MOSQUITO AND VECTOR CONTROL DISTRICT

Notes to Basic Financial Statements

June 30, 2020

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

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

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
2021	\$ 59,430
2022	59,430
2023	52,422
2024	45,742
2025	22,482
Thereafter	-

E. Payable to the OPEB Plan

At June 30, 2020, the District had no outstanding amount of contributions to the OPEB plan required for the year ended June 30, 2020.

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, 2020 is \$3,823,288 and \$(562,022), respectively. Initial lease terms generally range from 12 to 24 months; however, many leases have expired and are now month-to-month. Future minimum rental payments to be received on non-cancelable operating leases are contractually due as follows as of June 30, 2020:

Year Ending June 30	Amounts
2021	\$ 62,126

Total Haster Street property rent revenue for the year ended June 30, 2020 was \$319,564.

ORANGE COUNTY MOSQUITO AND VECTOR CONTROL DISTRICT

Notes to Basic Financial Statements

June 30, 2020

NOTE 10 - COMMITMENTS AND CONTINGENCIES

State Assisted Programs

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.

COVID-19

On January 30, 2020, the World Health Organization (“WHO”) announced a global health emergency because of an outbreak of a new strain of coronavirus (the “COVID-19 outbreak”) and the risks that is posed to the international community as the virus spread globally beyond its point of origin. In March 2020, the WHO classified the COVID-19 outbreak as a pandemic based on the rapid increase in exposure globally.

The full impact of the COVID-19 outbreak continues to evolve as of the date of this report. As such, it is uncertain as to the full magnitude that the pandemic will have on the District’s financial condition, liquidity, and future results of operations. Management is actively monitoring the impact of the global situation on the District’s financial condition, liquidity, operations and workforce. The District cannot estimate the length or gravity of the impact of the COVID-19 outbreak at this time; however, if the pandemic continues, it may have a material effect on the District’s results of future operations and financial position in fiscal year 2021.

NOTE 11 - SUBSEQUENT EVENTS

Events occurring after June 30, 2020, have been evaluated for possible adjustments to the financial statements or disclosure as of October 27, 2020, 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, 2020</u>
Measurement period	June 30, 2019
Plan's proportion of the net pension liability	0.02180%
Plan's proportionate share of the net pension liability	\$ 2,233,924
Plan's covered payroll	\$ 6,375,440
Plan's proportionate share of the net pension liability as a percentage of its covered payroll	35.04%
Plan's proportionate share of the fiduciary net position as a percentage of the Plan's total pension liability	75.26%
Plan's proportionate share of aggregate employer contributions	\$ 526,318

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%.

From fiscal year June 30, 2018 to June 30, 2019:

Inflation was reduced from 2.75% to 2.50%.

From fiscal year June 30, 2019 to June 30, 2020:

There were no changes in assumptions.

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

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, 2019</u>	<u>June 30, 2018</u>	<u>June 30, 2017</u>	<u>June 30, 2016</u>	<u>June 30, 2015</u>
Measurement period	June 30, 2018	June 30, 2017	June 30, 2016	June 30, 2015	June 30, 2014
Plan's proportion of the net pension liability	0.01951%	0.01964%	0.01758%	0.01548%	0.01787%
Plan's proportionate share of the net pension liability	\$ 1,880,117	\$ 1,948,055	\$ 1,521,330	\$ 1,062,408	\$ 1,112,227
Plan's covered payroll	\$ 5,930,211	\$ 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	31.70%	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	75.26%	73.31%	74.06%	78.40%	79.82%
Plan's proportionate share of aggregate employer contributions	\$ 407,526	\$ 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%.

From fiscal year June 30, 2018 to June 30, 2019:

Inflation was reduced from 2.75% to 2.50%.

From fiscal year June 30, 2019 to June 30, 2020:

There were no changes in assumptions.

