# MARIN-SONOMA MOSQUITO AND VECTOR CONTROL DISTRICT

## COTATI, CALIFORNIA

## BASIC FINANCIAL STATEMENTS

## FISCAL YEAR ENDED JUNE 30, 2014

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**MARIN-SONOMA MOSQUITO AND VECTOR CONTROL DISTRICT**
**BASIC FINANCIAL STATEMENTS**
**For the Year Ended June 30, 2014**

## INTRODUCTORY SECTION



## FINANCIAL SECTION

# MARIN-SONOMA MOSQUITO AND VECTOR CONTROL DISTRICT
## BOARD OF TRUSTEES
## JUNE 30, 2014


| | Term Expires Dec 31st |
|---|---|
| Nancy Barnard, President | 2014 |
| Yvonne Van Dyke, Vice President | 2014 |
| Lee Braun, Secretary | 2016 |
| Martin Castro, Treasurer | 2015 |
| Steve Ayala | 2016 |
| Charles Bouey | 2014 |
| Tom Bradner | 2017 |
| Tamara Davis | 2014 |
| Frank Egger | 2015 |
| Una Glass | 2015 |
| William "Billy" Holland | 2016 |
| Paul Libeu | 2014 |
| Shaun McCaffery | 2015 |
| Kerry McGrath | 2015 |
| Phil Paisley | 2015 |
| Bill Pitcher | 2015 |
| Sandra Ross | 2013 |
| Herb Rowland Jr | 2015 |
| Ed Schulze | 2015 |
| Roger Smith | 2014 |
| Richard Stabler | 2017 |
| Judith Trusendi | 2015 |

MAZE & ASSOCIATES

# INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Marin-Sonoma Mosquito and
Vector Control District
Cotati, California

***Report on Financial Statements***

We have audited the accompanying financial statements of the governmental activities and each major fund of the Marin-Sonoma Mosquito and Vector Control District, as of and for the year ended June 30, 2014, 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 the financial statements that are free from material misstatement, whether due to fraud or error.

***Auditor's Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits 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 auditor's 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 auditor considers internal control relevant to the District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial positions of the governmental activities and each major fund of the Marin-Sonoma Mosquito and Vector Control District as of June 30, 2014, and the respective changes in the financial position and budgetary comparisons listed as part of the basic financial statements thereof, for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

**Accountancy Corporation**
3478 Buskirk Avenue, Suite 215
Pleasant Hill, CA 94523

T 925.930.0902
F 925.930.0135
E maze@mazeassociates.com
W **mazeassociates.com**

***Other Matters***

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that Management's Discussion & Analysis 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 this information in accordance with generally accepted auditing standards 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 our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Maze & Associates

Pleasant Hill, California
October 30, 2014

MARIN/SONOMA MOSQUITO AND VECTOR CONTROL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

FOR THE FISCAL YEAR ENDED JUNE 30, 2014

This discussion reflects the District's present and future programs for the fiscal year beginning July 1, 2013 and ending June 30, 2014 and offers its readers a narrative overview and analysis of the financial activities of the District.

## FINANCIAL HIGHLIGHTS JULY 1, 2013—JUNE 30, 2014

- The District's operating fund cash balance (with the County of Marin) at the beginning of the fiscal year was $5,495,896 and $6,288,138 at the end of the fiscal year.
- The District's capital improvement fund cash balance (with the County of Marin) at the beginning of the fiscal year was $2,960,105 and $2,997,076 at the end of the fiscal year.
- The District's emergency mosquito control fund cash balance (with the County of Marin) at the beginning of the fiscal year was $1,152,755 and $1,154,049 at the end of the fiscal year.
- The District had general revenues and charges for services of $7,936,413 and program expenses of $8,860,632. The District's net position was reduced by $924,219 as expenditures exceeded revenues by this amount.

## OVERVIEW OF THE FINANCIAL STATEMENTS

The discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statement is comprised of four (4) components:

- Government-wide Financial Statements
- Fund Financial Statements
- Notes to Basic Financial Statements
- Required Supplementary Information

## REPORTING ENTITY

The Marin/Sonoma Mosquito Abatement District was formed in May of 1915 and later became a California Special District. The District is empowered under the California Health and Safety Code to take all necessary steps to abate mosquitoes and other vectors, such as rats and yellowjackets. The District also provides an Education Program within the Marin and Sonoma County school systems. The District has a twenty four (24) member appointed Board of Trustees that represent both counties and each City or Town. As of June 30, 2014, there were two vacant seats, Sausalito and Cloverdale. The District covers 2300 sq. miles and has a payroll of 36 employees.

## GOVERNMENT-WIDE FINANCIAL STATEMENTS

The Statement of Net Position and the Statement of Activities include all of the financial activities of the District, including long-term items such as capital assets.

The Statement of Activities presents a comparison between direct expenses and program revenues for each function of the District's activities. Direct expenses are those that are specifically associated with a program or function and therefore, are clearly identifiable to a particular function. Program revenues include (a) charges paid by recipients of goods or services offered by the programs and (b) funds and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues.

Marin-Sonoma Mosquito and Vector Control District

**REVENUE AND EXPENSES**

| | FY 2012/13 | FY 2013/14 | % CHANGE |
|---|---|---|---|
| GENERAL REVENUE: | | | |
| Taxes and Assessments | $ 7,302,765 | $ 7,555,878 | 3.47% |
| Use of Money and Property | 30,985 | 26,807 | -13.48% |
| Other Revenues (Prop 1A recv. Incl FY 12/13) | 334,242 | 205,634 | -38.48% |
| TOTAL GENERAL REVENUE | **$ 7,667,992** | **$ 7,788,319** | **1.57%** |
| TOTAL PROGRAM REVENUE | **$ 181,664** | **$ 148,094** | **-18.48%** |
| EXPENSES | **$ 8,665,503** | **$ 8,860,632** | **2.25%** |

The District has two revenue components: Ad valorem taxes and the Benefit Assessments. The District has experienced an increase in assessments and property tax revenue of 3.47%. Also, use of money and property (investment income) fell by 13.48%. Other Revenues include reimbursement for work performed by the District throughout the year, insurance refunds/reimbursements and Prop 1A money reimbursed to the District. Program revenue consists of contract work performed by the District.

## FUND FINANCIAL STATEMENTS

The fund financial statements provide information about the District's funds. The emphasis of fund financial statements is on major individual funds, each of which is displayed in a separate column.

## MAJOR FUNDS

GASB Statement No. 34 defines major funds and requires that the District's major governmental type funds be identified and presented separately in the financial statements. Major funds are defined as funds that either have assets, deferred inflows, liabilities, deferred outflows, revenues, or expenditures equal to or greater than ten percent of their fund-type total and five percent of the grand total of all fund types. The District has elected to show all funds as major funds.

The General Fund is the main operating fund of the District. This fund is used to account for financial resources not accounted for in other funds.

The Capital Projects Fund is used to account for all capital related purchases.

Marin-Sonoma Mosquito and Vector Control District

## NET POSITION

| | FY 2012/13 | FY 2013/14 | % CHANGE |
|---|---|---|---|
| TOTAL ASSETS | $ 18,841,212 | $ 19,169,456 | 1.74% |
| TOTAL LIABILITIES | 4,286,613 | 5,539,076 | 29.22% |
| NET POSITION: | | | |
| Net Inventment in Capital Assets | 6,548,481 | 6,351,040 | -3.02% |
| Restricted for Pension Obligation | 1,323,529 | 1,235,294 | -6.67% |
| Unrestricted | 6,682,589 | 6,044,046 | -9.56% |
| TOTAL NET POSITION | **$ 14,554,599** | **$ 13,630,380** | **-6.35%** |

The District's Net Position decreased in FY 2013/14 by $924,219, primarily due to the increase of the other post-employment benefits liability, which was not fully funded in FY 2013/14.

Total Liabilities increased 29.22% in FY 2013/14. This reflects unpaid employee vacation and compensatory hours. Also calculated in this category are the other postemployment benefits (retiree health care).

**ECONOMIC FACTORS AND NEXT YEARS BUDGETS AND RATES**

The projected Budget for the 2014-2015 Fiscal Year is $8,585,841 with projected Revenues of $8,122,513 with an excess of expenditures over revenue of $463,328. For fiscal year 2014-2015 the District's benefit assessments were increased as follows: Benefit Assessment (BA) #1 to $12.00 per/parcel, BA #2 (Marin County and Zone A) to $21.68 per/parcel and Zone B to $20.73 per/parcel. The ad valorem tax rate did not increase, however, a % increase was estimated for growth by each county. Sonoma County estimated a 1.50% growth increase and Marin County estimated a 4.0% growth increase.

The following factors were considered in preparing the District's Budget for the fiscal year 2014-2015. References are also provided to a budget emendation approved on September 10, 2014.

