



Financial Statements
June 30, 2020

South Santa Clara County Fire District
(A Component Unit of the County of
Santa Clara, California)

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Independent Auditor's Report

To the Board of Commissioners
South Santa Clara County Fire District
Morgan Hill, California

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of the South Santa Clara County Fire District (District), a component unit of the County of Santa Clara, California, as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the District, as of June 30, 2020, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the supplementary information, such as management's discussion and analysis and budgetary comparison information on pages 3-7 and 26 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of 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.



San Mateo, California
October 31, 2020

The following discussion and analysis provides an overview of the South Santa Clara County Fire District's (the District's) financial activities for the year ended June 30, 2020. Please read it in conjunction with the District's basic financial statements, which follows this section.

Financial Highlights

- At the close of the year, June 30, 2020, the assets of the District exceeded its liabilities by \$3,698,578 (net position). Of this amount, \$1,874,161 (unrestricted net position) may be used to meet ongoing obligations to citizens that the District serves.
- The District's net position increased by \$503,610. This increase is primarily due to increased property taxes.
- At the end of the current year, June 30, 2020, fund balance for the general fund was \$1,730,005 or 27% of general fund expenditures. At the end of June 30, 2019, fund balance for the general fund was \$2,143,992 or 35% of general fund expenditures.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The annual financial report for the District includes this management's discussion and analysis (MD&A), the basic financial statements, notes to the basic financial statements, and other required supplementary information.

The basic financial statements of the District are presented showing two different views of the District in one statement. The government-wide statements focus on both long-term and short-term information about the District's overall financial status. The fund financial statements view on the District's operations with a short-term focus.

The government-wide statements are the statement of net position and the statement of activities, which are prepared using the economic resources measurement focus and the accrual basis of accounting. These statements provide both long-term and short-term information about the District's overall financial status. All of the current year's revenues and expenses are accounted for in the statement of activities, regardless of whether cash is received or paid. The two government-wide statements report the District's net position and how it has changed. Net position, the difference between the District's assets and liabilities, is one way to measure the District's financial health, or position. Over time, increases or decreases in the District's net position are an indicator of whether its financial health is improving or deteriorating, respectively.

The fund financial statements are the balance sheet and the statement of revenues, expenditures and changes in fund balance, and are prepared using the current financial resources measurement focus and modified accrual basis of accounting. Fund financial statements keep track of specific sources of funding and spending for particular purposes. The District has two funds (General Fund and Special Revenue Fund), which are governmental funds. The fund financial statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information in the footnotes that explains the relationship (or differences) between them.

Government-Wide Financial Statement Analysis

Net position serves over time as a useful indicator of a government's financial position. For the District, assets exceed liabilities in the current year by \$3,698,578. The largest portion of the District's net position, 51%, reflects unrestricted net position, which means that it represents resources available for any function within the jurisdiction of the District. The other part of the District's net position is its investments in capital. This amount is 43% of the District's net position on June 30, 2020. This category of net position is not available for future spending because it primarily comprises vehicles and equipment. The District uses these capital assets to provide services to citizens.

The following table summarizes the net position of the District as of June 30, 2020 and June 30, 2019 respectively.

Governmental Activities

Table 1
Governmental Net Position

	Governmental Activities		
	2020	2019	Variance
Assets			
Current and other assets	\$ 3,687,709	\$2,513,527	47%
Capital assets, net of accumulated depreciation	1,606,104	903,407	78%
Total assets	5,293,813	3,416,934	55%
Liabilities			
Other liabilities	1,595,235	97,708	1533%
Long-term debt outstanding	-	125,258	-100%
Total liabilities	1,595,235	221,966	619%
Net position			
Invested in capital assets, net of related debt	1,606,104	779,149	106%
Restricted for fire capital expansion	218,313	271,827	-20%
Unrestricted	1,874,161	2,143,992	-13%
Total net position	\$ 3,698,578	\$ 3,194,968	16%

At the end of the current year, June 30, 2020, the District reports positive balances in both categories of net position. There was an increase in the invested in capital assets category of \$826,955, mainly because of retirement of debt and the purchase of a fire truck.

