ORANGE COUNTY VECTOR CONTROL DISTRICT

BASIC FINANCIAL STATEMENTS

WITH REPORT ON AUDIT
BY INDEPENDENT
CERTIFIED PUBLIC ACCOUNTANTS

FISCAL YEAR ENDED JUNE 30, 2013

ORANGE COUNTY VECTOR CONTROL DISTRICT

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June 30, 2013

WHITE NELSON DIEHL EVANS LLP
Certified Public Accountants & Consultants

INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of the Orange County Vector Control District (the District), as of and for the year ended June 30, 2013, 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 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 opinion.

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Offices located in Orange and San Diego Counties

Opinion

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the District as of June 30, 2013 and the respective changes in financial position and the budgetary comparison statements for the General Fund and the Facilities Improvement Special Revenue Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

As discussed in Note 1d to the financial statements, the District incorporated deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure of net position due to the adoption of Governmental Accounting Standards Board's Statement No. 63, "*Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position"*. The adoption of this standard also provides a new statement of net position format to report all assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position. Our opinion is not modified with respect to this matter.

As discussed in Note 1d to the basic financial statements, the City has changed its method for accounting and reporting certain items previously reported as assets or liabilities during fiscal year 2012-2013 due to the early adoption of Governmental Accounting Standards Board's Statement No. 65, *"Items Previously Reported as Assets and Liabilities"*. The adoption of this standard resulted in a reclassification of *unavailable revenues* from liabilities to deferred inflows of resources. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the schedule of funding progress - other post-employment benefits plan 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 management's discussion and analysis and schedule of funding progress - other post-employment benefits plan 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 information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance on them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 23, 2013, 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 Diehl Evans LLP

Irvine, California
December 23, 2013

This section of the financial statements of the Orange County Vector Control District (District) is management's overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2013. We encourage readers to consider the information presented here in conjunction with the District's financial statements and accompanying notes.

Background

The Orange County 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.

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 assets of the District exceeded its liabilities at the close of the fiscal year ended June 30, 2013 by $11.9 million (net position). Of this amount, $6.5 million (unrestricted net position) may be used to meet the District's ongoing obligations to citizens and creditors.
- The District's total net position decreased by $1.9 million (13.8 percent).
- Revenues from governmental activities and general revenues totaled $11.4 million, an increase of $0.7 million over the prior year.
- Expenses of governmental activities totaled $9.5 million, a decrease of $2.8 million from the prior year.
- As of June 30, 2013, the District's governmental funds reported a combined ending fund balance of $9.2 million, an increase of $1.97 million in comparison with the prior year. Of this amount, $6.0 million is available for spending at the District's discretion (unassigned fund balance).

Overview of the Basic Financial Statements

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements, which are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the 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 a) the Governmental Accounting Standards Board (GASB) Codification of Governmental Accounting and Financial Reporting Standards and b) the fiscal year 2012-13 implementation of GASB Statement No. 63, "Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position," the District's government-wide financial statements include a Statement of Net Position and a Statement of Activities.

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

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

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

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The District uses governmental funds to report its activities. The District's governmental fund statements include the Balance Sheet and the Statement of Revenues, Expenditures, and Changes in Fund Balances.

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.

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

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

Notes to the 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 can be found in the financial section of this report following the fund financial statements, beginning on page 20.

Government-wide Financial Analysis

As noted earlier, over a period of 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. 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-12	30-Jun-13
Current and other assets	$8,017,356	$9,637,388
Net OPEB asset	1,117,055	1,205,117
Capital assets	5,497,326	5,361,882
Total assets	14,631,737	16,204,387
Long-term liabilities	443,955	3,800,226
Other liabilities	417,673	522,266
Total liabilities	861,628	4,322,492
Net investment in capital assets	5,497,326	5,361,882
Unrestricted	8,272,783	6,520,013
Total net position	$13,770,109	$11,881,895

The District's net position totaled $11.9 million at June 30, 2013; this means that assets exceeded liabilities by $11.9 million. Assets increased by $1.6 million while liabilities increased by $3.5 over the prior year. The increase in assets is due to general operating activities. The increase in liabilities is due to the $3.4 million pension-related debt recorded as a result of changes in actuarial assumptions in the terminated OCERS defined benefit pension plan (for additional information, see Note 7 of the Notes to Basic Financial Statements).

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 $5.4 million, representing 45 percent of the total net position at the end of the fiscal year. The District uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending.

Unrestricted: The remainder of the District's net position is categorized as unrestricted net position, totaling $6.5 million or 55 percent of the total net position. Unrestricted net position may be used to meet the District's ongoing obligations to citizens and creditors. The District's unrestricted net position decreased by $1.7 million from the prior year. The reasons for this decrease are identified by analyzing the changes in net position.

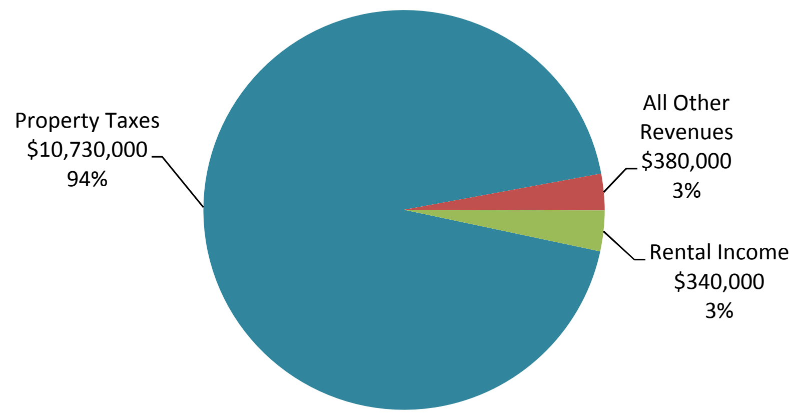
Changes in Net Position

	30-Jun-12	30-Jun-13
Program revenues:		
Charges for services	$ 219,570	$ 128,782
General revenues:		
Property taxes	10,104,970	10,730,458
Interest income	17,690	11,240
Rental income	348,244	337,103
Other revenues	73,777	236,504
Total revenues	10,764,251	11,444,087
Expenses:		
Vector control activities	12,284,843	9,479,170
Total expenses	12,284,843	9,479,170
Change in net position before special item	(1,520,592)	1,964,917
Special item: Net loss from changes in actuarial assumptions related to pension-related debt	-	(3,853,131)
Increase/(decrease) in net position	(1,520,592)	(1,888,214)
Net position - July 1	15,290,701	13,770,109
Net position - June 30	$ 13,770,109	$ 11,881,895

