

ORANGE COUNTY MOSQUITO AND VECTOR CONTROL DISTRICT

BASIC FINANCIAL STATEMENTS

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

FISCAL YEAR ENDED JUNE 30, 2016

ORANGE COUNTY MOSQUITO AND VECTOR CONTROL DISTRICT

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INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of the Orange County Mosquito and Vector Control District (the District), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the State Controller's Minimum Audit Requirements for California Special Districts, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the District as of June 30, 2016 and the respective changes in financial position and the respective budgetary comparison for the General Fund and the Facilities Improvement Special Revenue Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 3, 2016, 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 Shield Evans LLP

Irvine, California
November 3, 2016

ORANGE COUNTY MOSQUITO AND VECTOR CONTROL DISTRICT

Management's Discussion and Analysis
June 30, 2016

This section of the financial statements of the Orange County Mosquito and Vector Control District (District) is management's overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2016. We encourage readers to consider the information presented here in conjunction with the District's financial statements and accompanying notes.

Background

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

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

Financial Highlights

The comparisons in the discussion and analysis below are between FY 2014-15 and FY 2015-16. All increases and decreases are expressed relative to FY 2014-15 amounts.

Government-wide Financial Statements

- The assets and deferred outflows of resources of the District exceeded liabilities and deferred inflows of resources at the close of the fiscal year ended June 30, 2016 by \$18.3 million (net position). Of this amount, \$13.2 million (unrestricted net position) may be used to meet the District's ongoing obligations to citizens and creditors.
- The District's total net position increased by \$1.9 million (11.6 percent).
- Revenues from governmental activities and general revenues totaled \$12.9 million, an increase of \$1.2 million over the prior year.
- Expenses of governmental activities totaled \$11.0 million, an increase of \$0.4 million over the prior year.

Fund Financial Statements

- As of June 30, 2016, the District's governmental funds reported a combined ending fund balance of \$13.2 million, an increase of \$1.2 million over the prior year. Of this amount, \$8.0 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 basic financial statements.

ORANGE COUNTY MOSQUITO AND VECTOR CONTROL DISTRICT

Management's Discussion and Analysis

June 30, 2016

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

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

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

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

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

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The District uses governmental funds to report its activities. The District's governmental fund statements include the Balance Sheet and the Statement of Revenues, Expenditures, and Changes in Fund Balances. In addition, the District uses a fiduciary fund to account for the activity of the trust fund established to administer the District's plan for post-retirement medical benefits. The fiduciary statements include a Statement of Fiduciary Net Position and a Statement of Changes in Fiduciary Net Position.

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

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term

ORANGE COUNTY MOSQUITO AND VECTOR CONTROL DISTRICT

Management's Discussion and Analysis

June 30, 2016

impact of the District's near-term financing decisions. Both the governmental fund balance sheet and governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

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

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

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

Notes to the basic financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements are found in the financial section of this report following the fund financial statements, beginning on page 22.

Government-wide Financial Analysis

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

Net Position

	Governmental Activities	
	30-Jun-15	30-Jun-16
Current and other assets	\$12,572,579	\$13,670,352
Net OPEB asset	949,012	800,203
Capital assets	5,232,039	5,105,393
Total assets	18,753,630	19,575,948
Deferred outflows	483,044	1,132,929
Total deferred outflows	483,044	1,132,929
Long-term liabilities	1,899,307	1,474,217
Other liabilities	553,710	480,090
Total liabilities	2,453,017	1,954,307
Deferred inflows	399,847	462,861
Total deferred inflows	399,847	462,861
Net investment in capital assets	5,232,039	5,105,393
Unrestricted	11,151,771	13,186,316
Total net position	\$16,383,810	\$18,291,709

ORANGE COUNTY MOSQUITO AND VECTOR CONTROL DISTRICT

Management's Discussion and Analysis
June 30, 2016

At June 30, 2016, assets and deferred outflows exceed liabilities and deferred inflows, resulting in a net position of \$18.3 million.

- Assets increased by \$0.8 million. The majority of this increase is due to general operating activities and is reflected by an increase to cash of \$1.1 million offset by decreases of \$0.1 million to capital assets and \$0.2 million to the net OPEB asset.
- Liabilities decreased by \$0.5 million. This decrease is mainly attributable to the \$0.3 million reduction in the pension-related debt of the terminated OCERS defined benefit pension plan as a result of paying the unfunded actuarial accrued liability during FY 2015-16, see Note 7B of the Notes to Basic Financial Statements for additional information. The remainder of the decrease is due to the timing of payments made for operating activities.
- Pension-related deferred outflows increased by \$0.5 million while pension related deferred outflows increased by \$0.1 million, see Note 7A(b) of the Notes to Basic Financial Statements for additional information.

Net investment in capital assets: An important component of net position is capital assets (e.g., land, structures, and vehicles). The District's net investment in capital assets is \$5.1 million, representing 28 percent of the total net position at fiscal year-end. The District uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending.

Unrestricted: The remainder of the District's net position is categorized as unrestricted net position, totaling \$13.2 million or 72 percent of the total net position. Unrestricted net position may be used to meet the District's ongoing obligations to citizens and creditors. The District's unrestricted net position increased by \$2.0 million over the prior year. The reasons for this increase are identified by analyzing the changes in net position.

Changes in Net Position

	Governmental Activities	
	30-Jun-15	30-Jun-16
Program revenues:		
Charges for services	\$ 178,413	\$ 222,952
Rental income	368,006	403,900
General revenues:		
Property taxes	10,994,857	12,192,451
Interest income	28,379	55,553
Other revenues	122,212	27,102
Total revenues	11,691,867	12,901,958
Expenses:		
General government	2,986,091	2,604,822
Health and sanitation	7,525,594	8,380,305
Interest on pension-related debt	107,175	8,932
Total expenses	10,618,860	10,994,059
Change in net position before special item	1,073,007	1,907,899
Special item: Net change in pension-related debt	2,576,068	-
Increase/(decrease) in net position	3,649,075	1,907,899
Net position - July 1	12,734,735	16,383,810
Net position - June 30	\$ 16,383,810	\$ 18,291,709

ORANGE COUNTY MOSQUITO AND VECTOR CONTROL DISTRICT

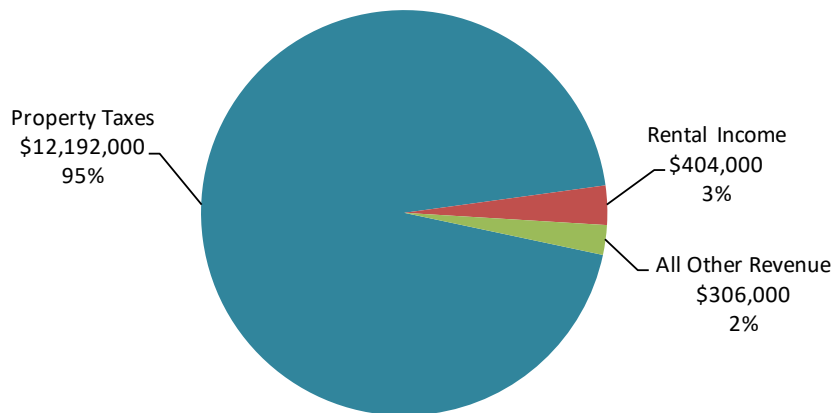
Management's Discussion and Analysis
June 30, 2016

The District's current year net position increased by \$1.9 million in contrast to the prior year's \$3.6 million increase in net position, representing an overall decrease in activity of \$1.7 million. This decrease in activity is explained by a) a \$0.8 million increase in program and general revenues net of expenses and b) a \$2.5 million reduction from the prior year's pension-related debt special item, a non-recurring event.