The statement of activities presents program revenues and expenses and general revenues in detail. These are elements in the changes in governmental net position summarized below.

Table 2
Changes in Governmental Net Position

	Governmental Activities		
	2020	2019	Variance
<u>Revenues</u>			
Program revenues	\$ 337,395	\$286,185	18%
General revenues			
Property taxes	5,464,417	5,268,761	4%
Other revenues	479,089	411,292	16%
Total revenues	<u>6,280,901</u>	<u>5,966,238</u>	
<u>Expenses</u>			
Public safety - fire protection	<u>5,777,291</u>	<u>6,040,704</u>	-4%
Total expenses	<u>5,777,291</u>	<u>6,040,704</u>	
Change in net position	<u>\$ 503,610</u>	<u>\$ (74,466)</u>	776%

Property tax revenues increased by \$195,656 (4%) in the current year. This is due to an increase in property values and new construction with no significant declines in the population in the South County. Additionally, program revenues increased by \$51,210 (18%). Other revenue increased by \$67,797 or 16% from fiscal year 2019 to fiscal year 2020.

Financial Analysis of the District's General Fund

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

Governmental Funds

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

The General Fund is the chief operating fund for the District. At June 30, 2020, fund balance of the General Fund was \$1,730,005. Revenues for governmental functions totaled \$6,136,745 which is an increase of \$10,671 or about 0.17% from the previous fiscal year. Expenditures for governmental functions, totaling \$6,604,246 reflects an increase of \$122,925 or nearly 2% from the previous fiscal year. In the current fiscal year 2019-20, expenditures for governmental functions were more than revenues by \$467,501.

Capital Assets and Debt Administration

Capital Assets

Shown in the table below is the District's investment in capital assets as of June 30, 2020. The capital asset balance includes investments in land, buildings, and equipment and vehicles.

Land	\$ 64,620
Work in process	616,148
Buildings	55,695
Equipment and vehicles	<u>869,641</u>
Net book value	<u>\$ 1,606,104</u>

Economic Factors and Next Year's Budget and Rates

Assessed property values are the largest revenue source for the District. As such, incremental revenue is based on changes in property value in Santa Clara County. We have realized small increases in assessed property value over the last several years as property is exchanged in sales and property values increase. Assessed values in the District are expected to remain on a small positive course over the next budget year, however home sales prices and values have begun to flatten out in the market and this could be an impact in coming years; we could potentially see a neutral revenue situation come to light.

The major expense for the District is the cost for personnel with the entirety of that being reimbursement for the services provided by CAL FIRE for administrative and operational personnel. CAL FIRE has secured a multi-year agreement with the labor bargaining unit. Salary increases will be realized in each year until FY 2021 when the current labor agreement ends. In FY 2019, the average rate of increase is 2.5% for wages. Administrative costs for the cooperative agreement have seen incremental increases and benefit costs have continued to increase over several years. The total increase for benefits and administrative costs increased 2% for FY 2019. As wages and benefits increase, there will be a commensurate incremental increase in reimbursement costs for services provided by CAL FIRE to the District. Effective July 1, 2020 to June 30, 2021, PLP 2020 will apply to all Cal FIRE Local 2881 represented employees. Employees continue to work their assigned work schedules and shall have a reduction in pay equal to 7.5 percent. It is unclear if or when these wages will be restored.

While District operating expenses are stable, the financial direction of the Commissioners to address some deferred maintenance and reduction in liabilities will change the fund balance in this coming year. The District does not currently have a fleet replacement fund policy. Staff will be presenting a vehicle replacement fund policy to the Commissioners to approve to address the need for future equipment replacements. Steel costs continue to be in flux which will have a significant impact on the apparatus purchase depending on how the tariff regulations play out. The District signed an agreement to purchase a new fire engine in during fiscal year 2019-20 and will take delivery on it during fiscal year 2020-21. The purchase will be financed over 10 years. The District does not anticipate purchasing any additional fire apparatus in the fiscal year 2020-21.

