

LOS ALTOS HILLS COUNTY FIRE DISTRICT
A COMPONENT UNIT OF THE COUNTY OF SANTA CLARA
ANNUAL FINANCIAL REPORT
YEAR ENDED JUNE 30, 2019

**LOS ALTOS HILLS COUNTY FIRE DISTRICT
YEAR ENDED JUNE 30, 2019**

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INDEPENDENT AUDITORS' REPORT

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

Report on Financial Statements

We have audited the accompanying financial statements of the governmental activities and the General fund of the Los Altos Hills County Fire District (District), a component unit of the County of Santa Clara, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the General fund of the District, as of June 30, 2019, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 4 and 33 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 10, 2019, 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 solely 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 effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Eide Sully LLP". The signature is written in a cursive, flowing style.

Palo Alto, California
October 10, 2019

MANAGEMENT'S DISCUSSION AND ANALYSIS

LOS ALTOS HILLS COUNTY FIRE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS YEAR ENDED JUNE 30, 2019

This section of the Los Altos Hills County Fire District (District) annual financial report presents a discussion and analysis of the District's financial performance for the fiscal year ended June 30, 2019. 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 \$21,148,768 (net position) for the fiscal year reported. Of this amount, \$2,107,775 is net investment in capital assets, and \$19,040,993 (unrestricted net position) may be used to meet ongoing obligations to citizens and creditors. The District had no deferred outflows or inflows of resources at year-end.
- The District's total net position increased by \$3,005,437 (17%) during the fiscal year. The increase in net position is mostly due higher than projected property tax revenues and no large capital outlay expenditures.
- As of June 30, 2019, the District's general funds reported ending fund balances of \$19,040,993. Approximately 79% of this total amount, \$15,040,993 is unassigned fund balance available for spending at the District's discretion. The other \$4,000,000 (21%) was committed for various purposes.
- At the end of the fiscal year, unassigned fund balance for the general fund was 163% of total general fund expenditures. For each of the past three years the District has shown a positive change in net position, allowing it to accumulate a strong fund balance with which to continue costly but essential fire protection projects and prepare for upcoming fire protection and prevention expenditures.
- The District is prudent in its expenditures. During FY2018/19 the District was reorganizing personnel resources and developing fire prevention and protection programs in accordance with its 2015-2020 Strategic Plan; adopted the Los Altos Hills County Fire District Community Wildfire Prevention Plan to provide additional guidance in developing wildfire protection and prevention programs, experienced a 12-month long management audit process; hired its first District General Manager (regular .50 FTE part-time employee) and prepared to hire its second .50 FTE part-time employee in August 2019, the Emergency Services Manager which was a vacant contract position for over two years.
- During fiscal year 2018-2019, the major program expenditure other than contract fire suppression and emergency medical services (\$6,229,027), was the Tree Removal Program (\$1,936,060). 704 trees that were dead, dying or highly flammable Eucalyptus were removed under the fire protection and prevention initiative for tree removal. This program is both effective in fuel load reduction for a safer community as well as a requested service by constituents. Program features and spending on this program is entirely discretionary by the Board and spending can be increased or decreased quickly based on budgetary or program constraints or developments. The Tree Removal Program for the remainder of FY2019/20 will be focused on selection of trees for removal that follow fire science guidelines and achieve the CWPP goals for creation of defensive space and/or property hygiene of residences.

OVERVIEW OF THE FINANCIAL STATEMENTS

This 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. 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.

LOS ALTOS HILLS COUNTY FIRE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS YEAR ENDED JUNE 30, 2019

The *statement of net position* presents information on all of the District's assets, deferred outflows of resources, liabilities, and deferred inflows of resources, with the difference reported as net position. Over time, increases or decreases in net position 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 position changed during the most recent fiscal year. All changes in net position 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.

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 currently 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 – (General 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 the 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.

The District does not have any proprietary or 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.

LOS ALTOS HILLS COUNTY FIRE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS YEAR ENDED JUNE 30, 2019

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 schedule has been provided for the General Fund to demonstrate compliance with this budget.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the District, assets exceeded liabilities by \$21,148,768 at the close of the most recent fiscal year.