Key elements of the net \$800,000 change in revenues and expenses include:

- An increase of \$340,000 in property taxes resulting from a) an increase of \$320,000 in ad valorem property taxes due to a rise in assessed value and b) an increase of \$20,000 in monies received as pass-through from the dissolution of redevelopment agencies.
- An increase of \$860,000 in assessments resulting from a \$1.00 increase per benefit assessment during the year.
- An increase in overall expenses of \$0.4 million. This net increase is comprised of several factors:
 - ❖ \$150,000 decrease in General Government expenses due to the variability in the payment schedule for the contribution to the Discovery Cube Science Center's vector-related interactive display
 - ❖ \$100,000 decrease in interest expense as a result of paying the unfunded actuarially accrued pension liability during the fiscal year
 - ❖ \$700,000 net increase in overall Health and Sanitation expenses resulting from increased surveillance, monitoring, and treatment of mosquitoes due to the high number of West Nile Virus cases experienced during the most recent warm weather season. This increase also includes a \$173,000 estimated claims liability for open claims.

Revenues by Source (Government-wide)



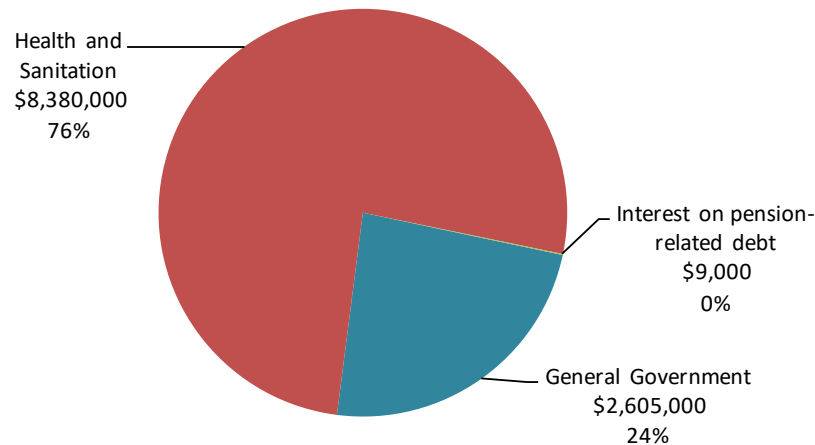
As identified in the graph of revenues by source, nearly all of the District's revenues (95 percent) come from the District's share of the ad valorem property tax and property tax assessments. Of the \$12.2 million property tax revenue, 47 percent is from the District's share of the ad valorem property tax and the remaining 53 percent is from the District's property tax benefit assessments. In FY 2015-16 the District's benefit assessment rates

ORANGE COUNTY MOSQUITO AND VECTOR CONTROL DISTRICT

Management's Discussion and Analysis
June 30, 2016

remained the same for Assessment District No. 1 at \$1.92 per parcel while the benefit assessment rates for Assessment District No. 2 increased from \$5.02 per parcel to \$6.02 per parcel. This increase in the benefit assessment rate accounts for nearly all of the increased assessment revenue.

Expenses by Function (Government-wide)



The District's expenses totaled \$11.0 million in fiscal year 2015-16. Of that total, \$8.4 million (76 percent) was spent for health and sanitation purposes. The remaining costs were for general administrative functions of the District.

During fiscal year 2014-15, the District's Health and Sanitation functional expense category had \$223,000 of program revenues (charges for services) and the General Government functional expense category had \$404,000 of program revenues (charges for services – rental income on District property).

Financial Analysis of the District's Funds

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

At the end of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$13.2 million, an increase of \$1.2 million over the prior year. Revenues of \$12.9 million exceeded expenditures of \$11.7 million.

Approximately 60% (\$8.0 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% of total fund balance) or committed (39% of total fund balance), indicating that it is not available for new spending because it has already been designated as:

ORANGE COUNTY MOSQUITO AND VECTOR CONTROL DISTRICT

Management's Discussion and Analysis
June 30, 2016

<u>Nonspendable</u>	
Inventories	\$75,766
Computer loans	1,567
<u>Committed</u>	
Retiree medical insurance	168,668
Retirement contingency	1,054,931
Vehicle replacement	525,561
Liability reserve	457,878
Equipment replacement	368,865
Emergency vector control	1,145,120
Habitat remediation	186,536
Facilities improvement	1,197,186
Environmental issues	12,064

General Fund. The General Fund is the chief operating fund of the District and comprises 99% of the expenditures of the District. At the end of the current fiscal year the unassigned fund balance of the General Fund was \$7,978,097 while the total fund balance was \$11,975,053. 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 69% of General Fund expenditures while the General Fund's total fund balance represents 103% of General Fund expenditures.

The General Fund's fund balance increased in fiscal year 2015-16 by \$913,000; in the prior year, fund balance increased by \$1,200,000. Although revenues were higher in FY 2015-16 by \$1.2 million, expenditures were higher by \$1.5 million, resulting in a lower net increase to fund balance. Current year revenues were higher due to a \$320,000 increase in property tax revenue as a result of a rise in assessed value and an \$860,000 increase in assessment revenue as a result of a \$1.00 rate increase per benefit unit in Assessment District No. 2.

The significant changes in expenditures which resulted in the \$1.5 million net increase over FY 2014-15 were mainly due to increased salary and benefit costs associated with the increased surveillance, monitoring, and treatment of mosquitoes. The increased expenditures are also a result of a \$173,000 liability recorded for potential claims payments.

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 2015-16, revenues of \$343,000 exceeded expenditures of \$103,000, resulting in an increase of \$240,000 to fund balance. The total fund balance at year end is \$1,197,000 and it is all committed for facility improvements.

Budgetary Highlights

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

ORANGE COUNTY MOSQUITO AND VECTOR CONTROL DISTRICT

Management's Discussion and Analysis
June 30, 2016

During the course of the year, the Board of Trustees amended the District's originally adopted expenditure budget in the General Fund by \$1,011,050. The majority of this budget increase was to provide additional funding for Field, Lab, and Information Services Operations as they performed additional surveillance, monitoring, and testing and during the extended FY 2015-16 warm weather mosquito abatement season.

General Fund. The General Fund balance reflected a positive net budget variance of \$3.9 million when comparing actual amounts to the final budget for the current fiscal year. This amount reflects a positive variance of \$0.7 million in revenues and a positive variance of \$3.2 million in expenditures. The positive revenue variance resulted from actual revenues exceeding the budget for property and assessment taxes. The positive expenditure variance resulted from actual expenditures being less than the final budget in all divisions except for Medical Insurance and Environmental. The largest budget to actual expenditure variance was a \$2.7 million difference in the amount paid to OCERS for the unfunded actuarially accrued liability which was estimated at \$3.0 million while the actual payment needed was \$314,000.

Capital Asset and Debt Administration

Capital assets. The District's capital assets for governmental activities as of June 30, 2016, total \$5,105,393, net of accumulated depreciation. This is a net decrease of \$126,646 from June 30, 2015. The capital assets include land, structure and improvements, equipment and furniture, and vehicles. Capital asset additions totaled \$167,013 and depreciation expense totaled \$291,845. Capital asset disposals resulted in a \$1,814 loss.

Capital Assets, net of depreciation

	Governmental Activities	
	30-Jun-15	30-Jun-16
Land	\$ 2,010,329	\$ 2,010,329
Construction in progress	70,090	-
Structures and improvements	2,393,279	2,276,578
Equipment and furniture	205,193	269,579
Vehicles	553,148	548,907
Total	\$ 5,232,039	\$ 5,105,393

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

Long-term debt. At the end of the current fiscal year, the District had total debt outstanding of \$1,474,217.

