

**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, 2023**

**Los Altos Hills County Fire District**  
**(A Component Unit of the County of Santa Clara)**  
**Annual Financial Report**  
**June 30, 2023**

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**INDEPENDENT AUDITOR'S REPORT**

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

**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, 2023, 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, 2023, 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.

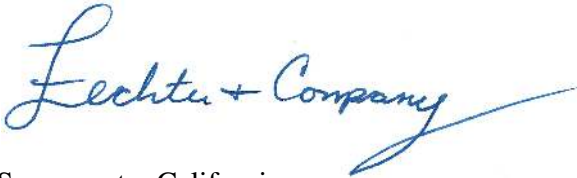
### **Required Supplementary Information**

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, 2023, 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

A handwritten signature in blue ink that reads "Fechter + Company". The signature is stylized with a large, flowing "F" and a long, sweeping underline that extends to the right.

Sacramento, California  
October 11, 2023

## LOS ALTOS HILLS COUNTY FIRE DISTRICT

### Management's Discussion and Analysis

June 30, 2023

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, 2023 (fiscal year 2022-2023). 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 \$40,705,293 (net position) for the fiscal year reported. Of this amount, \$1,829,693 represents net investment in capital assets, and \$38,875,600 (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 \$5,348,680 (15%) during the fiscal year. This increase is due to property tax revenue growth, delays in implementing projects and programs, higher investment income due to higher balances and the rapid increase in rates, unexpended fire season and other contingencies, professional service savings, and staff hiring delays. Expenditure levels for the District's projects and programs are again under budget as the District looks forward with a plan to prospectively accelerate activity in these areas as expense patterns normalize, staffing resources are fortified, infrastructure needs attended to, and unspent contingencies are realized.

### **Governmental Fund View - Fund Balances**

As of June 30, 2023, the District's General Fund reported an ending fund balance of \$38,922,221. Approximately 64% of this total amount, \$24,922,221 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 (36%) is committed for a variety of purposes consistent with the adopted budget and prior year fiscal audit.

For the past several years the District has realized positive fiscal results accumulating a fund balance essential to continuing core contract services for fire suppression, emergency medical rescue, traditional fire prevention, and planning for emergency contingencies. These resources allow the District to increase activity levels for life & property safety programs and projects in its mission to enhance fire protection, prevention, and preparedness in building a community that is resilient in responding to and recovering from disaster and wildfire events. These programs and projects are vital to community safety and welfare and a strong fund balance posture allows for their continuance while planning for unknown disaster related contingencies. The District's fund balance levels attest to its prudent fiscal management, its ability to weather recent operationally challenged times, the foresight to prepare for disaster response recovery, and sets into motion its upcoming plans to enhance District resources, programs, projects, infrastructure, and mission-based deliverables.

## LOS ALTOS HILLS COUNTY FIRE DISTRICT

### Management's Discussion and Analysis

June 30, 2023

#### Operational Highlights

Coming out of the historic COVID-19 pandemic, the District continues to address the operational deferrals that it faced during the pandemic. The District continued its focus on returning to a state of operational normalization while positioning itself for robust operational growth as it planned for fiscal year 2023-2024. Key operational highlights this year include:

