Draft 9/7/12

LOS ALTOS HILLS COUNTY FIRE DISTRICT

AUDIT REPORT

YEAR ENDED JUNE 30, 2012

Draft 9/7/12

LOS ALTOS HILLS COUNTY FIRE DISTRICT
June 30, 2012

Table of Contents

	Page(s)
INDEPENDENT AUDITORS' REPORT	1-2
MANAGEMENT'S DISCUSSION AND ANALYSIS (Required Supplementary Information)	3-9
BASIC FINANCIAL STATEMENTS	
Government-wide Financial Statements	
Statement of Net Assets	10
Statement of Activities	11
Fund Financial Statements	
Balance Sheet	12
Reconciliation of the Governmental Fund Balance Sheet to the Government-wide Statement of Net Assets - Governmental Activities	13
Statement of Revenues, Expenditures, and Changes in Fund Balance	14
Reconciliation of the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balance to the Government-wide Statement of Activities - Governmental Activities	15
Notes to the Basic Financial Statements	16-31
REQUIRED SUPPLEMENTARY INFORMATION (Other than MD&A)	
Budgetary Comparison Schedule - General Fund	32
INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*	33-34
SCHEDULE OF FINDINGS AND QUESTIONED COSTS	35
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS	36

Draft 9/7/12

INDEPENDENT AUDITORS' REPORT

To the Board of Commissioners of
Los Altos Hills County Fire District
Los Altos, California

We have audited the accompanying financial statements of the governmental activities and major fund of Los Altos Hills County Fire District (the "District"), a component unit of the County of Santa Clara, as of and for the year ended June 30, 2012, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of 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 and the *State Controller's Minimum Audit Requirements for California Special Districts*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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 major fund of Los Altos Hills County Fire District, as of June 30, 2012, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards,* we have also issued our report dated August 13, 2012, on our consideration of Los Altos Hills County Fire District's internal control over financial reporting and 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.

Draft 8/7/12

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3 through 9 and page 32 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquires 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.

Vargas and Company
San Jose, California
August 13, 2012

Draft 9/7/12

Management's Discussion and Analysis
(Required Supplementary Information)

LOS ALTOS HILLS COUNTY FIRE DISTRICT

Draft 9/7/12

Management's Discussion and Analysis

Year Ended June 30, 2012

This section of the Los Altos Hills County Fire District (the "District") annual financial report presents a discussion and analysis of the District's financial performance for the fiscal year ended June 30, 2012. The District's financial performance is discussed and analyzed within the context of the accompanying financial statements and disclosure following this section.

FINANCIAL HIGHLIGHTS

- The assets of the District exceeded liabilities by $17,781,914 (net assets) for the fiscal year reported. Of this amount, $2,627,049 is invested in capital assets, and $15,154,865 (unrestricted net assets) may be used to meet ongoing obligations to citizens and creditors.

- The District's total net assets decreased by $1,950,341 during the fiscal year mainly because of increased expenditures in contract maintenance and projects and programs.

- As of June 30, 2012, the District's governmental fund reported an ending fund balance of $14,596,975. Approximately 16% of this total amount, $2,396,975 is unassigned fund balance available for spending at the District's discretion; and $11,000,000 (75%) was committed for insurance, equipment, emergency operations, building and maintenance, and water mains and fire hydrants.

- At the end of the fiscal year, unassigned fund balance for the general fund was $2,396,975 or 25% of total general fund expenditures.

- As a result of an inquiry by a constituent, the SCCo BOS conducted an independent internal audit of the LAHCFD budgets. The internal auditor made the following comment: "Our review determined that the district is in excellent financial condition, based on the existence of significant reserves that are not legally restricted and could be and have been used to cover any short-term shortfalls." The complete analysis can be requested from the District.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis are 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. Required Supplementary Information is included in addition 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.

Draft 9/7/12

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 or not 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, such as revenues pertaining to uncollected taxes or expenses pertaining to earned but unused vacation and sick leave.

Both of the government-wide financial statements distinguish functions of the District that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The only governmental activity of the District is public protection – fire district. The District does not have any business-type activities.

Fund Financial Statements

The fund financial statements are designed to report information about groupings of related accounts which are used to maintain control over resources that have been segregated for specific activities or objectives. The District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The one fund of the District can be categorized as a governmental fund.

Governmental fund is used to account for essentially the same functions reported as governmental activities in the government-wide financial statements—i.e. the District's basic services are reported in governmental fund. These statements, however, focus on (1) how cash and other financial assets can readily be converted to available resources and (2) the balances left at year-end that are available for spending. Such information may be useful in determining what financial resources are available in the near future to finance the District's programs.

Because the focus of the governmental fund is narrower than that of the government-wide financial statements, it is useful to compare the information presented for the governmental fund 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 fund and governmental activities.

The District maintains only one individual governmental fund. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balance for the general fund, which is considered to be a major fund.

Draft 9/7/12

The District does not have any proprietary and fiduciary funds.

Notes to the Basic Financial Statements

The notes to the basic financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Required Supplementary Information

The required supplementary information is presented concerning the District's General Fund budgetary comparison schedule. The District adopts an annual appropriated budget for its General Fund. A budgetary comparison statement has been provided for the General Fund to demonstrate compliance with this budget.

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 $17,781,914 at the close of the most recent fiscal year.