Condensed Statement of Net Position

	Governmental Activities			
	2019	2018	\$ Change	Variance (%)
Assets:				
Current assets	\$ 19,211,416	\$ 16,033,267	\$ 3,178,149	20%
Capital assets	2,107,775	2,179,413	(71,638)	-3%
Total assets	21,319,191	18,212,680	3,106,511	17%
Liabilities:				
Current	170,423	69,349	(101,074)	-146%
Total liabilities	170,423	69,349	(101,074)	-146%
Net position:				
Net invested in capital assets	2,107,775	2,179,413	(71,638)	-3%
Unrestricted	19,040,993	15,963,918	3,077,075	19%
Total net position	\$ 21,148,768	\$ 18,143,331	\$ 3,005,437	17%

Analysis of Net Position

The largest portion of the District's net position (90%) reflects amounts not restricted for any project or any other purpose. The other 10% of net position 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 was no debt outstanding related to acquisition of capital assets.

There was a 146% positive variance in Current Liabilities due to larger vendor billings at the end of fiscal year 2018-2019, which were mostly related to the tree removal program, brush chipping program, and fuel reduction project management.

At the end of the current fiscal year, the District reported positive balances in both categories of net position. The District's net position increased by \$3,005,437 during the current fiscal year, compared to the \$3,034,395 increase in 2018.

LOS ALTOS HILLS COUNTY FIRE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS YEAR ENDED JUNE 30, 2019

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

	Changes in Net Position			
	Governmental Activities			
	2019	2018	\$ Change	Variance (%)
Revenues:				
General revenues:				
Property taxes	\$ 11,899,165	\$ 11,019,334	\$ 879,831	8%
Intergovernmental: State	43,694	44,085	(391)	-1%
Interest and investment income	342,030	223,285	118,745	53%
Property rental	7,000	3,000	4,000	133%
Other revenue	108	160	(52)	-33%
Total revenues	<u>12,291,997</u>	<u>11,289,864</u>	<u>1,002,133</u>	9%
Expenses:				
Public protection	<u>9,286,560</u>	<u>8,255,469</u>	<u>(1,031,091)</u>	-12%
Change in net position	<u>3,005,437</u>	<u>3,034,395</u>	<u>(28,958)</u>	-1%
Net position, beginning of year	<u>18,143,331</u>	<u>15,108,936</u>	<u>3,034,395</u>	20%
Net position, end of year	<u>\$ 21,148,768</u>	<u>\$ 18,143,331</u>	<u>\$ 3,005,437</u>	17%

Analysis of Changes in Net Position

Key elements of the \$3,005,437 increase in the change in net position in the current year to the change in net position in the prior year are as follows:

- Interest and investment income increased \$118,745 due to higher interest rates and a larger balance in the Santa Clara County Commingled Treasury Pool.
- Property taxes increased by \$879,831 because of the annual inflation factor, not to exceed 2%, catch-up in temporary valuation reductions caused by the recession and both increased sales activity of existing single-family homes as well as an increase in the median sales price of those homes.
- Total expenses increased \$1,031,091 primarily due to \$851,216 increase in spending on the Tree Removal Program, \$147,238 increase in legal and outside professional services, \$124,280 increase in contracted fire protection services with SCCFD, and \$77,275 in salary expense from addition of Part-time General Manager. These increases were partially offset by a decrease in capital outlay expenses, mainly due to the completion of the Purissima Hills Fire Hydrant Replacement Project in FY2017/18.

LOS ALTOS HILLS COUNTY FIRE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS YEAR ENDED JUNE 30, 2019

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, 2019, the District's governmental fund reported an ending fund balance of \$19,040,993, an increase of \$3,077,075 in comparison with the prior year. Approximately 78% of the ending fund balance, \$15,040,993, constitutes unassigned fund balance, which is available to meet the District's current and future needs. The remaining \$4,000,000 (22%) of the fund balance has been committed for emergency operations and general operations in periods where minimal property tax revenue is forthcoming.

General fund revenues totaled \$12,291,997 in fiscal year 2018-2019, which represents an increase of 9% from fiscal year ended 2017-2018. Expenditures for governmental functions, which totaled \$9,214,922, increased by approximately 13% from the fiscal year 2017-2018. In the fiscal year 2018-2019, revenues exceeded expenses for governmental functions by \$3,077,075.

