

**PLACER MOSQUITO AND
VECTOR CONTROL DISTRICT**

**INDEPENDENT AUDITOR'S REPORTS,
MANAGEMENT'S DISCUSSION AND ANALYSIS
AND FINANCIAL STATEMENTS**

**FOR THE FISCAL YEAR ENDED
JUNE 30, 2010**

**PLACER MOSQUITO AND VECTOR CONTROL DISTRICT
FOR THE YEAR ENDED JUNE 30, 2010**

Table of Contents

	<i>Page(s)</i>
Independent Auditor’s Report	1
Management’s Discussion and Analysis (Required Supplementary Information)	3
Basic Financial Statements:	
Government-Wide Financial Statements:	
Statement of Net Assets.....	9
Statement of Activities	10
Fund Financial Statements:	
Balance Sheet – Special Revenue Fund.....	11
Reconciliation of the Balance Sheet – Special Revenue Fund to the Statement of Net Assets	12
Statement of Revenues, Expenditures and Changes in Fund Balance – Special Revenue Fund	13
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance – Special Revenue Fund to the Statement of Activities.....	14
Notes to the Basic Financial Statements	15
Required Supplementary Information:	
Schedule of Funding Progress – Other Postemployment Benefits Plan	27
Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – Special Revenue Fund.....	28
Note to the Required Supplementary Information	29
Other Report:	
Independent Auditor’s Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	30
Schedule of Finding and Recommendation	32
Schedule of Prior Year Findings and Recommendations	34

Board of Trustees
Placer Mosquito and Vector Control District
Roseville, California

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying financial statements of the governmental activities and the major fund of the Placer Mosquito and Vector Control District (District), as of and for the year ended June 30, 2010, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing 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 over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of the District, as of June 30, 2010, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note G to the financial statements, effective July 1, 2009, the District implemented Governmental Accounting Standards Board (GASB) Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*.

In accordance with *Government Auditing Standards*, we have issued our report dated June 3, 2011, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis, Schedule of Funding Progress, and Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – Special Revenue Fund as listed in the table of contents, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Macie Mini & O'Connell LLP

Sacramento, California
June 3, 2011

**PLACER MOSQUITO AND VECTOR CONTROL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE YEAR ENDED JUNE 30, 2010**

As management of the Placer Mosquito and Vector Control District (the District), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2010. We encourage readers to consider the information presented here in conjunction with the District's basic financial statements, which begin on page 9.

Financial Highlights

- The assets of the District exceeded its liabilities at the close of the most recent fiscal year by \$4,196,291 (net assets).
- As of the close of the current fiscal year, the District's governmental fund reported ending fund balance of \$2,866,023.
- The District had program and general revenues of \$3,403,085 and program expenses of \$3,013,114 for the year ended June 30, 2010.

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 statements comprise three components: 1) government-wide financial statements, 2) fund financial statements and 3) notes to the basic financial statements.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

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

The *statement of net assets* presents information on all of the District's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The *statement of activities* presents information showing how the District's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

The government-wide financial statements report on the function of the District that is principally supported by intergovernmental revenues. The District's function is to control mosquitoes in order to increase the quality of life and decrease the risk of disease transmission in western Placer County. This is funded primarily with benefit assessments.

The government-wide financial statements can be found on pages 9 and 10 of this report.

**PLACER MOSQUITO AND VECTOR CONTROL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE YEAR ENDED JUNE 30, 2010**

FUND FINANCIAL STATEMENTS

A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds

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

The District maintains a major governmental fund for its special revenue fund in the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balance.

Because the focus of the governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented in the governmental funds with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financial decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balance provide a reconciliation to facilitate this comparison between the governmental funds and *governmental activities*. The governmental fund financial statements can be found on pages 11 through 14 of this report.

NOTES TO THE BASIC FINANCIAL STATEMENTS

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the basic financial statements can be found on pages 15 through 26 of this report.

Government-Wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the District, assets exceeded liabilities by \$4,196,291 at the close of the most recent fiscal year.

The District has capital assets (e.g. structures and equipment). Any investment in capital assets would restrict the use of assets for future spending. The unrestricted net assets of the District are available for future use to provide program services.

**PLACER MOSQUITO AND VECTOR CONTROL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE YEAR ENDED JUNE 30, 2010**

District's Net Assets

	FY 2010	FY 2009	Increase/ Decrease %
Current and other assets	\$ 3,153,759	\$ 4,365,812	-27.8%
Capital assets, net	6,199,890	4,478,142	38.4%
Total assets	<u>9,353,649</u>	<u>8,843,954</u>	<u>5.8%</u>
Current and other liabilities	272,516	107,404	153.7%
Long-term liabilities	4,884,842	4,930,230	-0.9%
Total liabilities	<u>5,157,358</u>	<u>5,037,634</u>	<u>2.4%</u>
Invested in capital assets, net of related debt	1,860,941	123,072	1412.1%
Restricted	23,960	399,356	-94.0%
Unrestricted	2,311,390	3,283,892	-29.6%
Total net assets	<u>\$ 4,196,291</u>	<u>\$ 3,806,320</u>	<u>10.2%</u>

The net assets of the District increased by \$389,971 during the current fiscal year. The District's primary source of revenue is Benefit Assessments, which is shown in the financial statements under "Charges for services (benefit assessments)."

