

**Los Altos Hills County Fire District
(A Component Unit of the County of Santa Clara)**

**Annual Financial Report
With
Independent Auditors Report Thereon**

June 30, 2022

Los Altos Hills County Fire District
(A Component Unit of the County of Santa Clara)
Annual Financial Report
June 30, 2022

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

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of the governmental activities and each major fund information of the Los Altos Hills County Fire District as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the Los Altos Hills County Fire District basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, and each major fund of the Los Altos Hills County Fire District, as of June 30, 2022, 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.

Basis for Opinions

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. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Los Altos Hills County Fire District and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Los Altos Hills County Fire District's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance, but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Los Altos Hills County Fire District's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Los Altos Hills County Fire District's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

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 - 13 and 32 be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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 inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 19, 2022, on our consideration of the Los Altos Hills County Fire 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 Los Altos Hills County Fire District's internal control over financial reporting and compliance.

Fechter & Company
Certified Public Accountants



Sacramento, California
October 19, 2022

LOS ALTOS HILLS COUNTY FIRE DISTRICT

Management's Discussion and Analysis

June 30, 2022

This section of the Los Altos Hills County Fire District (District) annual financial report presents a discussion and analysis of its financial performance for the fiscal year ended June 30, 2022 (fiscal year 2021-2022). The District's financial performance is discussed and analyzed within the context of the accompanying financial statements and disclosures following this section.

FINANCIAL HIGHLIGHTS

Government-Wide View – Net Position

The assets of the District exceeded liabilities by \$35,356,613 (net position) for the fiscal year reported. Of this amount, \$1,887,412 represents net investment in capital assets, and \$33,469,201 (unrestricted net position) which may be used to address emergencies related to disaster or wildfires, for ongoing obligations to citizens, fund program services and address future needs.

The District's total net position increased by \$4,363,361 (14%) during the fiscal year. This increase is due to property tax revenue growth, lower than projected contracted County fire services expenditures, workforce deferments in response to unprecedented COVID-19 restrictions and prudent resource management. Consequently, expenditures for the District's projects and programs have come in under budget and will be prospectively applied as expense patterns normalize, infrastructure needs are attended to, and unspent contingencies are realized.

Governmental Fund View - Fund Balances

As of June 30, 2022, the District's General Fund reported an ending fund balance of \$33,469,201. Approximately 58% of this total amount, \$19,469,201, is unassigned fund balance available for spending in the event of crisis or emergency from earthquake, wildfire and other disasters. The remaining \$14,000,000 (42%) is committed for a variety of purposes consistent with the adopted budget and prior year fiscal audit.

For the past six years the District has realized positive fiscal results allowing it to accumulate a fund balance essential to continuing core contracted services for fire suppression, emergency medical rescue, and traditional fire services. These resources have facilitated increasing programs and projects to enhance fire protection and prevention with the aim of building the community's resilience in responding to and recovering from disaster and wildfire events. These programs and projects are vital to community safety and welfare. The fund balance thereby allows for those extraordinary circumstances that are related to response to and recovery disaster. The growth in unassigned fund balance attests to the District's prudent fiscal management in these economically and operationally extraordinary times and the foresight to prepare for disaster response recovery, while committed fund balance levels accentuate the need to plan for the future and enhance District resources and programs.

LOS ALTOS HILLS COUNTY FIRE DISTRICT
Management's Discussion and Analysis
June 30, 2022

Operational Highlights

During fiscal year 2021-2022 the District, as have organizations nationwide, began to address the operational deferrals that it faced with the emergence of the COVID-19 pandemic in 2020. This year the District focused on returning to a state of operational normalization and consequently:

- Funded the purchase of a fire apparatus, water tender by Santa Clara County Central Fire Protection District (SCCCFPD) to address critical needs for mobile water source in the Wildland Urban Interface (WUI) areas in the District
- Collaborated with the City of Palo Alto and the SCCCYPD to reimburse the cost of fire crews at the neighboring Palo Alto Foothills Park Fire Station #8 during fire season
- Developed, implemented, and completed various Integrated Hazardous Fuel Reduction (IHFR) Evacuation Route and Vegetation Management projects along Altamont Road and El Monte/Moody Roads and Byrne Preserve Open Space
- Expanded the IHFR Defensible Space Brush Chipping & Debris Removal Program to provide year-round extra chipping services to residents, and
- Developed California Environmental Quality Act (CEQA) studies for CEQA compliance
- Hired a full time Operations Manager to provide project and program support to ensure continuous improvement of service operations
- Hired a full time General Analyst/Programs, Planning and Grants Manager to manage planning of programs, planning the Cal OES/FEMA Grant application process currently under development
- Brought in specialized outside consultants, including Geographic Information System Mapping and Information Technology Management Services, UAS technology, telemetry and photogrammetry to improve the operational efficiencies of the District's projects and programs

Coming off a two-year period of resource postponements, this past year marks the beginnings of addressing critical resource, project and infrastructure needs as the need for proactive life and property safety prevention, protection and resilience has increased.