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

Revenues by Source	2019		2018		Increase/(Decrease)	
	Amount	% of Total	Amount	% of Total	Amount	% of Total
Property taxes	\$ 11,899,165	97%	\$ 11,019,334	98%	\$879,831	8%
Intergovernmental: State	43,694	0%	44,085	0%	(391)	-1%
Interest and investment income	342,030	3%	223,285	2%	118,745	53%
Property rental	7,000	0%	3,000	0%	4,000	133%
Other revenue	108	0%	160	0%	(52)	-33%
Total	\$12,291,997	100%	\$11,289,864	100%	\$1,002,133	9%

Property taxes, the main District revenue, increased by about 8% because of the annual inflation factor, not to exceed 2%, catch up in temporary valuation reductions caused by the recession and both increased sales activity of existing single-family homes as well as an increase in the median sales price of those homes.

LOS ALTOS HILLS COUNTY FIRE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS YEAR ENDED JUNE 30, 2019

GENERAL FUND BUDGETARY HIGHLIGHTS

During the year, actual revenues exceeded budgetary estimates by \$662,329 due primarily to favorable variances in property tax of \$492,497 (4.3%), and interest and investment income of \$167,030 (95.5%). Expenditures were less than budgetary estimates by \$1,928,078 (17.3%). There were no capital outlay expenditures in FY19. Overall, the positive variances are mostly attributable to the delay in implementing the new Fire Service Water Flow Improvement Project, higher interest rates and investments, and a larger than expected increase in property values. A budgetary comparison schedule may be found on page 33.

CAPITAL ASSETS

The District's net investment in capital assets for its governmental activities as of June 30, 2019, amounted to \$2,107,775 (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 were depreciated from acquisition date to the end of the current fiscal year. Fund financial statements record capital asset purchases as expenditures.

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

	Governmental Activities			Increase/(decrease)
	2019	2018	\$ Change	% of change
Land	\$ 4,688	\$ 4,688	\$ -	0%
Improvements	2,552,838	2,552,838	-	0%
Fire hydrants	1,078,745	1,078,745	-	0%
Furniture and equipment	66,350	63,118	3,232	5%
Less: Accumulated depreciation	(1,594,846)	(1,519,976)	(74,870)	-5%
Total	<u>\$ 2,107,775</u>	<u>\$ 2,179,413</u>	<u>\$ (71,638)</u>	-3%

See Note 5 for additional information on capital assets.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The District's strong fund balance has enabled it to undertake costly but essential fire prevention projects, such as a Fuel Reduction Program that will be based on fire science and the LAHCFD Community Wildfire Prevention Plan and expanding the fire hydrant flow and water pipeline resilience improvement project for fire suppression through replacement of aged and brittle water pipelines vulnerable to collapse in an earthquake and during wildfire events. LAHCFD will explore opportunities to improve data communication networks, installation of audible warning devices and early fire detector warning systems in cooperation with local agencies. In addition, the District is prudent with its financial resources to be prepared for recovery pending wildfire, earthquake, emergency or disaster events.

LOS ALTOS HILLS COUNTY FIRE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS YEAR ENDED JUNE 30, 2019

In fiscal year 2018-2019 the District's expenditures for all Projects and Programs had a positive variance to budget of 44%, though the Yard Waste Program went slightly over budget. Yard Waste Program expenditures were \$45,448 on a budget of \$40,000, with the negative variance caused by a delay in receiving a fiscal year 2017-2018 bill, resulting in five quarterly payments during fiscal year 2018-2019 instead of the usual four quarterly invoices. In 2017-2018 design construction work began on the Fire Service Water Flow Improvement Program. Initial design engineering studies were conducted, and a number of water pipes were identified as deficient. During fiscal year 2018-2019, discussions with Purissima Hills Water District (PHWD) and California Water Service were still in progress. Design construction commenced in PHWD, but engineering delays were experienced. As a result, none of the \$1,200,000 budget for the Fire Service Water Flow Improvement Program was expended. In fiscal year 2019-2020, the District will continue its work with the local water districts to improve fire hydrant flow within the community in order to meet fire-flow standards and engage in cost sharing for the replacement of water pipelines to improve pipeline resiliency in event of earthquake or wildfires. The Fire Service Water Flow Improvement Program has been budgeted at \$3,000,000 for the fiscal year 2019-2020 to provide for planning, engineering and construction costs, with the project expected to span multiple years.