Requests for Information

Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the South Santa Clara County Fire District, 15670 Monterey Highway, Morgan Hill, CA 95037.

South Santa Clara County Fire District
Statement of Net Position
June 30, 2020

Assets	
Cash and investments	\$ 3,013,673
Accounts receivable	625,594
Interest receivable	48,442
Non-depreciable capital assets	680,768
Depreciable capital assets, net of accumulated depreciation	<u>925,336</u>
Total assets	<u>5,293,813</u>
Liabilities	
Accounts payable and accrued expenses	1,595,235
Total liabilities	<u>1,595,235</u>
Net Position	
Investment in capital assets	1,606,104
Restricted for fire capital expansion	218,313
Unrestricted	<u>1,874,161</u>
Total net position	<u>\$ 3,698,578</u>

South Santa Clara County Fire District
Statement of Activities
Year Ended June 30, 2020

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Position
Governmental activities		Charges for Services	Operating Grants and Contributions	Governmental Activities
Public safety	\$ 5,777,291	\$ 162,291	\$ 175,104	\$ (5,439,896)
General revenues				
Property taxes levied for general purposes				5,464,417
Development impact fees				150,114
Investment income				65,803
Other income				263,172
Change in net position				503,610
Net position, beginning of year				3,194,968
Net position, end of year				\$ 3,698,578

South Santa Clara County Fire District

Balance Sheet - Governmental Fund

June 30, 2020

	General Fund	Special Revenue Fund	Total
Assets			
Cash and investments	\$ 2,704,243	\$ 309,430	\$ 3,013,673
Accounts receivable	625,594	-	625,594
Interest receivable	11,159	37,283	48,442
Due from other funds	128,400	-	128,400
	3,469,396	346,713	3,816,109
Liabilities			
Accounts payable	1,595,235	-	1,595,235
Due to other funds	-	128,400	128,400
	1,595,235	128,400	1,723,635
Deferred inflows of resources			
Unavailable revenues	144,156	-	144,156
	144,156	-	144,156
Fund Balances			
Restricted for fire capital expansion	-	218,313	218,313
Unassigned	1,730,005	-	1,730,005
	1,730,005	218,313	1,948,318
Total liabilities, deferred inflows of resources, and fund balances	\$ 3,469,396	\$ 346,713	\$ 3,816,109

South Santa Clara County Fire District
Reconciliation of the Balance Sheet – Governmental Fund to the Statement of Net Position
June 30, 2020

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

Total fund balance - governmental fund	\$ 1,948,318
Capital assets used in governmental activities are not financial resources, and, therefore, are not reported in the governmental fund.	1,606,104
Revenues not received within the availability period of 60 days after year -end is recognized in governmental activities.	144,156
Net position of governmental activities	<u><u>\$ 3,698,578</u></u>

South Santa Clara County Fire District
Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Fund
Year Ended June 30, 2020

	General Fund	Special Revenue Fund	Total
Revenues			
Property taxes	\$ 5,464,417	\$ -	\$ 5,464,417
Development impact fees	-	150,114	150,114
Charges for services (First Responder contract)	162,291	-	162,291
Intergovernmental grants	30,948	-	30,948
Investment income	56,081	9,722	65,803
Miscellaneous	263,172	-	263,172
Total revenues	<u>5,976,909</u>	<u>159,836</u>	<u>6,136,745</u>
Expenditures			
Current			
Public safety			
California Department of Forestry and Fire Protection	4,999,011	-	4,999,011
Materials and services	562,827	-	562,827
Miscellaneous	-	10,097	10,097
Debt service			
Principal	-	124,258	124,258
Interest	-	4,142	4,142
Capital outlay	829,058	74,853	903,911
Total expenditures	<u>6,390,896</u>	<u>213,350</u>	<u>6,604,246</u>
Net change in fund balance	<u>(413,987)</u>	<u>(53,514)</u>	<u>(467,501)</u>
Fund balance, beginning of year	<u>2,143,992</u>	<u>271,827</u>	<u>2,415,819</u>
Fund balance, end of year	<u>\$ 1,730,005</u>	<u>\$ 218,313</u>	<u>\$ 1,948,318</u>