During fiscal year 2021-2022 the District's largest expenditure was \$5,279,346 for contracted fire suppression and emergency medical services with SCCCYPD, representing 55% of total expenditures. District sponsored programs include- Battalion Chief services and high fire seasonal additional staffing for Palo Alto Station #8 in the amount of \$1,669,812 or 18%. On a combined basis fire suppression and prevention services accounts for over two-thirds of District expenditures. The remaining 27% or \$2,597,040 was applied to professional and specialized services, staffing and a variety of proactive fire and life safety projects intended to mitigate future fire risk in coordination with several key surrounding governmental agencies.

LOS ALTOS HILLS COUNTY FIRE DISTRICT
Management's Discussion and Analysis
June 30, 2022

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis are intended to serve as an introduction to the District's basic financial statements. The 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.

Statement of Net Position

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.

Statement of Activities

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 District's one fund 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.

LOS ALTOS HILLS COUNTY FIRE DISTRICT

Management's Discussion and Analysis

June 30, 2022

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 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.

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.

LOS ALTOS HILLS COUNTY FIRE DISTRICT
Management's Discussion and Analysis
June 30, 2022

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. Assets exceeded liabilities by \$35,356,613 at the close of the most recent fiscal year, an increase of 14% over the prior year. Capital assets and liabilities remained relatively level. The following Condensed Statement of Financial position presents and overview of the District's Net Position.

Condensed Statement of Net Position

Governmental Activities

	<u>2022</u>	<u>2021</u>	<u>\$ Change</u>	<u>% Variance</u>
<u>ASSETS</u>				
Current Assets	\$ 33,730,060	\$ 29,223,172	\$ 4,506,888	15%
Capital Assets, net	1,887,412	1,960,690	(73,278)	-4%
	<u>35,617,472</u>	<u>31,183,862</u>	<u>4,433,610</u>	<u>14%</u>
<u>LIABILITIES</u>				
Current Liabilities	260,859	190,610	70,249	37%
<u>NET ASSETS</u>				
Net invested in Capital Assets	1,887,412	1,960,690	(73,278)	-4%
Fund Balance-Unrestricted	33,469,201	29,032,562	4,436,639	15%
	<u>\$ 35,356,613</u>	<u>\$ 30,993,252</u>	<u>\$ 4,363,361</u>	<u>14%</u>

The largest portion of the District's net position (95%) reflects amounts not bearing any external restrictions imposed by creditors, grantors, other government regulations or those imposed by law through enabling legislation. These amounts are available to the District for use and assignment as specified in the annual adopted budget for the delivery of services, funding of programs, capital infrastructure, disaster or public safety emergency contingencies, economic stabilization, and recovery of losses caused by disaster. The remaining 5% of net position represent its investment in capital assets, with a book value of \$3,702,621 before accumulated depreciation of \$1,815,209, (e.g., land, improvements, fire hydrants, furniture, and equipment). These capital assets are used to provide services to citizens, not available for future spending, and subject to replacement by the District in future years. At the close of the fiscal year there was no outstanding debt.

Current liabilities are 37% higher than the prior year given an increase in outstanding professional and specialized service vendor billings at the end of the fiscal year. This was expected given an increased demand for the District's IHFR Defensible Space Brush Chipping & Debris Removal Program and the IHFR Evacuation Route and Vegetation Management Program.

LOS ALTOS HILLS COUNTY FIRE DISTRICT
Management's Discussion and Analysis
June 30, 2022

As noted in the following Condensed Statement of Changes in Net Position, during the current fiscal year, the District reported an increase in net position of \$4,363,361 during fiscal year 2021-2022 coming off of a \$4,719,588 increase the prior year.