The District's expenses and the special item net loss exceeded revenues by $1.9 million resulting in a decrease in the District's net position. This $1.9 million decrease in net position is $400,000 greater than the prior year's $1.5 million decrease in net position. Key elements for this change include:

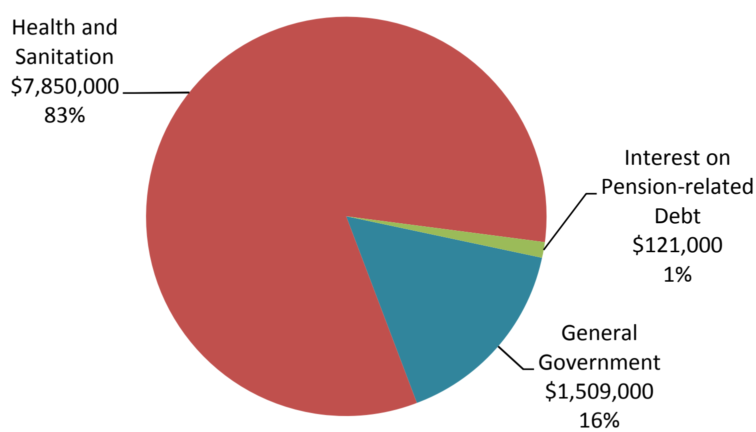
- An increase of $625,000 in property taxes resulting from a) an increase in assessed value and b) monies received as a result of the dissolution of redevelopment agencies.
- A decrease of $2.8 million in vector control operating activities. This decrease is mainly the result of a $2.54 million payment made to the Orange County Employees' Retirement System in fiscal year 2011-12 for additional monies due for pension costs; this cost is calculated and due every three years and is the result of differences between actuarial assumptions and actual results.
- A special item net loss of $3.85 million due to changes in the actuarial assumptions related to pension debt.

Revenues by Source (Government-wide)



As identified in the graph of revenues by source, nearly all of the District's revenues come from the District's share of the ad valorem property tax and property tax assessments. The District's benefit assessment rates of $1.92 per parcel for Assessment District No. 1 and $5.02 per parcel for Assessment District No. 2 remains unchanged from the prior year.

Expenses by Function (Government-wide)



The District's expenses totaled $9.5 million in fiscal year 2012-13. Of that total, $7.8 million (83 percent) was spent for health and sanitation purposes. The remaining costs were for general administrative functions of the District.

During fiscal year 2012-13, the District's Health and Sanitation functional expense category had $128,782 of program revenues (charges for services).

Financial Analysis of the District's Funds

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

At the end of the current fiscal year, the District's governmental funds reported combined ending fund balances of $9.2 million, an increase of $1.97 million over the prior year. Revenues of $11.78 million exceeded expenditures of $9.81 million.

Approximately 65.3% ($6.0 million) of the combined ending fund balances constitutes unassigned fund balance, which is available for spending at the District's discretion. The remainder of the combined ending fund balances is categorized as nonspendable (1.4% of total fund balance) or committed (33.3% of total fund balance), indicating that it is not available for new spending because it has already been designated as:

Nonspendable	
Loans	$4,318
Prepaid costs	11,101
Inventory	112,913
Committed	
Retiree medical insurance	190,244
Retirement contingency	48,399
Vehicle replacement	283,777
Liability reserve	488,409
Equipment replacement	335,749
Emergency vector control	885,282
Habitat remediation	200,000
Facilities improvement	627,310
Environmental issues	7,397

General Fund. The General Fund is the chief operating fund of the District and comprises 98% of the expenditures of the District. At the end of the current fiscal year the unassigned fund balance of the General Fund was $6,017,864 while the total fund balance was $8,585,453. As a measure of the General Fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. The General Fund's unassigned fund balance represents 62% of General Fund expenditures, while the General Fund's total fund balance represents 89% of General Fund expenditures.

The General Fund's fund balance increased in fiscal year 2012-13 by $1.8 million as opposed to a $1.6 million decrease in fiscal year 2011-12. The significant differences that resulted in this $3.4 million total change is due to a) increase of $625,000 in property taxes resulting from an increase in assessed value and from monies received as a result of the dissolution of redevelopment agencies, b) increase of $355,000 in property taxes resulting from the State's repayment of Proposition 1A borrowings, c) decrease of $2.04 million in payments made to the Orange County Employees' Retirement System for additional pension costs ($2.54 million was paid in fiscal year 2011-12 and $500,000 was paid in fiscal year 2012-13).

Facilities Improvement Special Revenue Fund. This fund is used to account for monies set aside for future building needs and for rehabilitation of current facilities. For fiscal year 2012-13, revenues of $302,000 exceeded expenditures of $158,000, resulting in an increase of $144,000 to fund balance. The total fund balance at year end is $627,000 and it is all committed for facilities improvements.

Budgetary Highlights

In preparing its budget, the District attempts to estimate its revenues using realistic, but conservative, methods so as to budget its expenditure appropriations and activities in a prudent manner. As a result, the Board of Trustees adopts budget adjustments during the course of the fiscal year to reflect both changed priorities and availability of additional revenues. During the course of the year, the Board of Trustees amended the District's originally adopted expenditure budget by $55,000 for necessary repairs and maintenance to the District's facilities.

General Fund. The General Fund reflected a positive net budget variance of $1,484,000 when comparing actual amounts to the final budget for the current fiscal year. This amount reflects a positive variance of $693,000 in revenues and a positive variance of $791,000 in expenditures. The positive revenue variance resulted from actual revenues exceeding the budget for property taxes. The positive expenditure variance resulted from actual expenditures being less than the final budget in all divisions except for legal services, administrative services, and medical insurance.