- Completed the creation of the 2023-2027 Strategic Plan, using the assistance of professional service consultants, a process that involved all staff and community outreach held over the course of several months. The Strategic Plan defined key goals and objectives in furthering the defined mission of the District. This plan was, and is, critical in helping the District craft its near- and longer-term Budget and operational workplans.
- Payroll reflects the first full year of the full time General Analyst/Programs, Planning and Grants Manager position that oversees the planning of programs, planning the Cal OES/FEMA Grant application process currently under development. These costs were partially offset by a vacancy in the Operations Manager position for a net combined increase of approximately \$70,000.
- Hired a part-time Budget Manager to bolster fiscal reporting and long-term strategic planning, enhance the annual budget process, support the execution of the annual financial audit, assist in the coordination with the County on fiscal matters, implement fiscal forecasting, oversee district technology, assist in operational workplan development, and assist in internal policy creation.
- Hired a part-time Technical Analyst/Project Manager to assist with the components of programs, projects and activities that rely on project management deliverables for successful implementation and completion. This position assists with the development of the project workplan, monitors project progress and deadlines, collaborates with team members to resolve project issues, monitors budget responsibilities, ensures stakeholder satisfaction, and evaluates project performance during and after completion of the project.
- Hired a part-time Operations Projects Manager to provide operational support, administration, and organization efficiencies for District programs and projects to enable the District to carry out its daily operations and achieve its deliverables effectively and within budget. This position was funded from salary cost savings of the vacant Operations Manager position.
- Expanded the Integrated Hazardous Fuel Reduction (IHFR) Defensible Space Brush Chipping & Debris Removal Program, to levels even beyond strong prior year growth levels, in delivering this life and property safety-based year- round extra chipping services to residents. The allocation of resources to this effort exceed prior year levels by approximately \$305,000 or a 71% increase.
- Continued collaboration with the City of Palo Alto and the Santa Clara County Central Fire Protection District (SCCCFPD) to reimburse the cost of fire crews at the neighboring Palo Alto Foothills Park Fire Station #8 during high fire risk season in the approximate amount of \$435,000, an 11% increase over the prior year.
- In an emerging post-pandemic environment, staff training opportunities were accelerated to make up for unavoidable deferrals and to refresh/strengthen staff skill sets and readiness.
- Funded the purchase of a District owned information technology equipment for most existing and newly hired staff including laptops, communications equipment, portable field technology and peripherals.
- Continued to develop, implement, and complete various IHFR Evacuation Route and Vegetation Management projects along Page Mill and Arastradero roadways at a cost of approximately \$230,000.
- Continued to maintain the District's essential fire Hydrant Infrastructure at a cost of approximately \$137,000.

## LOS ALTOS HILLS COUNTY FIRE DISTRICT

### Management's Discussion and Analysis

June 30, 2023

In the fiscal year 2022-2023 the District continued to address critical resources, projects, and infrastructure with increasing needs for proactive life and property safety prevention, protection, and resiliency measures. District staff spent considerable time developing a multi-year Strategic Plan update and the fiscal year 2023-2024 Budget that boldly enhances funding allocations for staffing, services and infrastructure needed to accelerate service deliverables in life and property programs, projects, readiness, and outreach services.

During fiscal year 2022-2023 the District's largest expenditure was \$5,492,616 for contracted fire suppression and emergency medical services with SCCCYPD, representing 53% of total actual expenditures. District sponsored programs include- Battalion Chief services and high fire seasonal additional staffing for Palo Alto Station #8 in the amount of \$1,766,390 or 17%. On a combined basis fire suppression and prevention services account for over two-thirds of District expenditures. The remaining 30% or \$3,035,945 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.

### **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 like a private-sector business.

##### *Statement of Net Position*

The statement of net position presents information on all 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 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.



LOS ALTOS HILLS COUNTY FIRE DISTRICT  
Management's Discussion and Analysis  
June 30, 2023

**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 term 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 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  
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**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 \$40,705,293 at the close of the most recent fiscal year, an increase of 15% over the prior year. Capital assets and liabilities remained relatively level. The following Condensed Statement of Financial position presents an overview of the District's Net Position.

**Condensed Statement of Net Position**  
Governmental Activities

	<u>2023</u>	<u>2022</u>	<u>\$ Change</u>	<u>% Variance</u>
<b><u>ASSETS</u></b>				
Current Assets	\$ 39,532,172	\$ 33,730,060	\$ 5,802,112	17%
Capital Assets, net	1,829,693	1,887,412	(57,719)	-3%
Total Assets	<u>41,361,865</u>	<u>35,617,472</u>	<u>5,744,393</u>	16%
<b><u>LIABILITIES</u></b>				
Current Liabilities	656,572	260,859	395,713	152%
<b><u>NET ASSETS</u></b>				
Net invested in Capital Assets	1,829,693	1,887,412	(57,719)	-3%
Fund Balance-Unrestricted	38,875,600	33,469,201	5,406,399	16%
Total Net Position	<u><u>\$ 40,705,293</u></u>	<u><u>\$ 35,356,613</u></u>	<u><u>\$ 5,348,680</u></u>	15%

The largest portion of the District's net position (96%) 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 4% of net position represent its investment in capital assets, with a book value of \$3,722,074 before accumulated depreciation of \$1,892,381, (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 more than double than the prior year, 152%, mostly for increases 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, the IHFR Evacuation Route and Vegetation Management Program, and increased staffing positions.