Net Assets

	Governmental Activities		
	2012	2011	Variance (%)
Assets:			
Current assets	$13,684,027	$15,497,114	(12)
Other assets	1,757,890	2,157,890	(19)
Capital assets	2,627,049	2,488,997	6
Total assets	18,068,966	20,144,001	(10)
Liabilities:			
Current and other liabilities	287,052	411,746	(30)
Total liabilities	287,052	411,746	(30)
Net assets:			
Invested in capital assets	2,627,049	2,488,997	6
Unrestricted net assets	15,154,865	17,243,258	(12)
Total net assets	$17,781,914	$19,732,255	(10)

Draft 9/7/12

LOS ALTOS HILLS COUNTY FIRE DISTRICT
Management's Discussion and Analysis
Year Ended June 30, 2012

Analysis of Net Assets

The largest portion of the District's net assets (85%) reflects amounts not restricted for any project or any other purpose. The other 15% of net assets represent its investment in capital assets (e.g. land, improvements, fire hydrants, furniture and equipment). The District uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. At the close of the most recent fiscal year, there were no debt outstanding related to acquisition of capital assets.

At the end of the current fiscal year, the District reported positive balances in both categories of net assets.

The District's net assets decreased by $1,950,341 during the current fiscal year, as compared to the $1,090,753 decrease in 2011. Revenues from property taxes increased by $287,305, and interest and investment income decreased by $22,126 in 2012. Total expenses increased by $1,121,321.

Governmental Activities. Governmental activities decreased the District's net assets by $1,950,341, thereby accounting for 100% of the total decline in net assets of the District.

The following table indicates the changes in net assets for governmental activities:

Changes in Net Assets

	Governmental Activities		
	2012	2011	Variance (%)
Revenues:			
General revenues:			
Property taxes	$ 7,211,812	$ 6,924,507	4
Intergovernmental: State	48,480	47,860	1
Interest and investment income	104,703	126,829	(17)
Property rental	1,500	16,500	(91)
Other revenue	11,067	133	8,221
Total revenues	7,377,562	7,115,829	4
Expenses:			
Public protection	9,327,903	8,206,582	14
Change in net assets	(1,950,341)	(1,090,753)	(79)
Net assets, beginning of year	19,732,255	20,823,008	
Net assets, end of year	$17,781,914	$19,732,255	(10)

Draft 9/7/12

Analysis of Changes in Net Assets

Key elements of the decrease of $1,950,341 are as follows:

- Property taxes increased by $287,305 or 4% because of both increased sales activity of existing single family homes as well as an increase in the median sales price of those homes.

- Public protection expenses increased by $1,121,321 or 14% due to the following reasons:
  1. Increased expenditures on hydrant and water line installation, repairs and maintenance.
  2. Increased expenditures in Projects and Programs.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

As noted earlier, the District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Fund

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

At June 30, 2012, the District's governmental fund reported an ending fund balance of $14,596,975, a decrease of $2,088,393 in comparison with the prior year. Approximately 16% of the ending fund balance, $2,396,975, constitutes unassigned fund balance, which is available to meet the District's current and future needs. The remainder of the fund balance is nonspendable or has been committed for various purposes.

Revenues for governmental functions totaled $7,377,562 in fiscal year 2011-2012, which represents an increase of 4% from fiscal year ended 2010-2011. Expenditures for governmental functions, totaling $9,465,955, increased by approximately 15% from the fiscal year 2010-2011. In the fiscal year 2011-2012, expenses for governmental functions exceeded revenues by $2,088,393.

Draft 9/7/12

The following table presents the amount of revenues from various sources as well as increases or decreases from the prior year.

Revenues Classified by Source
Governmental Fund

	FY 2012		FY 2011			Increase/ (Decrease)
Revenues by Source	Amount	% of Total	Amount	% of Total	Amount	% of Change
Property taxes	$7,211,812	98	$6,924,507	97	$287,305	4
Intergovernmental: State	48,480	1	47,860	1	620	1
Interest and investment income	104,703	1	126,829	2	(22,126)	(17)
Property rental	1,500	- .	16,500	- .	(15,000)	(91)
Other revenue	11,067	- .	133	- .	10,934	8,221
Total	$7,377,562	100	$7,115,829	100	$261,733	4

Property taxes, the main District revenue, increased by about 4%; interest and investment income decreased by 17% due to lower cash balance and lower return on investments.

GENERAL FUND BUDGETARY HIGHLIGHTS

During the year, actual revenues were less than budgetary estimates by $227,438. Interest and investment income and other revenues reflected negative variances of $195,297 and $138,933 respectively. Expenditures was less than budgetary estimates by $1,481,981. The positive variance was mainly in capital outlay of $843,575. Services and supplies also posted a favorable variance of $638,406.

CAPITAL ASSETS

The District's investment in capital assets for its governmental activities as of June 30, 2012, amounted to $2,627,049 (net of accumulated depreciation). This investment in capital assets includes land, improvements, fire hydrants, furniture and equipment.

For government-wide financial statement presentation, all depreciable capital assets except infrastructure using the modified approach were depreciated from acquisition date to the end of the current fiscal year. Fund financial statements record capital asset purchases as expenditures.

Draft 9/7/12

Capital assets for the governmental activities are presented below to illustrate changes from the prior year:

	Governmental activities		Increase/ (Decrease)
	2012	2011	% of Change
Land	$ 4,688	$ 4,688	-
Improvements	2,552,838	2,552,838	-
Fire hydrants	1,073,745	867,127	24
Furniture and equipment	55,160	49,917	11
Less: Accumulated depreciation	(1,059,382)	(985,573)	7
Total	$2,627,049	$2,488,997	(6)

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

Over the last few years, the District's expenditures have been for the overall goal of reducing fire exposure throughout its jurisdiction. This is done by reducing the fuel load and expanding the water supply for fire suppression through extension of the network of larger water mains and the installation of additional hydrants. For the Purrissima Hills Water District and California Water Project, almost $1,206,425 has been spent for the period 2011-2012, while $2,050,000 has been estimated for 2012-2013.