The difference between the General Fund's original budget and the final amended budget for expenditures was an increase of less than $6,000.

Capital Asset and Debt Administration

Capital assets. The District's capital assets for governmental activities as of June 30, 2013, total $5,361,882, (net of accumulated depreciation). This is a net decrease of $135,444 from June 30, 2012. The capital assets include land, structure and improvements, equipment and furniture, and vehicles. Capital asset additions totaled $154,000, net deletions totaled $9,000, and depreciation expense totaled $280,000.

Capital Assets (net of depreciation)

	Governmental Activities	
	30-Jun-12	30-Jun-13
Land	$ 2,010,329	$ 2,010,329
Structures and improvements	2,743,382	2,626,681
Equipment and furniture	197,213	149,644
Vehicles	546,402	575,228
Total	$ 5,497,326	$ 5,361,882

Additional information on the District's capital assets can be found in the Capital Assets Note (Note 4) of the notes to the financial statements.

Long-term debt. At the end of the current fiscal year, the District had total debt outstanding of $3,800,226.

Outstanding Debt

	Governmental Activities	
	30-Jun-12	30-Jun-13
Employee compensated absences	$ 443,955	$ 447,095
Pension-related debt	-	3,353,131
Total	$ 443,955	$ 3,800,226

Information on employee compensated absences can be found in Note 1(l) of the notes to the financial statements. Information on the pension-related debt can be found in Note 7 of the notes to the financial statements, under the heading of Terminated OCERS Defined Benefit Pension Plan.

Economic Factors and Next Year's Budget

The District's overall fiscal year 2013-14 revenues are budgeted to be $11.05 million while expenditures are budgeted to be $10.96 million. These budgetary expectations reflect:

- Local property values will increase by a conservative 1% growth resulting in estimated property tax revenues of nearly $4.5 million.
- The assessment for Assessment District No. 1 will remain at $1.92 per parcel and is projected to yield $1.5 million.
- The assessment for Assessment District No. 2 will remain at $5.02 per parcel and is projected to yield $4.1 million.
- Other revenues are expected to remain generally stable from the prior fiscal year.
- Personnel costs are anticipated to remain steady at $6.9 million and are estimated to account for 73 percent of the District's operating expenditures in fiscal year 2013-14.
- Capital outlay costs are proposed to be $583,000 in fiscal year 2013-14. The most significant proposed capital purchases include $250,000 for a new data management mapping system and $200,000 for the replacement of District vehicles.

The District's total fund balance is estimated to increase by $91,300 as of June 30, 2014.

Requests for Information

This financial report is designed to provide a general overview of the financial position of the Orange County 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 VECTOR CONTROL DISTRICT

STATEMENT OF NET POSITION

June 30, 2013

		Governmental Activities
ASSETS:		
Cash and investments	$	9,244,424
Receivables:		
Accounts, net		46,349
Taxes		89,426
Loans		4,318
Accrued interest		4,535
Due from other governments		124,322
Prepaid costs		11,101
Inventory		112,913
Net OPEB asset		1,205,117
Capital assets, not being depreciated		2,010,329
Capital assets, net of depreciation		3,351,553
TOTAL ASSETS		16,204,387
LIABILITIES:		
Accounts payable		69,823
Interest payable on pension-related debt		121,551
Accrued liabilities		300,007
Deposits payable		30,885
Noncurrent liabilities:		
Compensated absences, due within one year		147,541
Compensated absences, due in more than one year		299,554
Pension-related debt, due in more than one year		3,353,131
TOTAL LIABILITIES		4,322,492
NET POSITION:		
Net investment in capital assets		5,361,882
Unrestricted		6,520,013
TOTAL NET POSITION	$	11,881,895

See independent auditors' report and notes to basic financial statements.

ORANGE COUNTY VECTOR CONTROL DISTRICT

STATEMENT OF ACTIVITIES

For the year ended June 30, 2013

Functions/programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Contributions and Grants	Program Revenues: Capital Contributions and Grants	Net (Expense) Revenue and Changes in Net Position: Governmental Activities
Governmental activities:					
General government	$ 1,508,912	$ -	$ -	$ -	$ (1,508,912)
Health and sanitation	7,848,707	128,782			(7,719,925)
Interest on pension-related debt	121,551	-	-	-	(121,551)
Total governmental activities	$ 9,479,170	$ 128,782	$ -	$ -	(9,350,388)

General revenues:	
Taxes:	
Property taxes, levied for general purpose	10,730,458
Investment income	11,240
Rental income	337,103
Other	228,406
Gain on sale of capital assets	8,098
Total general revenues	11,315,305
Change in net position before special item	1,964,917
Special item:	
Net loss resulting from changes in actuarial assumptions related to pension-related debt (Note 7)	(3,853,131)
Change in net position	(1,888,214)
Net Position at Beginning of Year	13,770,109
Net Position at End of Year	$ 11,881,895

See independent auditors' report and notes to basic financial statements.

ORANGE COUNTY VECTOR CONTROL DISTRICT

BALANCE SHEET - GOVERNMENTAL FUNDS

June 30, 2013

	General	Special Revenue Fund Facilities Improvement	Total Governmental Funds
ASSETS			
Cash and investments	$ 8,586,092	$ 658,332	$ 9,244,424
Receivables:			
Accounts,	45,849	500	46,349
Taxes	89,426	-	89,426
Loans	4,318	-	4,318
Accrued interest	4,252	283	4,535
Due from other governments	124,322	-	124,322
Prepaid costs	11,101	-	11,101
Inventory	112,913	-	112,913
TOTAL ASSETS	$ 8,978,273	$ 659,115	$ 9,637,388
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES			
LIABILITIES:			
Accounts payable	$ 68,903	$ 920	$ 69,823
Accrued liabilities	300,007	-	300,007
Deposits payable	-	30,885	30,885
TOTAL LIABILITIES	368,910	31,805	400,715
DEFERRED INFLOWS OF RESOURCES:			
Unavailable revenues	23,910	-	23,910
FUND BALANCES:			
Nonspendable:			
Loans	4,318	-	4,318
Prepaid costs	11,101	-	11,101
Inventory	112,913	-	112,913
Committed to:			
Retiree medical insurance	190,244	-	190,244
Retirement contingency	48,399	-	48,399
Vehicle replacement	283,777	-	283,777
Liability reserve	488,409	-	488,409
Equipment replacement	335,749	-	335,749
Emergency vector control	885,282	-	885,282
Habitat remediation	200,000	-	200,000
Facilities improvement	-	627,310	627,310
Environmental	7,397	-	7,397
Unassigned	6,017,864	-	6,017,864
TOTAL FUND BALANCES	8,585,453	627,310	9,212,763
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	$ 8,978,273	$ 659,115	$ 9,637,388

See independent auditors' report and notes to basic financial statements.