- An increase of 4% in the Benefit Assessments and an increase of 5.74% the ad valorem taxes were predicted. The combined increase in revenue from both ad valorem taxes and benefit assessments was forecast to be 4.88% greater than for the prior fiscal year. The budget assumed that Assessment #1 would be raised to its maximum (capped) value of $12.

- Interest earned on monies invested is forecast to remain low.

- Salaries and benefits were forecast to increase by 4.2% over the prior year. This was based on continuation of the terms of the memorandum of understanding (MOU) with the employee group. Known changes in benefit costs were applied and estimates made based on historical trends for those costs that were not yet available. Negotiations for successor MOUs with the represented employees were completed and these took effect on August 1, 2014. The MOUs incorporated financial contributions to benefit plans by the employees and specified cost of living increases below historical inflation trends. Among other changes, a cost-saving lower tier of benefits was established for employees hired on or after the adoption of the MOUs.

- The level of expenditures on capital items remained similar to the prior budget year with purchases of three replacement vehicles planned.

- Total expenditures were forecast to increase by about 9.9% compared with FY 2013/14. This included the cost of a major project related to revenue enhancement (described two bullet points below)

- To cope with costs that are rising faster than the rate of revenue increases, operating expenditures including travel, advertising, services and supplies were reduced wherever possible.

- Ten-year financial forecasts prepared for a Strategic and Financial Planning Workshop held in November 2013 highlighted the need to secure additional revenues in order to maintain services and operations at their current level. After studying various alternatives, the District opted to test the feasibility of a new assessment that would "overlay" the two existing assessment districts. An amount of $415,525 was allocated for the entire project.

- Despite drought conditions, a relatively high level of West Nile virus was anticipated. The District will continue its participation in the State's dead bird program.

- Continued tick-borne disease surveillance and associated public outreach efforts.

- The final phase of the programmatic environmental impact report to update the District's CEQA documentation. As part of the budget emendation In September 2014, the budget was increased due to the need for additional work identified by legal counsel and further work necessitated as a result of comments received from state agencies.

- A decrease in staffing of 1 FTE and other cost savings were anticipated due to a major transition in the mosquitofish program. Mosquitofish will be purchased from another District instead of maintaining an in-house intensive fish rearing program.

- In keeping with the District's plan to begin prefunding its liabilities for Other Post-Employment Benefits (OPEB) a budgetary allocation of $121,000 was provided, representing the initial deposit into a trust fund account to be established with the California Employees' Retiree Benefit Trust.

**<u>FUTURE EVENTS THAT WILL FINANCIALLY IMPACT THE DISTRICT</u>**

- The need to continue making prefunding contributions each year to address the District's OPEB obligations. As part of a nine-year phase-in to paying the full Annual Required Cost, the FY 2014/15 budget incorporated an amount of $121,000 as an initial deposit into the District's trust fund account established with CalPERS California Employer's Retiree Benefit Trust.

- The Memoranda of Understanding reached with the employee groups during 2014 establish a lower tier of certain benefits, notably offering a defined contribution plan for OPEB for new employees rather than the traditional defined benefit plan offered to current employees. In the long-term, this should substantially lower or eliminate the District's unfunded OPEB liability.

- Invasive *Aedes* mosquitoes have gained a strong foothold in certain areas of the state as close as San Mateo County. Although surveillance has not detected these mosquitoes in the District's service area, it is possible that they may spread to this area in future. Experience in other Districts has shown that additional staffing and funding would be needed to contain and eradicate such an infestation. Although the District maintains an emergency reserve of approximately $1 million for matters related to vectorborne disease, in the event of a local infestation such funds may require replenishment and supplementation.

## CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide a general overview of the District's finances for all those with an interest. Questions concerning the information provided in this report or requests for additional financial information should be addressed to the Marin/Sonoma Mosquito and Vector Control District, 595 Helman Lane, Cotati, CA 94931.

# MARIN-SONOMA MOSQUITO AND VECTOR CONTROL DISTRICT
## STATEMENT OF NET POSITION
## JUNE 30, 2014

| | Governmental Activities |
|---|---|
| **ASSETS** | |
| Current assets: | |
| Cash and investments (Note 3) | $10,474,959 |
| Accounts receivable, net | 288,102 |
| Property taxes receivable | 179,580 |
| Deposits held by VCJPA (Note 8) | 500,554 |
| Inventory (Note 2E) | 139,927 |
| Total current assets, net | 11,583,122 |
| Capital assets (Note 4): | |
| Nondepreciable: | |
| Land | 675,000 |
| Depreciable: | |
| Structures and improvements | 6,674,176 |
| Office equipment | 598,596 |
| Office furniture | 47,879 |
| Field equipment | 276,591 |
| Vehicles | 2,059,402 |
| Less: Accumulated depreciation | (3,980,604) |
| Total capital assets, net | 6,351,040 |
| Non-current assets: | |
| Net pension asset (Note 6B) | 1,235,294 |
| Total non-current assets | 1,235,294 |
| Total assets | 19,169,456 |
| **LIABILITIES** | |
| Current liabilities: | |
| Accounts payable | 22,634 |
| Compensated absences (Note 2F) | 182,450 |
| Total current liabilities | 205,084 |
| Non-current liabilities: | |
| Compensated absences (Note 2F) | 222,994 |
| Net OPEB obligation (Note 7) | 5,110,998 |
| Total non-current liabilities | 5,333,992 |
| Total liabilities | 5,539,076 |
| **NET POSITION (Note 5)** | |
| Net investment in capital assets | 6,351,040 |
| Restricted for pension obligation | 1,235,294 |
| Unrestricted | 6,044,046 |
| Total net position | $13,630,380 |

See accompanying notes to financial statements

MARIN-SONOMA MOSQUITO AND VECTOR CONTROL DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2014

| Functions/Programs | Expenses | Program Revenues<br>Charges for Services | Net (Expense) Revenue and Change in Net Assets |
|---|---|---|---|
| Governmental Activities: | | | |
| Public Health | ($8,860,632) | $148,094 | ($8,712,538) |
| Total Governmental Activities | ($8,860,632) | $148,094 | (8,712,538) |
| General revenues: | | | |
| Taxes and assessments | | | 7,565,200 |
| Use of money and property | | | 17,485 |
| Other revenues | | | 205,634 |
| Total general revenues | | | 7,788,319 |
| Change in Net Position | | | (924,219) |
| Net Position - Beginning | | | 14,554,599 |
| Net Position - Ending | | | $13,630,380 |

See accompanying notes to financial statements

MARIN-SONOMA MOSQUITO AND VECTOR CONTROL DISTRICT
GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2014

| | General Fund | Capital Projects Fund | Totals |
|---|---|---|---|
| ASSETS | | | |
| Cash and investments (Note 3) | $7,477,883 | $2,997,076 | $10,474,959 |
| Accounts receivable | 288,102 | | 288,102 |
| Property taxes receivable | 179,580 | | 179,580 |
| Deposits with VCJPA (Note 8) | 500,554 | | 500,554 |
| Inventory (Note 2E) | 139,927 | | 139,927 |
| Total Assets | $8,586,046 | $2,997,076 | $11,583,122 |
| LIABILITIES | | | |
| Accounts payable | $22,634 | | $22,634 |
| Total Liabilities | 22,634 | | 22,634 |
| DEFERRED INFLOWS OF RESOURCES | | | |
| Unavailable revenue - accounts receivable | 244,056 | | $244,056 |
| Total Deferred Inflows of Resources | 244,056 | | 244,056 |
| FUND BALANCES (Note 5) | | | |
| Nonspendable: deposits | 500,554 | | 500,554 |
| Nonspendable: inventory | 139,927 | | 139,927 |
| Committed for dry period funding | 3,200,000 | | 3,200,000 |
| Assigned for future capital improvements | | $2,997,076 | 2,997,076 |
| Unassigned | 4,478,875 | | 4,478,875 |
| Total Fund Balances | 8,319,356 | 2,997,076 | 11,316,432 |
| Total Liabilities, Deferred Inflows of Resources and Fund Balances | $8,586,046 | $2,997,076 | $11,583,122 |

See accompanying notes to financial statements

# MARIN-SONOMA MOSQUITO AND VECTOR CONTROL DISTRICT
## Reconciliation of the GOVERNMENTAL FUNDS -- BALANCE SHEET with the STATEMENT OF NET POSITION
## JUNE 30, 2014

| | | |
|---|---|---|
| FUND BALANCE OF GOVERNMENTAL FUNDS | | $11,316,432 |
| Amounts reported for Governmental Activities in the Statement of Net Position are different from those reported in the Governmental Funds Balance Sheet because of the following: | | |
| Capital assets used in Governmental Activities are not current resources, and therefore, are not reported in the Governmental Fund Balance Sheet. | | |
| Capital assets at historical cost | $10,331,644 | |
| Less: accumulated depreciation | (3,980,604) | 6,351,040 |
| The net pension asset pertaining to governmental fund types is not a current financial resource, and therefore, is not recorded in the governmental fund statements. | | 1,235,294 |
| The liabilities below are not due and payable in the current period, and therefore, are not reported in the Governmental Fund Balance Sheet. | | |
| Unearned revenue | 244,056 | |
| Compensated absences payable | (405,444) | |
| Other postemployment benefits payable | (5,110,998) | (5,272,386) |
| NET POSITION OF GOVERNMENTAL ACTIVITIES | | $13,630,380 |