Condensed Statement of Changes in Net Position
Governmental Activities

	2022	2021	\$ Change	% Variance
Revenues				
Property Taxes	\$ 13,692,578	\$ 13,143,778	\$ 548,800	4%
Intergovernmental-State	40,719	41,388	(669)	-2%
Investment Income	248,920	261,815	(12,895)	-5%
Other revenues	620	3,404	(2,784)	-82%
Total Revenues	13,982,837	13,450,385	532,452	4%
Expenses				
Public Protection	9,619,476	8,730,797	888,679	10%
Change in Net Position	4,363,361	4,719,588	(356,227)	-8%
Net Position - Beginning of Year	30,993,252	26,273,664	4,719,588	18%
Net Position - End of Year	\$ 35,356,613	\$ 30,993,252	\$ 4,363,361	14%

Analysis of Changes in Net Position

The primary reasons for the \$4,363,361 increase in net position in the current year compared to the change in net position from the prior year are as follows:

- Property taxes increased by \$548,800 or 4% in line with 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 homes.
- Total expenses increased \$888,679 or 10% primarily due to: a \$266,541 increase in salaries and payroll from the addition of two full time employment positions; a \$174,006 increase in contracted fire protection services; \$390,840 for additional contract staffing to staff Palo Alto Station #8 in the height of the fire season; a one-time expenditure of \$475,836 for a new fire apparatus water tender added to the County fleet to bolster protection of open space in the district and dense Wildland Urban Interface (WUI) terrain; a \$133,673 increase in the IHFR Defensible Space Brush Chipping Program; and a \$229,328 increase in the IHFR Shaded Fuel Break Program. The increase was offset by a \$209,760 decrease in Fire Service Water Flow Improvements, and a \$133,545 decrease in County of Santa Clara Cost Recovery Allocation costs contributing to the fiscal year 2020-2021 County Management Audit.

LOS ALTOS HILLS COUNTY FIRE DISTRICT
Management's Discussion and Analysis
June 30, 2022

FUND FINANCIAL ANALYSIS

As noted earlier, the District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. In contrast to the Government-Wide statements, the fund statements focus on a modified-accrual basis of accounting that is cash flow based and aligns with a governmental budgetary focus.

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 and budgetary execution. Of note, unassigned and restricted fund balances serve as a useful measure of a government's year to year performance and net resources available for spending at the end of the fiscal year.

On June 30, 2022 the District's governmental fund reported an ending fund balance of \$33,469,201, an increase of \$4,436,639. Approximately 58% of the ending fund balance, \$19,469,201, constitutes unassigned fund balance, which is available to meet the District's current and future needs, and available in event of disaster, wildfires, or emergency for public safety or loss of District property. The remaining \$14,000,000 (42%) of the fund balance has been committed for emergency operations, general operations, and capital asset upgrades and remodel and or replacements in future years as the need arises.

General fund revenues totaled \$13,982,837 for the fiscal year ended June 30, 2022, which represents an increase of 4% from the fiscal year ended June 30, 2021. Expenditures for governmental functions, which totaled \$9,546,198 increased by approximately 10% from the fiscal year ended June 30, 2021. The excess of revenues over expenditures realized in fiscal year 2021-2022 accounts for the increase in ending fund balance noted above.

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

Governmental Fund Revenues by Source

	2022		2021		Increase/Decrease	
	Amount	% of Total	Amount	% of Total	Amount	% of Total
Property Taxes	\$ 13,692,578	98%	\$ 13,143,778	98%	\$ 548,800	103%
Intergovernmental: State	40,719	0%	41,388	0%	(669)	0%
Interest and Investment Income	248,920	2%	261,815	2%	(12,895)	-2%
Other Revenue	620	0%	3,404	0%	(2,784)	-1%
Total Revenues	<u>\$ 13,982,837</u>	100%	<u>\$ 13,450,385</u>	100%	<u>\$ 532,452</u>	100%

Property taxes, the main District revenue, increased by about 4% 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
June 30, 2022

Capital Assets

The District's net investment in capital assets for its governmental activities as of June 30, 2022, amounted to \$3,702,621, on a book value basis, and \$1,887,412 net of accumulated depreciation. This investment in capital assets includes land, improvements, fire hydrants, furniture, and equipment. No fixed asset purchases or dispositions were made in this year of reporting.

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 resulting in the variance in fund balances when comparing government-wide to fund-based statements.