**PLACER MOSQUITO AND VECTOR CONTROL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE YEAR ENDED JUNE 30, 2010**

District's Change in Net Assets

	FY 2010	FY 2009	Increase/ Decrease %
Revenue:			
Program revenue:			
Charges for services (benefit assessments)	\$ 3,273,850	\$ 3,245,425	0.9%
Total program revenue	3,273,850	3,245,425	0.9%
General revenue:			
Property taxes	33,697	41,215	-18.2%
Interest and other	95,538	81,157	17.7%
Total general revenue	129,235	122,372	5.6%
Total revenue	3,403,085	3,367,797	1.0%
Expenses:			
Health and sanitation	2,786,536	1,939,643	43.7%
Interest on long term debt	226,578	204,562	10.8%
Total expenses	3,013,114	2,144,205	40.5%
Change in net assets	389,971	1,223,592	-68.1%
Net assets, beginning of year	3,806,320	2,582,728	47.4%
Net assets, end of year	\$ 4,196,291	\$ 3,806,320	10.2%

Revenues increased in response to increase in property development despite no increases to the benefit assessment being implemented. Expenses increased as a result of seasonal variation in operational costs for vector control, and improvements to services, as well as additional interest expense charges for the year.

Fund Financial Analysis

As noted earlier, the District uses fund accounting to ensure and demonstrate compliance with finance related legal requirements. The District's governmental funds are discussed below:

GOVERNMENTAL FUNDS

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

**PLACER MOSQUITO AND VECTOR CONTROL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE YEAR ENDED JUNE 30, 2010**

As of the end of the current fiscal year, the District's governmental funds reported an ending fund balance of \$2,866,023.

**Revenues by Source
Governmental Funds**

	FY 2010	FY 2009	Increase/ Decrease %
Benefit assessments	\$ 3,267,381	\$ 3,245,425	0.9%
Property taxes	33,697	41,215	-18.2%
Interest and other	102,007	81,157	17.7%
Total revenues	<u>\$ 3,403,085</u>	<u>\$ 3,367,797</u>	<u>1.0%</u>

**Expenditures by Function
Governmental Funds**

	FY 2010	FY 2009	Increase/ Decrease %
Health and sanitation	\$ 2,523,610	\$ 1,968,313	28.2%
Debt service	393,778	218,117	44.6%
Capital outlay	1,860,087	4,168,634	-55.4%
Total expenditures	<u>\$ 4,777,475</u>	<u>\$ 6,355,064</u>	<u>-24.8%</u>

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The District's investment in capital assets is \$6,199,890. This investment in capital assets includes land, building and improvements, equipment and vehicles, and construction in progress. The significant changes in capital assets were due to building improvements. See Note C for additional details on capital assets in the basic financial statements.

Long-term Liabilities

At June 30, 2010, the District had total long-term liabilities outstanding of \$4,884,842. During the fiscal year ended June 30, 2010, total long-term debt decreased \$45,388. The major event for the decrease was making the annual debt service payments. More detailed information about the District's long-term debt is presented in Note D in the basic financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

Our projected budget for the 2010-11 FY is \$3,895,089. The rate of the existing benefit assessments and the Lincoln special tax will not increase for the 2010-11 FY.

**PLACER MOSQUITO AND VECTOR CONTROL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE YEAR ENDED JUNE 30, 2010**

The following factors were considered in preparing the District's budget for the 2010-11 fiscal year:

- Continued occurrence of West Nile Virus
- Continued need for tick-borne disease surveillance and public outreach (e.g. Lyme Disease)
- Continued risk of new or emerging vector-borne disease in Placer County
- Need for increased public outreach and education
- Completion of Laboratory improvement project, and associated start up costs for equipment, supplies, and staff
- Increased need for staff and program costs for expanded service area
- Need for improved data collection and database system upgrade to improve service efficiency and meet reporting requirements
- Expected need to fund anticipated water quality monitoring requirements for the proposed Vector Control Adulticide NPDES permit

Future Events that will Financially Impact the District

- Expected need to fund a programmatic CEQA review
- Expected increase in field staff positions
- Potential development growth in Auburn, Colfax, Lincoln, Rocklin, Roseville and the Martis Valley Region of eastern Placer County.
- Need to replace aging vehicles, and add field vehicles to accommodate additional field staff positions.

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 any of the information provided in this report or requests for additional financial information should be addressed to the Placer Mosquito and Vector Control District, 2021 Opportunity Drive, Roseville, CA 95678.

BASIC FINANCIAL STATEMENTS

PLACER MOSQUITO AND VECTOR CONTROL DISTRICT
STATEMENT OF NET ASSETS
JUNE 30, 2010

	<u>Governmental Activities</u>
Assets	
Cash and investments	\$ 2,621,282
Restricted cash and investments	423,223
Prepaid items	18,875
Deferred costs, net	90,379
Capital assets	
Nondepreciable	438,627
Depreciable, net	5,761,263
Total assets	<u>9,353,649</u>
 Liabilities	
Accounts payable	197,357
Accrued interest payable	75,159
Long-term liabilities:	
Due within one year	276,773
Due in more than one year	4,608,069
Total liabilities	<u>5,157,358</u>
 Net Assets	
Invested in capital assets, net of related debt	1,860,941
Restricted for grantors	23,960
Unrestricted	2,311,390
Total net assets	<u>\$ 4,196,291</u>

The notes to the basic financial statements are an integral part of this statement.

**PLACER MOSQUITO AND VECTOR CONTROL DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2010**

	<u>Governmental Activities</u>
Program Expenses	
Health and sanitation	\$ 2,786,536
Interest on long-term debt	226,578
Total program expense	<u>3,013,114</u>
Program Revenue	
Charges for services	<u>3,273,850</u>
Net program revenue	<u>260,736</u>
General Revenue	
Property taxes	33,697
Investment earnings	95,538
Total general revenue	<u>129,235</u>
Change in net assets	389,971
Net assets, beginning of year	<u>3,806,320</u>
Net assets, end of year	<u><u>\$ 4,196,291</u></u>

The notes to the basic financial statements are an integral part of this statement.