Outstanding Debt

	Governmental Activities	
	30-Jun-15	30-Jun-16
Employee compensated absences	\$ 481,538	\$ 411,809
Pension-related debt	305,542	-
Net pension liability	1,112,227	1,062,408
Total	\$ 1,899,307	\$ 1,474,217

ORANGE COUNTY MOSQUITO AND VECTOR CONTROL DISTRICT

Management's Discussion and Analysis
June 30, 2016

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

Economic Factors and Next Year's Budget

The District's overall revenues for FY 2016-17 are budgeted to be \$13.4 million while expenditures are budgeted to be \$13.5 million. These budgetary expectations reflect additional positions needed to ensure compliance with regulations and enhancements to the mosquito control program designed to respond early and aggressively when West Nile Virus or invasive *Aedes* mosquitoes are identified, including:

- Education and Outreach program enhancements include the addition of a limited-term Education Coordinator and several one-time outreach and knowledge-based projects.
- Operations program enhancements include the addition of an Integrated Vector Management Compliance Officer and an Urban Water Compliance Planner. A West Nile Virus Strike Team and an *Aedes* Response Team will be created by adding two Vector Control Inspector positions and 18 new seasonal/extra help employees.

Funding for these program enhancements is budgeted to come from increased assessments from Assessment District No. 2, which will increase from \$6.02 to \$6.72 per parcel and is projected to yield a total of \$5.6 million.

The assessment for Assessment District No. 1 will remain at \$1.92 per parcel and is projected to yield \$1.5 million. The District's share of ad valorem property taxes are anticipated to grow slightly and to yield \$5.35 million. Other revenues are expected to remain generally stable from the prior fiscal year.

Personnel costs are anticipated to increase to \$8.85 million and are estimated to account for 68 percent of the District's operating expenditures in fiscal year 2015-16.

Capital outlay costs are budgeted to be \$485,200 in the Operating Fund and \$370,000 in the Facilities Improvement Fund in fiscal year 2015-16. The most significant proposed capital purchases include \$100,000 to replace three trucks, \$127,000 for various interactive teaching displays, \$115,000 for repaving the parking lot, and \$250,000 for a new server room and shower/locker room.

The District's total fund balance is estimated to decrease by \$150,000 to \$12.3 million as of June 30, 2016.

Requests for Information

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

ORANGE COUNTY MOSQUITO AND VECTOR CONTROL DISTRICT

STATEMENT OF NET POSITION

June 30, 2016

	<u>Governmental Activities</u>
ASSETS:	
Cash and investments	\$ 13,364,424
Receivables:	
Accounts	50,053
Taxes	72,968
Accrued interest	16,104
Due from other governments	89,470
Loans	1,567
Inventory	75,766
Net OPEB asset	800,203
Capital assets, not being depreciated	2,010,329
Capital assets, net of depreciation	<u>3,095,064</u>
 TOTAL ASSETS	 <u>19,575,948</u>
DEFERRED OUTFLOWS OF RESOURCES:	
Deferred amounts from pension	<u>1,132,929</u>
LIABILITIES:	
Accounts payable	102,192
Accrued liabilities	138,588
Claims liability	173,000
Unearned revenue	6,375
Deposits payable	59,935
Compensated absences, due within one year	135,897
Noncurrent liabilities:	
Compensated absences, due in more than one year	275,912
Net pension liability	<u>1,062,408</u>
 TOTAL LIABILITIES	 <u>1,954,307</u>
DEFERRED INFLOWS OF RESOURCES:	
Deferred amounts from pension	<u>462,861</u>
NET POSITION:	
Net investment in capital assets	5,105,393
Unrestricted	<u>13,186,316</u>
 TOTAL NET POSITION	 <u><u>\$ 18,291,709</u></u>

See accompanying notes to the basic financial statements.

ORANGE COUNTY MOSQUITO AND VECTOR CONTROL DISTRICT

STATEMENT OF ACTIVITIES

For the year ended June 30, 2016

Functions/programs	Expenses	Program Revenues			Net (Expense)
		Charges for Services	Operating Contributions and Grants	Capital Contributions and Grants	Revenue and Changes in Net Position
					Governmental Activities
Governmental activities:					
General government	\$ 2,604,822	\$ 403,900	\$ -	\$ -	\$ (2,200,922)
Health and sanitation	8,380,305	222,952			(8,157,353)
Interest on pension-related debt	8,932	-	-	-	(8,932)
Total governmental activities	<u>\$ 10,994,059</u>	<u>\$ 626,852</u>	<u>\$ -</u>	<u>\$ -</u>	<u>(10,367,207)</u>

General revenues:

Taxes:

Property taxes and assessments, levied for general purpose

12,192,451

Investment income

55,553

Miscellaneous

27,102

Total general revenues

12,275,106

Change in net position

1,907,899

Net Position at Beginning of Year

16,383,810

Net Position at End of Year

\$ 18,291,709

See accompanying notes to the basic financial statements.

ORANGE COUNTY MOSQUITO AND VECTOR CONTROL DISTRICT

BALANCE SHEET - GOVERNMENTAL FUNDS

June 30, 2016

	General	Special Revenue Fund Facilities Improvement	Total Governmental Funds
ASSETS			
Cash and investments	\$ 12,134,154	\$ 1,230,270	\$ 13,364,424
Receivables:			
Accounts	47,653	2,400	50,053
Taxes	72,968	-	72,968
Accrued interest	16,104	-	16,104
Due from other governments	89,470	-	89,470
Loans	1,567	-	1,567
Inventory	75,766	-	75,766
TOTAL ASSETS	\$ 12,437,682	\$ 1,232,670	\$ 13,670,352
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES			
LIABILITIES:			
Accounts payable	\$ 101,543	\$ 649	\$ 102,192
Accrued liabilities	138,588	-	138,588
Claims liability	173,000	-	173,000
Unearned revenue	3,975	2,400	6,375
Deposits payable	27,500	32,435	59,935
TOTAL LIABILITIES	444,606	35,484	480,090
DEFERRED INFLOWS OF RESOURCES:			
Unavailable revenues	18,023	-	18,023
FUND BALANCES:			
Nonspendable:			
Inventory	75,766	-	75,766
Loans	1,567	-	1,567
Committed to:			
Retiree medical insurance	168,668	-	168,668
Retirement contingency	1,054,931	-	1,054,931
Vehicle replacement	525,561	-	525,561
Liability reserve	457,878	-	457,878
Equipment replacement	368,865	-	368,865
Emergency vector control	1,145,120	-	1,145,120
Habitat remediation	186,536	-	186,536
Facilities improvement	-	1,197,186	1,197,186
Environmental	12,064	-	12,064
Unassigned	7,978,097	-	7,978,097
TOTAL FUND BALANCES	11,975,053	1,197,186	13,172,239
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	\$ 12,437,682	\$ 1,232,670	\$ 13,670,352

See accompanying notes to the basic financial statements.

ORANGE COUNTY MOSQUITO AND VECTOR CONTROL DISTRICT

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

June 30, 2016

Fund balances - total governmental funds	\$ 13,172,239
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.	5,105,393
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	(411,809)
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.	800,203
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.	18,023
Pension related debt applicable to the City's governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. Deferred outflows of resources and deferred inflows of resources related to pensions are only reported in the Statement of Net Position as the changes in these amounts effects only the government-wide statements for governmental activities.	
Deferred outflows of resources	1,132,929
Deferred inflows of resources	(462,861)
Net pension liability	<u>(1,062,408)</u>
Net position of governmental activities	<u><u>\$ 18,291,709</u></u>

See accompanying notes to the basic financial statements.

ORANGE COUNTY MOSQUITO AND VECTOR CONTROL DISTRICT

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

For the year ended June 30, 2016

	General	Special Revenue Fund Facilities Improvement	Total Governmental Funds
REVENUES:			
Taxes and assessments	\$ 12,192,451	\$ -	\$ 12,192,451
Intergovernmental	137,846	-	137,846
Charges for services	67,083	-	67,083
Investment income	50,326	5,227	55,553
Rental income	66,654	337,246	403,900
Miscellaneous	27,102	-	27,102
TOTAL REVENUES	<u>12,541,462</u>	<u>342,473</u>	<u>12,883,935</u>
EXPENDITURES:			
Current:			
General government	2,405,054	64,273	2,469,327
Health and sanitation	8,945,495	-	8,945,495
Capital outlay	<u>277,525</u>	<u>38,218</u>	<u>315,743</u>
TOTAL EXPENDITURES	<u>11,628,074</u>	<u>102,491</u>	<u>11,730,565</u>
EXCESS OF REVENUES OVER EXPENDITURES	913,388	239,982	1,153,370
FUND BALANCES AT BEGINNING OF YEAR	<u>11,061,665</u>	<u>957,204</u>	<u>12,018,869</u>
FUND BALANCES AT END OF YEAR	<u><u>\$ 11,975,053</u></u>	<u><u>\$ 1,197,186</u></u>	<u><u>\$ 13,172,239</u></u>

See accompanying notes to the basic financial statements.