The fund balance commitments for insurance and emergency operations totaling $4,000,000 would cover some of the expenses that would result from a catastrophic wild land fire. The $3,000,000 building and maintenance commitment would be used to finance a second fire station. The District has additional commitments of $3,000,000, for water mains and hydrants, and $1,000,000 for equipment.

As for future funding and increased services, it is projected that tax revenues will continue to rise as a result of replacement of older ranch homes with larger structures. Revenues have been budgeted at $7,612,300 for 2012-2013.

All of these factors were considered in preparing the District's budget for fiscal year 2013.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the District's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Los Altos Hills County Fire District, P.O. Box 1766, Los Altos, CA 94023-1766.

Draft 9/7/12

Basic Financial Statements

Draft 9/7/12

LOS ALTOS HILLS COUNTY FIRE DISTRICT

Statement of Net Assets

June 30, 2012

	Governmental Activities
Assets	
Cash and investments	$ 13,662,070
Interest receivable-Accrual	21,957
Loan Receivable - Prop 1A	557,890
Note receivable - Purissima	1,200,000
Capital assets	
Land	4,688
Improvements	2,552,838
Fire hydrants	1,073,745
Furniture and equipment	55,160
Accumulated depreciation	(1,059,382)
Total Assets	$ 18,068,966
Liabilities	
Accounts payable and accrued liabilities	$ 287,052
Total Liabilities	287,052
Net Assets	
Invested in capital assets	2,627,049
Unrestricted	15,154,865
Total Net Assets	17,781,914
Total Liabilities and Net Assets	$ 18,068,966

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

Draft 9/7/12

LOS ALTOS HILLS COUNTY FIRE DISTRICT

Statement of Activities

Year Ended June 30, 2012

	Expenses	Net (Expenses) Revenues and Changes in Net Assets Governmental Activities
Functions/Programs		
Governmental Activities		
Public protection	$ 9,327,903	$ (9,327,903)
Total Governmental Activities	$ 9,327,903	(9,327,903)
General Revenues		
Taxes		
Property taxes		7,211,812
Intergovernmental: State		48,480
Interest and investment income		104,703
Property rental		1,500
Other revenues		11,067
Total General Revenues		7,377,562
Change in Net Assets		(1,950,341)
Net Assets, Beginning of Year		19,732,255
Net Assets, End of Year		$ 17,781,914

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

Draft 9/7/12

LOS ALTOS HILLS COUNTY FIRE DISTRICT

Balance Sheet - Governmental Fund

June 30, 2012

	General Fund
Assets	
Cash and investments	$ 13,662,070
Interest receivable-Accrual	21,957
Loan receivable - Prop 1A	557,890
Due from other agency - Purissima	1,200,000
Total Assets	$ 15,441,917
Liabilities	
Accounts payable and accrued liabilities	$ 287,052
Deferred revenue	557,890
Total Liabilities	844,942
Fund Balance	
Nonspendable	
Due from other agency - Purissima	1,200,000
Committed	
Insurance	1,000,000
Equipment	1,000,000
Emergency operations	3,000,000
Building and maintenance	3,000,000
Water mains and fire hydrants	3,000,000
Unassigned	2,396,975
Total Fund Balance	14,596,975
Total Liabilities and Fund Balance	$ 15,441,917

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

Draft 9/7/12

LOS ALTOS HILLS COUNTY FIRE DISTRICT

Reconciliation of the Governmental Fund Balance Sheet to the Government-wide Statement of Net Assets - Governmental Activities

June 30, 2012

Fund Balance - Total Governmental Fund	$ 14,596,975
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 governmental fund.	2,627,049
Prop 1A state borrowing are not revenues but deferred revenues in the governmental funds during the year of assessment since it does not meet the availability criterion of modified accrual basis of accounting. These are revenues in the statement of activities in the year of assessment since it uses full accrual in which the availability criterion does not apply.	557,890
Net Assets of Governmental Activities	$ 17,781,914

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

Draft 9/7/12

LOS ALTOS HILLS COUNTY FIRE DISTRICT

Statement of Revenues, Expenditures, and Changes in Fund Balance
Governmental Fund
Year Ended June 30, 2012

	General Fund
Revenues	
Property taxes	$ 7,211,812
Intergovernmental: State	48,480
Interest and investment income	104,703
Property rental	1,500
Other revenues	11,067
Total Revenues	7,377,562
Expenditures	
Services and supplies	8,259,530
Capital outlay	1,206,425
Total Expenditures	9,465,955
Net Change in Fund Balance	(2,088,393)
Fund Balance, Beginning of Year	16,685,368
Fund Balance, End of Year	$ 14,596,975

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

Draft 9/7/12

LOS ALTOS HILLS COUNTY FIRE DISTRICT

Reconciliation of the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balance to the Government-wide Statement of Activities - Governmental Activities

Year Ended June 30, 2012

Net Change in Fund Balance - Total Governmental Fund		$ (2,088,393)
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental fund report 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. This is the amount by which depreciation exceeded capital outlays in the current period.		
Expenditures for general capital assets and other related capital assets adjustment	$ 211,861	
Less current year depreciation	(73,809)	138,052
Change in Net Assets of Governmental Activities		$ (1,950,341)

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

Draft 9/7/12

LOS ALTOS HILLS COUNTY FIRE DISTRICT
Notes to the Basic Financial Statements
Year Ended June 30, 2012

NOTE 1. GENERAL INFORMATION

A. Organization

The Los Altos Hills County Fire District (the "District") was organized on October 23, 1939 and operates in conformity with the provisions of Part 2.7 of Division 12 of the Health and Safety Code. The District is composed of the Town of Los Altos Hills and the unincorporated areas generally referred to as the Loyola, Los Trancos / Alpine Road and San Antonio Hills. The District comprises an area of about 12.03 square miles.