South Santa Clara County Fire District

Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Fund
to the Statement of Activities
Year Ended June 30, 2020

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

Net change in fund balance - total governmental funds	\$ (467,501)
<p>Governmental funds report capital outlays as expenditures. However, in the statement of activities the costs of those assets are allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.</p>	
	702,697
<p>Governmental funds recognize revenues on the modified-accrual basis of accounting. Under this basis of accounting, revenues are recognized when they are available to finance current period operations, which the District has defined as within 60 days of year-end.</p>	
	144,156
<p>Loans to finance capital assets provide current financial resources to governmental funds, but the loans increase long-term liabilities in the statement of net position. Repayment of the loan is an expenditure on the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. This is the amount of current period expenditures on the governmental funds, but reduction of a liability in the statement of net position.</p>	
	<u>124,258</u>
Change in net position of governmental activities	<u><u>\$ 503,610</u></u>

Note 1 - Financial Reporting Entity

The South Santa Clara County Fire District (the District) was formed as of June 1, 1980 in accordance with section 506 of the Santa Clara County (the County) Ordinance adopted by the County Board of Supervisors. The purpose of the District is to provide fire protection services to the unincorporated areas in South Santa Clara County bounded on the north by the Morgan Hill Fire Department, on the south and west by the Santa Clara County line, and on the east by the eastern foothills.

The District contracts with the California Department of Forestry and Fire Protection for personnel to be used in fulfilling its responsibility.

The District is a separate legal entity that is an integral part of the County. The governing body of the District is the Santa Clara County Board of Supervisors (the Board). The Board has delegated management of the affairs of the District to a Board of Commissioners. The County exercises significant financial and management control over the District, and the District's Board of Commissioners are at all times at will appointees of the County's Board of Supervisors. Therefore, the District is considered a component unit of the County, and its financial activities are included in the County's basic financial statements.

Note 2 - Summary of Significant Accounting Policies

The District prepares its government-wide statements using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The District's fund financial statements are prepared using the current financial resources focus and the modified accrual basis of accounting. Revenues are recorded when "susceptible to accrual" (i.e., when they become both measurable and available). "Measurable" means the amount of the transaction can be determined and "available" means that revenues are collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within 60 days of the end of the fiscal year. Revenues not considered available are recorded as deferred inflows of resources. Expenditures are generally recorded when the fund liability is incurred, except for debt service principal payments which are recognized when due.

Basis of Presentation – Fund Accounting

The accounting system is organized and operated on a fund basis. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts, which are segregated for carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations.

All governmental funds are accounted for using the flow of current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. The statement of revenues, expenditures, and changes in fund balance reports on the sources (revenues and other financing sources) and uses (expenditures and other financing uses) of current financial resources. This approach differs from the way the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements, therefore, include reconciliations with brief explanations to better identify the relationship between the government-wide financial statements, prepared using the economic resources measurement focus and the accrual basis of accounting, and the governmental fund financial statements, prepared using the flow of current financial resources measurement focus and the modified accrual basis of accounting. Governmental funds are those through which most governmental functions typically are financed. Governmental fund reporting focuses on the sources, uses, and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The District reports the following two governmental funds:

- The *General Fund* is the chief operating fund of the district. It is used to account for the ordinary operations of the District. All transactions, except those amounts required to be reported in the special revenue fund, are accounted for in this fund.
- The *Development Impact Fee Special Revenue Fund* is used to account for the proceeds from development impact fees that are restricted to finance the capital facilities described or identified in the South Santa Clara County Fire District Capital Facilities Mitigation Analysis, or other fire protection capital facilities plan adopted by the Board of Directors of the District.