ORANGE COUNTY MOSQUITO AND VECTOR CONTROL DISTRICT

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

June 30, 2016

Net change in fund balances - total governmental funds \$ 1,153,370

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	167,013
Depreciation	(291,845)
Loss on sale of capital assets	(1,814)

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.

69,729

The repayment of pension related debt consumes the current financial resources of governmental funds and is reported as an expenditure in governmental funds.

314,474

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

(8,932)

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

(148,809)

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.

18,023

Pension expense reported in the governmental funds includes the annual required contributions. In the Statement of Activities, pension expense includes the change in the net pension liability, and related change in pension amounts for deferred outflows of resources and deferred inflows of resources

636,690

Change in net position of governmental activities

\$ 1,907,899

See accompanying notes to the basic financial statements.

ORANGE COUNTY MOSQUITO AND VECTOR CONTROL DISTRICT

BUDGETARY COMPARISON STATEMENT BY DEPARTMENT

GENERAL FUND

For the year ended June 30, 2016

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
FUND BALANCE				
AT BEGINNING OF YEAR	\$ 11,061,665	\$ 11,061,665	\$ 11,061,665	\$ -
RESOURCES (INFLOWS):				
Taxes and assessments	11,650,000	11,650,000	12,192,451	542,451
Intergovernmental	50,000	50,000	137,846	87,846
Charges for services	76,000	76,000	67,083	(8,917)
Investment income	18,200	18,200	50,326	32,126
Rental income	42,000	42,000	66,654	24,654
Miscellaneous	20,500	20,500	27,102	6,602
TOTAL RESOURCES (INFLOWS)	11,856,700	11,856,700	12,541,462	684,762
CHARGES TO APPROPRIATIONS (OUTFLOWS):				
Current:				
General government:				
Trustees	50,250	50,750	41,353	9,397
District Manager	460,905	477,605	429,089	48,516
Legal services	110,000	195,000	190,221	4,779
Nondepartmental	472,350	603,655	585,490	18,165
Administrative services	725,074	774,223	705,863	68,360
Insurance	461,350	461,350	453,038	8,312
Health and sanitation:				
Technical services	1,412,775	1,514,674	1,409,219	105,455
Field operations	5,118,950	5,596,698	5,590,880	5,818
Vehicle maintenance	573,025	547,375	462,983	84,392
Building maintenance	167,870	171,070	162,756	8,314
Public information	395,072	500,871	427,416	73,455
Information technology	417,893	427,293	403,946	23,347
Public service	142,466	154,866	145,930	8,936
Medical insurance	-	-	2,362	(2,362)
Retirement contingency	3,000,000	3,000,000	314,474	2,685,526
Habitat remediation	7,500	7,500	195	7,305
Environmental	25,000	25,000	25,334	(334)
Capital outlay	249,100	292,700	277,525	15,175
TOTAL CHARGES TO APPROPRIATIONS (OUTFLOWS)	13,789,580	14,800,630	11,628,074	3,172,556
EXCESS OF RESOURCES OVER (UNDER) CHARGES TO APPROPRIATIONS	(1,932,880)	(2,943,930)	913,388	3,857,318
FUND BALANCE				
AT END OF YEAR	\$ 9,128,785	\$ 8,117,735	\$ 11,975,053	\$ 3,857,318

See accompanying notes to the basic financial statements.

ORANGE COUNTY MOSQUITO AND VECTOR CONTROL DISTRICT

BUDGETARY COMPARISON STATEMENT

FACILITIES IMPROVEMENT SPECIAL REVENUE FUND

For the year ended June 30, 2016

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
FUND BALANCE AT BEGINNING OF YEAR	\$ 957,204	\$ 957,204	\$ 957,204	\$ -
RESOURCES (INFLOWS):				
Investment income	2,500	2,500	5,227	2,727
Rental income	310,000	310,000	337,246	27,246
TOTAL RESOURCES (INFLOWS)	312,500	312,500	342,473	29,973
CHARGES TO APPROPRIATIONS (OUTFLOWS):				
Current:				
General government	55,500	55,500	64,273	(8,773)
Capital Outlay	202,500	202,500	38,218	164,282
TOTAL CHARGES TO APPROPRIATIONS (OUTFLOWS)	258,000	258,000	102,491	155,509
EXCESS OF RESOURCES OVER CHARGES TO APPROPRIATIONS	54,500	54,500	239,982	185,482
FUND BALANCE AT END OF YEAR	\$ 1,011,704	\$ 1,011,704	\$ 1,197,186	\$ 185,482

See accompanying notes to the basic financial statements.

ORANGE COUNTY MOSQUITO AND VECTOR CONTROL DISTRICT

STATEMENT OF FIDUCIARY NET POSITION

June 30, 2016

	Other Post-Employment Benefit (OPEB) Trust Fund
ASSETS:	
Cash and investments	<u>\$ 2,811,482</u>
TOTAL ASSETS	<u>2,811,482</u>
NET POSITION:	
Held in trust for OPEB benefits	<u>2,811,482</u>
TOTAL NET POSITION	<u><u>\$ 2,811,482</u></u>

See accompanying notes to basic financial statements.

ORANGE COUNTY MOSQUITO AND VECTOR CONTROL DISTRICT

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION

For the year ended June 30, 2016

	Other Post-Employment Benefit (OPEB) Trust Fund
ADDITIONS:	
Net investment income	<u>\$ 58,672</u>
TOTAL ADDITIONS	<u>58,672</u>
DEDUCTIONS:	
Benefits	105,998
Administrative expense	<u>15,813</u>
TOTAL DEDUCTIONS	<u>121,811</u>
CHANGE IN NET POSITION	(63,139)
NET POSITION - BEGINNING OF YEAR	<u>2,874,621</u>
NET POSITION - END OF YEAR	<u><u>\$ 2,811,482</u></u>

See accompanying notes to basic financial statements.

ORANGE COUNTY MOSQUITO AND VECTOR CONTROL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

a. Description of Reporting Entity:

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

b. Government-wide and Fund Financial Statements:

Government-wide Financial Statements:

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

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

Fund Financial Statements:

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

ORANGE COUNTY MOSQUITO AND VECTOR CONTROL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

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

Fund Financial Statements (Continued):

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

The District reports the following major governmental funds:

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

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

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

c. Measurement Focus and Basis of Accounting:

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

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

ORANGE COUNTY MOSQUITO AND VECTOR CONTROL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

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

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

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

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

d. New Accounting Pronouncements:

GASB Current Year Standards:

In fiscal year 2015-2016, the District implemented Governmental Accounting Standards Board (GASB) Statement No. 72, “*Fair Value Measurement and Application*”. GASB Statement No. 72 requires the District to use valuation techniques which are appropriate under the circumstances and are either a market approach, a cost approach or income approach. GASB Statement No. 72 establishes a hierarchy of inputs used to measure fair value consisting of three levels. Level 1 inputs are quoted prices in active markets for identical assets or liabilities. Level 2 inputs are inputs, other than quoted prices included within Level 1, which are observable for the asset or liability, either directly or indirectly. Level 3 inputs are unobservable inputs, and typically reflect management’s estimates of assumptions that market participants would use in pricing the asset or liability. GASB Statement No. 72 also contains note disclosure requirements regarding the hierarchy of valuation inputs and valuation techniques that were used for the fair value measurements. There was no material impact on the District’s financial statements as a result of the implementation of GASB Statement No. 72.