A Summary of the District's investment in capital assets for the governmental activities are presented below to illustrate changes from the prior year:

	Investment in Capital Assets			Increase/Decrease
	2022	2021	\$ Change	% of Change
Land	\$ 4,688	\$ 4,688	\$ -	0%
Building Improvements	2,552,838	2,552,838	-	0%
Fire Hydrants	1,078,745	1,078,745	-	0%
Furniture and Equipment	66,350	66,350	-	0%
Less: Accumulated Depreciation	(1,815,209)	(1,741,931)	(73,278)	4%
Net investment in capital assets	<u>\$ 1,887,412</u>	<u>\$ 1,960,690</u>	<u>\$ (73,278)</u>	-4%

See Note 5 for additional information on capital assets.

General Fund Budgetary Highlights

During the year, actual revenues exceeded budgetary estimates by \$570,237 due primarily to favorable variances in property tax of \$683,178, offset by an unfavorable variance in interest and investment income of \$111,080. There were no capital outlay expenditures during the year ended June 30, 2022. Overall, the bulk of positive variances are mostly attributable to lower than projected expenditures for contracted SCCCYPD fire suppression and emergency medical rescue services, and delays in implementation of certain projects and programs due to workforce disruptions attributed to the worldwide pandemic of COVID-19.

A budgetary comparison schedule may be found on page 32.

LOS ALTOS HILLS COUNTY FIRE DISTRICT

Management's Discussion and Analysis

June 30, 2022

Economic Factors, Next Year's Budget and Rates

The District's strong fiscal position has enabled it to undertake costly but essential fire prevention projects, such as Integrated Hazardous Fuel Reduction Programs (IHFR) that are supported in partnership with the Santa Clara County FireSafe Council to bring effective vegetation mitigation to residents and community projects and based on fire science and the LAHCFD Community Wildfire Prevention Plan Annex 4. This suite of programs offers Home Ignition Zone (HIZ) assessments, monthly Defensible Space Brush Chipping to remove hazardous fuels stacked-up by residents, and construction of shaded fuel breaks for defensible space and evacuation route hardening. The District is also exploring opportunities to improve data communication networks and install early fire detector warning systems in cooperation with local agencies. In addition, the District is prudent with its financial planning to be prepared for business recovery, replacement of damaged District owned facilities and property, and public safety demands as a result of wildfires, earthquake, emergency or disaster events.

During the fiscal year ended June 30, 2022, the District's expenditures for all Projects and Programs had a positive variance to budget of 60%. The District met with a regional open space agency and local fire service agencies to explore opportunities to collaborate on community strategic fuel breaks, however, program priorities, environmental research and CEQA compliance were necessary prior to development of the broader implementation of this program. As a result, only \$1,450 of the \$400,000 budget for the IHFR Open Space Fuel Break Program was expended. The District did not encounter any significant construction requiring hydrant and related infrastructure relocations or additions expending only \$137,556 of the \$390,000 budget. COVID-19 restrictions reduced activities in some of the District's IHFR Programs. The District expended \$273,008 of the \$400,000 Shaded Fuel Breaks budget, and \$16,489 of the \$150,000 Home Ignition Zone (HIZ) budget. Finally, Projects and Programs Contingencies of \$475,000 were not utilized during fiscal year 2021-2022.

As for the 2022-2023 fiscal budget year, it is projected that tax revenues, driven mainly by property tax assessments, will continue to rise with inflation, replacement of older ranch homes with larger structures, and increasing valuations. Total revenues have been conservatively projected at \$14,015,400, a 4.5% increase over the prior year budget. This increase is in line with the County of Santa Clara projections provided in their annual 2021-2022 update. That said, the lingering COVID-19 pandemic could continue to cause inflation and interest fluctuation causing actual increases (or decreases) in total revenues to vary.

Expenses are expected to increase 4.2%, or \$542,939, to \$13,550,747 driven mainly by:

- a 21%, or \$547,800, increase in fire safety project expenditures including the expansion of IHFR projects and programs for fire protection including the IHFR I-280 Fuel Break Project for hazardous fuel reduction and removal of hazardous fire fuels along a 5.9 mile stretch of I-280 as well as additional funding for HIZ programs and vegetation clearing equipment
- a 35%, or \$280,510, increase in payroll projections given the staffing/resources additions noted above
- a 65%, or \$233,200, increase in professional services given an increased emphasis in technology services, web development, GIS mapping services and strategic planning consulting

These increases are partially offset by expected savings in contract services given the notable onetime \$475,836 purchase of fire apparatus water tender in fiscal year 2021-2022 and lower equipment rental and extra seasonal staff projections. The annual increase for SCCCYPD contract service was factored at a stable 1.3% increase.