PLACER MOSQUITO AND VECTOR CONTROL DISTRICT
BALANCE SHEET – SPECIAL REVENUE FUND
JUNE 30, 2010

Assets

Cash and investments	\$ 2,621,282
Restricted cash and investments	423,223
Prepaid items	18,875
Total assets	\$ 3,063,380

Liabilities and fund balance

Liabilities:

Accounts payable	\$ 197,357
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Fund balance:

Reserved for:

Prepaid items	18,875
Imprest cash	400
Debt service	399,263
Grantors	23,960

Unreserved, designated for:

Capital asset acquisitions	1,560,221
Contingencies	40,389
Future occurrences	25,000
Mosquito abatement	141,450

Unreserved, undesignated

	656,465
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Total fund balance	2,866,023
Total liabilities and fund balance	\$ 3,063,380

The notes to the basic financial statements are an integral part of this statement.

**PLACER MOSQUITO AND VECTOR CONTROL DISTRICT
RECONCILIATION OF THE BALANCE SHEET - SPECIAL REVENUE FUND
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2010**

Fund balance - (page 11)	\$ 2,866,023
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Amounts reported for governmental activities in the statement
of net assets are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the District's fund.	6,199,890
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Issuance costs related to the certificates of participation are deferred in the statement of net assets	90,379
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Some liabilities are not due and payable in the current period and,
therefore, are not reported in the District's fund as follows:

Bonds outstanding	(4,835,000)
Discount on issuance	96,788
Compensated absences	(44,286)
Other postemployment benefits	(102,344)
Accrued interest payable	<u>(75,159)</u>

Net assets of governmental activities	<u>\$ 4,196,291</u>
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**PLACER MOSQUITO AND VECTOR CONTROL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - SPECIAL REVENUE FUND
FOR THE YEAR ENDED JUNE 30, 2010**

Revenues:

Charges for services (benefit assessments)	\$ 3,267,381
Property taxes	33,697
Investment earnings	95,538
Miscellaneous	6,469
Total revenues	3,403,085

Expenditures:

Health and sanitation:	
Salaries and benefits	1,187,927
Agriculture	542,849
Professional services	371,983
Office	152,091
Collection charges	69,022
Insurance	56,108
Utilities	44,095
Fuel and lubricants	39,143
Maintenance	27,095
Membership dues and subscriptions	12,228
Legal services	9,665
Travel and transportation	7,404
Rents and leases	4,000
Capital outlay	1,860,087
Debt service:	
Interest and fiscal charges	228,778
Principal	165,000
Total expenditures	4,777,475

Net change in fund balance	(1,374,390)
Fund balance, beginning of year	4,240,413
Fund balance, end of year	\$ 2,866,023

The notes to the basic financial statements are an integral part of this statement.

**PLACER MOSQUITO AND VECTOR CONTROL DISTRICT
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE – SPECIAL REVENUE FUND TO THE
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2010**

Net change in fund balance – (page 13) \$ (1,374,390)

Amounts reported for governmental activities in the statement of net assets are different because:

Governmental funds reports capital outlay as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Capital outlay	1,860,087
Depreciation expense	(138,339)

The repayment of principal on the certificates of participation consumes the District's current financial resources, however, does not have any impact on net assets.	165,000
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Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the District's fund.

Amortization of bond discount	(5,328)
Amortization of bond issuance costs	(4,975)
Change in accrued interest payable	2,200
Change in other postemployment benefits liability	(102,344)
Change in compensated absences	(11,940)
	(119,407)

Change in net assets of governmental activities	\$ 389,971
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The notes to the basic financial statements are an integral part of this statement.

**PLACER MOSQUITO AND VECTOR CONTROL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2010**

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

In May 2000, Placer County voters approved an assessment to provide funds to set up the Placer Mosquito and Vector Control District (District). The District's objective is to control mosquitoes in the western portion of Placer County. Program activities include eliminating mosquitoes in their larval stage chemically, as well as with mosquito fish, monitoring diseases associated with local mosquitoes, fogging to reduce adult populations, and public education.

The District has a governing board composed of one member appointed by each of the following: Cities of Auburn, Colfax, Lincoln, Rocklin, and Roseville, Town of Loomis, and the Placer County Board of Supervisors.

Accounting Policies

The District accounts for its financial transactions in accordance with the policies and procedures of the County of Placer (County). The accounting policies of the District conform with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB).

Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the District's activities. The effect of interfund activity has been removed from these statements. The District is only engaged in governmental activities and is supported by benefit assessments.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. General revenues include direct charges to customers based on voter-approved debt by property assessment.

When both restricted and unrestricted net assets are available, restricted resources are used only after the unrestricted resources are depleted.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of cash flows.

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. Governmental funds are accounted for on a spending or "financial flow" measurement focus. Their reported fund balance is considered a measure of "available spendable resources."

**PLACER MOSQUITO AND VECTOR CONTROL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2010**

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The governmental fund is accounted for using the modified accrual basis of accounting. Revenues are recognized in the accounting period in which they become both measurable and available to finance expenditures of the current accounting period. Expenditures are recognized when the related fund liability is incurred (when goods are received or services rendered). Revenues are considered to be available if they are collected within 60 days of the end of the current fiscal year. The Special Revenue Fund is the general operating fund of the District and is used to account for all financial resources.

Nonexchange transactions, in which the District gives (or receives) value without directly receiving (or giving) value in exchange, include benefit assessments, grants and donations. On a modified accrual basis, revenues from benefit assessments are recognized when the underlying transactions take place and have met the availability criteria. Revenues from grants and donations, when received, are recognized in the fiscal year in which all eligibility requirements imposed by the provider have been satisfied.