ORANGE COUNTY VECTOR CONTROL DISTRICT

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

June 30, 2013

Fund balances - total governmental funds	$ 9,212,763
Amounts reported for governmental activities in the Statement of Net Position are different because:	
Capital assets net of depreciation have not been included as financial resources in the governmental fund activity.	5,361,882
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	(447,095)
Pension related debt	(3,474,682)
Governmental funds report all OPEB contributions as expenditures, however, in the Statement of Net Position any excesses or deficiencies in contributions in relation to the Annual Required Contribution (ARC) are recorded as an asset or liability.	1,205,117
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.	23,910
Net position of governmental activities	$ 11,881,895

See independent auditors' report and notes to basic financial statements.

ORANGE COUNTY VECTOR CONTROL DISTRICT

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

For the year ended June 30, 2013

	General	Special Revenue Fund Facilities Improvement	Total Governmental Funds
REVENUES:			
Taxes	$ 11,085,322	$ -	$ 11,085,322
Intergovernmental	48,853	-	48,853
Charges for services	56,019	-	56,019
Investment income	10,107	1,133	11,240
Rental income	35,985	301,118	337,103
Miscellaneous	245,758	-	245,758
TOTAL REVENUES	11,482,044	302,251	11,784,295
EXPENDITURES:			
Current:			
General government	1,607,904	158,140	1,766,044
Health and sanitation	7,848,707	-	7,848,707
Capital outlay	201,600	-	201,600
TOTAL EXPENDITURES	9,658,211	158,140	9,816,351
EXCESS OF REVENUES OVER EXPENDITURES	1,823,833	144,111	1,967,944
FUND BALANCES AT BEGINNING OF YEAR	6,761,620	483,199	7,244,819
FUND BALANCES AT END OF YEAR	$ 8,585,453	$ 627,310	$ 9,212,763

See independent auditors' report and notes to basic financial statements.

ORANGE COUNTY 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, 2013

Net change in fund balances - total governmental funds	$ 1,967,944
Amounts reported for governmental activities in the Statement of Activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the costs of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period:	
Capital outlay	153,822
Depreciation	(280,012)
Excess of sales proceeds over gain on sale of capital assets	(9,254)
Compensated absences expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.	(3,140)
The repayment of pension related debt consumes the current financial resources of governmental funds and is reported as an expenditure in governmental funds.	500,000
Additions to pension related debt (including interest expense of $121,551) are reported as expenses in the Statement of Activities but do not require the use of current financial resources and, therefore, are excluded from governmental fund expenditures.	(3,974,682)
Governmental funds report all contributions in relation to the Annual Required Contribution (ARC) for OPEB as expenditures, however in the Statement of Activities only the ARC is an expense.	88,062
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.	(330,954)
Change in net position of governmental activities	$ (1,888,214)

See independent auditors' report and notes to basic financial statements.

ORANGE COUNTY VECTOR CONTROL DISTRICT

BUDGETARY COMPARISON STATEMENT BY DEPARTMENT

GENERAL FUND

For the year ended June 30, 2013

	Budgeted Amounts		Actual	Variance with Final Budget Positive
	Original	Final	Amounts	(Negative)
FUND BALANCE AT BEGINNING OF YEAR	$ 6,761,620	$ 6,761,620	$ 6,761,620	$ -
RESOURCES (INFLOWS):				
Taxes	10,023,041	10,443,900	11,085,322	641,422
Intergovernmental	100,000	50,000	48,853	(1,147)
Charges for services	80,000	78,000	56,019	(21,981)
Investment income	12,100	14,100	10,107	(3,993)
Rental income	35,000	36,000	35,985	(15)
Miscellaneous	74,000	167,000	245,758	78,758
TOTAL RESOURCES (INFLOWS)	10,324,141	10,789,000	11,482,044	693,044
CHARGES TO APPROPRIATONS (OUTFLOWS):				
Current:				
General government:				
Trustees	43,600	42,500	41,648	852
District Manager	417,802	375,915	342,780	33,135
Legal services	72,000	97,000	111,136	(14,136)
Nondepartmental	191,400	180,600	145,147	35,453
Administrative services	567,005	527,220	547,080	(19,860)
Insurance	512,555	512,555	420,113	92,442
Health and sanitation:				
Technical services	1,295,560	1,266,910	1,261,421	5,489
Field operations	4,931,810	4,840,340	4,577,988	262,352
Vehicle maintenance	653,600	516,500	441,034	75,466
Building maintenance	144,900	156,900	146,008	10,892
Public information	329,705	350,110	300,050	50,060
Information technology	302,404	268,210	233,839	34,371
Public service	249,362	228,220	208,328	19,892
Medical insurance	335,450	138,000	144,311	(6,311)
Retirement contingency	-	500,000	500,000	-
Habitat remediation	200,000	200,000	-	200,000
Environmental	20,000	36,000	35,728	272
Capital outlay	176,000	212,100	201,600	10,500
TOTAL CHARGES TO APPROPRIATIONS (OUTFLOWS)	10,443,153	10,449,080	9,658,211	790,869
EXCESS OF RESOURCES OVER CHARGES TO APPROPRIATIONS	(119,012)	339,920	1,823,833	1,483,913
FUND BALANCE AT END OF YEAR	$ 6,642,608	$ 7,101,540	$ 8,585,453	$ 1,483,913

See independent auditors' report and notes to basic financial statements.