LOS ALTOS HILLS COUNTY FIRE DISTRICT

Management's Discussion and Analysis

June 30, 2022

The District's budget for fiscal year 2022-2023 was developed to enhance collaboration with SCCCYPD and other local agencies to improve fire protection and prevention within the community as evidenced by increased personnel and consulting resources for public outreach and education, to advance the creation of an organizational Strategic Plan, to further GIS mapping tools, web tools, community outreach and IT services.

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, California 94023-1766.

LOS ALTOS HILLS COUNTY FIRE DISTRICT
STATEMENT OF NET POSITION
JUNE 30, 2022

	<u>Governmental Activities</u>
<u>ASSETS</u>	
Cash and Investments	33,635,026
Interest and other receivables	95,034
Due from other governments	-
Capital Assets	
Land	4,688
Building Improvements	2,552,838
Fire Hydrants	1,078,745
Furniture and equipment	66,350
Accumulated depreciation	<u>(1,815,209)</u>
Net Capital Assets	1,887,412
Total Assets	<u>35,617,472</u>
<u>LIABILITIES</u>	
Accounts payable and accrued liabilities	260,859
Total Liabilities	<u>260,859</u>
<u>NET ASSETS</u>	
Net invested in Capital Assets	1,887,412
Fund Balance-Unrestricted	33,469,201
Total Net Position	<u><u>\$ 35,356,613</u></u>

The accompanying notes are an integral to the Financial Statements

LOS ALTOS HILLS COUNTY FIRE DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED
JUNE 30, 2022

			Net (Expense) Revenue and Changes in Net Position
<u>FUNCTIONS</u>	<u>Revenues</u>	<u>Expenses</u>	<u>Governmental Activities</u>
Governmental Activities			
Public Protection	\$ -	\$ 9,619,476	\$ (9,619,476)
Total governmental activities	<u>\$ -</u>	<u>\$ 9,619,476</u>	<u>(9,619,476)</u>
GENERAL REVENUES			
Property Taxes			13,692,578
Intergovernmental-State			40,719
Investment Income			248,920
Other revenues			620
Total governmental activities			<u>13,982,837</u>
Change in Net Position			4,363,361
Net Position, Beginning of Year			30,993,252
Net Position, End of Year			<u>\$ 35,356,613</u>

The accompanying notes are an integral to the Financial Statements

**LOS ALTOS HILLS COUNTY FIRE DISTRICT
BALANCE SHEET - GOVERNMENTAL FUND
JUNE 30, 2022**

	<u>General Fund</u>
<u>ASSETS</u>	
Cash and Investments	33,635,026
Interest and other receivables	95,034
Due from other governments	-
Total Assets	<u>\$ 33,730,060</u>
<u>LIABILITIES</u>	
Accounts Payable	<u>\$ 260,859</u>
Total Liabilities	<u>260,859</u>
<u>FUND BALANCE</u>	
Committed	
Building Improvements	6,000,000
Fire Hydrants	3,000,000
Operations	2,000,000
Emergency Operations	2,000,000
Wildfire Protection and Technology	1,000,000
Unassigned	<u>19,469,201</u>
Total Fund Balance	<u>33,469,201</u>
Total Liabilities and Fund Equity	<u>\$ 33,730,060</u>

The accompanying notes are an integral to the Financial Statements

LOS ALTOS HILLS COUNTY FIRE DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUND BALANCE SHEET TO THE STATEMENT OF
NET POSITION
JUNE 30, 2022

Fund Balance - Total Governmental Fund	\$ 33,469,201
--	---------------

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.	1,887,412
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Net position of governmental activities	<u><u>\$ 35,356,613</u></u>
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The accompanying notes are an integral to the Financial Statements

**LOS ALTOS HILLS COUNTY FIRE DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - GOVERNMENTAL FUND
FOR THE YEAR ENDED
JUNE 30, 2022**

	<u>General Fund</u>
REVENUES	
Property Taxes	\$ 13,692,578
Intergovernmental: State	40,719
Interest and Investment Income	248,920
Other Revenue	620
Total Revenue	<u>13,982,837</u>
EXPENDITURES-PUBLIC PROTECTION	
Services and supplies	8,905,959
Salaries and Benefits	640,239
Total Expenditures	<u>9,546,198</u>
Net change in Fund Balance	<u>4,436,639</u>
FUND BALANCE	
Fund Balance - Beginning of Year	29,032,562
Fund Balance - End of Year	<u><u>\$ 33,469,201</u></u>