See accompanying notes to financial statements

# MARIN-SONOMA MOSQUITO AND VECTOR CONTROL DISTRICT
## GOVERNMENTAL FUNDS
## STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
## FOR THE YEAR ENDED JUNE 30, 2014

| | General Fund | Capital Projects Fund | Totals |
|---|---|---|---|
| REVENUES: | | | |
| Taxes and assessments | $7,565,200 | | $7,565,200 |
| Use of money and property | 14,152 | $3,333 | 17,485 |
| Other revenues | 278,536 | | 278,536 |
| Total Revenues | 7,857,888 | 3,333 | 7,861,221 |
| EXPENDITURES: | | | |
| Current: | | | |
| Salaries and benefits | 5,078,673 | | 5,078,673 |
| General and administrative | 2,137,647 | | 2,137,647 |
| Capital outlay | | 110,982 | 110,982 |
| Total expenditures | 7,216,320 | 110,982 | 7,327,302 |
| EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES | 641,568 | (107,649) | 533,919 |
| OTHER FINANCING SOURCES (USES) | | | |
| Transfers in | | 144,620 | 144,620 |
| Transfers (out) | (144,620) | | (144,620) |
| Total other financing sources (uses) | (144,620) | 144,620 | |
| NET CHANGE IN FUND BALANCES | 496,948 | 36,971 | 533,919 |
| BEGINNING FUND BALANCES | 7,822,408 | 2,960,105 | 10,782,513 |
| ENDING FUND BALANCES | $8,319,356 | $2,997,076 | $11,316,432 |

See accompanying notes to financial statements

MARIN-SONOMA MOSQUITO AND VECTOR CONTROL DISTRICT
Reconciliation of the
NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS
with the
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2014

The schedule below reconciles the Net Changes in Fund Balances reported on the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balance, which measures only changes in current assets and current liabilities on the modified accrual basis, with the Change in Net Position of Governmental Activities reported in the Statement of Activities, which is prepared on the full accrual basis.

| | | |
|---|---|---|
| NET CHANGE IN FUND BALANCES | | $533,919 |
| Amounts reported for governmental activities in the Statement of Activities are different because of the following: | | |
| Governmental Funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is capitalized and allocated over their estimated useful lives and reported as depreciation expense. | | |
| Capital outlay expenditures are added back to fund balance | $110,982 | |
| Net retirements of capital assets are not reported in the governmental fund | (4,010) | |
| Depreciation expense is not reportable in the governmental fund | (304,413) | (197,441) |
| The prepaid expense pertaining to governmental fund types is not a current financial resources, and therefore is not recorded in the governmental fund statements. This amount represents the amount of the changes in the prepaid asset during the fiscal year. | | (88,235) |
| Other postemployment benefits payable is not a current liability, and therefore, is not recorded in the governmental fund statements. This amount represents the amount of the change in the payable in the current period. | | (1,203,782) |
| The amounts below included in the Statement of Activities do not provide or (require) the use of current financial resources, and therefore, are not reported as revenue or expenditures in governmental fund statements. The net changes are as follows: | | |
| Unearned revenue | | 75,192 |
| Compensated absences | | (43,872) |
| CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES | | ($924,219) |

See accompanying notes to financial statements

MARIN-SONOMA MOSQUITO AND VECTOR CONTROL DISTRICT

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2014

| | Budget Amounts | | | Variance with Final Budget Positive |
|---|---|---|---|---|
| | Original | Final | Actual | (Negative) |
| REVENUES | | | | |
| Taxes and assessments: | | | | |
| Assessments | $3,014,842 | $3,014,842 | $2,965,818 | ($49,024) |
| Current secured | 3,700,301 | 3,700,301 | 3,661,611 | (38,690) |
| Current unsecured | 89,498 | 89,498 | 101,859 | 12,361 |
| Prior unsecured | 1,661 | 1,661 | 4,045 | 2,384 |
| Homeowners' property tax relief | 30,937 | 30,937 | 29,332 | (1,605) |
| Annexation revenue | 746,569 | 746,569 | 798,432 | 51,863 |
| Supplemental assessments | (56,062) | (56,062) | 3,953 | 60,015 |
| Other aid | | | 150 | 150 |
| Total taxes and assessments | 7,527,746 | 7,527,746 | 7,565,200 | 37,454 |
| Use of money and property: | | | | |
| Interest income | 19,511 | 19,511 | 14,152 | (5,359) |
| Other revenues: | | | | |
| Contract work | 200,000 | 200,000 | 148,094 | (51,906) |
| Refunds and reimbursements | 61,000 | 61,000 | 130,442 | 69,442 |
| Total other revenues | 261,000 | 261,000 | 278,536 | 17,536 |
| Total Revenues | 7,808,257 | 7,808,257 | 7,857,888 | 49,631 |
| EXPENDITURES | | | | |
| Current: | | | | |
| Employees' compensation | | | | |
| Salaries and compensated absences | 3,388,421 | 3,388,421 | 3,262,442 | 125,979 |
| Employee benefits | 1,872,129 | 1,872,129 | 1,816,231 | 55,898 |
| Total employees' compensation | 5,260,550 | 5,260,550 | 5,078,673 | 181,877 |
| Total expenditures forward | 5,260,550 | 5,260,550 | 5,078,673 | 181,877 |

(Continued)

MARIN-SONOMA MOSQUITO AND VECTOR CONTROL DISTRICT

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2014

| | Budget Amounts | | | Variance with Final Budget Positive |
|---|---|---|---|---|
| | Original | Final | Actual | (Negative) |
| EXPENDITURES | | | | |
| Current: | | | | |
| Total forward | $5,260,550 | $5,260,550 | $5,078,673 | $181,877 |
| General and administrative: | | | | |
| Agriculture | 533,750 | 533,750 | 569,835 | (36,085) |
| Pest abatement supplies | 22,500 | 22,500 | 20,549 | 1,951 |
| Spray/field equipment | 14,200 | 14,200 | 6,317 | 7,883 |
| Source reduction equipment | 16,800 | 16,800 | 27,063 | (10,263) |
| Furniture, appliances and equipment | 2,500 | 2,500 | 537 | 1,963 |
| Clothing and personal supplies | 60,500 | 60,500 | 35,056 | 25,444 |
| Safety equipment | 11,650 | 11,650 | 5,516 | 6,134 |
| Communications | 42,600 | 42,600 | 29,141 | 13,459 |
| Food | 3,424 | 3,424 | 2,401 | 1,023 |
| District special expense | 228,200 | 228,200 | 213,053 | 15,147 |
| Household expense | 9,300 | 9,300 | 7,066 | 2,234 |
| Insurance | 252,562 | 252,562 | 250,958 | 1,604 |
| Accidents | | | 8,157 | (8,157) |
| Maintenance - equipment | 82,900 | 82,900 | 69,144 | 13,756 |
| Maintenance - ground/structures | 16,200 | 16,200 | 14,989 | 1,211 |
| Lab | 75,600 | 75,600 | 27,384 | 48,216 |
| Fish supplies | 13,850 | 13,850 | 2,984 | 10,866 |
| Disease surveillance | 20,000 | 20,000 | 27,004 | (7,004) |
| Memberships | 31,450 | 31,450 | 31,527 | (77) |
| Office expense | 31,350 | 31,350 | 20,781 | 10,569 |
| Professional and special services | 471,325 | 471,325 | 389,097 | 82,228 |
| Publications and legal notices | 149,000 | 149,000 | 108,960 | 40,040 |
| Rents and leases | 11,750 | 11,750 | 9,117 | 2,633 |
| Small tools and instruments | 4,500 | 4,500 | 2,830 | 1,670 |
| Minor construction/improvements | 36,675 | 37,875 | 18,280 | 19,595 |
| Education/public relations and printing | 62,000 | 62,000 | 58,274 | 3,726 |
| Education and training for employees | 22,000 | 22,000 | 9,351 | 12,649 |
| Travel and transportation | 40,310 | 40,310 | 30,763 | 9,547 |
| Fuel and oil | 111,000 | 111,000 | 109,241 | 1,759 |
| Utilities | 38,300 | 38,300 | 32,272 | 6,028 |
| Total general and administrative | 2,416,196 | 2,417,396 | 2,137,647 | 279,749 |
| Total expenditures | 7,676,746 | 7,677,946 | 7,216,320 | 461,626 |

(Continued)

MARIN-SONOMA MOSQUITO AND VECTOR CONTROL DISTRICT

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2014

| | Budget Amounts | | | Variance with Final Budget Positive |
|---|---|---|---|---|
| | Original | Final | Actual | (Negative) |
| OTHER FINANCING SOURCES (USES) | | | | |
| Transfers in (out) | $12,112 | $12,112 | ($144,620) | ($156,732) |
| Total other financing sources (uses) | 12,112 | 12,112 | (144,620) | (156,732) |
| NET CHANGE IN FUND BALANCES | $143,623 | $142,423 | 496,948 | $354,525 |
| BEGINNING FUND BALANCE | | | 7,822,408 | |
| ENDING FUND BALANCE | | | $8,319,356 | |

See accompanying notes to financial statements

## NOTE 1 - GENERAL

Formed in 1915, the Marin-Sonoma Mosquito and Vector Control District (District) is a California Special District empowered to take all necessary steps for the abatement of mosquito and other vectors such as yellow jackets and rats. The District is also empowered to abate as nuisances all standing water that produces mosquitoes. A twenty-four (24) member appointed Board of Trustees governs the District. As of June 30, 2014, there were two vacant seats.

## NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the District conform with accounting principles generally accepted in the United States of America and are applicable to governments. The following is a summary of the significant policies.

### *A. Basis of Presentation*

The District's basic financial statements are prepared in conformity with United States generally accepted accounting principles. The Government Accounting Standards Board (GASB) is the acknowledged standard setting body for establishing accounting and financial reporting standards followed by governmental entities in the United States of America.

These Statements require that the following financial statements be presented:

***District-wide Financial Statements:*** The District's financial statements reflect only its own activities; it has no component units (other government units overseen by the District). The Statement of Net Position and Statement of Activities include the financial activities of the overall District government. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange revenues.

***Governmental Fund Financial Statements:*** The fund financial statements provide information about the District's funds. Separate statements for each governmental fund are presented. The emphasis of fund financial statements is on major individual funds, each of which is displayed in a separate column.

The District reported the following major governmental funds in the accompanying financial statements:

**General Fund** – The General Fund is the main operating fund of the District. All financial resources, except those required to be accounted for in another fund, are accounted for in the General Fund.

**Capital Projects Fund** – The Capital Projects Fund is used to account for all capital purchases.

## NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### *B. Basis of Accounting*

The District-wide financial statements are reported using the *economic resources measurement focus* and the full *accrual basis* of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are *incurred*, regardless of when the related cash flows take place.

Governmental funds are reported using the *current financial resources* measurement focus and the *modified accrual* basis of accounting. Under this method, revenues are recognized when "measurable and available." The District considers all revenues reported in the governmental funds to be available if the revenues are collected within sixty days after year-end. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as *expenditures* in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as *other financing sources*.

Those revenues susceptible to accrual are property taxes, certain charges for services and interest revenue.

Non-exchange transactions, in which the District gives or receives value without directly receiving or giving equal value in exchange, include taxes, grants, entitlements, and donations. On the accrual basis, revenue from taxes is recognized in the fiscal year for which the taxes are levied or assessed. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

The District may fund programs with a combination of cost-reimbursement grants and general revenues. Thus, both restricted and unrestricted net position may be available to finance program expenditures. The District's policy is to first apply restricted grant resources to such programs, followed by general revenues if necessary.

### *C. Property Taxes*

Revenue is recognized in the fiscal year for which the tax and assessment is levied. The Counties of Marin and Sonoma levy, bill and collect property taxes and benefit assessments for the District; the Counties remit the entire amount levied and handle all delinquencies, retaining interest and penalties. Secured and unsecured property taxes are levied on January 1 of the preceding fiscal year.

Secured property tax is due in two installments, on November 1 and February 1, and becomes a lien on those dates. It becomes delinquent on December 10 and April 10, respectively. Unsecured property tax is due on July 1 and becomes delinquent on August 31.

The term "unsecured" refers to taxes on personal property other than real estate, land and buildings. These taxes are secured by liens on the personal property being taxed.

## NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property tax revenue is recognized in the fiscal year for which the tax is levied. Marin and Sonoma Counties distribute property tax (termed "settlements") under the Teeter Plan, which allows the District to receive all property taxes in the year in which they are levied. The Counties retain any collections of interest, penalties and delinquencies under this plan. Sonoma County's Teeter Plan includes current year secured and supplemental ad valorem taxes but does not include any direct charges (benefit assessments) or unsecured taxes. A settlement apportionment for 95% of unsecured property taxes is received in October, with the remainder distributed in June. Secured property taxes are received in three settlements and apportioned as follows: 55% in December, 40% in April and 5% in June.

### *D. Budgets and Budgetary Accounting*

The District follows the procedures established by the State of California for special districts in establishing the budgetary data reflected in the financial statements. During the year, the General Fund was the only fund for which a budget was required.

### *E. Inventory*

Inventories consist primarily of pesticides and are stated at cost (first-in, first-out basis) and are recorded as expenditures at the time the inventory is consumed.

### *F. Compensated Absences*

Accumulated unpaid employee vacation and compensated hours, are recognized as liabilities of the District to the extent they vest. Sick leave has also been included as employees receive 50% of their accumulated sick leave upon termination of employment. The liability is recorded in the Statement of Net Position. The General Fund has been used to liquidate compensated absences. At June 30, 2014, the balance of compensated absences was $405,444, of which $182,450 was estimated to be the current portion.

### *G. Use of Estimates*

The financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America and, as such, include amounts based on informed estimates and judgments of management with consideration given to materiality. Actual results could differ from those amounts.

## NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### *H. New Accounting Pronouncements*

The District has implemented the requirements of the following GASB Pronouncement:

**GASB Statement No. 65**, *Items Previously Reported as Assets and Liabilities.* This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities.

The District has recorded a deferred inflow of resources on its governmental fund balance sheet for unavailable revenue, consisting of accounts receivable from the State of California Department of Fish and Game.

## NOTE 3 - CASH AND INVESTMENTS

### *A. Policies and Classification*

California Law requires banks and savings and loan institutions to pledge government securities with a market value of 110% of the District's cash on deposit, or first trust deed mortgage notes with a market value of 150% of the deposit, as collateral for these deposits. Under California Law this collateral is held in a separate investment pool by another institution in the District's name and places the District ahead of general creditors of the institution.

The District's investments are carried at fair value, as required by generally accepted accounting principles. The District adjusts the carrying value of its investments to reflect their fair value at each fiscal year end, and it includes the effects of these adjustments in income for that fiscal year.

The District's cash and investments consist of the following at June 30, 2014:

| | |
|---|---|
| Cash on hand | $350 |
| Deposits with financial institutions | 39,973 |
| County of Marin Treasury | 10,434,636 |
| Total cash and investments | $10,474,959 |

## NOTE 3 - CASH AND INVESTMENTS (Continued)

The District has authorized staff to deposit cash with the Marin County Treasurer in a series of pooled accounts with cash from various other governmental entities within the County, for investment purposes. The County's investment policies are governed by State statutes. In addition, the County has an investment committee, which prescribes written investment policies regarding the types of investments that may be made. The policies limit amounts that may be invested in any one financial institution or amounts, which may be invested in long-term instruments. Interest earned from such time deposits and investments is allocated quarterly to the District based on its average daily cash balances. The fair value of the account at June 30, 2014 was provided by the County Treasurer.

## NOTE 4 – CAPITAL ASSETS

Purchased capital assets are stated at historical cost or estimated historical cost when original cost is not available. Donated capital assets are recorded at their estimated fair value at the date of donation. The District's policy is to capitalize all capital assets with costs exceeding a minimum threshold of $500. Depreciation is recorded using the straight-line method over the estimated useful lives of capital assets which range from 20 to 50 years for structures and improvements, 3 to 40 years for office equipment, 3 to 20 years for office furniture, 10 to 20 years for field equipment, and 5 to 15 years for vehicles.