# LOS ALTOS HILLS COUNTY FIRE DISTRICT

## Management's Discussion and Analysis

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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 \$5,348,680, or 15%, during fiscal year 2022-2023 coming from a \$4,363,361 increase the prior year.

### Condensed Statement of Changes in Net Position

#### Governmental Activities

	2023	2022	\$ Change	% Variance
<b>Revenues</b>				
Property Taxes	\$ 14,839,659	\$ 13,692,578	\$ 1,147,081	8%
Intergovernmental-State	39,734	40,719	(985)	-2%
Investment Income	868,578	248,920	619,658	249%
Other revenues	-	620	(620)	-100%
Total Revenues	15,747,971	13,982,837	1,765,134	13%
<b>Expenses</b>				
Public Protection	10,399,291	9,619,476	779,815	8%
Change in Net Position	5,348,680	4,363,361	985,319	23%
Net Position - Beginning of Year	35,356,613	30,993,252	4,363,361	14%
Net Position - End of Year	\$ 40,705,293	\$ 35,356,613	\$ 5,348,680	15%

### Analysis of Changes in Net Position & Activity Highlights

The primary reasons for the increase in net position in the current year compared to the change in net position from the prior year are as follows:

- Property taxes were realized above expectations with an increase of \$1.1 million or 8% growth compared to 4% in the prior year due to increases in valuations, turnover of existing single-family homes, and home price inflation.
- An increase of \$619,658 or 249%, in interest earnings given historic, rapid, and repeated increases in Federal Reserve rates. Policymakers on the rate-setting Federal Open Market Committee raised interest rates to the highest levels since 2001 with 11 hikes in the last 12 meetings. This rate increase trend spanned from 1.25% in June 2022 to the current 5.5%, an increase of 440%. Consequently, yields in the Santa Clara County Investment Fund pool have almost tripled.
- Actual expenditures came in well under Budget especially for Professional Services, Contract Services and Projects & Programs, an area of concentration noted and planned for in upcoming budget plans.

## LOS ALTOS HILLS COUNTY FIRE DISTRICT

### Management's Discussion and Analysis

June 30, 2023

- Several expenses increased year-to-year in the overall amount of \$779,815 or 8% primarily due to: a \$340,086, increase in salaries and payroll with the hiring of three part-time/seasonal positions and the first full year for Programs, Planning & Grants Manager position with a partial offset for the Operations Manager position vacancy; a \$264,396 increase in contracted fire protection services; a \$91,886 increase in outside professional services for enhanced videography, project support and strategic planning; a \$305,537 increase in the IHFR Defensible Space Brush Chipping Program; and a \$49,696 increase in the IHFR Fuel Break Program. These identified increases were offset by reduced net expenses (\$296,702) related to the prior year one-time reimbursement expenditure for a new fire apparatus WUI capable Water Tender added to the County fleet.

### 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 fiscal performance and net resources available for use.

On June 30, 2023, the District's governmental fund reported an ending fund balance of \$38,922,221, an increase of \$5,453,020. Approximately 64% of the ending fund balance, \$24,922,221, 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 (36%) of the fund balance is 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 \$15,747,970 for the fiscal year ended June 30, 2023, which represents an increase of \$1,765,133 or 13% from fiscal year ended June 30, 2022. Expenditures for governmental functions, which totaled \$10,294,951, increased by approximately 8%. The excess of revenues over expenditures realized in fiscal year 2022-2023, as described above, accounts for the increase in ending fund balance noted above.

