

**ORANGE COUNTY VECTOR  
CONTROL DISTRICT**

**BASIC FINANCIAL STATEMENTS**

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

**FISCAL YEAR ENDED JUNE 30, 2012**

ORANGE COUNTY VECTOR  
CONTROL DISTRICT

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FISCAL YEAR ENDED JUNE 30, 2012

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CERTIFIED PUBLIC ACCOUNTANTS

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- Bryan S. Gruber, CPA
- Deborah A. Harper, CPA

## INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the governmental activities and each major fund of the Orange County Vector Control District, as of and for the year ended June 30, 2012, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the District, as of June 30, 2012, and the respective changes in financial position, thereof and the respective budgetary comparison for the General Fund and the Facilities Improvement Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 21, 2012, 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* and should be considered in assessing the results of our audit.



To the Board of Trustees  
Orange County Vector Control District

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

*Lance, Soll & Luyhard, LLP*

Brea, California  
December 21, 2012

ORANGE COUNTY VECTOR CONTROL DISTRICT

STATEMENT OF NET ASSETS  
 JUNE 30, 2012

	<u>Governmental Activities</u>
<b>Assets:</b>	
Cash and investments	\$ 7,243,988
Receivables:	
Accounts	40,301
Taxes	107,326
Loans	8,642
Accrued interest	6,061
Due from other governments	536,679
Inventories	74,359
Prepaid OPEB Obligation	1,117,055
Capital assets not being depreciated	2,010,329
Capital assets, net of depreciation	<u>3,486,997</u>
<b>Total Assets</b>	<b><u>14,631,737</u></b>
<b>Liabilities:</b>	
Accounts payable	67,903
Accrued liabilities	318,221
Deposits payable	31,549
Noncurrent liabilities:	
Compensated absences due within one year	146,505
Compensated absences due in more than one year	<u>297,450</u>
<b>Total Liabilities</b>	<b><u>861,628</u></b>
<b>Net Assets:</b>	
Invested in capital assets	5,497,326
Unrestricted	<u>8,272,783</u>
<b>Total Net Assets</b>	<b><u>\$ 13,770,109</u></b>

ORANGE COUNTY VECTOR CONTROL DISTRICT

STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2012

	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net (Expenses) Revenues and Changes in Net Assets</u>
		<u>Charges for Services</u>	<u>Operating Contributions and Grants</u>	
<b>Functions/Programs</b>				
<b>Primary Government:</b>				
Governmental Activities:				
Vector control activities	\$ 12,284,843	\$ 219,570	\$ -	\$ -
<b>Total Governmental Activities</b>	<b>12,284,843</b>	<b>219,570</b>	<b>-</b>	<b>(12,065,273)</b>
<b>Total Primary Government</b>	<b>\$ 12,284,843</b>	<b>\$ 219,570</b>	<b>\$ -</b>	<b>(12,065,273)</b>
<b>General Revenues:</b>				
Taxes:				
Property taxes, levied for general purpose				10,104,970
Interest Income				17,690
Rental Income				348,244
Other				73,777
<b>Total General Revenues</b>				<b>10,544,681</b>
Change in Net Assets				(1,520,592)
Net Assets at Beginning of Year				15,290,701
<b>Net Assets at End of Year</b>				<b>\$ 13,770,109</b>

ORANGE COUNTY VECTOR CONTROL DISTRICT

**BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2012**

	<u>Special Revenue Funds</u>		<u>Total Governmental Funds</u>
	<u>General</u>	<u>Facilities Improvement</u>	
<b>Assets:</b>			
Cash and investments	\$ 6,737,851	\$ 506,137	\$ 7,243,988
Receivables:			
Accounts	29,878	10,423	40,301
Taxes	107,326	-	107,326
Notes and loans	8,642	-	8,642
Accrued interest	5,772	289	6,061
Due from other governments	536,679	-	536,679
Inventories	74,359	-	74,359
<b>Total Assets</b>	<b><u>\$ 7,500,507</u></b>	<b><u>\$ 516,849</u></b>	<b><u>\$ 8,017,356</u></b>
<b>Liabilities and Fund Balances:</b>			
<b>Liabilities:</b>			
Accounts payable	\$ 65,802	\$ 2,101	\$ 67,903
Accrued liabilities	318,221	-	318,221
Deferred revenues	354,864	-	354,864
Deposits payable	-	31,549	31,549
<b>Total Liabilities</b>	<b><u>738,887</u></b>	<b><u>33,650</u></b>	<b><u>772,537</u></b>
<b>Fund Balances:</b>			
<b>Nonspendable:</b>			
Inventory	74,359	-	74,359
Notes and loans	8,642	-	8,642
<b>Committed to:</b>			
Retiree Medical Insurance	136,637	-	136,637
Vehicle Replacement	394,673	-	394,673
Liability Reserve	487,479	-	487,479
Equipment Replacement	358,814	-	358,814
Emergency Vector Control	883,595	-	883,595
Facilities Improvement	-	483,199	483,199
Environmental	3,125	-	3,125
<b>Unassigned</b>	<b><u>4,414,296</u></b>	<b><u>-</u></b>	<b><u>4,414,296</u></b>
<b>Total Fund Balances</b>	<b><u>6,761,620</u></b>	<b><u>483,199</u></b>	<b><u>7,244,819</u></b>
<b>Total Liabilities and Fund Balances</b>	<b><u>\$ 7,500,507</u></b>	<b><u>\$ 516,849</u></b>	<b><u>\$ 8,017,356</u></b>