Capital asset activity for the fiscal year ended June 30, 2014, was as follows:

| | Balance June 30, 2013 | Additions | Retirements | Balance June 30, 2014 |
|---|---|---|---|---|
| Capital assets not being depreciated: | | | | |
| Land | $675,000 | | | $675,000 |
| Total capital assets not being depreciated | 675,000 | | | 675,000 |
| Capital assets being depreciated: | | | | |
| Structures and improvements | 6,665,681 | $8,495 | | 6,674,176 |
| Office equipment | 607,447 | 6,684 | ($15,535) | 598,596 |
| Office furniture | 51,316 | | (3,437) | 47,879 |
| Field equipment | 245,130 | 31,461 | | 276,591 |
| Vehicles | 1,995,060 | 64,342 | | 2,059,402 |
| Total capital assets being depreciated | 9,564,634 | 110,982 | (18,972) | 9,656,644 |
| Accumulated depreciation: | | | | |
| Structures and improvements | (1,601,223) | (153,533) | | (1,754,756) |
| Office equipment | (329,989) | (24,200) | 12,212 | (341,977) |
| Office furniture | (51,948) | (441) | 2,750 | (49,639) |
| Field equipment | (186,349) | (26,788) | | (213,137) |
| Vehicles | (1,521,644) | (99,451) | | (1,621,095) |
| Total accumulated depreciation | (3,691,153) | (304,413) | 14,962 | (3,980,604) |
| Total capital assets, being depreciated, net | 5,873,481 | ($193,431) | ($4,010) | 5,676,040 |
| Capital assets, net | $6,548,481 | | | $6,351,040 |

## NOTE 5 – NET POSITION AND FUND BALANCES

Net Position is measured on the full accrual basis while Fund Balances are measured on the modified accrual basis.

### *A. Net Position*

Net Position is the excess of all the District's assets and deferred outflows over all its liabilities and deferred inflows, regardless of fund. Net Position is divided into three captions which is determined at the District-wide level, and is described below:

*Net Investment in Capital Assets* describes the portion of Net Position which is represented by the current net book value of the District's capital assets.

*Restricted* describes the portion of Net Position which is restricted as to use by the terms and conditions of agreements with outside parties, governmental regulations, laws, or other restrictions which the District cannot unilaterally alter. The District's Restricted Net Position is for pension obligations with MCERA.

*Unrestricted* describes the portion of Net Assets which is not restricted to use.

### *B. Fund Balance*

The District's fund balances are classified in accordance with Governmental Accounting Standards Board Statement Number 54 (GASB 54), *Fund Balance Reporting and Governmental Fund Type Definitions*, which requires the District to classify its fund balances based on spending constraints imposed on the use of resources. For programs with multiple funding sources, the District prioritizes and expends funds in the following order: Restricted, Committed, Assigned, and Unassigned. Each category in the following hierarchy is ranked according to the degree of spending constraint:

*Nonspendables* represents balances set aside to indicate items do not represent available, spendable resources even though they are a component of assets. Fund balances required to be maintained intact and assets not expected to be converted to cash, such as prepaids, notes receivable, and inventories are included. However, if proceeds realized from the sale or collection of nonspendable assets are restricted, committed or assigned, then Nonspendable amounts are required to be presented as a component of the applicable category.

*Restricted* fund balances have external restrictions imposed by creditors, grantors, contributors, laws, regulations, or enabling legislation which requires the resources to be used only for a specific purpose. Encumbrances and nonspendable amounts subject to restrictions are included along with spendable resources.

*Committed* fund balances have constraints imposed by formal action of the Board of Trustees which may be altered only by formal action of the Board of Trustees. Encumbrances and nonspendable amounts subject to Board commitments are included along with spendable resources.

## NOTE 5 – FUND BALANCES AND NET ASSETS (Continued)

*Assigned* fund balances are amounts constrained by the District's intent to be used for a specific purpose, but are neither restricted nor committed. Intent is expressed by the Board of Trustees or its designee and may be changed at the discretion of the Board of Trustees or its designee. This category includes encumbrances when it is the District's intent to use proceeds or collections for a specific purpose, and residual fund balances, if any, of the Capital Projects Fund which have not been restricted or committed.

*Unassigned* fund balance represents residual amounts that have not been restricted, committed, or assigned. This includes the residual General Fund balance and residual fund deficits, if any, of other governmental funds. Within Unassigned fund balance, the Board has earmarked $1,152,755 for mosquito and vector emergencies.

## NOTE 6 - PENSION PLAN

### *A. General Plan*

The District contributes to the Marin County Employees' Retirement Association (MCERA). The MCERA provides retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members and their beneficiaries. MCERA is a cost sharing multiple-employer plan administered by the County of Marin. Employees hired before January 1, 2013 vest after 10 years of service and may receive retirement benefits at the age of 50. Employees hired on or after January 1, 2013 vest after 10 years of service and may receive retirement benefits at age 62. These benefit provisions and all requirements are by the County Employees' Retirement Law of 1937, as amended and set forth in Section 34150 et. seq. of the government code.

### *B. Actuarial Assumptions*

As of the June 30, 2013 actuarial date (the most current available), there is an accrued liability of $11,447,755 which is associated with the District's pension plan for future benefits. The District has $4,108,988 in a trust account with MCERA that would be used to offset the accrued liability.

MCERA determines contribution requirements using the Entry Age Actuarial Cost Method. The normal benefit cost under this method is the level amount the District must pay annually to fund an employee's projected retirement benefit. This level percentage of payroll method is used to amortize any unfunded actuarial liabilities (UAAL). The District prefunded its pension plan by contributing $500,000 each year for fiscal years ended June 30, 2010, 2011 and 2012, for a total of $1,500,000. The difference between the accrued liability and the deposit in the trust account is being amortized over 17 years and will be funded by the District's annual required contribution, plus any additional optional contributions made by the District. This net pension asset as of June 30, 2014 is $1,235,294.

MCERA values its Plan assets using a five-year smoothed method based on the difference between the expected market value and the actual market value of the assets as of the valuation date. In valuing its Plan assets, MCERA assumes the following factors: (a) investment rate of return of 7.50%, (b) wage inflation of 3.25%, plus service-based rates, (c) cost of living adjustments of 3.25%, and (d) post retirement cost of living adjustments of 3.00%.

## NOTE 6 - PENSION PLAN (Continued)

### C. *Contributions*

The MCERA members are required to contribute 6.74% to 11.66% of their annual covered salary, depending on their age at the time of hire. For employees hired before January 1, 2013, the District is required to contribute at an actuarially determined rate; the current rate is 27.86% of annual covered payroll. Out of the 27.86%, 13.04% is the normal required contribution, while the remaining 14.82% is for the unfunded liability. For employees hired on or after January 1, 2013, the District is required to contribute 24.10% of annual covered payroll. Out of the 24.10%, 9.27% is the normal required contribution, while the remaining 14.83% is for the unfunded liability. The contribution requirements of plan members and the District are reviewed on an annual basis.

The District's contributions to MCERA for the last three years ended June 30 were as follows:

| June 30 | Annual Pension Cost (APC) | Actual Contribution | Percentage of APC Contributed | Employer's Contribution Rate |
|---|---|---|---|---|
| 2012 | $820,548 | $1,320,548 | 160.9% | 6.24% - 11.50% |
| 2013 | 891,511 | 891,511 | 100.0% | 6.74% - 11.66% |
| 2014 | 865,130 | 865,130 | 100.0% | 6.91% - 12.06% |

The Schedule of Funding Progress is included in the Required Supplementary Information section of this report. The Marin County Employee's Retirement Association (MCERA) Financial Statements can be obtained at One McInnis Parkway, Suite 100, San Rafael, California 94903.

## NOTE 7 – OTHER POST EMPLOYMENT BENEFITS

The provisions of Governmental Accounting Standards Board Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions,* establishes uniform financial reporting standards for employers providing postemployment benefits other than pensions (OPEB). Required disclosures are presented below.

### A. *Plan Description and Funding Policy*

The District provides post-employment medical benefits to retirees and retirees' spouses (for employees hired prior to July 1, 2009) as long as the retiree had 10 years of service vested with the District and had reached age 50. Employees hired on or after July 1, 2009 will receive benefits for themselves only as long as the retiree had 10 years of service vested with the District and had reached age 50. Participants are required to have continuity of medical coverage upon retirement in order to receive these medical benefits. As of June 30, 2014, 20 retirees and/or retiree spouses were receiving benefits.

The District's policy is to contribute an amount sufficient to pay the current year's premium. For fiscal year 2013-2014, the District contributed $141,218 which covered premiums, but did not include any additional prefunding benefits.

## NOTE 7 – OTHER POSTEMPLOYMENT BENEFITS (Continued)

### *B. Actuarial Assumptions*

The annual required contribution (ARC) was determined as part of a July 1, 2013 actuarial valuation using the projected unit credit actuarial entry age normal cost method. This is a projected benefit cost method, which takes into account those benefits that are expected to be earned in the future as well as those already accrued. The actuarial assumptions included (a) 4.0% investment rate of return (based on a pay-as-you-go funding plan), (b) 3.25% projected annual salary increase, and (c) health care cost trend rates from 5.25% to 7.50% of medical benefits. The actuarial methods and assumptions used include techniques that smooth the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets. Actuarial calculations reflect a long-term perspective and actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Actuarially determined amounts are subject to revision at least tri-annually as results are compared to past expectations and new estimates are made about the future. The District's OPEB unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll using a 26 year amortization period.