ORANGE COUNTY MOSQUITO AND VECTOR CONTROL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

d. New Accounting Pronouncements (Continued):

GASB Current Year Standards (Continued):

GASB Statement No. 73 - *“Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68”*, was required to be implemented in the current fiscal year, except for those provisions that address employers and governmental nonemployer contributing entities for pensions that are not within the scope of GASB Statement No. 68, which are effective for periods beginning after June 15, 2016, and did not impact the District.

GASB Statement No. 76 - *“The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments”*, was required to be implemented in the current fiscal year and did not impact the District.

GASB Statement No. 79 - *“Certain External Investment Pools and Pool Participants”*, was required to be implemented in the current fiscal year, except for certain provisions on portfolio quality, custodial credit risk, and shadow pricing, which are effective for periods beginning after December 15, 2015, and did not impact the District.

GASB Statement No. 82, *“Pension Issues an Amendment of GASB Statement No. 67, No. 68 and No. 73”*, changed the measurement of covered payroll reported in required supplementary information and has been early implemented.

GASB Pending Accounting Standards:

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

- GASB 73 - *“Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68”*, the provisions that address employers and governmental nonemployer contributing entities for pensions that are not within the scope of GASB 68, effective for periods beginning after June 15, 2016.
- GASB 74 - *“Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans”*, effective for periods beginning after June 15, 2016.
- GASB 75 - *“Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions”*, effective for periods beginning after June 15, 2017.

ORANGE COUNTY MOSQUITO AND VECTOR CONTROL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

d. New Accounting Pronouncements (Continued):

GASB Pending Accounting Standards (Continued):

- GASB 77 - *“Tax Abatement Disclosure”*, effective for periods beginning after December 15, 2015.
- GASB 78 - *“Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans”*, effective for periods beginning after December 15, 2015.
- GASB 79 - *“Certain External Investment Pools and Pool Participants”*, the certain provisions on portfolio quality, custodial credit risk, and shadow pricing, effective for periods beginning after December 15, 2015.
- GASB 80 - *“Blending Requirements for Certain Component Units”*, effective for periods beginning after June 15, 2016.
- GASB 81 - *“Irrevocable Split-Interest Agreements”*, effective for periods beginning after December 15, 2016.
- GASB 82 - *“Pension Issues”*, effective for periods beginning after June 15, 2016, except for certain provisions on selection of assumptions, which is effective in the first reporting period in which the measurement date of the pension liability is on or after June 15, 2017.

e. Investments:

Investments are reported at the fair value, which represents the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. All investment income, including changes in the fair value of investments, is recognized as revenue in the operating statement.

f. Receivables:

Management has determined that all receivables are collectible for the year ended June 30, 2016.

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.

ORANGE COUNTY MOSQUITO AND VECTOR CONTROL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

h. Capital Assets:

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

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

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

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

i. Deferred Outflows/Inflows of Resources:

In addition to assets, the statement of net position and the governmental funds balance sheet will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to future periods and so will not be recognized as an outflow of resources (expense) until that time. The District has the following items that qualify for reporting in this category:

- Deferred outflow related to the pension plans equal to employer contributions made after the measurement date of the net pension liability.
- Deferred outflows related to the pension plans for annual changes in employer's proportion and differences between employer contributions and the proportionate share of contributions. Each annual amount is amortized over a closed period equal to the average of the expected remaining services lives of all employees that are provided with pensions through the plans, which is 3.8 years.
- Deferred outflows related to pensions for annual differences between actual and expected experiences. Each annual amount is amortized over a closed period equal to the average of the expected remaining service lives of all employees that are provided with pensions through the plans, which is 3.8 years.

ORANGE COUNTY MOSQUITO AND VECTOR CONTROL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

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

In addition to liabilities, the statement of net position and the governmental funds balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time. The District has the following items that qualify for reporting in this category:

- Deferred inflow for *unavailable revenues* is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from one source: charges for services. This amount is deferred and recognized as an inflow of resources in the period that the amount becomes available.
- Deferred inflows related to the pension plans for annual changes in employer's proportion and differences between employer contributions and the proportionate share of contributions. Each annual amount is amortized over a closed period equal to the average of the expected remaining services lives of all employees that are provided with pensions through the plans, which is 3.8 years.
- Deferred inflows related to the pension plans resulting from the annual differences in projected and actual earnings on investments of the pension plan fiduciary net position. Each annual amount is amortized over five years.
- Deferred inflows from pensions resulting from annual changes in assumptions. Each annual amount is amortized over a closed period equal to the average of the expected remaining service lives of all employees that are provided with pensions through the plans, which is 3.8 years.

j. Claims and Judgments:

When it is probable that a claim liability has been incurred and the amount of the loss can be reasonably estimated, the District records the loss, net of any insurance coverage. The District recorded \$173,000 of claims liability in the fiscal year ended June 30, 2016 in the statement of activities and balance sheet – governmental funds.

k. Compensated Absences:

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

ORANGE COUNTY MOSQUITO AND VECTOR CONTROL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

k. Compensated Absences (Continued):

Upon termination, the District is obligated to compensate employees the earned, but unused vacation and compensatory time. At June 30, 2016, there were no employee contracts which included provisions to pay out unused sick leave.

The change in the District's compensated absences liability during the year ended June 30, 2016 consisted of the following:

	Balance at July 1, 2015	Additions	Deletions	Balance at June 30, 2016	Due Within One Year
Compensated absences	\$ 481,538	\$ 608,993	\$ (678,722)	\$ 411,809	\$ 135,897

l. Net Position:

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

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

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

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

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

ORANGE COUNTY MOSQUITO AND VECTOR CONTROL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

m. Fund Equity:

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

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

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

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

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

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

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

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

ORANGE COUNTY MOSQUITO AND VECTOR CONTROL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

n. Property Taxes:

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

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

o. Pensions:

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

p. Use of Estimates:

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

2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY:

Budgetary Data:

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

ORANGE COUNTY MOSQUITO AND VECTOR CONTROL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2016

2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (CONTINUED):

Excess of Expenditures over Appropriations:

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

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
Major Fund:			
General Fund:			
Medical insurance	\$ -	\$ 2,362	\$ (2,362)
Environmental	25,000	25,334	(334)

3. CASH AND INVESTMENTS:

Cash and Investments:

Cash and investments as of June 30, 2016 are classified in the accompanying financial statements as follows:

	<u>Government Wide Statement of Net Position</u>	<u>Fiduciary Fund Statement of Net Position</u>	<u>Total</u>
Cash and investments	<u>\$ 13,364,424</u>	<u>\$ 2,811,482</u>	<u>\$ 16,175,906</u>

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

	<u>District Funds</u>	<u>OBEP Trust</u>	<u>Total</u>
Deposits with financial institutions	\$ 875,537	\$ -	\$ 875,537
Investments	<u>12,488,887</u>	<u>2,811,482</u>	<u>15,300,369</u>
Total cash and investments	<u>\$ 13,364,424</u>	<u>\$ 2,811,482</u>	<u>\$ 16,175,906</u>

ORANGE COUNTY MOSQUITO AND VECTOR CONTROL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2016

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. This table does not address investments of the employer contributions to the other post-employment benefit trust that are governed by the trust agreement.

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

N/A - Not Applicable

ORANGE COUNTY MOSQUITO AND VECTOR CONTROL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2016

3. CASH AND INVESTMENTS (CONTINUED):

Interest Rate Risk:

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

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

As of June 30, 2016, the District had the following investments and original maturities:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Remaining Maturity 6 Months or Less</u>
California Local Agency Investment Fund	\$ 10,862,768	\$ 10,862,768
Orange County Investment Pool	1,626,119	1,626,119
PARS OPEB Trust Fund	<u>2,811,482</u>	<u>2,811,482</u>
	<u>\$ 15,300,369</u>	<u>\$ 15,300,369</u>

Disclosures Relating to Credit Risk:

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

Concentration of Credit Risk:

The District's investment policy imposes restrictions for certain types of investments with any one issuer beyond that stipulated by the California Government Code; however, external investment pools are excluded from this requirement. At June 30, 2016, the District's investments consisted entirely of investments in external investment pools (including the OPEB Trust).