Basis of Accounting and Measurement Focus

Government-wide financial statements consist of the statement of net position and the statement of activities. These statements are presented on an economic resources measurement focus. All economic resources and obligations of the reporting government are reported in the financial statements.

The government-wide statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Nonexchange transactions, in which the District gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, entitlements, and donations. Revenues are recognized in the fiscal year in which all eligibility requirements have been satisfied.

The government-wide financial statements have been prepared on the accrual basis of accounting. Under the accrual basis of accounting all assets, liabilities and deferred outflows and inflows of the District are included on the statement of net position. The difference between the District's assets, liabilities, deferred outflows of resources and deferred inflows of resources is net position. Net position represents the resources the District has available for use in providing services. Net position is reported as restricted when constraints are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. The District's spending priority is to spend restricted resources first, followed by unrestricted.

The *fund financial statements* consist of the balance sheet and the statement of revenues, expenditures and changes in fund balance of the District's general fund and development impact fee special revenue fund. These statements are presented on a current financial resources measurement focus. Generally, only current assets and current liabilities are included on the balance sheet. The statement of revenues, expenditures and changes in fund balance for the governmental fund generally presents increases (revenues) and decreases (expenditures) in current resources. All operations of the District are accounted for in the general fund.

Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The District considers revenues to be available if the revenues are collected within sixty days after fiscal year-end. Expenditures are recorded when the related liability is incurred, except for debt service payments, which are recognized as expenditures in the period they are due.

Unavailable revenue arises when potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period or when resources are received by the District prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the District has a legal claim to the resources, the liability for unavailable revenue is removed from the balance sheet and revenue is recognized.

Expenses/Expenditures

On the accrual basis of accounting, expenses are recognized at the time they are incurred. The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred. Principal and interest on long-term obligations are recognized as expenditures when due. Allocations of costs, such as depreciation and amortization, are not recognized in the governmental funds, but are recognized in the government-wide statements.

Cash and Investments

The cash balances are pooled and invested by the Santa Clara County Treasurer for the purpose of increasing earnings through investment activities. The pool's investments are reported at fair value on June 30, 2020, based on market prices.

Capital Assets and Depreciation

The accounting and reporting treatment applied to the capital assets associated with a fund are determined by its measurement focus. Capital assets are long-lived assets of the District with a useful life extending beyond one year. The District maintains a capitalization threshold of \$5,000. The District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized, but are expensed as incurred. When purchased, such assets are recorded as expenditures in the governmental funds and capitalized in the government-wide statement of net position. The valuation basis for capital assets is historical cost, or where historical cost is not available, estimated historical cost is based on replacement cost. Depreciation is computed using the straight-line method. Estimated useful lives of the various classes of depreciable capital assets are as follows: buildings, 40 years; equipment and vehicles, 5 to 15 years. Donated capital assets are recorded at estimated acquisition value at the date of donation.

Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities, and long-term obligations are reported in the government-wide financial statements. In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources are reported as obligations of the governmental funds.

However, some liabilities such as claims and judgments that will be paid from governmental funds are reported as a liability in the governmental fund financial statements only to the extent that they are due for payment during the current year. Bonds, capital leases, and other long-term obligations are recognized as liabilities in the governmental fund financial statements when due.

Fund Balances – Governmental Funds

As of June 30, 2020, fund balances of the governmental funds are classified as follows:

- **Restricted** - amounts that can be spent only for specific purposes because of constitutional provisions or enabling legislation or because of constraints that are externally imposed by creditors, grantors, contributors, or the laws or regulations of other governments.
- **Unassigned** - all other spendable amounts.

Spending Order Policy

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the District considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the District considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds, as needed, unless the governing board has provided otherwise in its commitment or assignment actions.