**ORANGE COUNTY VECTOR CONTROL DISTRICT**

**RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF NET ASSETS  
JUNE 30, 2012**

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Fund balances of governmental funds	\$ 7,244,819
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets net of depreciation have not been included as financial resources in governmental fund activity.	5,497,326
Long-term debt and compensated absences that have not been included in the governmental fund activity:	
Compensated Absences	(443,955)
Governmental funds report all OPEB contributions as expenditures, however in the statement of net assets any excesses or deficiencies in contributions in relation to the Annual Required Contribution (ARC) are recorded as a asset or liability.	1,117,055
Revenues reported as deferred revenue in the governmental funds and recognized in the statement of activities. These are included in the intergovernmental revenues in the governmental fund activity.	<u>354,864</u>
<b>Net assets of governmental activities</b>	<b><u><u>\$ 13,770,109</u></u></b>

ORANGE COUNTY VECTOR CONTROL DISTRICT

STATEMENT OF REVENUES,  
EXPENDITURES AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
YEAR ENDED JUNE 30, 2012

	Special Revenue Fund		Total Governmental Funds
	General	Facilities Improvement	
<b>Revenues:</b>			
Taxes	\$ 10,104,970	\$ -	\$ 10,104,970
Intergovernmental	147,905	-	147,905
Charges for services	71,665	-	71,665
Interest Income	16,629	1,061	17,690
Rental Income	35,724	312,520	348,244
Miscellaneous	73,777	-	73,777
<b>Total Revenues</b>	<b>10,450,670</b>	<b>313,581</b>	<b>10,764,251</b>
<b>Expenditures:</b>			
Current:			
Vector control activities	11,816,488	133,318	11,949,806
Capital outlay	49,886	-	49,886
<b>Total Expenditures</b>	<b>11,866,374</b>	<b>133,318</b>	<b>11,999,692</b>
Excess (Deficiency) of Revenues Over (Under) Expenditures	(1,415,704)	180,263	(1,235,441)
<b>Other Financing Sources (Uses):</b>			
Transfers in	80,100	300,000	380,100
Transfers out	(300,000)	(80,100)	(380,100)
<b>Total Other Financing Sources (Uses)</b>	<b>(219,900)</b>	<b>219,900</b>	<b>-</b>
Net Change in Fund Balances	(1,635,604)	400,163	(1,235,441)
Fund Balances, Beginning of Year	8,397,224	83,036	8,480,260
<b>Fund Balances, End of Year</b>	<b>\$ 6,761,620</b>	<b>\$ 483,199</b>	<b>\$ 7,244,819</b>

**ORANGE COUNTY VECTOR CONTROL DISTRICT**

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2012**

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Net change in fund balances - total governmental funds \$ (1,235,441)

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	58,038
Depreciation	(289,296)
Loss on Disposal of assets	(4,897)

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.

77,816

Governmental funds report all contributions in relation to the annual required contribution (ARC) for OPEB as expenditures, however in the statement of activities only the ARC is an expense.