ORANGE COUNTY VECTOR CONTROL DISTRICT

BUDGETARY COMPARISON STATEMENT

FACILITIES IMPROVEMENT SPECIAL REVENUE FUND

For the year ended June 30, 2013

	Budgeted Amounts		Actual	Variance with Final Budget Positive
	Original	Final	Amounts	(Negative)
FUND BALANCE AT BEGINNING OF YEAR	$ 483,199	$ 483,199	$ 483,199	$ -
RESOURCES (INFLOWS):				
Investment income	1,000	1,800	1,133	(667)
Rental income	312,000	305,000	301,118	(3,882)
TOTAL RESOURCES (INFLOWS)	313,000	306,800	302,251	(4,549)
CHARGES TO APPROPRIATIONS (OUTFLOWS):				
Current:				
General government	60,600	109,600	158,140	(48,540)
TOTAL CHARGES TO APPROPRIATIONS (OUTFLOWS)	60,600	109,600	158,140	(48,540)
EXCESS OF RESOURCES OVER CHARGES TO APPROPRIATIONS	252,400	197,200	144,111	(53,089)
FUND BALANCE AT END OF YEAR	$ 735,599	$ 680,399	$ 627,310	$ (53,089)

See independent auditors' report and notes to basic financial statements.

1. ORGANIZATION AND 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. 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. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. The District has no business-type activities.

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

      Fund Financial Statements:

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

1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

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

      Fund Financial Statements (Continued):

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

      The District reports the following major governmental funds:

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

      Facilities Improvement Special Revenue Fund - This fund was established to set aside amounts for future building needs for various facilities and rehabilitation of current facilities.

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

1. ORGANIZATION AND 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:

Implemented:

In fiscal year 2012-2013, the District implemented Governmental Accounting Standards Board (GASB) Statement No. 63, "*Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*". This statement incorporates deferred outflows of resources and deferred inflows of resources, as defined by GASB Concepts Statement No. 4, *"Elements of Financial Statements"* into the definitions of the required components of the residual measure of net position, formerly net assets. This statement also provides a new Statement of Net Position format to report all assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position.

In fiscal year 2012-2013, the District early implemented GASB Statement No. 65, "*Items Previously Reported as Assets and Liabilities*". This statement established accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities. Implementation of this statement resulted in the reclassification of *unavailable revenues* from liabilities to deferred inflows of resources.

1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

d. New Accounting Pronouncements (Continued):

Pending Accounting Standards:

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

- GASB 66 - "*Technical Corrections, an amendment of GASB Statement No. 10 and Statement No. 62",* effective for periods beginning after December 15, 2012.
- GASB 67 - *"Financial Reporting for Pension Plans, an amendment of GASB Statement No. 25"*, effective for the fiscal years beginning after June 15, 2013.
- GASB 68 - "*Accounting and Financial Reporting for Pensions, an amendment of GASB Statement No. 27"*, effective for the fiscal years beginning after June 15, 2014.
- GASB 69 - *"Government Combinations and Disposals of Government Operations"*, effective for periods beginning after December 15, 2013.
- GASB 70 - "*Accounting and Financial Reporting for Nonexchange Financial Guarantees"*, effective for the periods beginning after June 15, 2013.

e. Investments:

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

f. Receivables:

Accounts receivable are shown net of an allowance for collectibles of $5,096, which consists of accounts specifically identified by management as uncollectible.

g. Inventory:

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

h. Prepaid Costs:

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements. The fund balances in the governmental fund types have been classified as nonspendable for amounts equal to the prepaid items in the fund-level statements, since these amounts are not available for appropriation.

1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

   i. Capital Assets:

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

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

   Property, plant and equipment are depreciated using the straight-line method over the following estimated useful lives:

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

   j. Deferred Outflows/Inflows of Resources:

   In addition to assets, the Statement of Net Position 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 a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The District has no items that qualify for categorization under deferred outflows of resources.

   In addition to liabilities, the government-wide Statement of Net Position and the Balance Sheet of the governmental funds 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(s) and will not be recognized as an inflow of resources (revenue) until that time. The District has only one type of item, which arises only under the modified accrual basis of accounting, that qualifies for reporting in this category. Accordingly, the item, *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.

1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

k. 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. In the opinion of District Counsel, the District had no material claims that require a provision to be made in these financial statements.

l. 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.

Accumulated sick leave is paid only to individuals hired prior to July 15, 1977, and who have attained 50 years of age. In addition, all Tier 1 employees are eligible to receive payment for accumulated sick leave upon retirement or death. Amounts paid vary from 25% of accumulated sick leave with five years of service to 100% of accumulated sick leave with 20 years of service.

The change in the District's compensated absences liability during the year ended June 30, 2013 consisted of the following:

	Balance at July 1, 2012	Additions	Deletions	Balance at June 30, 2013	Due Within One Year
Compensated absences	$ 443,955	$ 387,956	$ (384,816)	$ 447,095	$ 147,541

m. 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 outstanding debt outstanding against the acquisition, construction or improvement of those assets.

1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

m. Net Position (Continued):

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

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

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

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

n. Fund Equity:

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

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

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

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

1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

n. Fund Equity (Continued):

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

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

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

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

o. 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.

p. Use of Estimates:

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

2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY:

Budgetary Data:

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

Excess of Expenditures Over Appropriations:

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

	Final Budget	Actual	Variance with Final Budget
Major Funds:			
General Fund:			
Legal services	$ 97,000	$ 111,136	$ (14,136)
Administrative services	527,220	547,080	(19,860)
Medical insurance	138,000	144,311	(6,311)
Facilities Improvement Special Revenue Fund:			
General government	109,600	158,140	(48,540)

3. CASH AND INVESTMENTS:

Cash and Investments:

Cash and investments as of June 30, 2013 are classified in the accompanying financial statements as follows:

Statement of Net Position:	
Cash and investments	$ 9,244,424

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

Deposits with financial institutions	$ 648,212
Investments	8,596,212
Total cash and investments	$ 9,244,424

The District maintains a cash and investment pool that is available for use for all funds. Each fund type's position in the pool is reported on the governmental funds balance sheet as cash and investments. The District has adopted an investment policy which authorizes it to invest in various investments.