Minimum Fund Balance Policy

In February 2014, the governing board adopted a minimal fund balance policy for the general fund to protect the District against revenue shortfalls or unpredicted on-time expenditures. The policy requires unassigned general fund amounts equal to not less than 20% of general fund expenditures.

Net Position

Net position represents the difference between assets and liabilities. Net position net of investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The District first applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available.

Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

Budgetary Data

The District proposes a budget that is adopted by the County Board of Supervisors during the year. This budget is based on anticipated revenues and expenditures for the current year.

Property Tax

Secured property taxes attach as an enforceable lien on property as of January 1. Taxes are payable in two installments on November 1 and February 1 and become delinquent on December 10 and April 10, respectively. Unsecured property taxes are payable in one installment on or before August 31. The County of Santa Clara bills and collects the taxes on behalf of the District. Local property tax revenues are recorded when received.

New Accounting Pronouncements**Implemented in the Current Fiscal Year**

GASB Statement No. 95 – In May 2020, GASB issued Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*. The objective of this Statement is to provide temporary relief to governments and other stakeholders in light of the COVID-19 pandemic. That objective is accomplished by postponing the effective dates of certain provisions in Statements and Implementation Guides that first became effective or are scheduled to become effective for periods beginning after June 15, 2018, and later.

Future Governmental Accounting Standards Board (GASB) Pronouncements

GASB Statement No. 84 – In January 2017, GASB issued Statement No. 84, *Fiduciary Activities*. The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. This Statement is effective for reporting periods beginning after December 15, 2018. The District has not determined the effect of this Statement.

GASB Statement No. 87 – In June 2017, GASB issued Statement No. 87, *Leases*. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases; enhancing the comparability of financial statements between governments; and also enhancing the relevance, reliability (representational faithfulness), and consistency of information about the leasing activities of governments. This Statement is effective for reporting periods beginning after December 15, 2019. The District has not determined the effect of this Statement.

GASB Statement No. 89 – In June 2018, the GASB issued Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*. The objectives of this Statement are (a) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (b) to simplify accounting for certain interest costs. This Statement is effective for reporting periods beginning after December 15, 2019. The District has not determined the effect of this Statement.

GASB Statement No. 90 – In September 2018, the GASB issued Statement No. 90, *Majority Equity Interests, an amendment of GASB Statements No. 14 and No. 60*. The objectives of this Statement are to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. The Statement is effective for reporting periods beginning after December 15, 2018. The District has not determined the effect of this Statement.

GASB Statement No. 91 – In May 2019, the GASB issued Statement No. 91, *Conduit Debt Obligations*. The objective of this Statement is to provide a single method of reporting conduit debt obligations by issues and eliminate diversity in practice. The Statement is effective for reporting periods beginning after December 15, 2020. The District has not determined the effect of this Statement.

GASB Statement No. 92 – In January 2020, GASB issued Statement No. 92, *Omnibus 2020*. The objectives of this Statement is to establish accounting and financial reporting requirements for specific issues related to leases, intra-entity transfers of assets, postemployment benefits, government acquisitions, risk financing and insurance-related activities of public entity risk pools, fair value measurements, and derivative instruments. The requirements of this Statement are effective for reporting periods beginning after June 15, 2021 or FY 2021/2022, except for Statement 87 and Implementation Guide 2019-3, reinsurance recoveries, and terminology used to refer to derivative instruments are effective upon issuance. The District has not determined the effect of this Statement.

GASB Statement No. 93 – In May 2020, GASB issued Statement No. 93, *Replacement of Interbank Offered Rates*. The objectives of this Statement is to address those and other accounting and reporting implications resulting from the replacement of an IBOR by providing exceptions for certain hedging derivative instruments to the hedge accounting termination provisions when an IBOR is replaced and providing clarification to the hedge accounting termination provisions, removing LIBOR as a benchmark interest rate for the qualitative evaluation of the effectiveness of an interest rate swap, identifying a Secured Overnight Financing Rate and the Effective Federal Funds Rate as appropriate benchmark interest rates for the qualitative evaluation of the effectiveness of an interest rate swap and providing an exception to the lease modifications guidance in Statement 87, as amended, for certain lease contracts that are amended solely to replace an IBOR as the rate upon which variable payments depend. The requirements of this Statement are effective for reporting periods beginning after June 15, 2021 or FY 2021/2022, except the removal of LIBOR as a benchmark interest rate which is effective for periods beginning after December 31, 2022 or FY 2022/2023. The District has not determined the effect of this Statement.