(126,812)

**Change in net assets of governmental activities**

**\$ (1,520,592)**

ORANGE COUNTY VECTOR CONTROL DISTRICT

BUDGETARY COMPARISON STATEMENT BY DEPARTMENT  
 GENERAL FUND  
 YEAR ENDED JUNE 30, 2012

	Budget Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Budgetary Fund Balance, July 1	\$ 8,397,224	\$ 8,397,224	\$ 8,397,224	\$ -
<b>Resources (Inflows):</b>				
Taxes	10,048,140	10,048,140	10,104,970	56,830
Intergovernmental	100,000	100,000	147,905	47,905
Charges for services	80,000	80,000	71,665	(8,335)
Interest Income	18,100	18,100	16,629	(1,471)
Rental Income	35,000	35,000	35,724	724
Miscellaneous	74,000	74,000	73,777	(223)
Transfers from other funds	-	-	80,100	80,100
<b>Amounts Available for Appropriation</b>	<b>18,752,464</b>	<b>18,752,464</b>	<b>18,927,994</b>	<b>175,530</b>
<b>Charges to Appropriation (Outflow):</b>				
General government				
Trustees	41,000	41,000	43,271	(2,271)
District Manager	337,592	337,592	348,676	(11,084)
Legal Services	80,500	80,500	64,790	15,710
Non-Departmental	165,100	165,100	141,853	23,247
Administrative Services	571,705	571,705	563,844	7,861
Insurance	435,050	435,050	445,505	(10,455)
Technical Services	1,301,910	1,301,910	1,295,509	6,401
Field Operations	4,964,410	4,964,410	4,653,502	310,908
Vehicle Maintenance	511,610	511,610	458,874	52,736
Building Maintenance	135,450	135,450	139,006	(3,556)
Public Information	349,957	349,957	317,948	32,009
Information Technology	270,084	270,084	223,003	47,081
Public Service	250,522	250,522	221,834	28,688
Medical Insurance	329,100	329,100	338,568	(9,468)
Retirement Contingency	-	2,540,260	2,543,430	(3,170)
Habitat Remediation	200,000	200,000	-	200,000
Environmental	20,000	20,000	16,875	3,125
Capital outlay	82,000	82,000	49,886	32,114
Transfers to other funds	300,000	300,000	300,000	-
<b>Total Charges to Appropriations</b>	<b>10,345,990</b>	<b>12,886,250</b>	<b>12,166,374</b>	<b>719,876</b>
<b>Budgetary Fund Balance, June 30</b>	<b>\$ 8,406,474</b>	<b>\$ 5,866,214</b>	<b>\$ 6,761,620</b>	<b>\$ 895,406</b>

ORANGE COUNTY VECTOR CONTROL DISTRICT

BUDGETARY COMPARISON STATEMENT  
 FACILITIES IMPROVEMENT  
 YEAR ENDED JUNE 30, 2012

	Budget Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Budgetary Fund Balance, July 1	\$ 83,036	\$ 83,036	\$ 83,036	\$ -
<b>Resources (Inflows):</b>				
Interest Income	1,000	1,000	1,061	61
Rental Income	235,000	235,000	312,520	77,520
Transfers in	300,000	300,000	300,000	-
<b>Amounts Available for Appropriation</b>	<b>619,036</b>	<b>619,036</b>	<b>696,617</b>	<b>77,581</b>
<b>Charges to Appropriation (Outflow):</b>				
Vector control activities	64,000	64,000	133,318	(69,318)
Transfers out	-	-	80,100	(80,100)
<b>Total Charges to Appropriations</b>	<b>64,000</b>	<b>64,000</b>	<b>213,418</b>	<b>(149,418)</b>
<b>Budgetary Fund Balance, June 30</b>	<b>\$ 555,036</b>	<b>\$ 555,036</b>	<b>\$ 483,199</b>	<b>\$ (71,837)</b>

## ORANGE COUNTY VECTOR CONTROL DISTRICT

### NOTES TO BASIC FINANCIAL STATEMENTS JUNE 30, 2012

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#### Note 1: Organization and Significant Accounting Policies

##### a. Description of the Reporting Entity

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

##### b. Government-Wide and Fund Financial Statements

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

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

Separate financial statements are provided for governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

##### c. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. 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.

**ORANGE COUNTY VECTOR CONTROL DISTRICT**

**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**  
**JUNE 30, 2012**

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**Note 1: Organization and Significant Accounting Policies (Continued)**

Property taxes 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.

The District reports the following major governmental funds:

- General Fund - The General Fund is used to account for all financial activity in the District except for that which is required to be accounted for in other funds.
- Facilities Improvement Special Revenue Fund – This fund was established to set aside amounts for future building needs for various facilities and rehabilitation of current facilities.

Amounts reported as program revenues include: 1) charges to customers or applicants for goods, services or privileges provided, 2) operating grants and contributions and 3) capital grants and contributions. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, and then unrestricted resources as they are needed.

**d. Assets, Liabilities and Net Assets**

**Investments**

Investments are reported at the fair market value.