As for future funding and increased services, it is projected that tax revenues will continue to rise because of inflation, replacement of older ranch homes with larger structures, and increasing valuations. Revenues have been budgeted at \$12,605,657, a 3% increase for 2019-2020, however, tax revenue budget was prepared by the County prior to the 9% increase in 2018-2019 being known and is therefore expected to be higher. Expenses are expected to increase 58% to \$14,559,588 primarily due to the Fire Service Water Flow Improvement Program and increased spending in the effective fire prevention and protection Tree Removal and Brush Chipping Programs. The District also intends to hire two regular part-time employees in 2019-2020, and contract for additional outside professional services to assist the District with the increased complexity of District operations, projects and programs and wildfire, earthquake and disaster readiness. All these factors were considered in preparing the District's budget for fiscal year 2020.

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.

BASIC FINANCIAL STATEMENTS

LOS ALTOS HILLS COUNTY FIRE DISTRICT

STATEMENT OF NET POSITION JUNE 30, 2019

Assets	Governmental Activities
Cash and investments	\$ 19,105,416
Interest receivable	106,000
Capital assets	
Land	4,688
Building improvements	2,552,838
Fire hydrants	1,078,745
Furniture and equipment	66,350
Accumulated depreciation	(1,594,846)
Total Assets	<u>21,319,191</u>
Liabilities	
Accounts payable and accrued liabilities	<u>170,423</u>
Total Liabilities	<u>170,423</u>
Net Position	
Investment in capital assets	2,107,775
Unrestricted	19,040,993
Total Net Position	<u>\$ 21,148,768</u>

See accompanying notes to financial statements.

LOS ALTOS HILLS COUNTY FIRE DISTRICT

STATEMENT OF ACTIVITIES YEAR ENDED JUNE 30, 2019

Functions/Programs		Net (Expenses) Revenue and Changes in Net Position Governmental Activities
Governmental Activities	Expenses	
Public protection	9,286,560	\$ (9,286,560)
Total Governmental Activities	\$ 9,286,560	(9,286,560)
General Revenues		
Taxes		
Property taxes		11,899,165
Intergovernmental: State		43,694
Investment income		342,030
Property rental		7,000
Other revenues		108
Total General Revenues		12,291,997
Change in Net Position		3,005,437
Net Position, Beginning of Year		18,143,331
Net Position, End of Year		\$ 21,148,768

See accompanying notes to financial statements.

LOS ALTOS HILLS COUNTY FIRE DISTRICT

BALANCE SHEET – GOVERNMENTAL FUND JUNE 30, 2019

	<u>General Fund</u>
ASSETS	
Cash and investments	\$ 19,105,416
Interest receivable	106,000
Total Assets	<u>\$ 19,211,416</u>
LIABILITIES AND FUND BALANCES	
Liabilities	
Accounts payable and accrued liabilities	<u>170,423</u>
Total Liabilities	<u>170,423</u>
Fund Balance	
Committed	
Operations	2,000,000
Emergency operations	2,000,000
Unassigned	<u>15,040,993</u>
Total Fund Balance	<u>19,040,993</u>
Total Liabilities and Fund Balance	<u>\$ 19,211,416</u>

See accompanying notes to financial statements.

LOS ALTOS HILLS COUNTY FIRE DISTRICT

RECONCILIATION OF THE GOVERNMENTAL FUND BALANCE SHEET TO THE STATEMENT OF NET POSITION JUNE 30, 2019

Fund Balance - Total Governmental Fund	\$ 19,040,993
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Amounts reported for governmental activities in the statement
of net position are different because:

Capital assets used in governmental activities are capitalized
and depreciated over their useful lives in the government wide
statements, but recorded as an expenditure in the governmental
funds.

2,107,775

Net Position of Governmental Activities

<u>\$ 21,148,768</u>

See accompanying notes to financial statements.

LOS ALTOS HILLS COUNTY FIRE DISTRICT

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - GOVERNMENTAL FUND YEAR ENDED JUNE 30, 2019

	General Fund
Revenues	
Property taxes	\$ 11,899,165
Intergovernmental: State	43,694
Interest and investment income	342,030
Property rental	7,000
Other revenues	108
Total Revenues	<u>12,291,997</u>
 Expenditures - Public Protection	
Services and supplies	9,137,647
Salaries and benefits	77,275
Total Expenditures	<u>9,214,922</u>
 Net Change in Fund Balance	3,077,075
 Fund Balance, Beginning of Year	<u>15,963,918</u>
 Fund Balance, End of Year	<u><u>\$ 19,040,993</u></u>

See accompanying notes to financial statements.