ORANGE COUNTY MOSQUITO AND VECTOR CONTROL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2016

3. CASH AND INVESTMENTS (CONTINUED):

Custodial Credit Risk:

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

The California Government Code and the District's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110 percent of the total amount deposited by the public agencies. California law also allows financial institutions to secure District deposits by pledging first trust deed mortgage notes having a value of 150 percent of the secured public deposits. At June 30, 2016, the District deposits (bank balances) were insured by the Federal Deposit Insurance Corporation up to \$250,000 or collateralized as required under California Law.

District Investments in State Investment Pool and County Investment Pool:

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

ORANGE COUNTY MOSQUITO AND VECTOR CONTROL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2016

3. CASH AND INVESTMENTS (CONTINUED):

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

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

Those guidelines are as follows:

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

Acceptable Investments:

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

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

ORANGE COUNTY MOSQUITO AND VECTOR CONTROL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2016

3. CASH AND INVESTMENTS (CONTINUED):

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

Fixed Income Guidelines:

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

Equity Guidelines:

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

Fair Value Measurements

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

ORANGE COUNTY MOSQUITO AND VECTOR CONTROL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2016

3. CASH AND INVESTMENTS (CONTINUED):

Fair Value Measurements (Continued)

The three levels of the fair value hierarchy are described as follows:

Level 1: Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the District has the ability to access.

Level 2: Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement. Unobservable inputs reflect the District's own assumptions about the inputs market participants would use in pricing the asset or liability (including assumptions about risk). Unobservable inputs are developed based on the best information available in the circumstances and may include the District's own data.

The asset's or liability's level within the hierarchy is based on the lowest level of input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The determination of what constitutes observable requires judgment by the District's management. District management considers observable data to be that market data which is readily available, regularly distributed or updated, reliable, and verifiable, not proprietary, and provided by multiple independent sources that are actively involved in the relevant market.

The categorization of an investment or liability within the hierarchy is based upon the relative observability of the inputs to its fair value measurement and does not necessarily correspond to District management's perceived risk of that investment or liability.

The following is a description of the recurring valuation methods and assumptions used by the District to estimate the fair value of its investments. The methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. The use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

ORANGE COUNTY MOSQUITO AND VECTOR CONTROL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2016

3. CASH AND INVESTMENTS (CONTINUED):

Fair Value Measurements

When available, quoted prices are used to determine fair value. When quoted prices in active markets are available, investments are classified within Level 1 of the fair value hierarchy. When quoted prices in active markets are not available, fair values are based on evaluated prices received by the District's asset manager from the third party service provider.

The District has no investments categorized in Level 3. When valuing Level 3 securities, the inputs or methodology are not necessarily an indication of the risks associated with investing in those securities. Changes in valuation techniques may result in transfers into or out of an assigned level within the disclosure hierarchy.

The District has no investments categorized in Levels 1, 2, or 3 as all amounts are invested in the Orange County Investment Pool, California Local Agency Investment Fund, and PARS OPEB Trust Fund. These investment pools are not subject to fair value measurement.

ORANGE COUNTY MOSQUITO AND VECTOR CONTROL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2016

4. CAPITAL ASSETS:

Capital assets activity for the year ended June 30, 2016, is as follows:

	Balance at July 1, 2015	Additions	Deletions	Balance at June 30, 2016
Capital assets, not being depreciated:				
Land	\$ 2,010,329	\$ -	\$ -	\$ 2,010,329
Construction in progress	<u>70,090</u>	<u>66</u>	<u>(70,156)</u>	<u>-</u>
Total capital assets, not being depreciated	<u>2,080,419</u>	<u>66</u>	<u>(70,156)</u>	<u>2,010,329</u>
Capital assets, being depreciated:				
Structures and improvements	4,548,177	-	-	4,548,177
Equipment and furniture	729,285	105,545	(14,920)	819,910
Vehicles	<u>1,792,745</u>	<u>131,558</u>	<u>(18,146)</u>	<u>1,906,157</u>
Total capital assets, being depreciated	<u>7,070,207</u>	<u>237,103</u>	<u>(33,066)</u>	<u>7,274,244</u>
Less accumulated depreciation for:				
Structures and improvements	(2,154,898)	(116,701)	-	(2,271,599)
Equipment and furniture	(524,092)	(41,159)	14,920	(550,331)
Vehicles	<u>(1,239,597)</u>	<u>(133,985)</u>	<u>16,332</u>	<u>(1,357,250)</u>
Total accumulated depreciation	<u>(3,918,587)</u>	<u>(291,845)</u>	<u>31,252</u>	<u>(4,179,180)</u>
Total capital assets, being depreciated, net	<u>3,151,620</u>	<u>(54,742)</u>	<u>(1,814)</u>	<u>3,095,064</u>
Governmental Activity capital assets, net	<u>\$ 5,232,039</u>	<u>\$ (54,676)</u>	<u>\$ (71,970)</u>	<u>\$ 5,105,393</u>

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

Governmental Activities:

General government \$ 291,845

ORANGE COUNTY MOSQUITO AND VECTOR CONTROL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2016

5. DEFERRED COMPENSATION PLAN:

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

6. SELF-INSURANCE PROGRAM:

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

Description of Joint Powers Agency:

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

Self-insurance Programs of the Agency:

Liability and Workers' Compensation:

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

ORANGE COUNTY MOSQUITO AND VECTOR CONTROL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2016

7. RETIREMENT PLANS:

A. CalPERS Defined Benefit Pension Plans:

a. General Information about the Pension Plans:

Plan Descriptions:

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

Benefits Provided:

CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service, equal to one year of full time employment. Members with five years of total service are eligible to retire at age 50 to 62 with statutorily reduced benefits. All members are eligible for non-industrial disability benefits after five (5) years of service. The death benefit is one of the following: the Basic Death Benefit, the 1957 Survivor Benefit, or the Optional Settlement 2W Death Benefit. The cost of living adjustments for each plan are applied as specified by the Public Employees' Retirement Law.

The Plans' provisions and benefits in effect for the year ended June 30, 2016, are summarized as follows:

	Miscellaneous		
	Tier I Prior to July 13, 2012	Tier II On or After July 13, 2012	Tier III - PEPR On or After January 1, 2013
Hire date			
Benefit formula	2%@55	2%@60	2%@62
Benefit vesting schedule	5 years of service	5 years of service	5 years of service
Benefit payments	monthly for life	monthly for life	monthly for life
Retirement age	50 - 63	50 - 63	52 - 67
Monthly benefits, as a % of eligible compensation	1.426% to 2.418%	1.092% to 2.418%	1.0% to 2.5%
Required employee contribution rates	7%	7%	6.25%
Required employer contribution rates	8.512% +\$32,422	6.709%	6.25%

ORANGE COUNTY MOSQUITO AND VECTOR CONTROL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2016

7. RETIREMENT PLANS (CONTINUED):

A. CalPERS Defined Benefit Pension Plans (Continued):

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

Contributions:

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

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

As of June 30, 2016, the District reported net pension liabilities for its proportionate shares of the net pension liability of each Plan as follows:

	Proportionate Share of Net Pension Liability
Miscellaneous	<u>\$ 1,062,408</u>

The District's net pension liability for each Plan is measured as the proportionate share of the net pension liability. The net pension liability of each of the Plans is measured as of June 30, 2015, and the total pension liability for each Plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2014 rolled forward to June 30, 2015 using standard update procedures. The District's proportionate share of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plans relative to the projected contributions of all participating employers, actuarially determined.