**Receivables**

All trade and property tax receivables are shown net of an allowance for uncollectibles.

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

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

**ORANGE COUNTY VECTOR CONTROL DISTRICT**

**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**  
**JUNE 30, 2012**

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**Note 1: Organization and Significant Accounting Policies (Continued)**

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.

Prepaid Costs

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

Capital Assets

Capital assets that include land, structures and improvements, equipment and furniture, and vehicles and infrastructure assets, are reported in the government-wide financial statements. Infrastructure assets acquired or placed in service prior to July 1, 2003, are not required to be reported. Such assets consist of roads, curbs, gutters and lines. The District has no infrastructure assets. Capital assets are defined by the District as assets with an initial cost of more than \$3,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

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

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

<u>Assets</u>	<u>Years</u>
Structures and improvements	30
Equipment and furniture	5 - 20
Vehicles	8 - 10

Claims and Judgments

When it is probable that a claim liability has been incurred and the amount of the loss can be reasonably estimated, the District records the loss, net of any insurance coverage. In the opinion of District Counsel, the District had no material claims that require a provision to be made in these financial statements.

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 Assets since such obligation is not payable with currently available financial resources, and paid by resources in the District's General Fund.



ORANGE COUNTY VECTOR CONTROL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2012

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**Note 1: Organization and Significant Accounting Policies (Continued)**

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

The District's only long-term debt is compensated absences. The balance as of June 30, 2012, is \$443,955.

Estimates

In conformity with accounting principles generally accepted in the United States of America, occasionally management is required to make estimates and assumptions that effect certain reported amounts and disclosures within these financial statements. Accordingly, actual results may differ from those estimates made.

Fund Equity

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

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

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

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

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

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

An individual governmental fund could include nonspendable resources and amounts that are restricted or unrestricted (committed, assigned, or unassigned) or any combination of those classifications. Restricted or Unrestricted amounts are to be considered spent when an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available and committed, assigned, then 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.

**ORANGE COUNTY VECTOR CONTROL DISTRICT**

**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**  
**JUNE 30, 2012**

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**Note 2: Stewardship, Compliance and Accountability**

**a. Budgetary Data**

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

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

	<u>Expenditures</u>	<u>Appropriations</u>	<u>Excess</u>
Major Funds:			
General Fund:			
Trustees	\$ 43,271	\$ 41,000	\$ 2,271
District Manager	348,676	337,592	11,084
Insurance	445,505	435,050	10,455
Building Maintenance	139,006	135,450	3,556
Medical Insurance	338,568	329,100	9,468
Retirement Contingency	2,543,430	2,540,260	3,170
Facilities Improvement Fund:			
Vector Control Activities	133,318	64,000	69,318
Transfers Out	80,100	-	80,100

**Note 3: Cash and Investments**

As of June 30, 2012, cash and investments were reported in the accompanying financial statements as follows:

Governmental activities	<u>\$ 7,243,988</u>
Total Cash and Investments	<u><u>\$ 7,243,988</u></u>

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

**a. Deposits**

At June 30, 2012, the carrying amount of the District's deposits was \$359,761 and the bank balance was \$523,086. The \$163,325 difference represents outstanding checks and other reconciling items.

The California Government Code requires California banks and savings and loan associations to secure an entity's deposits by pledging government securities with a value of 110% of an entity's deposits. California law also allows financial institutions to secure entity deposits by pledging first trust deed mortgage notes having a value of 150% of an entity's total deposits. The entity's Treasurer may waive the collateral requirement for deposits which are fully insured up to \$250,000 by the FDIC. The collateral for deposits in federal and state chartered banks is held in safekeeping by an authorized agent of depository recognized by the State of California Department of Banking.

**ORANGE COUNTY VECTOR CONTROL DISTRICT**

**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**  
**JUNE 30, 2012**

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**Note 3: Cash and Investments (Continued)**

The collateral for deposits with savings and loan associations is generally held in safekeeping by the Federal Home Loan Bank in San Francisco, California as agent of depository. These securities are physically held in an undivided pool for all California public agency depositors. Under Government Code Section 53655, the placement of securities by a bank or savings and loan association with an "agent of depository" has the effect of perfecting the security interest in the name of the local governmental agency. Accordingly, all collateral held by California agents of depository are considered to be held for, and in the name of, the local government.