3. CASH AND INVESTMENTS (CONTINUED):

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.

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
United States Treasury Issues	5 years	None	None
Federal Agency Issues	5 years	None	50%
Banker's Acceptances	180 days	40%	30%
Certificates of Deposit	5 years	None	None
Local Agency Investment Fund (LAIF)	N/A	$40,000,000	N/A
Passbook Savings Account	None	None	None
Orange County Investment Pool (OCIP)	N/A	None	None
Money Market Account (AAA rated)	N/A	15%	10%

N/A - Not Applicable

Interest Rate Risk:

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

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

3. CASH AND INVESTMENTS (CONTINUED):

Interest Rate Risk (Continued):

As of June 30, 2013, the District had the following investments and original maturities:

Investment Type	Fair Value	Remaining Maturity 6 Months or Less
California Local Agency Investment Fund	$ 6,994,799	$ 6,994,799
Orange County Investment Pool (OCIP)	1,601,413	1,601,413
	$ 8,596,212	$ 8,596,212

Disclosures Relating to Credit Risk:

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

Concentration of Credit Risk:

The District's investment policy imposes restrictions for certain types of investments with any one issuer beyond that stipulated by the California Government Code; however, external investment pools are excluded from this requirement. At June 30, 2013, the District's investments consisted entirely of investments in external investment pools.

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.

3. CASH AND INVESTMENTS (CONTINUED):

Custodial Credit Risk (Continued):

The California Government Code and the District's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110 percent of the total amount deposited by the public agencies. California law also allows financial institutions to secure District deposits by pledging first trust deed mortgage notes having a value of 150 percent of the secured public deposits. At June 30, 2013, the District deposits (bank balances) were insured by the Federal Deposit Insurance Corporation up to $250,000 or collateralized as required under California Law.

District Investments in State Investment Pool and County Investment Pool:

The District is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California. LAIF is overseen by the Local Agency Investment Advisory Board, which consists of five members, in accordance with State statute. The State Treasurer's Office audits the fund annually. The District is also a voluntary participant in the Orange County Investment Pool (OCIP) that is regulated by California Government Code and the Orange County Board of Supervisors under the oversight of the Orange County Treasurer-Tax Collector. 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.

4. CAPITAL ASSETS:

Capital assets activity for the year ended June 30, 2013 is as follows:

	Balance at July 1, 2012	Additions	Deletions	Balance at June 30, 2013
Capital assets, not being depreciated:				
Land	$ 2,010,329	$ -	$ -	$ 2,010,329
Total capital assets, not being depreciated	2,010,329	-	-	2,010,329
Capital assets, being depreciated:				
Structures and improvements	4,548,177	-	-	4,548,177
Equipment and furniture	575,833	7,476	(8,493)	574,816
Vehicles	1,636,020	146,346	(80,424)	1,701,942
Total capital assets, being depreciated	6,760,030	153,822	(88,917)	6,824,935
Less accumulated depreciation for:				
Structures and improvements	(1,804,795)	(116,701)	-	(1,921,496)
Equipment and furniture	(378,620)	(55,045)	8,493	(425,172)
Vehicles	(1,089,618)	(108,266)	71,170	(1,126,714)
Total accumulated depreciation	(3,273,033)	(280,012)	79,663	(3,473,382)
Total capital assets, being depreciated, net	3,486,997	(126,190)	(9,254)	3,351,553
Governmental Activity capital assets, net	$ 5,497,326	$ (126,190)	$ (9,254)	$ 5,361,882

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

Governmental Activities:	
General government	$ 280,012

See independent auditors' report.

5. DEFERRED COMPENSATION PLAN:

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

6. SELF-INSURANCE PROGRAM:

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

Description of Joint Powers Agency:

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

Self-insurance Programs of the Agency:

Liability and Workers' Compensation

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

7. RETIREMENT PLANS:

CalPERS Defined Benefit Pension Plan:

Plan Description:

The District participates in the 2% at 55 (Tier I), 2% at 60 (Tier II) and 2% at 62 (Tier III) Risk Pools of the California Public Employees Retirement System (CalPERS). As part of a cost-sharing multiple-employer defined benefit plan, CalPERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. CalPERS acts as a common investment and administrative agent for participating public entities within the State of California. Benefit provisions and all other requirements are established by State statute and District ordinance. Copies of CalPERS' annual financial report may be obtained from its executive office: 400 P Street, Sacramento, CA 95814.

Funding Policy:

Active plan members of Tier I are required to contribute 7.0% of their annual covered salary. This plan was closed to new members as of July 13, 2012. Tier I contains only classic members (employees hired before January 1, 2013, the date of implementation of California Employees' Pension Reform Act (PEPRA)) for which the District paid the entire 7% of the employee contribution on behalf of the employee until July 13, 2012. As of July 13, 2012, represented employees, which exclude management, will pay 3.5% of the required 7.0% contribution. The District will continue to contribute the full 7.0% of the employee contribution on behalf of the management group.

As of July 13, 2012, Tier II is open to qualified employees (employees hired before January 1, 2013 or employees hired after January 1, 2013 and have been in the CalPERS System). Active plan members of Tier II are required to contribute 7.0% of their annual covered salaries. Represented employees, which exclude management, will pay 3.5% of the required 7.0% contribution. The District will contribute the full 7% of the employee contribution on behalf of the management group.

Tier III was created by PEPRA as of January 1, 2013 and is open to all new employees who do not qualify for Tier II. Active plan members of Tier III are required to contribute 6.25% of their annual covered salary. PEPRA does not allow the District to pay any portion of the employee required contribution on behalf of the employee.

The District is required to contribute the actuarially determined remaining amounts necessary to fund the benefits for its members under the California Employees' Pension Reform Act (PEPRA) provisions. The required employer contribution rate of annual covered payroll for the fiscal years ended June 30, 2013, 2012 and 2011 for Tier I were 10.238%, 10.059% and 8.697%, respectively.