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

ORANGE COUNTY MOSQUITO AND VECTOR CONTROL DISTRICT

SCHEDULE OF CONTRIBUTIONS - PENSION

Last Ten Fiscal Years*

Fiscal year ended	<u>June 30, 2020</u>
Contractually required contribution (actuarially determined)	\$ 703,004
Contributions in relation to the actuarially determined contributions	<u>(703,004)</u>
Contribution deficiency (excess)	<u>\$ -</u>
Covered payroll	\$ 6,652,998
Contributions as a percentage of covered payroll	10.57%

Notes to Schedule:

Valuation Date	6/30/2017
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Methods and Assumptions Used to Determine Contribution Rates

Actuarial cost method	Entry age
Amortization method	(1)
Asset valuation method	Market Value
Inflation	2.625%
Salary increases	(2)
Investment rate of return	7.25% (3)
Retirement age	(4)
Mortality	(5)

- (1) Level percentage of payroll, closed
- (2) Depending on age, service, and type of employment
- (3) Net of pension plan investment expense, including inflation
- (4) 50 years (2%@55 and 2%@60), 52 years (2%@62)**
- (5) 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 six years are shown.

ORANGE COUNTY MOSQUITO AND VECTOR CONTROL DISTRICT

SCHEDULE OF CONTRIBUTIONS - PENSION

Last Ten Fiscal Years*

Fiscal year ended	<u>June 30, 2019</u>	<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)	\$ 613,415	\$ 532,683	\$ 451,950	\$ 431,624	\$ 483,044
Contributions in relation to the actuarially determined contributions	<u>(613,415)</u>	<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>	<u>\$ -</u>
Covered payroll	\$ 6,375,440	\$ 5,930,211	\$ 5,003,137	\$ 4,993,576	\$ 4,479,991
Contributions as a percentage of covered payroll	9.62%	8.98%	9.03%	8.64%	10.78%

Notes to Schedule:

Valuation Date	6/30/2016	6/30/2015	6/30/2014	6/30/2013	6/30/2012
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Methods and Assumptions Used to Determine Contribution Rates

Actuarial cost method	Entry age	Entry age	Entry age	Entry age	Entry age
Amortization method	(1)	(1)	(1)	(1)	(1)
Asset valuation method	Market Value	Market Value	Market Value	Market Value	15 Year Smoothed Market Method
Inflation	2.75%	2.75%	2.75%	2.75%	2.75%
Salary increases	(2)	(2)	(2)	(2)	(2)
Investment rate of return	7.375% (3)	7.50% (3)	7.50% (3)	7.50% (3)	7.50% (3)
Retirement age	(4)	(4)	(4)	(4)	(4)
Mortality	(5)	(5)	(5)	(5)	(5)

- (1) Level percentage of payroll, closed
- (2) Depending on age, service, and type of employment
- (3) Net of pension plan investment expense, including inflation
- (4) 50 years (2%@55 and 2%@60), 52 years (2%@62)**
- (5) 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 six years are shown.

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	June 30, 2020	June 30, 2019	June 30, 2018
Measurement period	June 30, 2020	June 30, 2019	June 30, 2018
Total OPEB Liability:			
Service cost	\$ 133,979	\$ 149,564	\$ 145,208
Interest on total OPEB liability	237,289	204,873	193,579
Change of benefit terms	26,765		
Change of assumptions	311		
Differences between expected and actual experience	162,711		
Benefit payments, including refunds and the implied subsidy benefit payments	(186,651)	(172,520)	(157,788)
Net Change in Total OPEB Liability	374,404	181,917	180,999
Total OPEB Liability - Beginning of Year	3,418,713	3,236,796	3,055,797
Total OPEB Liability - End of Year (a)	3,793,117	3,418,713	3,236,796
Plan Fiduciary Net Position:			
Contributions - employer	186,651	332,520	157,788
Net investment income	154,442	187,022	172,915
Administrative expenses	(21,011)	(18,258)	(17,814)
Benefit payments, including refunds and the implied subsidy benefit payments	(186,651)	(172,520)	(157,788)
Net Change in Plan Fiduciary Net Position	133,431	328,764	155,101
Plan Fiduciary Net Position - Beginning of Year	3,409,289	3,080,525	2,925,424
Plan Fiduciary Net Position - End of Year (b)	3,542,720	3,409,289	3,080,525
Net OPEB Liability - Ending (a)-(b)	\$ 250,397	\$ 9,424	\$ 156,271
Plan fiduciary net position as a percentage of the total OPEB liability	93.40%	99.72%	95.17%
Covered employee payroll	\$ 6,652,998	\$ 6,375,443	\$ 6,216,041
Net OPEB liability as percentage of covered employee payroll	3.76%	0.15%	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 and the same actuarial report was utilized for fiscal year ended June 30, 2019; therefore, there are no previous GASB 75 actuarial reports for comparison.