LOS ALTOS HILLS COUNTY FIRE DISTRICT

RECONCILIATION OF THE GOVERNMENTAL FUND STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE TO THE STATEMENT OF ACTIVITIES YEAR ENDED JUNE 30, 2019

Net Change in Fund Balance - Total Governmental Fund	\$ 3,077,075
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Amounts reported for governmental activities in the statement of activities are different because:

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

Cost of capital assets	3,232
Current year depreciation	<u>(74,870)</u>

Change in Net position of Governmental Activities	<u><u>\$ 3,005,437</u></u>
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See accompanying notes to financial statements.

NOTES TO THE FINANCIAL STATEMENTS

LOS ALTOS HILLS COUNTY FIRE DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2019

NOTE 1. GENERAL INFORMATION

A. Organization

The Los Altos Hills County Fire District (District) was organized on October 23, 1939 and operates in conformity with the provisions of Part 2.7 of Division 12 of the California 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.
9. Neary Tank Upgrade Project.
10. Page Mill Tank Upgrade Project.

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.
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, which 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 contract position provided by Santa Clara County Central Fire Protection District.
8. A tree removal program to reduce fire hazard.

LOS ALTOS HILLS COUNTY FIRE DISTRICT

**NOTES TO THE BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2019**

NOTE 1. GENERAL INFORMATION (Continued)

B. District Officials

The District is governed by a seven member Board of Commissioners (Commission), appointed by the County of Santa Clara (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. A 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, 2019:

	Term Expires December 31,
Mark Warren, President	2020
Melvin Vaughn, Vice-President	2022
Janice Carr	2020
George Tyson	2022
Roger Spreen	2019
Duffy Price	2020
Terry Kearney	2021

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.

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. All budget appropriations lapse at year-end. Encumbrance accounting is not used.

LOS ALTOS HILLS COUNTY FIRE DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2019

NOTE 1. GENERAL INFORMATION (Continued)

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 most significant of the District's accounting policies are described below.

A. Basis of Presentation

Government-wide Financial Statements

The statement of net position and statement of activities display information about the District. These statements include the financial activities of the overall government. 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 various 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 a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, deferred inflows, deferred outflows, fund equity, revenues, and expenditures/expenses. Funds are organized into three major categories: governmental, proprietary, and fiduciary. The District, however, only reports governmental funds. The emphasis of fund financial statements is on major governmental. Each major fund is presented in a separate column. Non-major funds are aggregated and presented in a single column. The District has only one fund, the General fund.

LOS ALTOS HILLS COUNTY FIRE DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2019

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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 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 a 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 or fiduciary funds.

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, deferred outflows, deferred inflows, 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.

LOS ALTOS HILLS COUNTY FIRE DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2019

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 the year ends. Expenditures (including capital outlay) are generally recorded when the related liability is incurred.

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 rata 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.

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.

LOS ALTOS HILLS COUNTY FIRE DISTRICT

**NOTES TO THE BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2019**

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 are those purchased 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 acquisition cost on the date of donation.

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 Position. 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 and 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 are included in the results of operations as other financing sources.

LOS ALTOS HILLS COUNTY FIRE DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2019

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Equity Classifications

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

- *Investment In Capital Assets* — This category groups all capital assets into one component of net position. 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* — 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* — This category represents net position of the District, not restricted for any project or other purpose.

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 not 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 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. On May 15, 2015, the board of directors adopted Resolution 15-16 which established \$4.0 million emergency and operations reserve. The reserve may be used for expenditures in the event of a declaration of an emergency in which general fund expenditures are over twice the normal operational expenditures in a given year.
- *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.

LOS ALTOS HILLS COUNTY FIRE DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2019

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Spending Policy

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.

G. 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.

NOTE 3. CASH AND INVESTMENTS

Available cash balances of the District are invested in the Santa Clara County Treasury (County) Pool ("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. Additional information about the County's Pool's investments can be obtained from the County's Controller-Treasurer Department located at 70 West Hedding Street, 2nd Floor, East Wing, San Jose, California 95110.