The District reports the following major governmental fund:

- The Special Revenue Fund is the District's primary operating fund accounts for all financial resources and activities of the District.

Capital Assets

Capital assets are valued at cost unless they are donated, in which case they are valued and reported at their estimated fair market value at the date of donation. Depreciation is computed by straight-line method over the estimated useful life of the asset. Assets purchased are recorded as expenditures in the District's fund and capitalized at cost or estimated cost where no historical records are available. The District defines capital assets as assets with an initial individual cost greater than \$5,000 and an estimated useful life in excess of one year. Capital assets are depreciated over their estimated useful lives of 3 to 50 years in the government-wide statements.

Deferred Costs

Costs incurred in the issuance of the Series 2008 VV Certificates of Participation are recognized as expenditures in the fund statements when incurred but are deferred and amortized over the life of the related debt on the government-wide statements.

Compensated Absences

District employees accrue vacation at varying amounts based on length of service and sick leave at a rate of ninety-six (96) hours a year. An employee's vacation accrual may not exceed two hundred and forty hours (240). Sick leave hours not used during the period are carried forward to the following years with no limit as to the number of hours that can be accumulated. Employees are not compensated for accrued but unused sick leave upon termination of employment; however, accrued but unused sick leave at the time of termination can be used as service time for purposes of retirement benefits, so long as consistent with the applicable contract and statutes of the California Public Employees' Retirement System (CalPERS).

**PLACER MOSQUITO AND VECTOR CONTROL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2010**

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenues

The County administers the District's revenue. The County bills and collects revenues through benefit assessments added to property tax billings. General revenues derive from tax receipts that are a percentage of property taxes collected. All receipts are deposited directly into the County's pooled cash fund for the district, after charging the District a 1% administrative fee. The District considers interest earned and property tax allocations to be general revenues.

Net Assets/Fund Balances

Net Assets

The government-wide fund financial statements utilize a net assets presentation. Net assets are categorized as invested capital assets, net of related debt, restricted and unrestricted.

Invested in Capital Assets, Net of Related Debt – This category groups all capital assets, including infrastructure, into one component of net assets. Accumulated depreciation of these assets reduces the balance in this category. Debt incurred and outstanding to construct and/or acquire capital assets, net of unspent proceeds, also reduces the balance in this category.

Restricted Net Assets – This category represents the portion of net assets that are restricted to fund future debt service and restricted by specific grant requirements.

Fund Balances

The term "reserved" is used to indicate that a portion of reported fund balance is (1) legally restricted to a specific use or (2) not available for appropriation or expenditure. The District's management will sometimes designate portions of unreserved (available) fund balance based on tentative future spending plans. Designated portions of fund balance represent financial resources legally available for uses other than those tentatively planned.

The District has "reserved" fund balances as follows:

Reserved for Prepaid Items – reflects the portion of fund balance for payments made that will benefit future periods and is not available for appropriation.

Reserved for Imprest Cash – reflects the District's petty cash used for daily operations and is not available for appropriation.

Reserved for Debt Service – reflects funds held by a third party fiscal agent for payment of principal and interest as required by the trust indenture.

**PLACER MOSQUITO AND VECTOR CONTROL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2010**

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Designations of unreserved fund balance are created to indicate tentative plans for financial resource utilization in a future period. Such plans or intent are subject to change and have not been legally authorized and do not represent commitments of the District.

The District has fund balance “designations” as follows:

Designated for capital asset acquisitions – reflects amounts for future building improvement and acquisition of equipment or other fixed assets

Designated for contingencies – reflects amount to address unforeseen and unexpected District contingency

Designated for future occurrences – reflects amount to fund applied vector-related research

Designated for mosquito abatement – reflects amount to conduct emergency vector control operations

Use of Estimates

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

NOTE B – CASH AND INVESTMENTS

Cash and investments at June 30, 2010 consists of the following:

	<u>Unrestricted</u>	<u>Restricted</u>	<u>Total</u>
Cash in County Treasury	\$ 2,513,861	\$ --	\$ 2,513,861
Cash in bank	90,885	23,960	114,845
Cash held with fiscal agents	16,136	399,263	415,399
Imprest cash	400	--	400
Total	<u>\$ 2,621,282</u>	<u>\$ 423,223</u>	<u>\$ 3,044,505</u>

Bank deposits totaling \$114,845 were entirely insured by the Federal Deposit Insurance Corporation. Of this amount, \$23,960 represents restricted grant funds received in prior years. The District involuntarily participates in the County Treasurer’s cash and investment pool. California Government Code Section 53600, et. seq., and the County investment policy authorizes the following investments; local agency bonds, U.S. Treasury securities, U.S. agency securities, bankers acceptances, commercial paper, negotiable certificates of deposit, repurchase agreements, corporate notes, money market mutual funds and the California Local Agency Investment Fund (LAIF). Other allowable investments pursuant to Government Code Section 53601, although restricted by the County’s investment policy, include mutual funds, mortgage and collateral-backed securities, asset-backed securities reverse repurchase agreements, and joint powers authority investment pools.

**PLACER MOSQUITO AND VECTOR CONTROL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2010**

NOTE B – CASH AND INVESTMENTS (CONTINUED)

Cash held with fiscal agent represents the District's investment in a money market mutual fund. A portion is held in an account restricted for debt service payments on the Series 2008 VV Certificates of Participation (refer to NOTE D) and the remainder may be used for capital improvements.

The County has an investment committee, which performs regulatory oversight for its pool as required by California Government Code Section 27134. Investments are stated at fair value in accordance with Governmental Accounting Standards Board (GASB) Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. However, the value of the District's shares in the County investment pool, which may be withdrawn, is determined on an amortized cost basis, which is different than the fair value of the District's position in the pool. The District's investment in the County Treasurer as of June 30, 2010 is stated at fair value.