The District's proportionate share of the net pension liability for all Plans as of June 30, 2014 and 2015 was as follows:

	<u>Miscellaneous</u>
Proportion - June 30, 2014	0.04500%
Proportion - June 30, 2015	0.03873%
Change - Increase (Decrease)	-0.00627%

ORANGE COUNTY MOSQUITO AND VECTOR CONTROL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2016

7. RETIREMENT PLANS (CONTINUED):

A. CalPERS Defined Benefit Pension Plans (Continued):

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

For the year ended June 30, 2016, the District recognized pension expense of \$(205,066). At June 30, 2016, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Pension contributions subsequent to measurement date	\$ 431,624	\$ -
Differences between actual and expected experience	31,406	-
Change in assumptions	-	(297,134)
Change in employer's proportion and differences between the employer's contributions and the employer's proportionate share of contributions	669,899	(16,770)
Net differences between projected and actual earnings on plan investments	-	(148,957)
Total	<u>\$ 1,132,929</u>	<u>\$ (462,861)</u>

\$431,624 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2017	\$ 21,911
2018	23,774
2019	2,358
2020	190,401
2021	-
Thereafter	-

ORANGE COUNTY MOSQUITO AND VECTOR CONTROL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2016

7. RETIREMENT PLANS (CONTINUED):

A. CalPERS Defined Benefit Pension Plans (Continued):

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

Actuarial Assumptions:

The total pension liabilities in the June 30, 2014 actuarial valuations were determined using the following actuarial assumptions:

	<u>Miscellaneous</u>
Valuation Date	June 30, 2014
Measurement Date	June 30, 2015
Actuarial Cost Method	Entry-Age Normal Cost Method
Actuarial Assumptions:	
Discount Rate	7.65%
Inflation	2.75%
Payroll Growth	3.00%
Projected Salary Increase	3.3% - 14.2% (1)
Investment Rate of Return	7.5% (2)
Mortality	(3)

- (1) Depending on age, service and type of employment
 (2) Net of pension plan investment expenses, including inflation
 (3) The probabilities of mortality are derived using CalPERS' membership data for all funds. The mortality table used was developed based on CalPERS' specific data. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB. For more details on this table, please refer to the 2014 experience study report.

All other actuarial assumptions used in the June 30, 2014 valuation were based on the results of an actuarial experience study for the period from 1997 to 2011, including updates to salary increase, mortality and retirement rates. The Experience Study report can be obtained at the CalPERS website under Forms and Publications.

ORANGE COUNTY MOSQUITO AND VECTOR CONTROL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2016

7. RETIREMENT PLANS (CONTINUED):

A. CalPERS Defined Benefit Pension Plans (Continued):

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

Change of Assumptions:

GASB 69, paragraph 68 states that the long-term expected rate of return should be determined net of pension plan investment expense but without reduction for pension plan administrative expense. The discount rate of 7.50% used for the June 30, 2014 measurement date was net of administrative expenses. The discount rate of 7.65% used for the June 30, 2015 measurement date is without reduction of pension plan administrative expense.

Discount Rate:

The discount rate used to measure the total pension liability was 7.65% for each Plan. To determine whether the municipal bond rate should be used in the calculation of a discount rate for each plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing of the Plans, the tests revealed the assets would not run out. Therefore, the current 7.65% discount rate is appropriate and the use of the municipal bond rate calculation is not deemed necessary. The long term expected discount rate of 7.65% is applied to all plans in the Public Employees Retirement Fund (PERF). The stress test results are presented in a detailed report called "GASB Crossover Testing Report" that can be obtained from the CalPERS website under the GASB 68 section.

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

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Such cash flows were developed assuming that both members and employers will make their required contributions on time and as scheduled in all future years. Using historical returns of all the funds' asset classes, expected compound (geometric) returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund.

ORANGE COUNTY MOSQUITO AND VECTOR CONTROL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2016

7. RETIREMENT PLANS (CONTINUED):

A. CalPERS Defined Benefit Pension Plans (Continued):

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

Discount Rate (Continued):

The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

The table below reflects the long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. The target allocation shown was adopted by the CalPERS Board effective on July 1, 2014.

Asset Class	New Strategic Allocation	Real Return Years 1 - 10 (a)	Real Return Years 11+ (b)
Global Equity	51.00%	5.25%	5.71%
Global Fixed Income	19.00%	0.99%	2.43%
Inflation Sensitive	6.00%	0.45%	3.36%
Private Equity	10.00%	6.83%	6.95%
Real Estate	10.00%	4.50%	5.13%
Infrastructure and Forestland	2.00%	4.50%	5.09%
Liquidity	2.00%	-0.55%	-1.05%
Total	100.00%		

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

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

ORANGE COUNTY MOSQUITO AND VECTOR CONTROL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2016

7. RETIREMENT PLANS (CONTINUED):

A. CalPERS Defined Benefit Pension Plans (Continued):

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

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

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

	<u>Miscellaneous</u>
1% Decrease	6.65%
Net Pension Liability	\$ 2,091,213
Current Discount Rate	7.65%
Net Pension Liability	\$ 1,062,408
1% Increase	8.65%
Net Pension Liability	\$ 213,010

Pension Plan Fiduciary Net Position:

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

- c. Payable to the Pension Plan:

At June 30, 2016, the District had no outstanding amount of contributions due to the pension plan required for the year ended June 30, 2016 for the CalPERS plans.

ORANGE COUNTY MOSQUITO AND VECTOR CONTROL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2016

7. RETIREMENT PLANS (CONTINUED):

B. Terminated OCERS Defined Benefit Pension Plan:

Plan Description:

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

Funding Policy:

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

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

ORANGE COUNTY MOSQUITO AND VECTOR CONTROL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2016

7. RETIREMENT PLANS (CONTINUED):

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

Accounting and Reporting:

As a result of the withdrawal from OCERS and the terms of the termination and continuing contribution agreement, the related UAAL is considered to be a pension-related debt and, as such, is accounted for as a long-term liability of the District. There is no UAAL at June 30, 2016. 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, 2016 were as follows:

UAAL as of June 30, 2015	\$ 305,542	
Interest for the period July 1, 2014 through November 24, 2015 at a rate of 7.25%	8,932	
Contributions made	<u>(314,474)</u>	
UAAL as of June 30, 2016	<u>\$ -</u>	(1)

(1) The next required actuarial valuation is scheduled to be as of December 31, 2016. The unfunded actuarial accrued liability calculated at that time could differ from the current estimate of zero.

Summary of Principal Actuarial Assumptions and Methods:

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

ORANGE COUNTY MOSQUITO AND VECTOR CONTROL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2016

7. RETIREMENT PLANS (CONTINUED):

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

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

C. PARS Defined Contribution Benefit Plan:

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

The PARS plan is solely funded by the contributions from the employees. The contribution rate is 7.50% of gross earnings for employees. Total payroll for employees covered by this plan at June 30, 2016, was \$869,296. The amount of employee contributions for the year ended June 30, 2016 was \$65,197.

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

Plan Description:

The District sponsors the California PERS (CalPERS) Health Plan (PEMHCA). The plan assets are held in a trust account held by the Public Agency Retirement Services (PARS) that was created in July 2008. The program provides comprehensive health insurance through a variety of Health Maintenance Organization (HMO) and Preferred Provider Organization (PPO) options. Participation in PEMHCA is financed in part by the District. District members become eligible to retire and receive District-paid healthcare benefits upon attainment of age 50 and 5 years of covered PERS service. Retired members over the age of 65 may join one of the Supplemental (Medicare-coordinated) options under PEMHCA. Benefits are paid for the lifetime of the retiree. The District's basic contribution on behalf of retirees is determined under the "Unequal Contribution Method" as described in Government Code Section 22892(c), as applied to the statutory minimum contribution for active employees of \$119/month (2014), \$122/month (2015), and \$125/month (2016). The contribution on behalf of retirees is 40% of \$119 (\$47.60) for 2014, 45% of \$122 (\$54.90) for 2015, and 50% of \$125 (\$62.50) for 2016. The percentage increases each year by 5% until it reaches 100% of the statutory minimum contribution for years 2026 and later.