7. RETIREMENT PLANS (CONTINUED):

CalPERS Defined Benefit Pension Plan (Continued):

Funding Policy (Continued):

The required employer contribution rate for the fiscal year ended June 30, 2013 for Tier II was 10.238%. The required employer contribution rate of the fiscal year ended June 30, 2013 for Tier III was 6.25%. The actuarial methods and assumptions are those adopted by the CalPERS Board of Administration. The District's annual pension cost for all Tiers for the years ended June 30, 2013, 2012 and 2011 was $439,437, $448,864 and $403,150, respectively, which were equal to the required contributions each year.

Terminated OCERS Defined Benefit Pension Plan:

Plan Description:

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

Funding Policy:

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

7. RETIREMENT PLANS (CONTINUED):

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 Vector Control District, commencing as of December 31, 2010 and at least every three years thereafter the District 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 and, as such, is accounted for as a long-term liability of the District. The outstanding liability is reported as a noncurrent liability on the government-wide financial statements. Contributions are reported as debt service payments when made .

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

Changes to the UAAL for the year ended June 30, 2013 were as follows:

Unfunded actuarial accrued liability as of June 30, 2012, as restated (1)	$ -
Contributions made	(500,000)
Net increase due to changes in actuarial assumptions (2)	3,853,131
Unfunded actuarial accrued liability as of June 30, 2013	$ 3,353,131
Interest payable for the period January 1, 2013 through June 30, 2013 at a rate of 7.25%	$ 121,551

(1) The unfunded actuarial accrued liability as of June 30, 2012 was decreased from $124,788 to $0 to correct the calculation of interest expense on the unfunded liability from prior years. As the amount was only disclosed in this note, there are no effects on the government-wide or fund financial statements.

7. RETIREMENT PLANS (CONTINUED):

Terminated OCERS Defined Benefit Pension Plan (Continued):

Accounting and Reporting (Continued):

(2) The net increase in the UAAL was due to the following changes in actuarial assumptions utilized in the most recent actuarial valuation as of December 31, 2012:

Loss due to unfavorable returns	$ 2,053,083
Loss due to changes in mortality assumptions	1,229,000
Loss due to changes in economic assumptions	1,677,000
Gain due to lower-than-expected salary increases	(608,000)
Gain due to other changes in demographic assumptions	(339,000)
Net gain due to other actuarial experience	(158,952)
	$ 3,853,131

As a result of the significant increase in the UAAL balance, this change in the estimate has been reported as a special item in the government-wide financial statements so as not to distort the net (expense) revenue and changes in net position of the vector control activities.

Summary of Principal Actuarial Assumptions and Methods:

The unfunded actuarial accrued liability was determined using assumptions as part of the December 31, 2012 valuation using the entry age normal actuarial cost method. These assumptions included (a) 7.25% investment rate of return (net of both investment and administrative expenses), (b) projected annual salary increases that vary by duration of service and (c) 3.0% cost-of-living adjustments. Both (a) and (b) included an inflation component of 3.25%. The actuarial value of OCERS assets was determined by using the market value of assets less unrecognized returns in each of the last five years. Unrecognized return is equal to the difference between the actual and the expected return on a market value basis, and is recognized over a five-year period. The valuation value of assets is the actuarial value of assets reduced by the value of the non-valuation reserves. It should be noted that the District has previously withdrawn from OCERS, the liabilities for the District have been determined using frozen service previously accrued while at OCERS but with projected salaries at retirement for current active employees.

7. RETIREMENT PLANS (CONTINUED):

Terminated OCERS Defined Benefit Pension Plan (Continued):

Summary of Principal Actuarial Assumptions and Methods (Continued):

The largest layer of OCERS unfunded actuarial accrued liability (UAAL) is being amortized over a period of 22 years closed (declining) in the December 31, 2012 actuarial valuation. The UAAL established from a change in actuarial assumptions, such as the lowering of the return assumption from 7.75% to 7.25%, is amortized over a 30 year period in the December 31, 2012 valuation. The UAAL established from annual actuarial gains or losses are amortized over closed fifteen year (declining) periods. However, beginning with the December 31, 2013 valuation, all existing UAAL as of the valuation date will be amortized in a single layer 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.

PARS Defined Contribution Benefit Plan:

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

The PARS plan is solely funded by the contribution from the employee. The contribution rate is 7.50% of gross earnings for employees. Total payroll for employees covered by this plan at June 30, 2013, was $643,198. The amount of employee contributions at June 30, 2013, was $48,239.

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

Plan Description:

The Orange County Vector Control District sponsors the California PERS Health Plan (PEMHCA). The program provides comprehensive health insurance through a variety of Health Maintenance Organization (HMO) and Preferred Provider Organization (PPO) options. Participation in PEMHCA is financed in part by the District. District members become eligible to retire and receive District-paid healthcare benefits upon attainment of age 50 and 5 years of covered PERS service. Retired members over the age of 65 may join one of the Supplemental (Medicare-coordinated) options under PEMHCA. Benefits are paid for the lifetime of the retiree. The District's basic contribution on behalf of retirees is determined under the "Unequal Contribution Method" as described in Government Code Section 22892(c), as applied to the statutory minimum contribution for active employees of $112/month (2012) and $115/month (2013). The contribution on behalf of retirees is 30% of $112 ($33.60) for 2012 and 35% of $115 ($40.25) for 2013. The percentage increases each year by 5% until it reaches 100% of the statutory minimum contribution for years 2026 and later.

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

(1) Employees hired prior to July 1, 2009 have an additional allowance of $234.05 added to their statutory minimum as described above. The $234.05 represents the medical allowance as of the date the new CalPERS resolution was adopted, and is frozen for all future years.

(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. These grandfathered retirees are eligible to receive a monthly grant equal to the greater of their 2006 monthly grant (calculated as $399.75 per month, reduced for service less than 25 years), or the current District contribution as determined under the rules described in paragraph (1) above.