GASB Statement No. 40, *Deposit and Investment Risk Disclosure – an amendment of GASB Statement No. 3*, requires additional disclosures about a government's deposit and investment risks that include credit risk, custodial credit risk, concentration of credit risk and interest rate risk. The District does not have an investment policy that addresses these specific types of risk.

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity its fair value is to changes in market interest rates. The weighted average to maturity of the County's external investment pool as of June 30, 2010 was 1,474 days. The weighted average to maturity of the District's money market mutual fund investment is 44 days.

Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The District's investment in the County external investment pool is not rated. The District's investment in the money market mutual fund is rated AAA by Standard & Poor's.

Custodial Credit Risk

The custodial credit risk for deposits is the risk that in the event of the failure of a depository institution, the District will not be able to recover deposits or will not be able to recover collateral securities that are in possession of an outside party. The custodial credit risk for investments is the risk that, in the event of failure of the counterparty (i.e. broker-dealer) to a transaction, the District will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the District's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits: the California Government Code requires that a financial institution secure deposits made by state and local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law. The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California

**PLACER MOSQUITO AND VECTOR CONTROL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2010**

NOTE B – CASH AND INVESTMENTS (CONTINUED)

law also allows financial institutions to secure deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits. As of June 30, 2010, the bank balance and carrying amount of the District's cash deposits was \$114,845.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of the District's investment in a single issuer. The District is not exposed to custodial credit or concentration of credit risk as it participates in the County's external investment pool and has no investments (other than U.S. treasury securities, money market mutual funds and external investment pools) that represent 5% or more of the District's total investments. Therefore, the District is not subject to such risks.

NOTE C – CAPITAL ASSETS

Changes in the capital assets during the year ended June 30, 2010 were as follows:

	Balance July 1, 2009	Additions	Retirements/ Transfers	Balance June 30, 2010
Capital assets, not being depreciated:				
Land	\$ 438,627	\$ -	\$ -	\$ 438,627
Construction in progress	101,203	1,650,546	(1,751,749)	-
Total capital assets, not being depreciated	<u>539,830</u>	<u>1,650,546</u>	<u>(1,751,749)</u>	<u>438,627</u>
Capital assets, being depreciated:				
Buildings and improvements	3,838,227	148,936	1,751,749	5,738,912
Equipment and vehicles	544,361	60,605	(3,776)	601,190
Total capital assets, being depreciated	<u>4,382,588</u>	<u>209,541</u>	<u>1,747,973</u>	<u>6,340,102</u>
Less accumulated depreciation for:				
Buildings and improvements	(78,985)	(91,464)	-	(170,449)
Equipment and vehicles	(365,291)	(46,875)	3,776	(408,390)
Total accumulated depreciation	<u>(444,276)</u>	<u>(138,339)</u>	<u>3,776</u>	<u>(578,839)</u>
Total capital assets, being depreciated, net	<u>3,938,312</u>	<u>71,202</u>	<u>1,751,749</u>	<u>5,761,263</u>
Capital assets - net	<u>\$ 4,478,142</u>	<u>\$ 1,721,748</u>	<u>\$ -</u>	<u>\$ 6,199,890</u>

**PLACER MOSQUITO AND VECTOR CONTROL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2010**

NOTE D – LONG-TERM LIABILITIES

Changes in the District’s long-term liabilities during the fiscal year ended June 30, 2010, were as follows:

	Balance July 1, 2009	Additions	Retirements	Balance June 30, 2010	Amounts Due Within One Year
Compensated absences	\$ 32,346	\$ 47,500	\$ (35,560)	\$ 44,286	\$ 4,429
Certificates of participation	5,000,000	-	(165,000)	4,835,000	170,000
Original issuance discount	(102,116)	-	5,328	(96,788)	-
OPEB liability	-	116,186	(13,842)	102,344	102,344
Total	<u>\$ 4,930,230</u>	<u>\$ 163,686</u>	<u>\$ (209,074)</u>	<u>\$ 4,884,842</u>	<u>\$ 276,773</u>

On August 20, 2008, the District issued \$5,000,000 of Series 2008 VV Certificates of Participation (Certificates). The proceeds of the 2008 Certificates were used to provide funds to the District to finance the acquisition of a new administration building located in Roseville, California; to fund, in whole or in part, a reserve fund for the Certificates, and to pay certain costs of executing and delivering the Certificates. The interest rate varies between 3.25% and 5.25% and is payable in semi-annual installments on September 1 and March 1. The Certificates mature annually on September 1 ending in 2028. The Certificates are payable by benefit assessments levied against each lot, tract or parcel within the District.

The following is a schedule of total debt service requirements to maturity as of June 30, 2010 for the Series 2008 VV certificates of participation:

Year Ending June 30	Principal	Interest
2011	\$ 170,000	\$ 222,078
2012	180,000	215,078
2013	185,000	208,471
2014	190,000	202,140
2015	200,000	195,190
2016-2020	1,110,000	849,369
2021-2025	1,400,000	552,431
2026-2029	1,400,000	151,463
Total	<u>\$ 4,835,000</u>	<u>\$ 2,596,220</u>

**PLACER MOSQUITO AND VECTOR CONTROL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2010**

NOTE E – RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; error and omissions and injuries to employees. The District and various other districts throughout the State of California formed the Vector Control Joint Power District (VCJPA) to provide coverage for workers' compensation, general and property liability exposures and to pay for the administration of the program. The Joint Powers Agreement established for its members the VCJPA General Liability and Workers' Compensation Plans.