The District has augmented fire protection to its residents in the past by purchasing the following:

1. Weather station for use by the Santa Clara County Central Fire Protection District ("Central Fire District") for monitoring weather during high fire hazard days
2. Specialized fire apparatus for use in the high hazard brush and grass fire areas
3. New rescue apparatus unit for Central Fire District prior to its life expectancy expiration
4. Specialized rescue tools
5. State-of-the-art fire hydrant and water main testing equipment
6. Specialized medical equipment
7. Two CERT Trailers (CFPD has the titles) and 1 ARK Storage Container
8. Edgerton Road and Deer Springs Way Fire Road Pavement Rehabilitation

The District also conducts the following programs for its residents:

1. Replacement of undersized water mains and installation of new water mains and fire hydrants as needed. Additional funds are budgeted for its continuation.
2. A brush chipping program is offered free of charge twice a year to all residents living in the District.
3. Additional staffing (firefighters) during summer fire season.
4. A garden debris drop-off program is funded by the District and operated by the garbage company. This allows residents to drop-off garden debris and other combustible plant materials once a month at a central drop-off area free of charge.
5. Funding of a fuel reduction/fire break program at the Byrne Preserve through the use of goats.
6. The annual mailing of fire prevention and emergency preparedness information to all District residents.
7. An emergency preparedness coordinator at a half time position.
8. Removal of dead pine trees.
9. Eucalyptus Tree Pruning Program to reduce fire hazard.

Draft 9/7/12

NOTE 1. GENERAL INFORMATION - Continued

B. District Officials

The District is governed by a seven member Board of Commissioners (the "Commission"), appointed by the County of Santa Clara (the "County") Board of Supervisors for four-year terms, pursuant to the provisions of the Health and Safety Code Section 13884. Appointments to the Commission are made to provide for equal representation on the basis of population, as between residents of incorporated and unincorporated territories, respectively. The Commissioner must be a resident of the District. Commissioners are subject to removal for cause. The County Board of Supervisors delegates all of its powers to the Commission to manage the affairs of the District; provided, however, that the Commission shall not initiate litigation without the prior approval of the Board of Supervisors.

The District is considered a component unit of the County and the District's financial statements are blended into the County's financial statements. The Commission is composed of the following as of June 30, 2012:

	Term Expires Dec. 31
David Bergman, President	2012
Bob Johnson, Vice-President	2015
Owen Halliday, Finance Chairman	2012
Jitze Couperus	2012
Berin Fank	2014
Duffy Price	2012
Robert Stutz	2013

C. Accounts and Records

The basic financial records are maintained in the office of the County's Auditor-Controller. The District maintains supporting vouchers and other records. Minutes were recorded and contained approvals for disbursements.

Draft 9/7/12

NOTE 1. GENERAL INFORMATION - Continued

D. Budgetary Procedures

The District is required by state law to adopt a budget for the General Fund. The budget is prepared on the modified accrual basis of accounting, which is consistent with generally accepted accounting principles.

The annual budget is prepared, adopted and then submitted by the Commission to the County Board of Supervisors for final approval. Once the budget is approved, it can be amended at the Function and Fund level only by the approval of a majority of the Commission. Such amendments are presented to the Board at their regular meetings. All amendments are made before the fact and are reflected in the official minutes of the Board. Finally, all amendments are subsequently submitted to the County Board of Supervisors. Individual amendments noted were not material in relation to the original appropriations. All budget appropriations lapse at year-end. Encumbrance accounting is not used.

E. Appropriations Limit

The County Board of Supervisors computes the appropriations limit for special districts that are governed by them. The County's auditors review these annual calculations.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the District have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to local governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial principles. The District also applies Financial Accounting Standards board (FASB) Statements and interpretations issued on or before November 30, 1989, to its governmental activities provided they do not conflict with or contradict GASB pronouncements. The most significant of the District's accounting policies are described bellow.

Draft 9/7/12

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

A. Basis of Presentation

Government-wide Financial Statements

The statement of net assets and statement of activities display information about the District. These statements include the financial activities of the overall government, except for fiduciary activities. The District does not have fiduciary activities. Eliminations would have been made to minimize the double counting of internal service fund activities but the District has no internal service fund activities. Governmental activities are normally supported by taxes and intergovernmental revenues.

The statement of activities presents a comparison between direct expenses and program revenues for each function of the governmental activities. Direct expenses are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. Program revenues would include charges paid by the recipients of goods or services offered by the programs. Revenues that are not classified as program revenues, including all kinds of taxes, are presented as general revenues. The comparison of program revenues and expenses identifies the extent to which each program is self-financing or draws from the general revenues of the District.

Fund Financial Statements

Fund financial statements are organized into funds, each of which is considered to be separate accounting entities. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues, and expenditures/expenses. Funds are organized into three major categories: governmental, proprietary, and fiduciary. There are separate statements for each fund category. The emphasis of fund financial statements is on major governmental and enterprise funds rather than reporting funds by type. Each major fund is presented in a separate column. Non-major funds are aggregated and presented in a single column. The internal service fund is presented in a single column in the proprietary fund financial statements. The District has only one fund, the General fund.

Draft 9/7/12

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Governmental Fund

The District reports one major governmental fund:

- The *General Fund* is the general operating fund of the District and is always classified as a major fund. It is used to account for all revenues and expenditures necessary to carry out basic governmental activities of the District that are not required to be accounted for through other funds. For the District, the General Fund's primary activity is public protection.

Proprietary fund *operating* revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. *Nonoperating* revenues, such as subsidies and investment earnings, result from nonexchange transactions or ancillary activities. The District has no proprietary funds.