# LOS ALTOS HILLS COUNTY FIRE DISTRICT

## Management's Discussion and Analysis

June 30, 2023

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

### Governmental Fund Revenues by Source

	2023		2022		Increase/Decrease	
	Amount	% of Total	Amount	% of Total	Amount	% of Total
Property Taxes	\$ 14,839,659	94%	\$ 13,692,578	98%	\$ 1,147,081	65%
Intergovernmental: State	39,734	0%	40,719	0%	(985)	0%
Interest and Investment Income	868,578	6%	248,920	2%	619,658	35%
Other Revenue	-	0%	620	0%	(620)	0%
Total Revenues	<u>\$ 15,747,971</u>	100%	<u>\$ 13,982,837</u>	100%	<u>\$ 1,765,134</u>	100%

Overall revenue increased by 13%, compared to a 4% prior year increase, given the strong growth in Property Tax (8% growth in this audit period versus 4% in the prior year), the main District revenue, and Interest Income as noted above.

### Capital Assets

The District's net investment in capital assets for its governmental activities as of June 30, 2023, was \$1,829,693 resulting from assets at cost of \$3,722,074, net of accumulated depreciation of \$1,892,381. This investment in capital assets includes land, improvements, fire hydrants, furniture, and equipment. The primary increases in fixed assets this year had to do with equipping staff with technological equipment for both remote and in-the-field use. No fixed asset 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.

In the upcoming year the District will engage independent professional services to update its overall valuation of infrastructure on a comprehensive historical basis including land, buildings, and hydrant systems.

# LOS ALTOS HILLS COUNTY FIRE DISTRICT

## Management's Discussion and Analysis

June 30, 2023

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
	2023	2022	\$ Change	% of Change
Land	\$ 4,688	\$ 4,688	\$ -	-
Building Improvements	2,552,838	2,552,838	-	-
Fire Hydrants	1,078,745	1,078,745	-	-
Furniture and Equipment	85,803	66,350	19,453	29%
Less: Accumulated Depreciation	(1,892,381)	(1,815,209)	(77,172)	4%
Net investment in capital assets	<u>\$ 1,829,693</u>	<u>\$ 1,887,412</u>	<u>\$ (57,719)</u>	-3%

See Note 5 for additional information on capital assets.

### General Fund Budgetary Highlights

During the year, actual revenues exceeded budgetary estimates by \$1,732,571 due primarily to favorable variances in property tax of \$1,104,191, and a favorable variance in interest and investment income of \$628,578. Variances in expenditures are mostly attributable to lower than projected outlays in several areas including high fire season contract staffing contingencies, delays in implementation of certain projects and programs and related professional services with workforce disruptions attributed to the COVID-19 pandemic, position vacancies and the related impact on resource availability.

The District continues to meet with a regional open space agency and local fire service agencies to explore opportunities to collaborate on community strategic fuel breaks (budgeted at \$200,000), however, program priorities, environmental research and CEQA compliance are undergoing and necessary to advance the broader implementation of this program. The District also budgeted for hazardous fuel reduction and removal of hazardous fire fuels along I-280 and applied for two CalOES/FEMA grants to assist with financing this project. Since the District is still awaiting the grant application results, only \$51,146 of the \$550,000 budget for the IHFR I-280 Fuke Break was expended. This year marked tremendous growth in the Integrated Hazard Fuel Reduction (IHFR) defensible space chipping program with expenditures of \$734,615 coming in over budget projections of \$400,000, a robust life and property safety program growth of 83%. As was the case last year, the District did not encounter significant construction requiring hydrant and related infrastructure relocations or additions expending \$137,108 of the \$300,000 budget. The planned purchase for vegetation management vehicles of \$175,000 was approved in this fiscal year but payment and bid award is scheduled to take place in the upcoming year. The Home Ignition Zone (HIZ) program, with a budget of \$230,000, is coming off pandemic/staffing delays and remains a key focus of implementation in the coming year. Finally, Projects and Programs

Contingencies of \$450,000 were not utilized during fiscal year 2022-2023.

A budgetary comparison schedule may be found on page 34.

LOS ALTOS HILLS COUNTY FIRE DISTRICT  
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**Economic Factors and Next Year's Budget**

The District's strong fiscal position has enabled it to undertake costly but essential fire prevention projects, such as IHFR that are supported in partnership with the Santa Clara County Fire Safe 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 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 because of wildfires, earthquake, emergency, or disaster events.