As defined by Governmental Accounting Standards Board (GASB) Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*, the VCJPA is a "risk-sharing pool." The VCJPA manages one pool for all members. The arrangement allows its members to transfer or pool risks and share in the cost of losses. The District currently reports all of its risk management activities in its Special Revenue Fund. Premiums due to the VCJPA are reported when incurred. Each member of the VCJPA pays an annual premium to the insurance system which is evaluated each year.

The agreement for the formation of the VCJPA provides that the system will be self-sustaining through member premiums and is insured through a commercial company for claims in excess of the self-insured retention.

VCJPA members are also permitted to deposit unobligated funds with the VCJPA in the Member Contingency Fund and the Property Contingency Fund. The purpose of these funds is to pay for items not covered under VCJPA's pool programs. Deposit and withdrawal of unobligated funds may be made by the District at any time. As of June 30, 2010, the District had \$15,531 in the Member Contingency Fund and \$605 in the Property Contingency Fund.

NOTE F – PENSION PLAN

Pension Plan Description

The District's defined benefit pension plan, Miscellaneous Plan, provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. The District contributes to CalPERS, a cost-sharing multiple employer defined benefit pension plan. CalPERS acts as a common investment and administrative agent for participating public entities within the State of California. CalPERS requires plans with less than 100 active participants to participate in risk pools. The District participates in the Miscellaneous 2.0% at 55 risk pool. The pool is the consolidation of all public agencies with less than one hundred employees in each bargaining unit. Benefit provisions and all other requirements are established by contract with CalPERS in accordance with the provisions of the Public Employees Retirement Law. CalPERS issues a separate comprehensive annual financial report which is available to the public. Copies of CalPERS annual financial report may be obtained from their Executive Office, 400 Q Street, Sacramento, CA 95811.

Funding Policy

Active plan members in the Miscellaneous Plan of the District are required to contribute 7% of their annual covered salary. The District makes the contributions required of District employees on their behalf and for their account. The District was required to contribute at an actuarial determined rate of 8.472% of

**PLACER MOSQUITO AND VECTOR CONTROL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2010**

NOTE F – PENSION PLAN (CONTINUED)

annual covered payroll. The contribution requirements of plan members and the District are established and may be amended by CalPERS.

Annual Pension Cost

For the year ending June 30, 2010, the District’s annual pension cost of \$64,477 for CalPERS was equal to the District’s required and actual contributions.

Three Year Trend Information for the Miscellaneous Plan

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>
June 30, 2008	\$ 48,432	100%
June 30, 2009	44,229	100%
June 30, 2010	64,477	100%

NOTE G – OTHER POSTEMPLOYEMENT BENEFITS

During the year ended June 30, 2010, the District implemented the provisions of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. This Statement establishes uniform financial reporting standards for employers providing postemployment benefits other than pensions (OPEB). The provisions of this statement are applied prospectively and do not affect the District’s prior years’ financial statements.

Plan Description

The District participates in a single-employer defined benefit healthcare plan administered by CalPERS as permitted under the Public Employees’ Medical and Hospital Care Act (PEMHCA). The plan provides postemployment healthcare benefits to employees, for life or until coverage is discontinued, who are eligible to retire with CalPERS and have completed at least 10 years of employment with the District. The District contributes \$105 per month per eligible retiree.

Funding Policy

The District’s minimum required contribution is set by California Government Code Section 22892. Contribution requirements in excess of the minimum for plan members and the District are established and may be amended by the District’s Board of Trustees.

The required contribution is based on projected pay-as-you-go financing requirements, with an amount of funding the actuarial accrued liability as determined annually by the District’s Board of Trustees. For the year ended June 30, 2010 the District funded its OPEB obligation on a pay-as-you-go basis and contributed \$13,842.

**PLACER MOSQUITO AND VECTOR CONTROL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2010**

NOTE G – OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

Annual OPEB Cost and Net OPEB Obligation

The District's annual OPEB cost is calculated based on the annual required contribution (ARC) of the District, an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding, that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) of the plan over a period not to exceed thirty years. The following table shows the components of the District's annual OPEB cost, the amount contributed to the plan, and the changes in the net OPEB obligation for the year ended June 30, 2010:

Annual required contribution (ARC)	\$116,186
Adjustment to the ARC	<u>-</u>
Annual OPEB cost	116,186
Contributions made	<u>(13,842)</u>
Increase in net OPEB obligation	102,344
Net OPEB obligation – beginning of year	<u>-</u>
Net OPEB obligation – end of year	<u><u>\$102,344</u></u>

Since this fiscal year was the first year of implementation of GASB Statement No. 45, information on the District's, annual OPEB cost, percentage of annual OPEB cost contributed and net OPEB obligation is only available for the current year, as presented below.

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
6/30/10	\$ 116,186	12%	\$ 102,344

Funded Status and Funding Progress

The funded status of the plan as of January 1, 2010, the most recent actuarial valuation date, was as follows:

Actuarial accrued liability (AAL)	\$536,484
Actuarial value of plan assets	<u>-</u>
Unfunded actuarial accrued liability (UAAL)	<u><u>\$536,484</u></u>
Funded ratio (actuarial value of plan assets/AAL)	0.00%
Covered payroll (active plan members)	\$846,945
UAAL as percentage of covered payroll	63.34%

**PLACER MOSQUITO AND VECTOR CONTROL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2010**

NOTE G – OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress is presented as required supplementary information following the notes to the basic financial statements.

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

In the District's January 1, 2010 actuarial valuation, the entry age normal cost method was used. The actuarial assumption included a 4.5% investment rate of return and medical premiums have been assumed to rise at a decreasing rate from 9% in 2010 to 4.5% on 2017. Both rates assume a 3.25% inflation factor. The OPEB plan's UAAL is being amortized as a level percentage of projected payroll over 30 years.