GASB Statement No. 94 – In March 2020, GASB issued Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*. The objectives of this Statement improve financial reporting by addressing issues related to public-private and public-public partnership arrangements (PPPs). The requirements of this Statement are effective for reporting periods beginning after June 15, 2022 or FY 2022/2023. The District has not determined the effect of this Statement.

GASB Statement No. 96 – In May 2020, GASB issued Statement No. 96, *Subscription-Based Information Technology Arrangements*. The objectives of this Statement is to provide guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). This Statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset—an intangible asset—and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. The requirements of this Statement are effective for reporting periods beginning after June 15, 2022 or FY 2022/2023. The District has not determined the effect of this Statement.

GASB Statement No. 97 – In June 2020, GASB issued Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans—an amendment of GASB Statements No. 14 and No. 84, and a supersession of GASB Statement No. 32*. The objective of this Statement is to (1) increase consistency and comparability related to the reporting of fiduciary component units in circumstances in which a potential component unit does not have a governing board and the primary government performs the duties that a governing board typically would perform; (2) mitigate costs associated with the reporting of certain defined contribution pension plans, defined contribution other postemployment benefit (OPEB) plans, and employee benefit plans other than pension plans or OPEB plans (other employee benefit plans) as fiduciary component units in fiduciary fund financial statements; and (3) enhance the relevance, consistency, and comparability of the accounting and financial reporting for Internal Revenue Code (IRC) Section 457 deferred compensation plans (Section 457 plans) that meet the definition of a pension plan and for benefits provided through those plans. The requirements of this Statement are effective for reporting periods beginning after June 15, 2021 or FY 2021/2022. The District has not determined the effect of this Statement.

Note 3 - Deposits and Investments

Investment in County Treasury

The District is a participant in a governmental external investment pool maintained by the Santa Clara County Treasurer. The fair value of the District's investment in the pool is reported in the accounting financial statements at amounts based upon the District's pro-rata share of the fair value provided by the County Treasurer for the entire portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by the County Treasurer, which is recorded on the amortized cost basis.

Required disclosure information regarding categorization of investments and other deposit and investment risk disclosures can be found in the county's comprehensive annual financial report (CAFR), which can be obtained from the Santa Clara County Controller-Treasurer website at www.sccgov.org.

Summary of Deposits and Investments

Deposits and investments as of June 30, 2020, consist of the following:

Santa Clara County Treasury Investment Pool	\$ 3,013,173
Petty Cash	<u>500</u>
Total cash and investments	<u><u>\$ 3,013,673</u></u>

Policies and Practices

The District is authorized under California Government Code to make direct investments in local agency bonds, notes, or warrants within the State; U.S. Treasury instruments; registered State warrants or treasury notes; securities of the U.S. Government, or its agencies; bankers acceptances; commercial paper; certificates of deposit placed with commercial banks and/or savings and loan companies; repurchase or reverse repurchase agreements; medium term corporate notes; shares of beneficial interest issued by diversified management companies, certificates of participation, obligations with first priority security; and collateralized mortgage obligations.