B. Measurement Focus and Basis of Accounting

Measurement focus is a term used to describe "which" transactions are recorded within the various financial statements. Basis of accounting refers to "when" transactions are recorded regardless of the measurement focus applied.

The government-wide, proprietary, and fiduciary fund financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting. This differs from the manner in which governmental fund financial statements are prepared. Therefore, governmental fund financial statements include reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds. The District has no proprietary nor fiduciary funds.

The accounting objectives of the economic resources measurement focus are the determination of operating income, changes in net assets (or cost recovery), financial position, and cash flows. All assets and liabilities (whether current or noncurrent) associated with their activities are reported. Fund equity is classified as net assets.

Draft 9/7/12

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Under the accrual basis of accounting, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred or economic asset used. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place. Nonexchange transactions, in which the District gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied.

The governmental fund financial statements are prepared using the current financial resources measurement focus and the modified accrual basis of accounting.

In the current financial resources measurement focus, only current financial assets and liabilities are generally included on the balance sheets. The operating statements present sources and uses of available spendable financial resources during a given period. The fund balance is used as the measure of available spendable financial resources at the end of the period.

Under the modified accrual basis of accounting, revenues are recognized when measurable and available. Measurable means knowing or being able to reasonably estimate the amount. Available means collectible within the current period or within sixty days after year end. Expenditures (including capital outlay) are recorded when the related liability is incurred, except for debt service expenditures (principal and interest), as well as expenditures related to compensated absences which are reported when due.

C. Property Tax Levy, Collection, and Maximum Rate

The State's Constitution, Article XIII A provides that the combined maximum property tax rate on any given property may not exceed 1% of its assessed value unless an additional amount for general obligation debt has been approved by the voters. Assessed value is calculated at 100% of market value as defined by Article XIII A and may be increased by no more than 2% per year unless the property is sold or transferred. These general property tax rates do not apply to taxes levied to pay the interest and redemption charges on any indebtedness incurred prior to June 6, 1978, or subsequently approved by the voters. Supplemental property taxes are levied on a pro rate basis when changes in assessed valuation occur due to sales transactions or the completion of construction. The State Legislature has determined the method of distribution among the counties, cities, school, districts, and other districts of receipts from the 1% property tax levy.

Draft 9/7/12

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

The County assesses properties, bills for, and collects property taxes as follows:

	Secured	Unsecured
Lien dates	January 1	January 1
Levy dates	October 1	July 1
Due dates	50% on November 1 50% on February 1	Upon receipt of billing
Delinquent after	December 10 (for November) April 10 (for February)	August 31

These taxes are secured by liens on the property being taxed. The Board of Supervisors annually sets the rates of the County and district taxes, and levies State, County, and district taxes as provided by law. The term "secured" refers to taxes on land and buildings, while "unsecured" refers to taxes on personal property other than land and buildings.

The County bills and collects property taxes and remits them to the District under the State authorized method of apportioning taxes whereby all local agencies, including special districts, receive from the County their respective shares of the amounts of ad valorem taxes collected.

In 1981, the District passed an ordinance to impose a special tax pursuant to the provisions of the California Government Code Section 53978 on real property within the District for fire protection and related services. The District has not imposed this tax since 1986. The maximum annual special tax assessment that a parcel can be charged is as follows:

Unimproved Parcels - $15 per 5 acres or fraction thereof, with a maximum of $60.
Improved Residential Parcels - $50.
Improved Commercial Parcels - $75.

D. Capital Assets

In the government-wide financial statements, capital assets (fixed assets) are those purchase or acquired with an original cost of $5,000 or more and are recorded at historical cost or at estimated historical cost if actual historical cost is not available. Donated capital assets are valued at their estimated fair market value on the date of donation.

Draft 9/7/12

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Depreciation of all exhaustible capital assets is recorded as an allocated expense in the Statement of Activities, with accumulated depreciation reflected in the Statement of Net Assets. Depreciation expense is provided over the assets' estimated useful lives using the straight-line method of depreciation. The estimated useful lives by type of asset are as follows:

Improvements	50 years
Fire hydrants	50 years
Furniture & equipment	3 to 5 years

Maintenance and repairs are charged to operations when incurred. Betterments and major improvements which significantly increase values, change capacities or extend useful lives are capitalized. Upon sale or retirement of capital assets, the cost and related accumulated depreciation are removed from the respective accounts and any resulting gain or loss is included in the results of operations.

In the fund financial statements, capital assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition. Upon sale of capital assets, the proceeds from sale of capital assets is included in the results of operations as other financing sources.

E. Equity Classifications

In government-wide and proprietary fund financial statements, equity is classified as net assets and divided into three components:

- *Investment In Capital Assets, Net of Related Debt* – This category groups all capital assets into one component of net assets. Accumulated depreciation and the outstanding balances of debt that are attributable to the acquisition, construction or improvement of these assets reduce the balance in this category.

- *Restricted Net Assets* – This category presents external restrictions imposed by creditors, grantors, contributors or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation.

- *Unrestricted Net Assets* – This category represents net assets of the District, not restricted for any project or other purpose.

Draft 9/7/12

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Governmental funds report fund balances in classifications based primarily on the extent to which the District is bound to honor constraints on the specific purposes for which amounts in the funds can be spent. Fund balance for governmental funds can consist of the following:

- *Nonspendable Fund Balance* – includes amounts that are (a) not in spendable form–such as inventory, prepaid amounts or long-term notes receivable, or (b) legally or contractually required to be maintained intact–such as a trust that must be retained in perpetuity. The "not in spendable form" criterion includes items that are expected to be converted to cash.

- *Restricted Fund Balance* – constraints placed on the use of resources are either (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or (b) imposed by law through constitutional provisions or enabling legislation. Restriction may effectively be changed or lifted only with the consent of resource providers.