A provision of the Dodd-Frank Wall Street Reform and Consumer Protection Act provides temporary unlimited deposit insurance coverage for noninterest-bearing transaction account at all FDIC-insured institutions. This provision was effective from December 31, 2010 and will remain effective until December 31, 2012. Noninterest-bearing transaction accounts is defined as an account (1) with respect to which interest is neither accrued nor paid; (2) on which the depositor or account holder is permitted to make withdrawals by negotiable or transferable instrument, payment orders of withdrawal, telephone or other electronic media transfers, or other similar items for the purpose of making payments or transfers to third parties or others; and (3) on which the FDIC-insured depository institutions does not reserve the right to require advance notice of an intended withdrawal. As of June 30, 2012, the District maintains cash deposits that are temporarily covered by this provision.

**b. Custodial Credit Risk**

The 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 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 to a transaction, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party.

As of June 30, 2012, none of the District's deposits or investments was exposed to custodial credit risk.

**c. Concentration of Credit Risk**

The District's investment policy imposes restrictions for certain types of investments with any one issuer; however, external investment pools are excluded from this requirement. At June 30, 2012, the District's investments consisted of an investment with the California Local Agency Investment Fund.

**d. Interest Rate Risk**

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, a FNMA debenture, or a FHLB debenture.

**ORANGE COUNTY VECTOR CONTROL DISTRICT**

**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**  
**JUNE 30, 2012**

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**Note 3: Cash and Investments (Continued)**

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, 2012, the District had the following investments and original maturities:

	Investment Maturities (in Years)	Fair Value
	6 months or less	
California Local Agency Investment Fund	\$ 6,884,227	\$ 6,884,227
	\$ 6,884,227	\$ 6,884,227

**e. Investments**

Under provision of the District's investment policy and in accordance with the California Government Code, the following investments are authorized:

- U.S. Treasury Issues
- Federal Agency Issues
- Bankers Acceptances
- Certificates of Deposit
- Local Agency Investment Fund (LAIF)
- Repurchase Agreements
- State and Local Agency Investment Funds
- Passbook Savings Account

**f. Investments in State 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 fair value of the position in the investment pool is the same as the value of the pool shares.

**g. GASB Statement No. 31**

The District adopted GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, as of July 1, 1997. GASB Statement No. 31 establishes fair value standards for investments in participating interest earning investment contracts, external investment pools, equity securities, option contracts, stock warrants and stock rights that have readily determinable fair values.

Accordingly, the District reports its investments at fair value in the balance sheet. All investment income, including changes in the fair value of investments, is recognized as revenue in the operating statement.

**ORANGE COUNTY VECTOR CONTROL DISTRICT**

**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**  
**JUNE 30, 2012**

**Note 4: Capital Assets**

Capital assets activity for the year ended June 30, 2012, is as follows:

	Balance July 1, 2011	Additions	Deletions	Balance June 30, 2012
Capital assets not being depreciated:				
Land	\$ 2,010,329	\$ -	\$ -	\$ 2,010,329
Total Capital Assets Not Being Depreciated	<u>2,010,329</u>	<u>-</u>	<u>-</u>	<u>2,010,329</u>
Capital assets being depreciated:				
Structures and improvements	4,548,177	-	-	4,548,177
Equipment and furniture	563,028	58,038	45,233	575,833
Vehicles	1,636,020	-	-	1,636,020
Total Capital Assets Being Depreciated	<u>6,747,225</u>	<u>58,038</u>	<u>45,233</u>	<u>6,760,030</u>
Less: accumulated depreciation for:				
Structures and improvements	1,688,094	116,701	-	1,804,795
Equipment and furniture	359,304	59,652	40,336	378,620
Vehicles	976,675	112,943	-	1,089,618
Total Accumulated Depreciation	<u>3,024,073</u>	<u>289,296</u>	<u>40,336</u>	<u>3,273,033</u>
Total Capital Assets Being Depreciated, Net	<u>3,723,152</u>	<u>(231,258)</u>	<u>4,897</u>	<u>3,486,997</u>
Governmental Activities Capital Assets, Net	<u>\$ 5,733,481</u>	<u>\$ (231,258)</u>	<u>\$ 4,897</u>	<u>\$ 5,497,326</u>

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

Governmental Activities:	
Vector control activities	<u>\$ 289,296</u>

**Note 5: Deferred Compensation Plan**

The District has made available to its employees a deferred compensation plan 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 the Small Business Protection Act of 1996, (a correction to the deferred compensation plan under the Internal Revenue Service Code Section 457) the District established trusts in which all assets held by ICMA Retirement Corporation (ICMA) and Nationwide Retirement Solutions. Now all assets, all property and rights purchased with such amounts, and all income attributable to such amounts are held for the exclusive benefit of the participants and their beneficiaries. The assets are not the property of the District and are not subject to the claims of the District's general creditors since the transfer into those trusts, and thus are no longer reported on the District's financial statements.