The fiscal year ended June 30, 2020 contained a medical trend rate of 5.9% for 2020 decreasing by 0.1% per year to an ultimate rate of 5.0% for 2029 and later years while the fiscal years ended June 30, 2019 and 2018 included a medical trend rate of 5.0% for 2018 and later years.

* Fiscal year 2018 was the first year of implementation; therefore, only three years are shown.

ORANGE COUNTY MOSQUITO AND VECTOR CONTROL DISTRICT

SCHEDULE OF CONTRIBUTIONS - OPEB

Last Ten Fiscal Years*

Fiscal year ended	<u>June 30, 2019</u>	<u>June 30, 2019</u>	<u>June 30, 2018</u>
Contractually required contribution (actuarially determined)	\$ 186,651	\$ 158,204	\$ 152,416
Contributions in relation to the actuarially determined contributions	<u>(186,651)</u>	<u>(332,520)</u>	<u>(157,788)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ (174,316)</u>	<u>\$ (5,372)</u>
Covered employee payroll	\$ 6,652,998	\$ 6,375,443	\$ 6,216,041
Contributions as a percentage of covered employee payroll	2.81%	5.22%	2.54%

Notes to Schedule:

Valuation Date	7/1/2019	7/1/2017	7/1/2017
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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%
General Inflation	3.00%
Medical trend	5.9% for 2020 decreasing by 0.1% per year to an ultimate rate of 5.0% for 2029 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 three years are 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%
6/30/19	6.04%
6/30/20	4.55%

(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 four 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, 2020, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated October 27, 2020.

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 the following instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is described below.

Compliance with Investment Policy

Auditors' Comment and Recommendation

Section 8 of the District's investment policy states that "All purchase securities shall be held by an independent third-party safekeeping institution selected by the Board of Trustees and evidenced by safekeeping receipts in the District's name." During our review of investments, we noted that the District hired a new broker-dealer during fiscal year 2019-2020 that also serves as the safekeeping institution. Therefore, the District's safekeeping institution is not an independent third-party. In addition, the new broker-dealer and safekeeper has internal records that reflect the investments are owned by the District through a book entry system. Therefore, the investments are not evidenced by safekeeping receipts in the District's name. We recommend the District either update the investment policy to reflect the District's current practices or follow the requirements of the investment policy and hire an independent third-party safekeeping institution.

In addition, the District's investment policy contains a listing of allowable investments by specific investment category, such as U.S. Treasury Issues, Local Agency Bonds, US Agency Obligations, and other such groups. The investment policy also contains certain limitations, such as maximum percentage of portfolio and maximum amount per one issuer. During our review of investments, we noted that the monthly investment reports do not show a summary of investments by investment type, as listed in the District's investment policy, to allow the District to determine compliance with the limitations of the investment policy. We recommend the District implement a monthly report for investments that demonstrates the District's compliance or lack thereof with the limitations of the investment policy.

Management's Response

The District agrees with the auditor's comment and recommendation. The District will assess the current investment practice and the need to update the investment policy to ensure that investment practices are consistent with the policy. This will be done as part of the annual policy review. In addition, the District will expand the monthly investment report to contain a listing of allowable investments by specific investment category.

District's Response to Finding

The District's response to the finding identified in our audit is described above. The District's response was not subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we express no opinion on it.

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

October 27, 2020