- *Committed Fund Balance* – amounts that can be used only be used for the specific purposes determined by a formal action of the District's highest level of decision-making authority, the Board. Commitments may be changed or lifted by the District taking the same formal action that imposed the constraint originally.

- *Assigned Fund Balance* – comprises amounts intended to be used by the District for specific purposes that are neither restricted nor committed. Intent is expressed by (a) the District's Board or (b) a body (e.g., a budget or finance committee) or official to which the District's Board has delegated the authority to assign, modify, rescind amounts to be used for specific purposes. With the exception of the General Fund, this is the residual fund balance classification for all governmental funds with positive balances.

- *Unassigned Fund Balance* – the residual classification for the General Fund. It is also used to report negative fund balance in other governmental funds.

In circumstances when an expenditure is made for a purpose for which amounts are available in multiple fund balance classifications, fund balance is generally depleted in the order of restricted, committed, assigned, and unassigned.

Draft 9/7/12

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

F. Estimates

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

G. Subsequent Events

Management had evaluated the subsequent events through August 13, 2012.

NOTE 3. CASH AND INVESTMENTS

Cash balances for the District's fund is pooled and invested by the County's Treasurer in the pooled cash investment program ("Pool") for the purpose of increasing earnings through investment activities. The County's commingled pool consist of cash in bank, U.S. government and agency securities, corporate bonds, negotiable certificates of deposit, commercial paper, and deposits in the state's Local Agency Investment Fund. The County's pooled deposits and investments are regulated by California Government Code and by a County investment policy approved annually by the County Treasury Oversight Committee and the Board. The pooled investments' fair value is based on quoted market prices. The County allocates interest to the District based on the District's average daily cash balance relative to the entire Pool. The value of the participants' pool shares that may be withdrawn is determined on an amortized basis, which is different than the fair value of the participants' positions in the pool. In addition, the County's investment pool is not rated by any of the credit rating agencies. Additional information regarding the County's investment policy and cash and investments, including interest rate risk, credit risk, custodial credit risk categories, and maturities of the different categories of investments, can be found in the County's notes to the basic financial statements.

Cash and investments at June 30, 2012 consist of the following:

	Carrying Amount	Fair Value
Cash and investments in County Treasury common pool: General Fund	$13,661,570	$13,653,222
Petty cash	500	500
Total cash and investments	$13,662,070	$13,653,722

Draft 9/7/12

NOTE 3. CASH AND INVESTMENTS - Continued

Governmental Accounting Standards Board, Statement No. 31, "Accounting and Financial Reporting for Certain Investment and for External Investment Pools" establishes accounting and financial reporting standards for all investments held by governmental external investment pools. The statement requires governmental entities to report investments at fair value.

Based on the County's calculations, the application of GASB, Statement No. 31, would have decreased the District's cash balance by $8,348. However, since the effect of the application of GASB 31, in this instance, is not material, the District's cash and investments account is stated at cost.

NOTE 4. CAPITAL ASSETS

The capital asset activity for the year ended June 30, 2012 is as follows:

	Balance 6/30/11	Additions	Deletions	Balance 6/30/12
Land	$ 4,688	$ - .	$ - .	$ 4,688
Improvements	2,552,838	- .	- .	2,552,838
Fire hydrants	867,127	206,618	- .	1,073,745
Furniture & equipment	49,917	8,877	3,634	55,160
Total cost	3,474,570	215,495	3,634	3,686,431
Accumulated depreciation	(985,573)	(74,536)	(727)	(1,059,382)
Total Capital Assets, Net	$2,488,997	$140,959	$2,907	$2,627,049

Capital project expenditures for the year ended June 30, 2012 amounted to $1,206,426, which represent construction costs for the water mainline donated to Purissima Hills Water District and the California Water Service Company and was not included as part of capital assets. For the year ended June 30, 2012, depreciation expense charged to public protection under governmental activities was $74,536.

Draft 9/7/12

NOTE 5. LEASE - FOOTHILL COMMUNITY COLLEGE

The District leases the land for the newly constructed fire station situated on the Foothill Community College Campus, under the terms of a 99-year lease at a rental of $1 per year (prepaid).

NOTE 6. CONTRACT FIRE PROTECTION SERVICES

Santa Clara County Central Fire Protection District ("Central Fire District")

On December 17, 1996, an agreement was reached between the City of Los Altos (the "CITY"), the District, and the Central Fire District, for Central Fire District to render fire protection and other services to all of the areas included within the territorial limits of the District.

Term: The term of the agreement is for ten years from January 1, 1997 (although the effective date of commencement of services was 12:01 a.m. on December 30, 1996). The agreement provides for the automatic renewal for an additional ten-year period unless the CITY, the District, or Central Fire District provides written notice of non-renewal to the other parties at least 180 days prior to the expiration date of this agreement. As of March 2006 the District renewed the contract with Central Fire District under a new amendment for an additional ten year period.

Real Property and Equipment: The Central Fire District is authorized to occupy and use the CITY's and the District's real property at no cost, and is responsible for maintaining and repairing the property to a maximum of $25,000 per year per station. Maintenance and repairs exceeding the $25,000 annual limit will usually require prior written consent from all parties. The CITY and District shall remain responsible for the maintenance, repairs and/or replacement of fuel tanks at their respective stations. Title to any improvements and fixtures shall vest in the CITY and the District. In the event of termination of this agreement, Central Fire District will be reimbursed for any mutually agreed upon improvements, less straight-line depreciation over ten years of the purchase price, less the salvage value.