ORANGE COUNTY MOSQUITO AND VECTOR CONTROL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2016

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

Plan Description (Continued):

Below is the plan participant data as of June 30, 2016:

Retirees and beneficiaries receiving benefit	26
Active plan members	<u>57</u>
Total plan participants	<u>83</u>

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

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

Accounting for the Plan:

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

Method Used to Value Investments:

Investments are reported at fair value, which represents the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Securities for which market quotations are not readily available are valued at their fair value as determined by the custodian with the assistance of a valuation service.

ORANGE COUNTY MOSQUITO AND VECTOR CONTROL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2016

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

Funding Policy:

The contribution requirements of plan members and the District are established and may be amended by the District's Board and/or the employee associations. Currently, contributions are not required from plan members. Plan assets in the trust account held by PARS have an actuarial value of \$2,874,620 as of a July 1, 2015 actuarial report. The District made premium payments of \$134,358 during the 2015-2016 fiscal year, which were entirely reimbursed by funds in the PARS Trust and required retiree contributions. The purpose of the contributions was to cover the pay-as-you-go financing requirement.

Annual OPEB Costs and Net OPEB Asset:

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

Annual required contribution		\$	137,821
Interest on net OPEB asset			(61,686)
Adjustment to annual required contribution			<u>72,674</u>
Annual OPEB cost			148,809
Premium payments made by the District	\$	134,358	
Less: Reimbursement from OPEB trust and required retiree contributions		<u>(134,358)</u>	
Actual contributions made to OPEB trust			<u>-</u>
Decrease in net OPEB asset			148,809
Net OPEB Asset - beginning of year			<u>(949,012)</u>
Net OPEB Asset - end of year			<u><u>\$ (800,203)</u></u>

The ARC of \$137,821, is an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis is projected to cover the annual normal cost and the amortization of unfunded actuarial liabilities (or funding excess) over an open thirty year period.

ORANGE COUNTY MOSQUITO AND VECTOR CONTROL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2016

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

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, 2016 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
06/30/2014	\$ 56,012	\$ -	0.00%	\$ (1,004,432)
06/30/2015	55,420	-	0.00%	(949,012)
06/30/2016	148,809	-	0.00%	(800,203)

Funded Status and Funding Progress:

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

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

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

ORANGE COUNTY MOSQUITO AND VECTOR CONTROL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2016

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

Actuarial Methods and Assumptions:

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

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

The changes to the Actuarial Accrued Liability (AAL) from July 1, 2012 to July 1, 2015 are summarized as follows:

AAL as of July 1, 2012	\$ 1,954,178
Passage of time	390,816
Increase in premiums less than expected	(78,956)
Change in PERS Health administrative fee	3,131
Change in mortality tables	109,625
Change in healthcare trend rate	42,201
Change in discount rate	152,132
Valuation of implicit subsidy	476,093
Census (gain)	<u>(300,066)</u>
AAL as of July 1, 2015	<u>\$ 2,749,154</u>

ORANGE COUNTY MOSQUITO AND VECTOR CONTROL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS
(CONTINUED)

June 30, 2016

9. OPERATING LEASES:

Operating leases arise from renting the District's property on Haster Street in Garden Grove, California. The cost and corresponding accumulated depreciation of the building and land related to these operating leases as of June 30, 2016 is \$3,823,287 and \$(312,235), respectively. Initial lease terms generally range from 12 to 60 months. Future minimum rental payments to be received on non-cancelable operating leases are contractually due as follows as of June 30, 2016:

<u>Year Ending</u> <u>June 30</u>	<u>Amounts</u>
2017	\$ 198,286
2018	59,976
2019	16,950
2020	<u>13,050</u>
	<u>\$ 288,262</u>

Total rent revenue for the year ended June 30, 2016 was \$337,246.

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.

On November 20, 2014, the District entered into an agreement with Discovery Cube of Orange County, a California non-profit corporation, whereby the District pledged to contribute \$1,000,000 over three years for a public information and educational exhibit. The District paid \$500,000 in fiscal year 2014-2015 and \$350,000 in fiscal year 2015-2016. The remaining \$150,000 contribution is conditional upon certain events and eligibility requirements which had not been met as of June 30, 2016, and therefore, this remaining amount has not been accrued.

11. SUBSEQUENT EVENTS:

Events occurring after June 30, 2016, have been evaluated for possible adjustments to the financial statements or disclosure as of November 3, 2016, which is the date these financial statements were available to be issued.

REQUIRED SUPPLEMENTARY INFORMATION

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

Last Ten Fiscal Years*

Fiscal year ended	<u>June 30, 2016</u>	<u>June 30, 2015</u>
Measurement period	June 30, 2015	June 30, 2014
Plan's proportion of the net pension liability	0.01548%	0.01787%
Plan's proportionate share of the net pension liability	\$ 1,062,408	\$ 1,112,227
Plan's covered - employee payroll	\$ 4,479,991	\$ 4,184,192
Plan's proportionate share of the net pension liability as a percentage of its covered - employee payroll	23.71%	26.58%
Plan's proportionate share of the fiduciary net position as a percentage of the Plan's total pension liability	78.40%	79.82%
Plan's proportionate share of aggregate employer contributions	\$ 224,563	\$ 147,143

Notes to Schedule:

Benefit Changes:

There were no changes in benefits.

Changes in Assumptions:

GASB 69, paragraph 68 states that the long-term expected rate of return should be determined net of pension plan investment expense but without reduction for pension plan administrative expense. The discount rate of 7.50% used for the June 30, 2014 measurement date was net of administrative expenses. The discount rate of 7.65% used for the June 30, 2015 measurement date is without reduction of pension plan administrative expense.

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

ORANGE COUNTY MOSQUITO AND VECTOR CONTROL DISTRICT

SCHEDULE OF CONTRIBUTIONS

Last Ten Fiscal Years*

Fiscal year ended	June 30, 2016	June 30, 2015
Contractually required contribution (actuarially determined)	\$ 431,624	\$ 483,044
Contributions in relation to the actuarially determined contributions	<u>(431,624)</u>	<u>(483,044)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
Covered - employee payroll	\$ 4,993,576	\$ 4,479,991
Contributions as a percentage of covered - employee payroll	8.64%	10.78%

Notes to Schedule:

Valuation Date 6/30/2013

Methods and Assumptions Used to Determine Contribution Rates:

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

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

** - The valuation for June 30, 2012 (applicable to fiscal year ended June 30, 2015) included the same actuarial assumptions

*** - The valuation for June 30, 2012 (applicable to fiscal year ended June 30, 2015) valued assets using a 15 Year Smoothed Market method.

ORANGE COUNTY MOSQUITO AND VECTOR CONTROL DISTRICT

OTHER POST-EMPLOYMENT BENEFITS PLAN

For the year ended June 30, 2016

SCHEDULE OF FUNDING PROGRESS

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

(1) The changes to the AAL from July 1, 2012 to July 1, 2015 are summarized as follows:

Changes to AAL	AAL
AAL as of July 1, 2012	\$ 1,954,178
Passage of time	390,816
Increases in premiums less than expected	(78,956)
Change in PERS Health administrative fee	3,131
Change in mortality tables	109,625
Change in healthcare trend rate	42,201
Change in discount rate	152,132
Valuation of implicit subsidy	476,093
Census (gain)	(300,066)
AAL as of July 1, 2015	<u>\$ 2,749,154</u>

SCHEDULE OF EMPLOYER CONTRIBUTIONS

Year Ended June 30,	Annual Required Contribution	Percentage Contributed
2010	\$ 397,333	124.50%
2011	397,333	33.22%
2012	397,333	71.40%
2013	44,786	0.00%
2014	44,786	0.00%
2015	44,786	0.00%
2016	137,821	0.00%

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities and each major fund of the Orange County Mosquito and Vector Control District (the District) as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated November 3, 2016.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

White Nelson Dick Evans LLP

Irvine, California
November 3, 2016