The accompanying notes are an integral to the Financial Statements

LOS ALTOS HILLS COUNTY FIRE DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUND STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED
June 30, 2022

Net Change in Fund Balance - Total Governmental Fund	\$ 4,436,639
Amounts reported for governmental activities in the statement of activities are different because:	
Current year depreciation expense	(73,278)
	<hr/>
Changes in Net Assets of Governmental Activities	<u><u>\$ 4,363,361</u></u>

The accompanying notes are an integral to the Financial Statements

LOS ALTOS HILLS COUNTY FIRE DISTRICT

Notes to Financial Statements

June 30, 2022

NOTE 1 - GENERAL INFORMATION

Organization

The Los Altos Hills County Fire District (District or LAHCFD) 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 includes the Town of Los Altos Hills and the unincorporated areas generally referred to as Loyola, Los Trancos and San Antonio Hills. The District comprises an area of about 12.03 square miles.

In addition to contracting for fire suppression, emergency medical rescue and traditional fire services, the District has provided fire protection, prevention and building resiliency for its residents over the years through the following initiatives:

1. Regional partnership with the City of Palo Alto and SCCCYPD to fund fire crew staffing at Fire Station #8 in Palo Alto throughout the high fire season.
2. Completed multiple Evacuation Routes and Road Hardening Projects along Page Mill Road, Phase 1 and II, Moody/El Monte Roads and in 2022, along Altamont Road.
3. Funded specialized fire apparatus equipment for use in the high hazard brush and WUI fire areas.
4. Funded new rescue apparatus unit for SSSCFPD prior to its life expectancy expiration.
5. Funded a variety of specialized rescue tools.
6. Engineering, construction and replacement of 542 District fire hydrants with state-of-the-art new fire hydrants, gate-valves, and laterals for firefighting reliability.
7. Funded two CERT emergency supply trailers (SCCCYPD has title) and one emergency storage container at the ARK facility.

On an ongoing basis the District also provides the following programs for its residents:

- Replacement and relocation of District owned fire hydrants, undersized water pipes, gate-valves and laterals as needed during capital improvement projects.
- A monthly defensible space brush chipping and debris removal program for residents living in the designated chipping area of the District and supplemented by monthly qualified on-call brush chipping services for all District residents.
- Additional firefighter staffing during summer fire season.
- A defensible space brush debris drop-off program is funded by the District and operated by the waste hauling company, which allows residents to drop-off brush and tree limb debris and other combustible vegetation once a month at a central drop-off area.
- Vegetation mitigation and fire break program at the Byrne Preserve Open Space through the use of 400 grazing goats.
- A Community Outreach and Education Program to inform all District residents via multiple mailings of fire prevention and emergency preparedness information.
- A part-time Emergency Services Manager to provide preparation and prevention services to residents.
- Construction of evacuation routes and shaded fuel breaks along roadways by mitigating vegetation to create defensible locations that can help reduce a wildfire's progress and create defensive areas for firefighters to organize, state and suppress.
- HIZ assessments for homeowners to meet with assessors and review defensible space and receive recommendations for protecting their home from hazardous ignition and fire fuel mitigation.

LOS ALTOS HILLS COUNTY FIRE DISTRICT

Notes to Financial Statements

June 30, 2022

NOTE 1 - GENERAL INFORMATION (continued)

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 representation between residents of incorporated and unincorporated territories. 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, 2022:

Terms Expire December 31 of the year noted

Roger Spreen	President	2024
Joan Sherlock	Vice President	2024
Jim Basiji	Member	2025
Kavita Tankha	Member	2024
George K. Tyson	Member	2022
Melvin Vaughn	Member	2022
Mark Warren	Member	2024

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.

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 majority approval 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 Financial Statements

June 30, 2022

NOTE 1 - GENERAL INFORMATION (continued)

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.

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.

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.

LOS ALTOS HILLS COUNTY FIRE DISTRICT

Notes to Financial Statements

June 30, 2022

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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.

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.

LOS ALTOS HILLS COUNTY FIRE DISTRICT

Notes to Financial Statements

June 30, 2022

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property Tax Levy, Collection, and Maximum Rate (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.

LOS ALTOS HILLS COUNTY FIRE DISTRICT

Notes to Financial Statements

June 30, 2022

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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.