NOTE H – RELATED PARTY TRANSACTIONS

Under contractual agreement, the County provides administrative services to the District, including personnel, and allocates costs related to these services and facilities to the District. For the fiscal year ended June 30, 2010, the County incurred on the District's behalf \$12,597 for salaries and benefits, operating costs and administrative services.

The County also charges the District for administrative and collection costs related to benefit assessments and property tax revenues. For the fiscal year ended June 30, 2010, the amount charged was \$69,553.

NOTE I – COMMITMENT AND CONTINGENCIES

Social Security Tax

During the fiscal year ended June 30, 2010, the District discovered it was not withholding social security tax for its seasonal employees, nor was the District paying the employer share of the tax. The District has submitted revised quarterly 941s to the Internal Revenue Service (IRS) and is awaiting a final determination from them on the total outstanding balance due. Based on preliminary discussions with the IRS, the District believes they will be required to pay social security taxes for tax years 2007-2009. The amount calculated for these tax years, without any penalties and interest, is approximately \$29,900. If the IRS includes tax years 2002-2006, the District's obligation could total approximately \$63,200, without any penalties and interest. As of June 30, 2010, the District has not reflected this potential obligation in its financial statements as it is unknown at this time the amount the IRS will require the District to pay.

**PLACER MOSQUITO AND VECTOR CONTROL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2010**

NOTE I – COMMITMENT AND CONTINGENCIES (CONTINUED)

Operating Lease

The District's operating lease obligations are for the rental of a satellite office of a local mosquito and vector control district, including office use, storage of district vehicles and equipment, vehicle and equipment maintenance, and the storage of mosquito/vector control pesticides. The future minimum lease payments required for this operating lease is as follows:

<u>Year Ended June 30,</u>	<u>Amount</u>
2011	\$ 14,880
2012	16,800
2013	<u>14,040</u>
Total	<u>\$ 45,720</u>

REQUIRED SUPPLEMENTARY INFORMATION

**PLACER MOSQUITO AND VECTOR CONTROL DISTRICT
 SCHEDULE OF FUNDING PROGRESS – OTHER POSTEMPLOYMENT BENEFITS PLAN
 FOR THE YEAR ENDED JUNE 30, 2010
 (UNAUDITED)**

Actuarial Valuation Date	Actuarial Accrued Liability (a)	Actuarial Value of Assets	Unfunded Liability (a)-(b)	Funded Ratio (b)/(a)	Annual Covered Payroll	Unfunded Actuarial Accrued Liability as Covered a % of Payroll [(a)-(b)]/(c)
1/1/2010	\$536,484	\$ -	\$536,484	0.00%	\$849,945	63.1%

**PLACER MOSQUITO AND VECTOR CONTROL DISTRICT
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL -
SPECIAL REVENUE FUND
FOR THE YEAR ENDED JUNE 30, 2010**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance</u>
	<u>Original</u>	<u>Final</u>		<u>Final Budget</u>
Revenues:				
Charges for services (benefit assessment)	\$ 3,262,258	\$ 3,262,258	\$ 3,267,381	\$ 5,123
Property taxes	41,853	41,853	33,697	(8,156)
Investment earnings	45,187	45,187	95,538	50,351
Miscellaneous	276,915	276,915	6,469	(270,446)
Total revenues	<u>3,626,213</u>	<u>3,626,213</u>	<u>3,403,085</u>	<u>(223,128)</u>
Expenditures:				
Health and sanitation:				
Salaries and benefits	1,501,801	1,501,801	1,187,927	313,874
Agriculture	585,995	585,995	542,849	43,146
Professional services	549,840	540,380	371,983	168,397
Office	155,066	191,966	152,091	39,875
Collection charges	70,147	70,147	69,022	1,125
Insurance	55,876	56,108	56,108	-
Utilities	57,820	61,020	44,095	16,925
Fuel and lubricants	46,500	46,500	39,143	7,357
Maintenance	38,200	39,000	27,095	11,905
Membership dues and subscriptions	11,900	12,228	12,228	-
Legal services	12,000	12,000	9,665	2,335
Travel and transportation	19,863	19,863	7,404	12,459
Rents and leases	410,000	16,222	4,000	12,222
Debt service:				
Interest and fiscal charges	-	228,778	228,778	-
Principal	-	165,000	165,000	-
Capital outlay	1,358,269	1,883,269	1,860,087	23,182
Total expenditures	<u>4,873,277</u>	<u>5,430,277</u>	<u>4,777,475</u>	<u>652,802</u>
Net change in fund balance	<u>\$ (1,247,064)</u>	<u>\$ (1,804,064)</u>	(1,374,390)	<u>\$ 429,674</u>
Fund balance, beginning of year			<u>4,240,413</u>	
Fund balance, end of year			<u>\$ 2,866,023</u>	

See accompanying note to required supplementary information.

**PLACER MOSQUITO AND VECTOR CONTROL DISTRICT
NOTE TO THE REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2010**

NOTE A – BUDGETS AND BUDGETARY ACCOUNTING

Formal budgetary accounting is employed by the District as a management control for the District's special revenue fund. The Board of Trustees adopts an annual budget each fiscal year. The budget is adopted on a basis consistent with accounting principles generally accepted in the United States of America. Budgetary control is exercised at the fund level. All amendments to the budget are reflected in the financial statements and require the approval of the Board of Trustees. All unencumbered annual appropriations lapse at the end of each fiscal year. There are no encumbrances outstanding at year-end.