### *C. Funding Progress and Funded Status*

Generally accepted accounting principles permits contributions to be treated as OPEB assets and deducted from the Actuarial Accrued Liability when such contributions are placed in an irrevocable trust or equivalent arrangement. As of July 1, 2013, the most recent actuarial valuation date, the plan was zero percent funded. During the fiscal year ended June 30, 2014, the District contributed $141,218 to the Plan. As a result the District has recorded a Net OPEB Obligation, representing the difference between the ARC and the actual contributions, as presented below.

The District's Net OPEB Obligation (NOO) is recorded in the Statement of Net Position and is calculated as follows:

| | |
|---|---|
| Annual required contribution (ARC) | $1,360,000 |
| Interest on Net OPEB Obligation | 156,000 |
| Adjustments to ARC | (171,000) |
| Annual OPEB cost | 1,345,000 |
| Contributions made - current year premiums | (141,218) |
| Increase in net OPEB Obligation | 1,203,782 |
| Net OPEB Obligation at June 30, 2013 | 3,907,216 |
| Net OPEB Obligation at June 30, 2014 | $5,110,998 |

## NOTE 7 – OTHER POSTEMPLOYMENT BENEFITS (Continued)

The Plan's annual required contributions and actual contributions for the last three fiscal years are set forth below:

| Fiscal Year | Annual OPEB Cost (AOC) | Actual Contribution | Percentage of AOC Contributed | Net OPEB Obligation (Asset) |
|---|---|---|---|---|
| June 30, 2012 | $1,221,128 | $158,057 | 13% | $2,753,047 |
| June 30, 2013 | 1,303,606 | 149,437 | 11% | 3,907,216 |
| June 30, 2014 | 1,345,000 | 141,218 | 10% | 5,110,998 |

The Schedule of Funding Progress presents trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits. Trend data from the July 1, 2013 actuarial study is presented below:

| Actuarial Valuation Date | Entry Age Actuarial Accrued Liability (A) | Actuarial Value of Assets (B) | Unfunded Actuarial Accrued Liability (A – B) | Funded Ratio (A/B) | Covered Payroll (C) | Unfunded Actuarial Liability as Percentage of Covered Payroll [(A – B)/C] |
|---|---|---|---|---|---|---|
| 7/1/2010 | $12,030,407 | $0 | $12,030,407 | 0.00% | $2,684,455 | 448.2% |
| 7/1/2013 | 15,038,000 | 0 | 15,038,000 | 0.00% | 3,196,000 | 470.5% |

### D. *Deferred Compensation Plan*

The District offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan is available for full-time employees. The Internal Revenue Services regulations allow an employer to designate a 457(b) Deferred Compensation Plan as an alternative to social security. The plan permits employees to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency. However, participants are allowed to borrow against their account value, up to 50%.

All amounts of compensation deferred under the plan, all property and rights purchased with those amounts, and all income attributable to those amounts, property, or rights (until paid or made available to the employee or other beneficiary) are held in trust by third party administrators for the exclusive benefit of the plan participants and their beneficiaries as prescribed by Internal Revenue Code Section 457 (g). Accordingly, these assets have been excluded from the accompanying financial statements.

## NOTE 8 – RISK MANAGEMENT

The District participates with other public entities in a joint venture under a joint powers agreement which established the Vector Control Joint Powers Agency (VCJPA) which is a workers' compensation and general liability risk pool. The relationship between the District and VCJPA is such that VCJPA is not a component unit of the District for financial reporting purposes. The District reports all of its risk management activities in its VCJPA Fund. Claims expenditures and liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. Should there be a need for a retrospective adjustment due to adverse claim activity, the District may be assessed additional premiums.

The VCJPA is a consortium of thirty-four (34) mosquito abatement or vector control districts in the State of California. It was established under the provisions of California Government Code section 6500 et seq. The VCJPA is governed by a Board of Directors, which meets four times per year, consisting of one member from each of the four regions as well as two trustees of the Mosquito and Vector Control Association of California (MVCAC). A risk management group employed by the VCJPA handles the day-to-day business.

The following is a summary of the insurance policies in force carried by the Authority as of June 30, 2014:

| Type of Coverage | District Limits | District Deductibles |
|---|---|---|
| General Liability | $14,000,000 | $50,000 |
| Employment Practices | 2,000,000 | 25,000 |
| Workers' Compensation | Statutory | 50,000 |
| Boiler and Machinery | 100,000,000 | 2,500 |
| All-risk Property | 1,000,000,000 | 10,000 |
| Auto Physical Damage (per vehicle) | 35,000 | 500 |
| Business Travel Accident | 150,000 | none |
| Group Fidelity | 1,000,000 | 2,500 |

As defined by Government Accounting Standards Board (GASB) Statement 10, the Vector Control Joint Powers Agency is "a claims servicing or account pool." VCJPA manages separate accounts for each pool member from whom losses and expenses of that member are paid, up to the retention limit. VCJPA purchases commercial excess insurance. The annual assessment of each member includes allocation for loss payments, expenses and excess insurance premiums.

Annually, VCJPA evaluates the assets of each pool member in comparison with expected future liabilities. The "financial risk position" of each member is determined by subtracting case reserves, claims incurred but not reported amounts and claim development from members' deposit balances. If a negative risk position is found, a supplemental amount is added to the member's annual assessment.

## NOTE 8 – RISK MANAGEMENT (Continued)

In accordance with GASB 10, the District has recorded its deposit with VCJPA as an asset at June 30, 2014. The District had no claims losses outstanding at June 30, 2014. Settled claims for the District have not exceeded coverage in any of the past three years.

The District has reserves of $500,554 on deposit with VCJPA for member contingencies to cover the District's self-insured retentions (SIR) for two claims in each type of coverage. The VCJPA has also purchased insurance to cover catastrophic losses.

Financial statements may be obtained from Vector Control Joint Powers Agency, 1831 K Street, Sacramento, California 95814.

## NOTE 9 – SUBSEQUENT EVENT

On July 30, 2014, the Board adopted a resolution of agreement and election to Prefund OPEB through the California Employers' Retiree Benefit Trust (CERBT) Program, administered by CalPERS. The District adopted the budget for fiscal year 14/15, which includes a planned contribution of $121,000 to be deposited in the Trust.

# REQUIRED SUPPLEMENTARY INFORMATION

MARIN/SONOMA MOSQUITO AND VECTOR CONTROL DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION
For the Year Ended June 30, 2014

**Pension Plan**

MCERA'S latest available actuarial value (which differs from market value) and funding progress for the County-wide pool are set forth below at their actuarial valuation date of June 30, 2013.

| Valuation Date | Entry Age Accrued Liability | Value of Assets | Unfunded (Overfunded) Liability | Funded Ratio | Annual Covered Payroll | Unfunded (Overfunded) Liability as % of Payroll |
|---|---|---|---|---|---|---|
| 2011 | $1,436,000,000 | $1,065,300,000 | $370,700,000 | 74.2% | $175,400,000 | 211.3% |
| 2012 | 1,491,900,000 | 1,101,400,000 | 390,500,000 | 73.8% | 170,500,000 | 229.0% |
| 2013 | 1,560,700,000 | 1,217,700,000 | 343,000,000 | 78.0% | 178,200,000 | 192.5% |

The District's contributions to MCERA for the last three years ended June 30 were as follows:

| June 30 | Annual Pension Cost (APC) | Actual Contribution | Percentage of APC Contributed | Employer's Contribution Rate |
|---|---|---|---|---|
| 2012 | $820,548 | $1,320,548 | 160.9% | 6.24% - 11.50% |
| 2013 | 891,511 | 891,511 | 100.0% | 6.74% - 11.66% |
| 2014 | 865,130 | 865,130 | 100.0% | 6.91% - 12.06% |

# MARIN/SONOMA MOSQUITO AND VECTOR CONTROL DISTRICT

## MEMORANDUM ON INTERNAL CONTROL AND REQUIRED COMMUNICATIONS

## FOR THE YEAR ENDED JUNE 30, 2014

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**MARIN/SONOMA MOSQUITO AND VECTOR CONTROL DISTRICT**
**MEMORANDUM ON INTERNAL CONTROL AND REQUIRED COMMUNICATIONS**

**For the Year Ended June 30, 2014**

**Table of Contents**

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MAZE & ASSOCIATES

**MEMORANDUM ON INTERNAL CONTROL**

To the Board of Trustees
Marin/Sonoma Mosquito and Vector Control District
Cotati, California

In planning and performing our audit of the financial statements of the Marin/Sonoma Mosquito and Vector Control District as of and for the year ended June 30, 2014, in accordance with auditing standards generally accepted in the United States of America, we considered the District's internal control over financial reporting (internal control) as a basis for designing our auditing 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.

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all such deficiencies have been identified. In addition, because of inherent limitations in internal control, including the possibility of management override of controls, misstatements due to error or fraud may occur and not be detected by such controls. 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 exit that have not been identified.

Included in the Schedule of Other Matters are recommendations not meeting the above definitions that we believe to be of potential benefit to the District.