This 2023-2024 fiscal budget was adopted on June 15, 2023, by the Santa Clara County Board of Supervisors. It is distinctive in its call for the additional resources needed to realize the execution of planned projects, programs, and services with an emphasis on community projects, capital, infrastructure, training, contract support, staffing, and HR development measures. Key to this budget posture is the 2023-2027 Successor Strategic Plan, adopted in this fiscal year to maintain and promote the stability, readiness, resiliency, regionalization, and sustainability of the District for years to come.

Property taxes, the primary source of revenue for the District, represent 96% of total revenues, and are anticipated to increase by \$1,319,000, or 9.6%, to approximately \$15.1 million compared to the current year Budget and approximately 1% over current year end actuals. Fiscal year 2022-23 was a healthy property tax year with a robust increase to be followed by continued, albeit more modest, expected growth. Interest earnings are projected to increase by \$445,000 or 185% in line with Fed rate changes noted above. That said, concerns over the lingering economic recovery related to inflation and interest fluctuations remain which can cause revenues to vary.

Total budget expenditures are expected to increase significantly by \$5.47 million, or 40%, compared to the current year Budget and over 80% compared to current year projections for a total of \$19,024,856. The projected use of available fund balance of approximately \$3.25 million reflects the District's fiscal strength and prudent management of resources, something especially important in the face of the historic pandemic and statewide fire incidents. The upcoming Budget is action-oriented and outcome-focused enabling the District to build the resources necessary to deliver projects, programs, safety, infrastructure, capital, and facility needs. It also strengthens the District's long-term sustainability strategic goals. Even with these increased expenditure outlays, fiscal year 2023-2024 is projected to both begin and end with a healthy fund balance and sustained District approved emergency fund balance commitments. Key budget expenditure changes projected in the fiscal year 2023-2024 budget include:

- The addition of a total of 4.5 new FTEs (from a base of 5.5), along with a provision for the possibility of implementing an employee's benefit package, to support and implement the planned programs and projects. In the near term, these positions will optimize service delivery and strengthen staffing to accomplish life and property safety projects and programs. In the longer term these positions add depth to the bench of talent, ensure operational continuity, synergize staff knowledge, enhance service levels and sustain a productive path coordinated with the trajectory established by the District strategic plan.

## LOS ALTOS HILLS COUNTY FIRE DISTRICT

### Management's Discussion and Analysis

June 30, 2023

#### **Other On-Going:**

- \$436,200 for enhanced Community Life & Property Safety Projects and Programs.
- \$233,270 Consultant services for enhanced projects and programs and supporting IT upgrades.
- \$175,000 for fire facility upgrades at El Monte Station.
- The annual increase for SCCCYPD contract service was factored at a stable 1.3% increase.

#### **One-Time:**

- \$2,125,000 for a District-funded SCCCYPD Fire Truck.
- \$225,000 for two District owned utility vehicles, one of which is a replacement.
- \$150,000 for a Fire facility assessment of El Monte Station
- \$95,000 for a study of developing a permanent employees benefit package.
- \$75,000 for IT equipment, in-field, and employees
- \$75,000 for the upgrade of the District's website and Public Access portals
- \$35,000 for audio/video equipment to support hybrid meetings.

The District's budget for fiscal year 2023-2024 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, 2023**

	<u>Governmental Activities</u>
<b><u>ASSETS</u></b>	
Cash and Investments	\$ 39,226,441
Interest and other receivables	305,731
Due from other governments	-
Capital Assets	
Land	4,688
Building Improvements	2,552,838
Fire Hydrants	1,078,745
Furniture and equipment	85,803
Accumulated depreciation	<u>(1,892,381)</u>
Net Capital Assets	1,829,693
Total Assets	<u>41,361,865</u>
<b><u>LIABILITIES</u></b>	
Accounts payable and accrued liabilities	609,951
Accrued vacation	<u>46,621</u>
Total Liabilities	656,572
<b><u>NET POSITION</u></b>	
Net invested in capital assets	1,829,693
Net position-unrestricted	38,875,600
Total Net Position	<u><u>\$ 40,705,293</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, 2023**