LOS ALTOS HILLS COUNTY FIRE DISTRICT

Notes to Financial Statements

June 30, 2022

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:

No spendable 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 June 16, 2020, the Board of Commissioners adopted Resolution 20-23 which established \$14.0 million committed fund balance. The reserve may be used for emergency operations, general operations, and upgrades to the District's capital assets in periods where minimal property tax revenue is forthcoming or in the event of a declaration of an emergency or natural disaster.

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.

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.

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.

LOS ALTOS HILLS COUNTY FIRE DISTRICT

Notes to Financial Statements

June 30, 2022

NOTE 3 - CASH AND INVESTMENTS

Available cash balances of the District are invested in the Santa Clara County Treasury Pool ("Pool") for the purpose of increasing earnings through investment activities. The County's commingled pool consists of cash in the 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 County Board of Supervisors. 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, 2022 consist of the following:

County Treasury Pool	\$33,634,526
Petty Cash	<u>500</u>
Total Cash and Investments	<u>\$33,635,026</u>

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.

LOS ALTOS HILLS COUNTY FIRE DISTRICT

Notes to Financial Statements

June 30, 2022

NOTE 4 - FAIR VALUE MEASUREMENTS (continued)

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.

NOTE 5 - CAPITAL ASSETS

The capital asset activity for the year ended June 30, 2022 is as follows:

	Balance June 20, 2021	Additions	Deletions	Balance June 30, 2022
Governmental Activities				
Non depreciating assets				
Land	\$ 4,688	\$ -	\$ -	\$ 4,688
Depreciating Assets				
Buildings-Improvements	2,552,838	-	-	2,552,838
Fire Hydrants	1,078,745	-	-	1,078,745
Furniture and Equipment	66,350	-	-	66,350
Depreciating assets at cost	3,697,933	-	-	3,697,933
Accumulated Depreciation				-
Buildings-Improvements	(1,278,081)	(51,057)	-	(1,329,138)
Fire Hydrants	(398,794)	(21,575)	-	(420,369)
Furniture and Equipment	(65,056)	(646)	-	(65,702)
Total accumulated depreciation	(1,741,931)	(73,278)	-	(1,815,209)
Net depreciating assets	1,956,002	(73,278)	-	1,882,724
Net capital assets	\$ 1,960,690	\$ (73,278)	\$ -	\$ 1,887,412

For the year ended June 30, 2022, depreciation expense charged to public protection under governmental activities was \$73,278.

LOS ALTOS HILLS COUNTY FIRE DISTRICT

Notes to Financial Statements

June 30, 2022

NOTE 6 - LEASE

The District leases the land for the El Monte fire station completed in 1996 and 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 (SCCCFPD)

The SCCCFPD 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, SCCCFPD, 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 (contract discontinued and is now a regular part-time Emergency Services Manager 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 a one-year notice.

Real Property and Equipment: A description of obligations of the District and the SCCCFPD pursuant to Real Property and Equipment can be found in the 2016 Fire and Emergency Medical Services Agreement, Article 6 and 7, between the City, the District and SCCCFPD entered into on December 13, 2016.

Compensation: The SCCCFPD 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, 2017, and each January thereafter the District shall owe to SCCCFPD the annual operating costs calculated from a December 2016 base amount of \$4,250,813. The compensation is increased annually as follows:

- The parties agree that annual increases in compensation to the SCCCFPD 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 SCCCFPD.

LOS ALTOS HILLS COUNTY FIRE DISTRICT

Notes to Financial Statements

June 30, 2022

NOTE 7 - CONTRACT FIRE PROTECTION SERVICES (Continued)

- If any index referenced in this Article 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.
- The annual weighted average increase shall not be less than 2% or greater than 5% in the base rate.

The District contracts with SCCCYPD for a round the clock, seven days per week Battalion Chief stationed at El Monte Fire Station, 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 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 on Red Flag Warning days at the published Governor's Office of Emergency Services (OES) rate for each day the engine is in service. Termination provisions are 180 days in the Fire Season Staffing Agreement. The Battalion Chief Agreement has the same term as Fire Protection Services described above.