Draft 9/7/12

NOTE 6. CONTRACT FIRE PROTECTION SERVICES - Continued

The CITY transferred title to its equipment and rolling stock to Central Fire District. Upon termination of the agreement, the CITY and the District shall have the option of repurchasing any and all equipment previously sold to Central Fire District. If Central Fire District no longer owns that same equipment, CITY and the District shall have the option of purchasing comparable or replacement equipment from Central Fire District. In both events, the price will be the sales price, plus the value of any upgrades or additional features, less any depreciation value. The Central Fire District will be responsible for providing and replacing new equipment at no cost to the CITY and the District.

Compensation: The Central Fire District will invoice the CITY and the District monthly, and payments shall be made within 15 days of receipt of the invoice. Payment is made by automatic transfer through the County of Santa Clara.

Each calendar year commencing on January 1, 2008, and each January thereafter the CITY and the District shall owe to County Fire the annual operating costs in the amount of $7,606,000, subject to deductions of providing paramedic first responder service at a prorated basis, plus an increase to be determined as follows:

A. The parties agree that annual increases in compensation to the Central Fire District for fire an emergency medical services costs shall be limited to the "arithmetic mean" (average) of the percent growth of the following three indices:
   (1) The second most prior February to the February prior to the February immediately prior to the January being considered for increase, San Francisco-Oakland-San Jose, All Urban, All Items Consumer Price Index,
   (2) The average annual cost of living increase in total compensation provided to firefighters of the Central Fire District following a calculation formula as stated in Exhibit F – Calculation Formula of the Agreement; and
   (3) The total Local Secured Values for the total parcels of the City of Los Altos and Los Altos Hills County Fire District as reported by the County of Santa Clara Controller's Office each July.
B. If any index referenced in this Section has a negative growth, the value of the index (indices) will be zero for the purposes of computing the arithmetic mean for that fiscal year. If all three indices have negative growth, the percent increase will be zero. At no time will the annual base amount be reduced as a result of the formula described in this Section.
C. The maximum increase that can be applied for the service period of January 1, 2012 through December 31, 2012 is 5%. The maximum increase that can be applied for any subsequent service period (calendar year) is 7%.

Draft 9/7/12

NOTE 6. CONTRACT FIRE PROTECTION SERVICES - Continued

Actual amounts paid by the District were as follows:

For the fiscal year ended June 30,	
2013	$4,937,052
2012	4,422,982
2011	4,477,277
2009	3,448,843
2008	3,741,036
2007	2,793,049
2006	2,011,045
2005	1,980,807
2004	2,065,255
2003	1,912,236
2002	1,889,480
2001	1,764,268

In addition to the above services, the District will purchase, on occasion, emergency equipment with titles typically reverting to Santa Clara County Fire Department.

NOTE 7. OTHER CONTRACTED SERVICES

A. Consulting Services

Stuart Farwell has been a Fire Consultant to the District since July 29, 1997. His latest agreement was approved on March 15, 2011. Mr. Farwell assists with all of the water main and hydrant projects in the District as well as overseeing the brush chipping program and other programs as directed by the Board.

Jeanne Evilsizer is the District Clerk and entered into a consulting agreement with the District on March 15, 2011. Her services include preparing the monthly packets, preparing the monthly invoices and taking the minutes of the monthly meetings. She also performs various other clerical duties.

Sandy Sloan is the District's Legal Counsel. She is with the firm Jorgenson, Siegel, McClure and Flegel in Menlo Park.

Draft 9/7/12

NOTE 7. OTHER CONTRACTED SERVICES - Continued

B. Pakpour Consulting Group, Inc. - Services Pertaining to Installations and Upgrades of Hydrants and Water Mains

On May 18, 2004, the District entered into an agreement with Pakpour Consulting Group, Inc., to provide plans and specifications for the installations and possible upgrades of fire hydrant and water mains within the District. The District's costs for fiscal year 2011-2012 amounted to about $218,261.

C. Purissima Hills Water District and California Water Service - Joint Fire Hydrant/Water Mains Upgrade Project

The District enters into an agreement with the Purissima Hills Water District and California Water Service to jointly procure design, engineering and construction services for a Joint Fire Hydrant/Water Mains Upgrade Project. For the fiscal year 2011-2012, the District's expenditures amounted to $586,946 for both Purissima Hills Water district and California Water Service.

D. Green Waste Recovery

In October 2008, the District began using the services of Green Waste Recovery for the Yard Waste Program at Foothill College. This free program allows residents to reduce fuel loads on their property and dispose of the cuttings monthly at Foothill College. The District's costs for year 2011-2012 amounted to about $38,359.

E. S.P. McClenahan, Co. Inc.

The District contracts with S.P. McClenahan Co., Inc. for on site "chipping" services for District residents' excess fuel loads from their properties. The District's total costs for this project in fiscal year 2011-2012 amounted to about $2,868,528.

Draft 9/7/12

NOTE 8. NOTE RECEIVABLE TO PURISSIMA HILLS WATER DISTRICT

The Los Altos Hills County Fire District transferred funds in the amount of $2,000,000 to Purissima Hills Water District ("Purissima") in accordance with the agreement for the Zone 2-1/2 Phase II Project by Resolution signed July 24, 2007.

Purissima is to repay the debt to the District over a five (5) year period in ten (10) equal payments of $200,000 each, within 15 days of the quarter ending June 30 and September 30 starting after Purissima receives the funds from the District. Purissama received those funds on March 11, 2012 via a wire transfer from the County of Santa Clara. Purissima will pay interest on the then current debt balance within 30 days of the quarter ending on December 31, March 31, June 30, and September 30 of each year the debt remains outstanding. The interest payments will be determined by interest rate of the California Local Agency Investment Fund (LAIF) each quarter.

As of June 30, 2012, the balance of loan receivable is $1,200,000.