			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	\$ -	\$ 10,399,291	\$ (10,399,291)
Total governmental activities	<u>\$ -</u>	<u>\$ 10,399,291</u>	<u>(10,399,291)</u>
GENERAL REVENUES			
Property Taxes			14,839,659
Intergovernmental-State			39,734
Investment Income			868,578
Total governmental activities			<u>15,747,971</u>
Change in Net Position			5,348,680
Net Position, Beginning of Year			35,356,613
Net Position, End of Year			<u>\$ 40,705,293</u>

The accompanying notes are an integral to the Financial Statements

**LOS ALTOS HILLS COUNTY FIRE DISTRICT  
BALANCE SHEET - GOVERNMENTAL FUND  
JUNE 30, 2023**

	<u>General Fund</u>
<b><u>ASSETS</u></b>	
Cash and investments	39,226,441
Interest and other receivables	305,731
Total Assets	<u><u>\$ 39,532,172</u></u>
<b><u>LIABILITIES</u></b>	
Accounts payable	\$ 609,951
Accrued vacation	-
Total Liabilities	<u>609,951</u>
<b><u>FUND BALANCE</u></b>	
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>24,922,221</u>
Total Fund Balance	<u>38,922,221</u>
Total Liabilities and Fund Balance	<u><u>\$ 39,532,172</u></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, 2023**

Fund Balance - Total Governmental Fund	\$ 38,922,221
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.	1,829,693
Accrued compensated absences are assumed to not use current resources and are therefore excluded from the Governmental Fund Balance Sheet	(46,621)
Net position of governmental activities	<u><u>\$ 40,705,293</u></u>

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, 2023**

	General Fund
<b>REVENUES</b>	
Property Taxes	\$ 14,839,659
Intergovernmental: State	39,734
Interest and Investment Income	868,578
Other Revenue	-
Total Revenue	<u>15,747,971</u>
<b>EXPENDITURES-PUBLIC PROTECTION</b>	
Services and supplies	9,341,795
Salaries and Benefits	933,703
Capital outlay	19,453
Total Expenditures	<u>10,294,951</u>
Net change in Fund Balance	<u>5,453,020</u>
<b>FUND BALANCE</b>	
Fund Balance - Beginning of Year	33,469,201
Fund Balance - End of Year	<u><u>\$ 38,922,221</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, 2023**

Net Change in Fund Balance - Total Governmental Fund	\$ 5,453,020
Amounts reported for governmental activities in the statement of activities are different because:	
Current year depreciation expense	(77,172)
Capital assets purchased are reported as expenditures in the Governmental Fund Statements and Capitalized in the Government Wide Statements	19,453
Compensated absences are considered long term and therefore not recognized as part of current use of resources.	(46,621)
	<hr/>
Changes in Net Assets of Governmental Activities	<u><u>\$ 5,348,680</u></u>

The accompanying notes are an integral to the Financial Statements

# **LOS ALTOS HILLS COUNTY FIRE DISTRICT**

## **Notes to Financial Statements**

June 30, 2023

### **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 risk-reduction, 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 Santa Clara County Central Fire Protection District (SCCCFPD) 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 I and II, Moody/El Monte Roads, Altamont Road, Mora Drive, Ravensbury Avenue, and Arastradero 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 SCCCYPD prior to its life expectancy expiration and planned future replacements in the upcoming budget.
5. Funded a variety of specialized rescue tools and addressed El Monte Fire Station improvements
6. Engineering, construction, and replacement of 552 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.
8. Funded mobile satellite in-field communications capabilities and mobile technology.

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.
- Additional firefighter staffing during summer fire season.
- 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.
- 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.
- 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.
- Vegetation mitigation and fire break program through the planned use of grazing goats.
- A Community Outreach Program to inform all District residents via multiple mailings of
- Fire prevention and emergency preparedness information.
- Community Education programs with a focus on promoting risk readiness Firewise Communities across the region as a core risk reduction and resiliency measure.

# LOS ALTOS HILLS COUNTY FIRE DISTRICT

## Notes to Financial Statements

June 30, 2023

### NOTE 1 - GENERAL INFORMATION (continued)

- HIZ assessments for homeowners to meet with assessors, review defensible space, and receive recommendations for protecting their home from hazardous ignition and fire fuel mitigation.
- Applications for two Cal OES/FEMA hazardous mitigation grants for the Interstate 280 corridor north and south bound and the center divide that is a vital transportation corridor for Bay Area commerce and public transportation. The I-280 corridor, once mitigated, will serve as a fire break between the WUI area in LAHCFD and the surrounding cities.