OTHER REPORT

Board of Trustees
Placer Mosquito and Vector Control District
Roseville, California

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

We have audited the financial statements of the governmental activities and the major fund of the Placer Mosquito and Vector Control District (District), as of and for the year ended June 30, 2010, which collectively comprise the District’s basic financial statements and have issued our report thereon dated June 3, 2011. Our report contains an explanatory paragraph discussing the District’s implementation of a new governmental accounting standard. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District’s internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However as described in the accompanying schedule of finding and recommendation, we identified a deficiency in internal control over financial reporting that we consider to be a material weakness.

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 entity’s financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying finding and recommendation as item 2010-01 to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District’s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the

determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The District's response to the finding identified in our audit is described in the accompanying schedule of finding and recommendation. We did not audit the District's response and, accordingly, we express no opinion on it.

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

Maciel Mini & O'Connell LLP

Sacramento, California
June 3, 2011

**PLACER MOSQUITO AND VECTOR CONTROL DISTRICT
SCHEDULE OF FINDING AND RECOMMENDATION
FOR THE YEAR ENDED JUNE 30, 2010**

Item: 2010-1
Issue: Social Security Taxes

Criteria:

The Federal Insurance Contribution Act (FICA) tax is imposed on both employees and employers to fund Social Security and Medicare. For the fiscal year 2010 both the employee's and employer's share of this tax was 6.2% of gross compensation up to a limit of \$106,000. The District is responsible for the design and operation of internal controls over financial reporting that allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. This includes deducting the required payroll taxes from their employees and submitting such taxes to the appropriate taxing authority.

Condition:

Based upon our testing and inquiries with management, it was discovered that the District did not properly deduct the Social Security tax portion of FICA for temporary employees during the year. IRS Publication 963 indicates that state and local government employees are required to be covered for social security unless they are participating in a public retirement system. The temporary employees that were identified as not having the Social Security taxes deducted were not enrolled in a public retirement system during the year. As a result the employer's quarterly Federal Tax returns (Form 941) were not accurate and the Department of the Treasury, Internal Revenue Service (IRS) did not receive the proper amount of payroll taxes from the District. Furthermore, it was identified that Social Security taxes have not been deducted from temporary employees or paid by the District since 2002.

Cause:

Only regular, full-time employees were hired during the initial years of operation of the Placer Mosquito and Vector Control District. The District enrolled the employees in the California Public Employees' Retirement System (CalPERS) in 2001. Since the employees were participating in a public retirement system, the District did not subject the employees to certain payroll tax deductions, specifically Social Security taxes. However, the District subsequently hired temporary (seasonal) employees who did not qualify to become members and were not covered under CalPERS. The District did not establish the appropriate payroll tax deductions with their third party payroll administrator to appropriately deduct the Social Security tax portion of FICA for their temporary employees since 2002.

Effect:

Management was aware of this condition and has ultimately prepared the adjusted employer's quarterly Federal Tax return claims (Form 941-X) and has estimated that approximately \$29,900 in unpaid Social Security taxes should be submitted to the IRS. This amount will possibly increase with the inclusion of interest and penalties.

**PLACER MOSQUITO AND VECTOR CONTROL DISTRICT
SCHEDULE OF FINDING AND RECOMMENDATION (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2010**

Recommendation

To mitigate any further interest and penalties on unpaid Social Security taxes, the District should continue working with the Internal Revenue Service and file the required adjusted tax returns (Form 941-X) for the quarterly periods dating back to 2002.

Management Response:

The underpayment of Social Security taxes for temporary seasonal employees employed from 2002 to 2009 was identified in July of 2010, and steps have been taken to correct this problem. The District has been working with the IRS to meet its obligations in this matter. As of March, 2011 all corrected forms have been filed with the IRS and notifications have been sent to the affected employees. The District is waiting for notification from the IRS regarding the final amount the District will need to correct this oversight.

**PLACER MOSQUITO AND VECTOR CONTROL DISTRICT
SCHEDULE OF PRIOR YEAR FINDINGS AND RECOMMENDATIONS
FOR THE YEAR ENDED JUNE 30, 2010**

PAYROLL

The payroll functions should be segregated among other employees. One segregation of duties, which is easy to implement for a small entity, is to prevent the payroll clerk from submitting the payroll to Paychex and give this authority to another individual who is independent of payroll processing. Another critical segregation of duties is that the payroll clerk should not distribute payroll checks. Finally, cross-training of the payroll duties may be necessary to prevent possible future problems in issuing payroll and timely payroll distribution.

Status (2010)

There are several employees involved with processing payroll. First, supervisors approve timecards, then the Secretary keys the work hour data into a spreadsheet. The Administrative Office Manager (AOM) then reviews and verifies usage of leave as permissible and does not exceed accrued amounts. Finally, the General Manager reviews and approves the final spreadsheet which is submitted by the Secretary to the payroll administrators. All payroll payments are made by direct deposit. The AOM distributes the payroll paystubs to each employee. The Secretary had been cross-trained of the payroll duties.

In FY 2010-11, The District changed payroll administrator from PayChex to the Placer County Auditor-Controller's Office. Due to the AOM position being vacant, the Secretary is verifying usage of leave as well as entering timecard data.

We have determined that the District appears to have adequately addressed the finding.

CAPITAL ASSETS

The District should begin maintaining a schedule of capital assets, including accumulated depreciation, independently of the County of Placer.

Status (2010)

The District keeps an accurate inventory of capital assets and non-capital asset personal property. While the accumulated depreciation calculations were intended to be implemented at the District, personnel changes have delayed this. Currently the County of Placer calculates the accumulated depreciation. The District expects to fully implement its capital asset depreciation schedule by the end of the 2011 calendar year.