The District's written responses included in this report have not been subjected to the audit procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

This communication is intended solely for the information and use of management, Board of Trustees, others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

Maze & Associates

Pleasant Hill, California
October 30, 2014

**Accountancy Corporation**
3478 Buskirk Avenue, Suite 215
Pleasant Hill, CA 94523

T 925.930.0902
F 925.930.0135
E maze@mazeassociates.com
W **mazeassociates.com**

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# MARIN/SONOMA MOSQUITO & VECTOR CONTROL DISTRICT
# MEMORANDUM ON INTERNAL CONTROL
# SCHEDULE OF OTHER MATTERS
# FOR THE YEAR ENDED JUNE 30, 2014

## 2014-01: UPCOMING GASB

There are a number of new accounting and financial reporting pronouncements that have been issued by the Governmental Accounting Standards Board, the authoritative standard setting body in the United States. We have included the one that will have an impact on the District's financial statements, effective in fiscal year ending June 30, 2015, to keep you informed about these developments on a proactive basis.

**The following pronouncement is effective in fiscal year 2014/15:**

**GASB 68 - Accounting and Financial Reporting for Pensions (an amendment of GASB 27)**

This Statement will have a material impact on the District's financial statement. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions.

This Statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources, and deferred inflows of resources, and expense/expenditures. For defined benefit pensions, this Statement identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service.

Note disclosure and required supplementary information requirements about pensions also are addressed. Distinctions are made regarding the particular requirements for employers based on the number of employers whose employees are provided with pensions through the pension plan and whether pension obligations and pension plan assets are shared.

The following are the major impacts:

- This Statement requires the liability of employers and nonemployer contributing entities to employees for defined benefit pensions (**net pension liability**) to be measured as the portion of the present value of projected benefit payments to be provided through the pension plan to current active and inactive employees that is attributed to those employees' past periods of service (**total pension liability**), **less** the amount of the pension plan's **fiduciary net position**.

- Actuarial valuations of the total pension liability are required to be performed at least every two years, with more frequent valuations encouraged. If a valuation is not performed as of the measurement date, the total pension liability is required to be based on update procedures to roll forward amounts from an earlier actuarial valuation (performed as of a date no more than 30 months and 1 day prior to the employer's most recent year-end).

- The actuarial present value of projected benefit payments is required to be attributed to periods of employee service using the entry age actuarial cost method with each period's service cost determined as a level percentage of pay. The actuarial present value is required to be attributed for each employee individually, from the period when the employee first accrues pensions through the period when the employee retires.

**GASB 68 - Accounting and Financial Reporting for Pensions (an amendment of GASB 27) (Continued)**

**Single and Agent Employers**

- In financial statements prepared using the economic resources measurement focus and accrual basis of accounting, a single or agent employer that does not have a special funding situation is required to recognize a liability equal to the net pension liability. The net pension liability is required to be measured as of a date no earlier than the end of the employer's prior fiscal year (the measurement date), consistently applied from period to period.

- The pension expense and deferred outflows of resources and deferred inflows of resources related to pensions that are required to be recognized by an employer primarily result from changes in the components of the net pension liability—that is, changes in the total pension liability and in the pension plan's fiduciary net position.

- This Statement requires that most changes in the net pension liability be included in pension expense in the period of the change. For example, changes in the total pension liability resulting from current-period service cost, interest on the total pension liability, and changes of benefit terms are required to be included in pension expense immediately. Projected earnings on the pension plan's investments also are required to be included in the determination of pension expense immediately.

- The effects of certain other changes in the net pension liability are required to be included in pension expense over the current and future periods. The effects on the total pension liability of (1) changes of economic and demographic assumptions or of other inputs and (2) differences between expected and actual experience are required to be included in pension expense in a systematic and rational manner over a closed period equal to the average of the expected remaining service lives of all employees that are provided with benefits through the pension plan (active employees and inactive employees), beginning with the current period. The effect on the net pension liability of differences between the projected earnings on pension plan investments and actual experience with regard to those earnings is required to be included in pension expense in a systematic and rational manner over a closed period of five years, beginning with the current period. Changes in the net pension liability not included in pension expense are required to be reported as deferred outflows of resources or deferred inflows of resources related to pensions.

- Employer contributions subsequent to the measurement date of the net pension liability are required to be reported as deferred outflows of resources.

- In governmental fund financial statements: A net pension liability should be recognized to the extent the liability is normally expected to be liquidated with expendable **available** financial resources. Pension expenditures should be recognized equal to the total of (1) amounts paid by the employer to the pension plan and (2) the change between the beginning and ending balances of amounts normally expected to be liquidated with expendable available financial resources.

**GASB 68 - Accounting and Financial Reporting for Pensions (an amendment of GASB 27) (Continued)**

- Notes to financial statements of single and agent employers include descriptive information, such as the types of benefits provided and the number and classes of employees covered by the benefit terms. Single and agent employers also should disclose the following information:

- For the current year, sources of changes in the net pension liability.

- Significant assumptions and other inputs used to calculate the total pension liability, including those about inflation, salary changes, ad hoc postemployment benefit changes (including ad hoc COLAs), and inputs to the discount rate, as well as certain information about mortality assumptions and the dates of experience studies.

- The date of the actuarial valuation used to determine the total pension liability, information about changes of assumptions or other inputs and benefit terms, the basis for determining employer contributions to the pension plan, and information about the purchase of allocated insurance contracts, if any.

- Required Supplementary Information: Single and agent employers are required to present in required supplementary information the following information, determined as of the measurement date, for each of the 10 most recent fiscal years:

  - Sources of changes in the net pension liability

  - The components of the net pension liability and related ratios, including the pension plan's fiduciary net position as a percentage of the total pension liability, and the net pension liability as a percentage of covered-employee payroll.

  - Schedule covering each of the 10 most recent fiscal years that includes information about the actuarially determined contribution, contributions to the pension plan, and related ratios. If the contributions of a single or agent employer are not actuarially determined but are established in statute or by contract, the employer should present a schedule covering each of the 10 most recent fiscal years that includes information about the statutorily or contractually required contribution rates, contributions to the pension plan, and related ratios.

  - Significant methods and assumptions used in calculating the actuarially determined contributions, if applicable, should be presented as notes to required supplementary information. In addition, the employer should explain factors that significantly affect trends in the amounts reported in the schedules, such as changes of benefit terms, changes in the size or composition of the population covered by the benefit terms, or the use of different assumptions.

**GASB 68 - Accounting and Financial Reporting for Pensions (an amendment of GASB 27) (Continued)**

**Cost-Sharing Employers**

- Government-wide and accrual basis of accounting financial statements: A cost-sharing employer that does not have a special funding situation is required to recognize a liability for its **proportionate** share of the net pension liability (of all employers for benefits provided through the pension plan)—the collective net pension liability. An employer's proportion is required to be determined on a basis that is consistent with the manner in which contributions to the pension plan are determined, and consideration should be given to separate rates, if any, related to separate portions of the collective net pension liability. The use of the employer's projected long-term contribution effort as compared to the total projected long-term contribution effort of all employers as the basis for determining an employer's proportion is encouraged.

- A cost-sharing employer is required to recognize pension expense and report deferred outflows of resources and deferred inflows of resources related to pensions for its proportionate shares of collective pension expense and collective deferred outflows of resources and deferred inflows of resources related to pensions.

- In addition, the effects of (1) a change in the employer's proportion of the collective net pension liability and (2) differences during the measurement period between the employer's contributions and its proportionate share of the total of contributions from employers included in the collective net pension liability are required to be determined. These effects are required to be recognized in the employer's pension expense in a systematic and rational manner over a closed period equal to the average of the expected remaining service lives of all employees that are provided with pensions through the pension plan (active employees and inactive employees). The portions of the effects not recognized in the employer's pension expense are required to be reported as deferred outflows of resources or deferred inflows of resources related to pensions. Employer contributions to the pension plan subsequent to the measurement date of the collective net pension liability also are required to be reported as deferred outflows of resources related to pensions.

- In governmental fund financial statements, the cost-sharing employer's proportionate share of the collective net pension liability is required to be recognized to the extent the liability is normally expected to be liquidated with expendable available financial resources. Pension expenditures should be recognized equal to the total of (1) amounts paid by the employer to the pension plan and (2) the change between the beginning and ending balances of amounts normally expected to be liquidated with expendable available financial resources.

**GASB 68 - Accounting and Financial Reporting for Pensions (an amendment of GASB 27) (Continued)**

- Notes to financial statements of cost-sharing employers include descriptive information about the pension plans through which the pensions are provided. Cost-sharing employers should identify the discount rate and assumptions made in the measurement of their proportionate shares of net pension liabilities, similar to the disclosures about those items that should be made by single and agent employers. Cost-sharing employers, like single and agent employers, also should disclose information about how their contributions to the pension plan are determined.