#### District Officials

The District is a dependent district of the County of Santa Clara. The County Board of Supervisors delegated its authority for governance to 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 provide representation for 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 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, 2023:

Terms Expire December 31 of the year noted

Roger Spreen	President	2024
Joan Sherlock	Vice President	2024
Jim Basiji	Member	2025
Toby McDonell	Member	2026
Kavita Tankha	Member	2024
George K. Tyson	Member	2026
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.



# **LOS ALTOS HILLS COUNTY FIRE DISTRICT**

## **Notes to Financial Statements**

June 30, 2023

### **NOTE 1 - GENERAL INFORMATION (continued)**

The annual budget is prepared, approved, and then submitted by the Commission to the County Board of Supervisors for final adoption. Once the budget is adopted, 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.

#### **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.

# LOS ALTOS HILLS COUNTY FIRE DISTRICT

## Notes to Financial Statements

June 30, 2023

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

#### *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.

### **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 assets 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.

# LOS ALTOS HILLS COUNTY FIRE DISTRICT

## Notes to Financial Statements

June 30, 2023

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

#### 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.

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.

# LOS ALTOS HILLS COUNTY FIRE DISTRICT

## Notes to Financial Statements

June 30, 2023

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

#### Property Tax Levy, Collection, and Maximum Rate

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.

#### 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 Financial Statements

June 30, 2023

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

##### 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:

*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 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.

# LOS ALTOS HILLS COUNTY FIRE DISTRICT

## Notes to Financial Statements

June 30, 2023

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

#### Equity Classifications

*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.

### 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, 2023 consist of the following:

County Treasury Pool	\$39,225,941
Petty Cash	<u>500</u>
Total Cash and Investments	<u>\$39,226,441</u>

# **LOS ALTOS HILLS COUNTY FIRE DISTRICT**

## **Notes to Financial Statements**

**June 30, 2023**

### **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 Financial Statements

June 30, 2023

### NOTE 5 - CAPITAL ASSETS

The capital asset activity for the year ended June 30, 2023 is as follows:

	Balance June 20, 2022	Additions	Deletions	Balance June 30, 2023
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	19,453	-	85,803
Depreciating assets at cost	3,697,933	19,453	-	3,717,386
Accumulated Depreciation				-
Buildings-Improvements	(1,329,138)	(51,057)	-	(1,380,195)
Fire Hydrants	(420,369)	(21,575)	-	(441,944)
Furniture and Equipment	(65,702)	(4,540)	-	(70,242)
Total accumulated depreciation	(1,815,209)	(77,172)	-	(1,892,381)
Net depreciating assets	1,882,724	(57,719)	-	1,825,005
Net capital assets	\$ 1,887,412	\$ (57,719)	\$ -	\$ 1,829,693

For the year ended June 30, 2023, depreciation expense charged to public protection under governmental activities was \$77,172.

During fiscal year 23/24 the District will obtain a true-up valuation for all infrastructure assets, including land, building and hydrant systems, to comprehensively evaluate historical cost values.



## LOS ALTOS HILLS COUNTY FIRE DISTRICT

### Notes to Financial Statements

June 30, 2023

#### 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 SCCCYPD 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, SCCCYPD, 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 SCCCYPD 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 SCCCYPD entered into on December 13, 2016.

**Compensation:** The SCCCYPD 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 SCCCYPD 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 SCCCYPD 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 SCCCYPD.

# LOS ALTOS HILLS COUNTY FIRE DISTRICT

## Notes to Financial Statements

June 30, 2023

### 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% of 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:

2023	\$ 7,037,172
2022	\$ 6,767,060
2021	\$ 6,444,045
2020	\$ 6,152,354
2019	\$ 6,228,726
2018	\$ 6,102,147

In fiscal year 2022-2023 the District paid the City of Palo Alto its portion of the additional staffing costs for Palo Alto Station 8 in the amount of \$221,833 (for a total combined amount, including SCCCYPD's portion, of \$435,752).