## ORANGE COUNTY VECTOR CONTROL DISTRICT

### NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED) JUNE 30, 2012

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#### Note 6: Self-Insurance Program

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

##### a. 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.

##### b. Self-insurance Programs of the Agency:

###### Liability and Workers' Compensation:

Periodic deposits/expenditures are paid by member districts and are adjusted retrospectively to cover actual costs. Each member district has a specific retention level. The Orange County Vector Control District has a retention level of \$25,000 for liability and \$50,000 for workers compensation and pays 100% of all losses incurred under those amounts. The District does not share or pay for losses of other districts under their retention level. Losses of \$50,000 to \$500,000 are pooled among all participating districts for workers' compensation and losses in excess of \$25,000 to \$1,000,000 for general liability. These limits are covered by excess insurance purchased by the Agency to a limit of \$29,000,000 for general liability and Statutory coverage plus \$5,000,000 for workers' compensation. There were no instances in the past three years where a settlement exceeded the District's coverage, and no significant reductions in the insurance have occurred.

#### Note 7: Retirement Plans

##### Plan Description: PERS Defined Benefit Pension Plan

The Orange County Vector Control District contributes to the California Public Employees Retirement System (PERS), a cost-sharing multiple-employer public employee defined benefit pension plan. PERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. PERS acts as a common investment and administrative agent for participating public entities within the State of California. Benefit provisions and all other requirements are established by State statute and District ordinance. Copies of PERS' annual financial report may be obtained from its executive office: 400 P Street, Sacramento, CA 95814.

##### Funding Policy

Participants are required to contribute 7% of their annual covered salary. The District makes the contributions required of District employees on their behalf and for their account. The District is required to contribute at an actuarially determined rate; the current rate is 10.06% for miscellaneous employees, of annual covered payroll. The contribution requirements of plan members and the District are established and may be amended by PERS.

ORANGE COUNTY VECTOR CONTROL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2012

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**Note 7: Retirement Plans (Continued)**

Annual Pension Cost

For 2012, the District's annual pension cost of \$448,864 for PERS was equal to the District's required and actual contributions. The required contribution was determined as part of the June 30, 2009, actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included (a) 7.75% investment rate of return (net of administrative expenses), (b) projected annual salary increases that vary by duration of service and (c) 3.5% cost-of-living adjustments. Both (a) and (b) included an inflation component of 3.0%. The actuarial value of PERS assets was determined using techniques that smooth the effect of short-term volatility in the market value of investments over a three-year period (smoothed market value). PERS unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period at June 30, 2012, was 16 years for miscellaneous.

(Amounts in Thousands)		
<u>Fiscal Year</u>	<u>Required Contributions</u>	<u>Percentage Contributed</u>
6/30/2010	\$ 378	100 %
6/30/2011	403	100 %
6/30/2012	449	100 %

For fiscal year 2011-2012, the Orange County Vector Control District participated in risk pooling. Risk pooling consists of combining assets and liabilities across employers to produce large groups where the impact of a catastrophic demographic event is shared among all employers of the same risk pool. Participation in risk pools is mandatory for all rate plans with less than 100 active members. Mandated participation in risk pools was initially based on the active membership of each rate plan as of June 30, 2005. The implementation of risk pools was done in a way that minimizes the impact on employer contribution rates. The first year in risk pools, the employer contribution rates are almost identical to what the rates would have been outside pools. Future rates will be based on the experience of each pool.

Pooling will reduce the volatility of future employer rates. Mandated participation will occur on an annual basis. If on any valuation date, starting with the June 30, 2005, valuation, a rate plan has less than 100 active members, it will be mandated in one of the risk pools effective on that valuation date.

Plan Description: OCERS Defined Benefit Pension Plan

The Orange County Vector Control District participated in the Orange County Employees' Retirement System (OCERS), a cost-sharing multiple employer, defined benefit pension plan, for all employees prior to January 5, 2007. The participating entities share proportionally in all risks and costs, including benefit costs.

OCERS was established in 1945, under the provisions of the County Employees Retirement Law of 1937, and provides members with retirement, death, disability and cost-of-living benefits. Members employed prior to September 21, 1979, are designated as Tier I members. For Tier II members employed after September 20, 1979, the County Board of Supervisors adopted certain sections of the Government code which established formulas producing reduce allowances.