NOTE 9. PROPOSITION 1A BORROWING BY THE STATE OF CALIFORNIA

Under the provisions of Proposition 1A and as part of the 2011-10 budget package passed by the California state legislature on July 28, 2011, the State of California borrowed 8% of the amount of property tax revenue, including those property taxes associated with the in-lieu motor vehicle license fee, the triple flip in lieu sales tax, and supplemental property tax, apportioned to cities, counties and special districts (excluding redevelopment agencies). The state is required to repay this borrowing plus interest by June 30, 2013. After repayment of this initial borrowing, the California legislature may consider only one additional borrowing within a ten-year period. The amount of this borrowing pertaining to the Los Altos Hill County Fire District was $557,890.

This borrowing by the State of California was recognized as a receivable in the accompanying financial statements. Under the modified accrual basis of accounting, the borrowed tax revenues are not permitted to be recognized as revenue in the governmental fund financial statements until the tax revenues are received from the State of California (expected to be fiscal year 2012-13). In the government-wide financial statements, the tax revenues were recognized in the fiscal year for which they were levied (fiscal year 2009-10).

Draft 9/7/12

Required Supplementary Information
(Other than MD&A)

Draft 9/7/12

LOS ALTOS HILLS COUNTY FIRE DISTRICT

Budgetary Comparison Schedule - General Fund

Year Ended June 30, 2012

	Original Budget	Final Budget	Actual Amount	Variance with Final Budget Positive (Negative)
Budgetary Fund Balances, Beginning of Year	$ 16,685,368	$ 16,685,368	$ 16,685,368	$ -
Resources (Inflows)				
Property taxes	7,105,000	7,105,000	7,211,812	106,812
Intergovernmental: State	50,000	50,000	48,480	(1,520)
Interest and investment income	300,000	300,000	104,703	(195,297)
Property rental	-	-	1,500	1,500
Other revenues	150,000	150,000	11,067	(138,933)
Amounts Available for Appropriation	7,605,000	7,605,000	7,377,562	(227,438)
Charges to Appropriations (Outflows)				
Public Protection				
Services and supplies	8,897,936	8,897,936	8,259,530	638,406
Capital outlay	2,050,000	2,050,000	1,206,425	843,575
Total Charges to Appropriations	10,947,936	10,947,936	9,465,955	1,481,981
Budgetary Fund Balances, End of Year	$ 13,342,432	$ 13,342,432	$ 14,596,975	$ 1,254,543

Explanation of Differences between Budgetary Inflows and Outflows and GAAP Revenues and Expenditures

Sources/Inflows of Resources

Actual amounts (budgetary basis) "available for appropriation" from the budgetary comparison schedule	$ 7,377,562
Total Revenues as Reported on the Statement of Revenues, Expenditures, and Changes in Fund Balance - General Fund	$ 7,377,562

Uses/Outflows of Resources

Actual amounts (budgetary basis) "total charges to appropriations" from the budgetary comparison schedule	$ 9,465,955
Total Expenditures as Reported on the Statement of Revenues, Expenditures, and Changes in Fund Balance - General Fund	$ 9,465,955

Draft 9/7/12

Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

Draft 9/7/12

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

To the Board of Commissioners of
Los Altos Hills County Fire District
Los Altos, California

We have audited the financial statements of the governmental activities and major fund Los Altos Hills County Fire District (the "District"), a component unit of the County of Santa Clara, as of and for the year ended June 30, 2012, which collectively comprise the District's financial statements and have issued our report thereon dated August 13, 2012. 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

Management of Los Altos Hills County Fire District, is responsible for establishing and maintaining effect 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.

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 combination of deficiencies, in internal control such as 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Draft 9/7/12

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*.

This report is intended solely for the information and use of management, the Board of Commissioners, other within the entity, the County of Santa Clara, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Vargas and Company
San Jose, California
August 13, 2012

Draft 9/7/12

Schedule of Findings
and
Questioned Costs

Draft 9/7/12

LOS ALTOS HILLS COUNTY FIRE DISTRICT
Schedule of Findings and Questioned Costs
Year Ended June 30, 2012

Section I - Summary of Auditors' Results

Financial Statements

Type of auditors' report issued:	Unqualified.
Internal control over financial reporting:	
• Material weakness(es) identified?	No.
• Significant deficiency(ies) identified?	None reported.
Noncompliance material to financial statements noted?	No.
Federal Awards	Not applicable.

Section II - Financial Statement Findings

Our audit of the accompanying basic financial statements of the Los Altos Hills County Fire District, as of and for the year ended June 30, 2012, disclosed no findings nor questioned costs.

Our report on the Los Altos Hills County Fire District's internal control over financial reporting and compliance and other matters based on an audit of basic financial statements performed in accordance with *Government Auditing Standards*, as of and for the year ended June 30, 2012, disclosed no findings nor questioned costs.

Section III - Federal Award Findings and Questioned Costs

The Los Altos Hills County Fire District has no federal program as of and for the year ended June 30, 2012.

Draft 9/7/12

Summary Schedule of
Prior Audit Findings

Draft 9/7/12

LOS ALTOS HILLS COUNTY FIRE DISTRICT
Summary Schedule of Prior Audit Findings
Year Ended June 30, 2012

Section I - Financial Statement Findings

Our audit of the basic financial statements of the Los Altos Hills County Fire District, as of and for the year ended June 30, 2011, disclosed no findings nor questioned costs.

Our report on the Los Altos Hills County Fire District's internal control over financial reporting and compliance and other matters based on an audit of basic financial statements performed in accordance with *Government Auditing Standards*, as of and for the year ended June 30, 2011, disclosed no findings nor questioned costs.

Section II - Federal Award Findings and Questioned Costs

The Los Altos Hills County Fire District has no federal program as of and for the year ended June 30, 2011.