This Statement requires cost-sharing employers to present in required supplementary information 10-year schedules containing (1) the net pension liability and certain related ratios and (2) if applicable, information about statutorily or contractually required contributions, contributions to the pension plan, and related ratios.

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**MARIN/SONOMA MOSQUITO & VECTOR CONTROL DISTRICT**
**MEMORANDUM ON INTERNAL CONTROL**
**CURRENT STATUS OF PRIOR YEAR**
**SCHEDULE OF OTHER MATTERS**
**FOR THE YEAR ENDED JUNE 30, 2014**

**2013-01:** ***Physical Inventory Counts of Vehicles and Pesticides***

As part of the audit, we observed the physical inventory count performed by District staff over vehicles and pesticides. We selected a sample of vehicles and pesticide items to test to confirm if our counts matched the inventory detail maintained by staff. In doing so, we found that out of eleven items tested, four items did not match the detail. In response to this, we selected an additional sample and found no more deviations.

We understand the employee who normally assists in the inventory count was out on a job site, therefore another employee was asked to assist. During this same timeframe, the Shop/Facilities Coordinator in charge of the count was also supervising another job and therefore was not able to double check that the items counted by the Vector Control Technician were done correctly.

Inventory counts should be conducted accurately to ensure that inventory is properly reported on the financial statements. The potential impact is that the inventory balance on the financial statements may be under- or over-stated.

We recommend that when the inventory count is conducted at year-end that there should be a second count to ensure that the amounts being reported are accurate.

*Current Status:*

The auditors observed the physical inventory conducted in July 2014 and noted no discrepancies in their testing. Following the 2013 Audit, District staff prepared and implemented a new "Annual Pesticide Inventory: Physical Inventory Procedure" document that was used successfully for the 2014 Audit. As recommended by the Auditor, this procedure specifies two independent counts of the physical inventory of pesticide materials.

**2013-02:** ***Purchasing Policy***

During our testing of disbursements we noted that the District does not have a formal comprehensive purchasing policy. While disbursements are currently reviewed and authorized by the Finance/Benefit Manager and all checks are signed by the District Manager and a Trustee, it would be prudent for the District to have a formal comprehensive purchasing policy in place outlining approval limits, authorized and unauthorized purchases and formalizing the requirements for two signatures.

*Current Status:*

District staff reviewed procurement policies issued by several other Special Districts and prepared an outline draft of a purchasing policy. At present, management is currently working on obtaining the services of a consultant to assist in finalizing a comprehensive purchasing policy for review by the Board of Trustees.

**MARIN/SONOMA MOSQUITO & VECTOR CONTROL DISTRICT**
**MEMORANDUM ON INTERNAL CONTROL**
**CURRENT STATUS OF PRIOR YEAR**
**SCHEDULE OF OTHER MATTERS**
**FOR THE YEAR ENDED JUNE 30, 2014**

**2013-03:** ***Cross-Training for Payroll***

During our review of the District's procedures over payroll, we noted that only the Finance/Benefit Manager has the ability to process payroll. It would be prudent for the District to designate a backup person who would be trained to process payroll, so that if the Finance/Benefit Manager was absent during a payroll processing period, there is a second party that could perform the payroll function.

*Current Status:*

As part of the new Memoranda of Understanding with the District's represented employees, payroll backup duties were added to the job description of the Confidential Administrative Assistant. Training of this position is currently ongoing, as there are many guidelines and procedures to follow throughout the year, e.g. reviewing the following: each employee's salary every pay period, benefits and deductions, direct deposit processing, monthly processing, month end processing, quarterly payroll tax reports, yearly processing and tax table changes. Training should be completed by spring of 2015. A printed manual showing the step by step procedures necessary for payroll has been prepared and is presently being updated to include the direct deposit procedures.

**2013-04:** ***Other Post Employment Benefits***

As of June 30, 2013, the District has a Net OPEB obligation (liability) of $3.9 million. This is due to the District not funding its annual required contributions. Subsequent to the completion of the audit, the District received its updated actuarial valuation over its Retiree Healthcare Plan, dated July 1, 2013. In reviewing the results of the updated actuarial valuation, we noted that the District's Actuarial Accrued Liability increased 25%, from $12 million to $15 million. If the District continues to operate on a pay-as-you-go basis, where only the current year retiree premiums are paid and no amounts are contributed to an irrevocable trust, the Net OPEB obligation will continue to grow and may become unsustainable.

Management, in conjunction with the Board, should look closely at the funding strategy of the Retiree Health Plan and consider establishing an irrevocable trust and funding more than the current annual premiums.

*Current Status:*

The Board gave detailed consideration to these matters and following updated actuarial calculations, in July 2014 the District established a trust fund account with the California Employers Retirees Benefit Trust. The initial deposit of $121,000 represented the first year of a nine-year phase in plan provided by the actuary to paying the District's full annual required cost.

MAZE & ASSOCIATES

## REQUIRED COMMUNICATIONS

To the Board of Trustees
Marin/Sonoma Mosquito and Vector Control District
Cotati, California

We have audited the basic financial statements of the Marin/Sonoma Mosquito and Vector Control District for the year ended June 30, 2014. Professional standards require that we communicate to you the following information related to our audit under generally accepted auditing standards.

**Significant Audit Findings**

***Accounting Policies***

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Marin/Sonoma Mosquito and Vector Control District are described in Note 2 to the financial statements.

No new accounting policies were adopted and the application of existing policies was not changed during the year, except as follows:

These pronouncements became effective, but did not have a material effect on the financial statements.

**GASB 65 - *Items Previously Reported as Assets and Liabilities***

This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. This Statement also provides other financial reporting guidance related to the impact of the financial statement elements deferred outflows of resources and deferred inflows of resources, such as changes in the determination of the major fund calculations and limiting the use of the term deferred in financial statement presentations.

**GASB 67 – *Financial Reporting for Pension Plans—an amendment of GASB Statement No. 25***

This Statement replaces the requirements of Statements No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, and No. 50, *Pension Disclosures,* as they relate to pension plans that are administered through trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria. The requirements of Statements 25 and 50 remain applicable to pension plans that are not administered through trusts covered by the scope of this Statement and to defined contribution plans that provide postemployment benefits other than pensions.

The pronouncement became effective, but did not have any impact on the District's financial statements.

**Accountancy Corporation**
3478 Buskirk Avenue, Suite 215
Pleasant Hill, CA 94523

T 925.930.0902
F 925.930.0135
E maze@mazeassociates.com
W **mazeassociates.com**

**GASB 70 -** ***Accounting and Financial Reporting for Nonexchange Financial Guarantees***

Some governments extend financial guarantees for the obligations of another government, a not-for-profit entity, or a private entity without directly receiving equal or approximately equal value in exchange (a nonexchange transaction). As a part of this nonexchange financial guarantee, a government commits to indemnify the holder of the obligation if the entity that issued the obligation does not fulfill its payment requirements. Also, some governments issue obligations that are guaranteed by other entities in a nonexchange transaction. The objective of this Statement is to improve accounting and financial reporting by state and local governments that extend and receive nonexchange financial guarantees.

This Statement requires a government that extends a nonexchange financial guarantee to recognize a liability when qualitative factors and historical data, if any, indicate that it is more likely than not that the government will be required to make a payment on the guarantee. The amount of the liability to be recognized should be the discounted present value of the best estimate of the future outflows related to the guarantee expected to be incurred. When there is no best estimate but a range of the estimated future outflows can be established, the amount of the liability to be recognized should be the discounted present value of the minimum amount within the range.

***Unusual Transactions, Controversial or Emerging Areas***

We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

***Estimates***

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate(s) affecting the District's financial statements:

> Management's estimate of depreciation is based on its established useful lives. We evaluated the key factors and assumptions used to develop the depreciation calculation in determining that it is reasonable in relation to the financial statements taken as a whole.
>
> Management's estimate of claims is based on general counsel for the District's and VCJPA's estimates of current and potential litigation provided for the District as of June 30, 2014. We evaluated the key factors and assumptions used to develop the claims liability balances and determined that they are reasonable in relation to the basic financial statements taken as a whole.

***Disclosures***

The financial statement disclosures are neutral, consistent, and clear.

### *Difficulties Encountered in Performing the Audit*

We encountered no significant difficulties in dealing with management in performing and completing our audit.

### *Corrected and Uncorrected Misstatements*

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all/certain such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to each opinion unit's financial statements taken as a whole.

### *Disagreements with Management*

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

### *Management Representations*

We have requested certain representations from management that are included in a management representation letter dated October 30, 2014.

### *Management Consultations with Other Independent Accountants*

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

### *Other Audit Findings or Issues*

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

*****

This information is intended solely for the use of the Audit Committee, Board of Trustees and management and is not intended to be, and should not be, used by anyone other than these specified parties.

Maze & Associates

Pleasant Hill, California
October 30, 2014

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