**ORANGE COUNTY VECTOR CONTROL DISTRICT**

**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**  
**JUNE 30, 2012**

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**Note 7: Retirement Plans (Continued)**

OCERS issues a publicly available financial report that includes financial statements and required supplementary information for the cost-sharing plans that are administered by OCERS. The report can be obtained from OCERS at 2223 Wellington Avenue, Santa Ana, California 92701.

Funding Policy

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

Per the termination and continuing contribution agreement entered into on June 1, 2008 with OCERS and Orange County Vector Control District, commencing as of December 31, 2010 and every three years thereafter OCERS will recalculate Orange County Vector Control District's Unfunded Actuarial Accrued Liability (UAAL) obligation, based on accumulated assets and liabilities attributable to Orange County Vector Control District. All Orange County Vector Control District members with OCERS will be considered "closed group" for purposes of recalculating the UAAL. Based on the recalculation, in the event that there is any new UAAL obligation required of Orange County Vector Control 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.

Determination of Unfunded Liability as of June 30, 2012

Unfunded Liability as of June 30, 2011	\$2,473,362
Interest through June 30, 2012 at 7.75% per year	191,686
Contributions made through June 30, 2012	<u>(2,540,260)</u>
Unfunded Liability as of June 30, 2012	<u>\$ 124,788</u>

Summary of principle assumptions and methods

The unfunded liability was determined using assumptions as part of the December 31, 2010 valuation using the entry age normal actuarial cost method. These assumptions included (a) 7.75% investment rate of return (net of 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 3.5%. 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.



**ORANGE COUNTY VECTOR CONTROL DISTRICT**

**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**  
**JUNE 30, 2012**

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**Note 7: Retirement Plans (Continued)**

OCERS unfunded actuarial accrued liability is being amortized over a period of 24 years closed (declining) amortization of outstanding balance of December 31, 2004 UAAL. The outstanding balance of the UAAL established in the December 31, 2009 valuation as a result of including additional premium pay items as pensionable salary and the new UAAL established in the December 31, 2010 valuation as a result of reallocating contributions and benefit payments amount rate groups are also amortized over a 24 year period, in the December 31, 2010 valuation. Any increases or decreases in UAAL that arise in future years due to actuarial gains or losses will be amortized over separate 15 year periods. Any increases or decreases in UAAL due to changes in actuarial assumptions are amortized over separate 30 year periods.

PARS Defined Contribution Benefit Plan

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

The PARS plan is solely funded by the contribution from the employee. The contribution rate is 7.50% of gross earnings for employees. Total payroll for employees covered by this plan at June 30, 2012, was \$657,665. The amount of employee contributions at June 30, 2012, was \$52,324.

**Note 8: Other Post-Employment Benefits**

Plan Description

The Orange County Vector Control District sponsors the California PERS Health Plan (PEMHCA). The program provides comprehensive health insurance through a variety of Health Maintenance Organization (HMO) and Preferred Provider Organization (PPO) options. Participation in PEMHCS 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 contribution on behalf of retirees for 2009 (\$254.25, \$308.50, or \$341.05/mo. for retiree only, retiree plus spouse, and retiree plus family tiers, respectively) is determined under the "unequal Contribution Method" as described in Government Code Section 22892(c), beginning with \$200/month in 2006 for all new PEMHCA retirees and increasing each year by 5% of the amount contributed by the District for active employees in each tier (in 2009, the amounts for active employees are \$395, \$790, and \$1,027/mo. for employee only, employee plus spouse, and employee plus family tiers).

In addition to the generally applicable rules described above, there are a number of grandfathered retirees, who transferred from the Orange County Employees' Retirement System (OCERS) Health Plan to PEMHCA in April, 2006. These grandfathered retirees are eligible to receive a monthly grant equal to the greater of their 2006 monthly grant (calculated as \$399.75 per month, reduced for service less than 25 years), or the current District contribution under the Unequal Contribution Method described above.

**ORANGE COUNTY VECTOR CONTROL DISTRICT**

**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**  
**JUNE 30, 2012**

**Note 8: Other Post-Employment Benefits (Continued)**

Funding Policy

The contribution requirements of plan members and the District are established and may be amended by the District, Board, and/or the employee associations. Currently, contributions are not required from plan members. In July, 2008, the District established an account within the PARS Section 115 Trust by making an initial deposit of \$1,400,000. This was given a projected value of \$1,445,966 as of July 1, 2009, which included an expected District contribution of \$362,000 paid in 2008-2009 fiscal year. These were factors in the July 1, 2009, actuarial report. A contribution of \$283,689 was made during the 2011-2012 fiscal year and was not included in the July 1, 2009, actuarial study. The purpose of the contributions was to cover the pay-as-you-go financing requirement as well as the current year's amortized unfunded accrued liability portion which is being amortized over 30 years.