Cash and investments at June 30, 2019 consist of the following:

County Treasury Pool	\$ 19,104,916
Petty Cash	<u>500</u>
Total cash and investments	<u>\$ 19,105,416</u>

LOS ALTOS HILLS COUNTY FIRE DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2019

NOTE 4. FAIR VALUE MEASUREMENTS

The District categorizes the fair value measurements of its investments based on the hierarchy established by generally accepted accounting principles. The fair value hierarchy, which has three levels, is based on the valuation inputs used to measure an asset's fair value. The following provides a summary of the hierarchy used to measure fair value:

Level 1 - Quoted prices in active markets for identical assets that the District has the ability to access at the measurement date. Level 1 assets may include debt and equity securities that are traded in an active exchange market and that are highly liquid and are actively traded in over-the-counter markets.

Level 2 - Observable inputs other than Level 1 prices such as quoted prices for similar assets in active markets, quoted prices for identical or similar assets in markets that are not active, or other inputs that are observable, such as interest rates and curves observable at commonly quoted intervals, implied volatilities, and credit spreads. For financial reporting purposes, if an asset has a specified term, a Level 2 input is required to be observable for substantially the full term of the asset.

Level 3 - Unobservable inputs should be developed using the best information available under the circumstances, which might include the District's own data. The District should adjust that data if reasonable available information indicates that other market participants would use different data or certain circumstances specific to the District are not available to other market participants.

Uncategorized - Investments in the County Treasury Investment Pool are not categorized using the levels above because the District's transactions are based on a stable net asset value per share. All contributions and redemptions are transacted at \$1.00 net asset value per share.

LOS ALTOS HILLS COUNTY FIRE DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2019

NOTE 5. CAPITAL ASSETS

The capital asset activity for the year ended June 30, 2019 is as follows:

	Balance	Additions	Deletions	Balance June 30, 2018
Governmental Activities:				
Land	\$ 4,688	\$ -	\$ -	\$ 4,688
Improvements	2,552,838	-	-	2,552,838
Fire hydrants	1,078,745	-	-	1,078,745
Furniture & equipment	63,118	3,232	-	66,350
Total cost	<u>3,699,389</u>	<u>3,232</u>	<u>-</u>	<u>3,702,621</u>
Accumulated depreciation:				
Improvements	\$ (1,124,910)	\$ (51,057)	\$ -	\$ (1,175,967)
Fire hydrants	(334,069)	(21,575)	-	(355,644)
Furniture & equipment	(60,997)	(2,238)	-	(63,235)
Total Accumulated Depreciation	<u>(1,519,976)</u>	<u>(74,870)</u>	<u>-</u>	<u>(1,594,846)</u>
Total Capital Assets, Net	<u>\$ 2,179,413</u>	<u>\$ (71,638)</u>	<u>\$ -</u>	<u>\$ 2,107,775</u>

For the year ended June 30, 2019, depreciation expense charged to public protection under governmental activities was \$74,870.

LOS ALTOS HILLS COUNTY FIRE DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2019

NOTE 6. 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), expiring February 2092.

NOTE 7. CONTRACT FIRE PROTECTION SERVICES

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

Central Fire District has provided contract fire protection and EMS services to the City of Los Altos (the "City") and the District since January 1997. In December 2016, Central Fire District, the City and the District entered into a new agreement for these services, with the District entering into three additional agreements providing for Battalion Chief, CERT Program Coordinator and additional Fire Season Staffing services.

Term: The term of the agreement is for ten years from January 1, 2017 until December 31, 2026. The agreement will automatically renew for additional ten-year periods unless canceled one year in advance of termination. After December 30, 2021, any Party may terminate the agreement with one-year notice.

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 should it be destroyed or damaged beyond repair, or otherwise rendered temporarily unusable. Until the destroyed or damaged portions are fully and permanently rebuilt or replaced, Central Fire District shall provide reasonable temporary facilities. 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 depreciation over the reasonable useful life of the improvement or fixture. 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.

LOS ALTOS HILLS COUNTY FIRE DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2019

NOTE 7. CONTRACT FIRE PROTECTION SERVICES (Continued)

Each calendar year commencing on January 1, 2017, and each January thereafter the District shall owe to County Fire the annual operating costs calculated from a December 2016 base amount of \$4,250,813, plus an increase to be determined as follows:

- A. The parties agree that annual increases in compensation to the Central Fire District for fire and emergency medical services costs shall be limited to the “weighted average” of the percent growth of the following three indices:
 - (1) 50% Consumer Price Index defined as the second most prior February 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) 25% Assessed Valuation defined as the total Local Secured Values for the total parcels in the District as reported by the County of Santa Clara Controller’s Office each July; and
 - (3) 25% COLA following a calculation formula – the average annual cost of living increase in total compensation provided to firefighters of the Central Fire District.
- B. If any index referenced in this Section has a negative growth, the value of that index (indices) will be zero for the purposes of computing the weighted average for that calendar 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 annual weighted average increase shall not be less than 2% or greater than 5% in the base rate.