### NOTE 8 – ACCRUED COMPENSATED ABSENCES

The District provides for compensated absence benefits to current employees. The liability was recognized this fiscal year on a government-wide basis as a result in the increase in staffing. The following table discloses the activity in compensated absences.

Balance at June 30, 2022	Previous Years Accruals	Current Year Accrual	Usage	Balance at June 30, 2023
\$ -	\$ 23,196	\$ 48,207	\$ 24,782	\$ 46,621

## **LOS ALTOS HILLS COUNTY FIRE DISTRICT**

### **Notes to Financial Statements**

June 30, 2023

#### **NOTE 9 – 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 2022-2023 amounted to \$936,125, an increase of \$255,128 over the prior year.

##### **Hydrant and Infrastructure Engineering Services**

The District contracts with Freyer and Laureta Inc. for engineering services related to the District's fire hydrants and infrastructure. The District also contracts with C2R Engineering for the on-call repair and maintenance of hydrants. In April 2022 a cost reimbursement agreement was entered into with Purissima Hills Water District (PHWD) for the replacement, relocation and addition of hydrants within the District as part of the PHWD DEPSJ water main improvement project, which completed construction in May 2023. The District's combined total costs for these vendors in fiscal year 2022-2023 amounted to \$238,368.

##### **Consulting and Professional Services**

The District's contracts for special project consulting and professional services in support of its many life and property safety projects and in support of core operations. For the current fiscal year, the District funded \$74,892 in independent contractor costs and \$211,890 for professional services involving technology management support, organizational planning services, videography and mapping, and accounting. This mix of staffing and contract services underpins the Districts productivity model.

##### **Integrated Hazardous Fuel Reduction Program (IHFR) Engineering Services**

The District contracts with Dudek Inc. for engineering services related to the I-280 Fuel Break project and CWPP-Annex for fiscal year 2022-2023 amounted to \$104,696.

##### **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 \$56,656.

#### **NOTE 10 – 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.

# **LOS ALTOS HILLS COUNTY FIRE DISTRICT**

## **Notes to Financial Statements**

**June 30, 2023**

### **NOTE 11 – SUBSEQUENT EVENTS**

Management has evaluated subsequent events for recognition and disclosure through October 11, 2023, 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, 2023 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, 2023**

	Original Budget	Final Budget	Actual	\$ Over (Under) Budget	% Over (Under) Budget
<b>REVENUES</b>					
Property taxes	\$ 13,734,200	\$ 13,734,200	\$ 14,839,659	\$ 1,105,459	8%
Intergovernmental: State	41,000	41,000	39,734	(1,266)	(3%)
Interest and investment income	240,000	240,000	868,578	628,578	262%
Other revenue	200	200	-	(200)	(100%)
Total amounts available for appropriation	14,015,400	14,015,400	15,747,971	1,732,571	12%
<b>EXPENDITURES-PUBLIC PROTECTION</b>					
Services and supplies	12,473,287	12,473,287	9,361,248	(3,112,039)	(25%)
Salaries and benefits	1,077,460	1,077,460	933,703	(143,757)	(13%)
Total charges to appropriations	13,550,747	13,550,747	10,294,951	(3,255,796)	(24%)
Net change in fund balance	464,653	464,653	5,453,020	\$ 4,988,367	
<b>BUDGETARY FUND BALANCE</b>					
Budgetary fund balance - beginning of year	33,469,201	33,469,201	33,469,201		
Budgetary fund balance - end of year	<u>\$ 33,933,854</u>	<u>\$ 33,933,854</u>	<u>\$ 38,922,221</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, 2023, 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 11, 2023.

**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*.

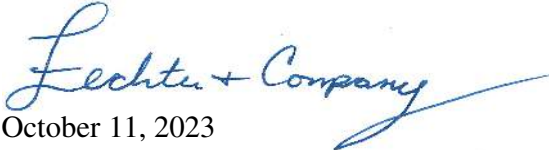


Board of Commissioners  
Los Altos Hills County Fire District

**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

A handwritten signature in blue ink that reads "Fechter + Company". The signature is stylized with a large, flowing "F" and a long, sweeping underline that extends to the right.

October 11, 2023  
Sacramento, California