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 (ARC)	\$ 397,333
Adjustment to ARC	100,239
Adjustment for interest	<u>(87,071)</u>
Annual OPEB cost	410,501
Contributions made	<u>(283,689)</u>
Decrease (increase) in Net OPEB asset	<u>\$ 126,812</u>
Net OPEB obligation (asset) June 30, 2011	\$ (1,243,867)
(Increase) decrease in Net OPEB asset	126,812
Net OPEB obligation (asset) June 30, 2012	<u>\$ (1,117,055)</u>

The contribution rate of 20.57% is based on the ARC of \$397,333, 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 a thirty year period.

Annual OPEB Costs and Net OPEB Obligation (Asset)

The District's annual OPEB cost, percentage of annual OPEB cost contributed to the plan and the net OPEB obligation (asset) for the year ended June 30, 2012 and the previous two years were as follows:

Fiscal Year Ending	Annual OPEB Cost	Actual Contribution (Net of Adjustments)	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation (Asset)
6/30/2010	\$ 397,333	\$ 494,667	124.50%	\$ (1,543,330)
6/30/2011	431,463	132,000	30.59%	(1,243,867)
6/30/2012	410,501	283,689	69.11%	(1,117,055)

**ORANGE COUNTY VECTOR CONTROL DISTRICT**

**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**  
**JUNE 30, 2012**

**Note 8: Other Post-Employment Benefits (Continued)**

Funded Status and Funding Progress

Actuarial valuation of an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, retirements, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the District 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 below presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits. Only one year is presented as an actuarial is required every three years and 7/1/2009 was the first actuarial performed.

Type of Valuation	Actuarial Valuation Date	Actuarial Value of Assets	Unfunded Actuarial Accrued Liability	Funded ratio	Interest Rate
Actual	7/1/2009	\$ 1,445,996	\$ 1,931,722	42.81%	7.00%

Actuarial Methods and Assumptions

In order to perform the valuation, it is necessary for the actuary to make certain assumptions regarding such items as rates of employee turnover, retirement, and mortality, as well as economic assumptions regarding healthcare inflation and interest rates. All assumptions were based on industry averages and modified to the Districts historical and recent experience. These assumptions should be reviewed in each valuation year to make sure they adjusted accordingly.

In the July 1, 2009, actuarial valuation, the discount rate of 7.0% is based on a District funding policy of fully funding the ARC using the PARS Section 115 Trust. It is in accordance with our understanding of the guidelines for selection of this rate under GASB 45. The Actuarial Cost Method used was Projected Unit Credit. The healthcare inflation rate of 4% is based on an analysis of recent experience and knowledge of the general healthcare environment. The remaining amortization period at June 30, 2012, was twenty-seven years.

**Note 9: Interfund Activity**

The composition of interfund balances as of June 30, 2012, was as follows:

Interfund Transfers

	Transfers Out		
	General	Facilities Improvement Fund	Total
Transfers In:			
General	\$ -	\$ 80,100	\$ 80,100
Facilities Improvement Fund	300,000	-	300,000
Totals	\$ 300,000	\$ 80,100	\$ 380,100

**ORANGE COUNTY VECTOR CONTROL DISTRICT**

**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**  
**JUNE 30, 2012**

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**Note 9: Interfund Activity (Continued)**

The transfers in to the Facilities Improvement Fund from the General Fund in the amounts of \$300,000 were for the annual contribution to the Facilities Improvement Fund. The transfers in to the General Fund from the Facilities Improvement Fund in the amounts of \$80,100 were to contribute to the payment to the Orange County Employees Retirement System (OCERS).

**Note 10: Commitments and Contingencies**

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

**Note 11: Subsequent Events**

OCERS Defined Benefit Pension Plan

On October 18, 2012 Orange County Vector Control District made a payment of \$500,000 dollars to pay down their unfunded liability.

The most recent calculation of the unfunded liability as of October 18, 2012 is as follows:

Unfunded Liability as of June 30, 2011	\$ 124,788
Interest through October 18, 2012 at 7.75% per year	2,418
Payment on October 18, 2012	<u>(500,000)</u>
Unfunded Liability (Asset) as of October 18, 2012	<u>\$ (372,794)</u>