Total amounts paid by the District to SCCCYPD (including fire and EMS services, Battalion Chief services, rental of a Type 3 engine, a portion of additional staffing for Palo Alto Station #8, and additional seasonal fire patrol) were as follows for the fiscal years ended June 30:

2022	\$ 6,767,060
2021	\$ 6,444,045
2020	\$ 6,152,354
2019	\$ 6,228,726
2018	\$ 6,102,147

In fiscal year 2021-2022 the District paid the City of Palo Alto its portion of the additional staffing costs for Palo Alto Station 8 in the amount of \$182,098 (for a total combined amount, including SCCCYPD's portion, of \$390,840).

In addition to the above services, the District paid a one-time expenditure of \$475,836 for a new fire water tender apparatus, the title of which was retained by SCCCYPD.

LOS ALTOS HILLS COUNTY FIRE DISTRICT

Notes to Financial Statements

June 30, 2022

NOTE 8 – OTHER CONTRACT SERVICES

Integrated Hazardous Fuel Reduction Programs

The District contracts with the Santa Clara County FireSafe Council as an independent contractor to develop, manage, and implement various Integrated Hazardous Fuel Reduction Programs, including construction of shaded fuel breaks, defensible space brush chipping and debris removal service and HIZ assessments. The District's total costs for this vendor in fiscal year 2021-2022 amounted to \$680,997, an increase of \$357,816 over the prior year.

Legal Services

The District's Legal Counsel services are provided exclusively by the Santa Clara County Office of the County Counsel. Contract services for this fiscal year amounted \$73,920.

Special Projects Services Consulting

The District's contracts for special project consulting services for a current fiscal year cost of \$59,806.

Engineering Services

The District contracts with Freyer and Laureta Inc. for engineering services related to the District's fire hydrants and infrastructure. The District's total costs for this vendor in fiscal year 2021-2022 amounted to \$40,751.

NOTE 9 – COVID CONSIDERATIONS

The COVID-19 outbreak in the United States has caused business disruption through mandated and voluntary closings of non-essential businesses. The impact to the District has been and remains minimal since the services supported by the District are considered essential. The impact to future operations has yet to be determined.

NOTE 10 – SUBSEQUENT EVENTS

Management has evaluated subsequent events for recognition and disclosure through October 7, 2022, the date the financial statements were available to be issued. Management concluded that no material subsequent events have occurred, other than what is disclosed above, since June 30, 2022 that required recognition or disclosure in the financial statements.

Required Supplemental Information

**LOS ALTOS HILLS COUNTY FIRE DISTRICT
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED
JUNE 30, 2022**

	Original Budget	Final Budget	Actual	\$ Over (Under) Budget	% Over (Under) Budget
REVENUES					
Property Taxes	\$ 13,009,400	\$ 13,009,400	\$ 13,692,578	\$ 683,178	5%
Intergovernmental: State	43,000	43,000	40,719	(2,281)	-5%
Interest and Investment Income	360,000	360,000	248,920	(111,080)	-31%
Other Revenue	200	200	620	420	210%
Total Amounts available for appropriation	13,412,600	13,412,600	13,982,837	570,237	4%
EXPENDITURES-PUBLIC PROTECTION					
Services and Supplies	12,210,858	12,210,858	8,905,959	(3,304,899)	-27%
Salaries and Benefits	796,950	796,950	640,239	(156,711)	-20%
Total Charges to Appropriations	13,007,808	13,007,808	9,546,198	(3,461,610)	-27%
Net Change in Fund Balance	404,792	404,792	4,436,639	4,031,847	
BUDGETARY FUND BALANCE					
Budgetary Fund Balance - Beginning of Year	29,032,562	29,032,562	29,032,562		
Budgetary Fund Balance - End of Year	<u>\$ 29,437,354</u>	<u>\$ 29,437,354</u>	<u>\$ 33,469,201</u>		

The accompanying notes are an integral to the Financial Statements

Other Reporting Required by Government Auditing Standards

**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**

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

We have audited, in accordance with the 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 each major fund of Los Altos Hills County Fire District, as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise Los Altos Hills County Fire District's basic financial statements, and have issued our report thereon dated October 19, 2022.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Los Altos Hills County Fire District's internal control over financial reporting (internal control) as a basis for designing 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 Los Altos Hills County Fire District's internal control. Accordingly, we do not express an opinion on the effectiveness of Los Altos Hills County Fire District's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements, on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the 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 or significant deficiencies may exist that were not identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether Los Altos Hills County Fire 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 financial statements. 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*.

Board of Commissioners
Los Altos Hills County Fire District

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 that 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.

Fechter & Company
Certified Public Accountants



October 19, 2022
Sacramento, California