Funding Policy:

The contribution requirements of plan members and the District are established and may be amended by the District, Board, and/or the employee associations. Currently, contributions are not required from plan members. In July, 2008, the District established an account within the PARS Section 115 Trust. Trust assets have an actuarial value of $2,576,408 as of the July 1, 2012 actuarial report. The District made contributions of $144,673 during the 2012-2013 fiscal year. The purpose of the contributions was to cover the pay-as-you-go financing requirement as well as the current year's amortized unfunded accrued liability portion which is being amortized over 30 years.

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

Annual OPEB Costs and Net OPEB Asset:

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

Annual required contribution	$ 44,786
Interest on net OPEB obligation	(78,194)
Adjustment to annual required contribution	90,019
Annual OPEB cost	56,611
Actual contributions made	(144,673)
Increase in net OPEB asset	(88,062)
Net OPEB Asset - beginning of year	(1,117,055)
Net OPEB Asset - end of year	$ (1,205,117)

The contribution rate of 255.57% is based on the ARC of $44,786, an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis is projected to cover the annual normal cost and the amortization of unfunded actuarial liabilities (or funding excess) over an open thirty year period.

Three-Year Trend Information:

The District's annual OPEB cost, the actual contributions, percentage of annual OPEB cost contributed to the plan and the net OPEB asset for the year ended June 30, 2013 and the previous two years were as follows:

Fiscal Year Ended	Annual OPEB Cost	Actual Contributions (Net of Adjustments)	Percentage of Annual OPEB Cost Contributed	Net OPEB Asset
06/30/2011	$ 431,463	$ 132,000	30.59 %	$ (1,243,867)
06/30/2012	410,501	283,689	69.11 %	(1,117,055)
06/30/2013	56,611	144,673	255.57%	(1,205,117)

See independent auditors' report.

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

Funded Status and Funding Progress:

As of July 1, 2012, the most recent actuarial valuation date, the plan was 131.84% funded (actuarial value of assets as a percentage of the actuarial accrued liability). The actuarial accrued liability for benefits was $1,954,178 and the actuarial value of assets was $2,576,408, resulting in a surplus of $622,230. The covered payroll (annual payroll of active employees covered by the plan) was $4,120,718, and the ratio of the UAAL to the covered payroll was (15.10)%.

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

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

Actuarial Methods and Assumptions:

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

The unfunded actuarial accrued liability was determined using assumptions as part of the July 1, 2012 valuation using the projected unit credit actuarial cost method. These assumptions included (a) 7.00% investment rate of return (net of administrative expenses), (b) healthcare trend rates of 8% decreasing to an ultimate rate of 5% over a period of 3 years, and (c) Medical CPI of 4%. These assumptions all include an implicit inflation component of 2.5%. The actuarial value of plan assets was determined by using the market value of the PARS account as of June 30, 2012, without adjustment. The District's unfunded actuarial accrued liability is being amortized as a level dollar amount over an open period of 30 years. Any increases or decreases in UAAL that arise in future years due to actuarial gains or losses and/or changes in actuarial assumptions will be combined with the outstanding balance of the UAAL from the previous valuation and amortized over a new 30 year period.

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

Actuarial Methods and Assumptions (Continued):

Several factors have caused the actuarial accrued liability to decrease from $3,377,688 as calculated in the July 1, 2009 actuarial valuation to $1,954,178 in the July 1, 2012 actuarial accrued liability. One of the most significant changes to the factors included in the actuarial valuation includes that the District adopted the PERS statutory minimum benefit as of July 1, 2009 that caused a decrease to the actuarial accrued liability of $1,568,770. In addition, the assumed future rates of retirement were lowered by 20% at all ages to reflect emerging plan experience, which caused a decrease of $94,583 to the actuarial accrued liability. Also, there was a net census gain (a decrease in the actuarial accrued liability) of $176,476, primarily as a result of fewer retirements than expected. Other actuarial valuation factors in the July 1, 2012 valuation were changed due to differences from actual results to expectations and updated information available at the time the valuation was performed, but did not have a significant impact on the actuarial accrued liability.

9. OPERATING LEASES:

Operating leases arise from renting the District's property on Haster Street in Garden Grove, California. Initial lease terms generally range from 12 to 60 months. Future minimum rental payments to be received on non-cancelable operating leases are contractually due as follows as of June 30, 2013:

Year Ending June 30	Amounts
2014	$ 309,706
2015	162,405
2016	27,600
2017	14,004
	$ 513,715

10. COMMITMENTS AND CONTINGENCIES:

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

11. SUBSEQUENT EVENTS:

Events occurring after June 30, 2013 have been evaluated for possible adjustments to the financial statements or disclosure as of December 23, 2013, which is the date these financial statements were available to be issued.

REQUIRED SUPPLEMENTARY INFORMATION

ORANGE COUNTY VECTOR CONTROL DISTRICT

SCHEDULE OF FUNDING PROGRESS

For the fiscal year ended June 30, 2013

OTHER POST-EMPLOYMENT BENEFITS PLAN

Actuarial Valuation Date	Actuarial Accrued Liability (AAL) (a)	Actuarial Value of Assets (AVA) (b)	Unfunded Actuarial Accrued Liability (Surplus) (UAAL) (a) - (b)	Funded Ratio AVA (b)/(a)	Annual Covered Payroll (c)	(Surplus) UAAL as a % of Covered Payroll [(a)-(b)]/c]
07/01/2009	$ 3,377,718	$ 1,445,996	$ 1,931,722	42.81%	$ 4,120,718	46.88%
07/01/2012	$ 1,954,178	$ 2,576,408	$ (622,230)	131.84%	$ 4,120,718	-15.10%

See independent auditors' report.

WHITE NELSON DIEHL EVANS LLP
Certified Public Accountants & Consultants

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 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 major fund of the Orange County Vector Control District (the District) as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated December 23, 2013.

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 opinion 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 weakness. However, material weaknesses may exist that have not been identified.

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Offices located in Orange and San Diego Counties

Compliance and Other Matters

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

Purpose of This Report

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

White Nelson Diehl Evans LLP

Irvine, California
December 23, 2013