The District has also entered into contracts with Central Fire District for a CERT Program Coordinator, at an annual base amount of \$70,992 plus the adjustment as described in Part A above; a Battalion Chief, at an annual base amount of \$1,103,355 (less a credit of 1/15th of the adjusted base amount) plus the adjustment as described in Part A above; additional fire-season staffing at a rate of 1.5 times top step for Captain and each Firefighter/Engineer; and, beginning in July 2017, the use of a Wildland Interface Engine at the published OES rate for each day the engine is in service. Termination provisions are 60 days in the CERT Program Coordinator Agreement, and 180 days in the Fire Season Staffing Agreement. The Battalion Chief Agreement has the same term as Fire Protection Services described on Page 30. As of July 1, 2019, the CERT Program Coordinator position provided by the Santa Clara County Central Fire Protection District has been replaced with the part-time Emergency Service Manager employee of the District, therefore the agreement has been terminated for fiscal year 2019-2020.

Actual amounts paid by the District were as follows:

For the fiscal year ended June 30,		
2019	\$	6,228,726
2018		6,102,147
2017		5,739,722
2016		5,652,869
2015		5,429,903

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

LOS ALTOS HILLS COUNTY FIRE DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2019

NOTE 8. OTHER CONTRACTED SERVICES

A. Consulting Services for District Operations

Stuart Farwell has been a Fire Consultant to the District since July 1997. His latest agreement was approved on May 15, 2018. Mr. Farwell assists with the water main and hydrant projects in the District as well as - the Fuel Reduction Program and other programs as directed by the Board.

Jeanne Evilsizer has been the District Clerk since January 1981. The latest consulting agreement with the District was approved on May 15, 2018. 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. Starting July 1, 2019, Ms. Evilsizer has ended her services with the District. Cori Vargas was retained as an independent contractor consultant to serve as Interim District Clerk pending hiring of a District Clerk.

Angela Nguyen was retained as an independent contractor Technical Analyst Consultant from January to June 2019.

The District's Financial Consultant services is provided by the firm Vargas Company in San Jose.

The District's Legal Counsel services are provided by the firm Jorgenson, Siegel, McClure and Flegel in Menlo Park.

B. S.P. McClenahan, Co. Inc.

The District contracts with S.P. McClenahan Co., Inc. for on-site "chipping" and tree removal services for District residents. The District's total costs for this vendor in fiscal year 2018-2019 amounted to about \$2,186,033.

C. 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 cutting monthly at Foothill College. The District's costs for the year 2018-2019 amounted to \$45,448, which was paid to the Town of Los Altos Hills.

D. General Manager

In October 2018, the District hired Jo Anne "J." Logan (a former City of Los Altos Assistant City Manager) as a part-time .50 FTE District General Manager. The new position has been created in response to the District Commission's 2015-2020 Strategic Plan review. Ms. Logan's main role is to manage the District operations, develop annual budget, track the expenditures and assist in development of new initiatives to improve safety and in outreach to the community.

REQUIRED SUPPLEMENTARY INFORMATION

LOS ALTOS HILLS COUNTY FIRE DISTRICT

BUDGETARY COMPARISON SCHEDULE - GENERAL FUND YEAR ENDED JUNE 30, 2019

	Original Budget	Final Budget	Actual Amount	Variance with Final Budget Positive/(Negative)
Budgetary Fund Balances, Beginning of Year	\$ 15,963,918	\$ 15,963,918	\$ 15,963,918	\$ -
Resources (Inflows)				
Property taxes	11,406,668	11,406,668	11,899,165	492,497
Intergovernmental: State	43,000	43,000	43,694	694
Interest and investment income	175,000	175,000	342,030	167,030
Property rental	4,500	4,500	7,000	2,500
Other revenues	500	500	108	(392)
Amounts Available for Appropriation	<u>11,629,668</u>	<u>11,629,668</u>	<u>12,291,997</u>	<u>662,329</u>
Charges to Appropriations (Outflows)				
Public Protection				
Salaries and benefits	142,500	142,500	77,275	65,225
Services and supplies	9,923,000	9,923,000	9,137,647	785,353
Capital outlay	<u>1,220,000</u>	<u>1,220,000</u>	<u>-</u>	<u>1,220,000</u>
Total Charges to Appropriations	<u>11,285,500</u>	<u>11,285,500</u>	<u>9,214,922</u>	<u>2,070,578</u>
Net Change	<u>344,168</u>	<u>344,168</u>	<u>3,077,075</u>	<u>2,205,389</u>
Budgetary Fund Balances, End of Year	<u>\$ 16,308,086</u>	<u>\$ 16,308,086</u>	<u>\$ 19,040,993</u>	<u>\$ 2,732,907</u>



**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, 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, the financial statements of the governmental activities and the General fund of the Los Altos Hills County Fire District (District), a component unit of the County of Santa Clara, as of and for the year ended June 30, 2019, and related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated October 10, 2019.

Internal Control Over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or 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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Compliance and Other Matters

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

Purpose of this Report

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

A handwritten signature in black ink that reads "Eide Bailly LLP". The signature is written in a cursive, flowing style.

Palo Alto, California
October 10, 2019



October 10, 2019

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

We have audited the financial statements of Los Altos Hills County Fire District (District) as of and for the year ended June 30, 2019 and have issued our report thereon dated October 10, 2019. Professional standards require that we advise you of the following matters relating to our audit.

Our Responsibility in Relation to the Financial Statement Audit under Generally Accepted Auditing Standards and *Government Auditing Standards*

As communicated in our letter dated February 12, 2019 our responsibility, as described by professional standards, is to form and express an opinion about whether the financial statements that have been prepared by management with your oversight are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of its respective responsibilities.

Our responsibility, as prescribed by professional standards, is to plan and perform our audit to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement. An audit of financial statements 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 entity's internal control over financial reporting. Accordingly, as part of our audit, we considered the internal control of the District solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are also responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures for the purpose of identifying other matters to communicate to you.

We have provided our comments regarding internal controls during our audit in our 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* dated October 10, 2019.

Planned Scope and Timing of the Audit

We conducted our audit consistent with the planned scope and timing we previously communicated to you.

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Compliance with All Ethics Requirements Regarding Independence

The engagement team, others in our firm, as appropriate, our firm, and other firms utilized in the engagement, if applicable, have complied with all relevant ethical requirements regarding independence.

Qualitative Aspects of the Entity's Significant Accounting Practices

Significant Accounting Policies

Management has the responsibility to select and use appropriate accounting policies. A summary of the significant accounting policies adopted by the District is included in Note 1 to the financial statements. There have been no initial selection of accounting policies and no changes in significant accounting policies or their application during fiscal year. No matters have come to our attention that would require us, under professional standards, to inform you about (1) the methods used to account for significant unusual transactions and (2) the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

Significant Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's current judgments. Those judgments are normally based on knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ markedly from management's current judgments.

There were no significant estimates noted in the District's financial statements.

Significant Difficulties Encountered during the Audit

We encountered no significant difficulties in dealing with management relating to the performance of the audit.

Uncorrected and Corrected Misstatements

For purposes of this communication, professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that we believe are trivial, and communicate them to the appropriate level of management. Further, professional standards require us to also communicate the effect of uncorrected misstatements related to prior periods on the relevant classes of transactions, account balances or disclosures, and the financial statements as a whole. There was one uncorrected misstatement which is related to the Fair Market Value (FMV) presentation of Cash equivalents. The unadjusted audit difference would have resulted in an increase in revenues of \$67,685. Management is in agreement with the fact that not booking the adjusting journal entry does not indicate an internal control deficiency.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter, which could be significant to the financial statements or the auditor's report. No such disagreements arose during the course of the audit.

Representations Requested from Management

We have requested certain written representations from management which are included in the management representation letter dated October 10, 2019.

Management's Consultations with Other Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters. Management informed us that, and to our knowledge, there were no consultations with other accountants regarding auditing and accounting matters.

Other Significant Matters, Findings, or Issues

In the normal course of our professional association with the District, we generally discuss a variety of matters, including the application of accounting principles and auditing standards, operating conditions affecting the entity, and operating plans and strategies that may affect the risks of material misstatement. None of the matters discussed resulted in a condition to our retention as the District's auditors.

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

A handwritten signature in black ink that reads "Erik Sully LLP". The signature is written in a cursive, flowing style.

Palo Alto, California
October 10, 2019