General Authorizations

Limitations as they relate to interest rate risk and concentration of credit risk are indicated in the schedules below:

Authorized Investment Type	Maximum Remaining Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
Local agency bonds, notes, warrants	5 years	None	None
Registered state bonds, notes, warrants	5 years	None	None
U.S. treasury obligations	5 years	None	None
U.S. agency securities	5 years	None	None
Banker's acceptance	180 days	40%	30%
Commercial paper	270 days	25%	10%
Negotiable certificates of deposit	5 years	30%	None
Repurchase agreements	1 year	None	None
Reverse repurchase agreements	92 days	20% of base	None
Medium-term corporate notes	5 years	30%	None
Mutual funds	N/A	20%	10%
Money market mutual funds	N/A	20%	10%
Mortgage pass-through securities	5 years	20%	None
County pooled investment funds	N/A	None	None
Local Agency Investment Fund (LAIF)	N/A	None	None
Joint Powers Authority Pools	N/A	None	None

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The District manages its exposure to interest rate risk by investing in the Santa Clara County Treasury Investment Pool. The sensitivity of the fair values of the District's investments to market interest rate fluctuation is measured as the weighted average maturity of the investment portfolio, which was 517 days on June 30, 2020.

Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The District's investment in the Santa Clara County Investment Pool is not rated as of June 30, 2020.

Fair Value Measurements

The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets, Level 2 inputs are significant other observable inputs and Level 3 inputs are significant unobservable inputs. As of June 30, 2020, the District's funds were invested in the Santa Clara County Investment Pool.

South Santa Clara County Fire District

Notes to Financial Statements

June 30, 2020

Deposits and withdrawals in the county investment pool are made on the basis of \$1 and not fair value, accordingly, the District's proportionate share of investments in the Santa Clara County Investment Pool at June 30, 2020 is an uncategorized input, not defined as a level 1, level 2 or level 3.

Note 4 - Capital Assets

Capital asset activity for the fiscal year ended June 30, 2020, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities				
Capital assets, not being depreciated				
Land	\$ 64,620	\$ -	\$ -	\$ 64,620
Work in process	-	616,148	-	616,148
Other capital assets				
Building and improvements	258,946	-	-	258,946
Equipment	4,700,819	287,763	(196,786)	4,791,796
Total capital assets	<u>5,024,385</u>	<u>903,911</u>	<u>(196,786)</u>	<u>5,731,510</u>
Less accumulated depreciation				
Buildings and Improvements	(193,027)	(10,224)	-	(203,251)
Equipment	(3,927,951)	(190,990)	196,786	(3,922,155)
Total accumulated depreciation	<u>(4,120,978)</u>	<u>(201,214)</u>	<u>196,786</u>	<u>(4,125,406)</u>
Capital assets, net	<u>\$ 903,407</u>	<u>\$ 702,697</u>	<u>\$ -</u>	<u>\$ 1,606,104</u>

Depreciation expense was charged as a direct expense to governmental activities for public safety.

Note 5 - Capital Lease Obligations

The following is the schedule of changes in long-term debt for the year ended June 30, 2020:

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
Capital lease obligations	<u>\$ 124,258</u>	<u>\$ -</u>	<u>\$ (124,258)</u>	<u>\$ -</u>	<u>\$ -</u>

Note 6 - Risk Management

The District is exposed to various risks of loss related to auto liability, general liability, theft of, damage to and destruction of property, and employee dishonesty in the performance of their public safety function. As a result, the District is a member of the Fire Agencies Insurance Risk Authority (FAIRA) and has acquired insurance for general liability, public officials' errors and omissions liability, automobile liability, property damage, and automobile physical damage. Through FAIRA, the District has coverage on general liability of \$1 million per occurrence with an annual aggregate limit of \$2 million. The District also has an umbrella liability policy through FAIRA that provides a \$5 million per occurrence limit with an annual aggregate of \$10 million, excess of the underlying liability limits outlined above. Coverage for direct physical loss or damage to the District's Real Property and Business Personal Property is limited to the value scheduled for a particular location, which does not exceed \$434 thousand at any one location. Crime coverage for different incidents has liability limits ranging from \$100 thousand to \$1 million depending on the crime. Automobile physical damage limit, providing comp and collision coverage for the District's fleet, is based on a schedule and subject to certain valuation provisions dependent on use and classification of vehicle.

The FAIRA program is underwritten with American Alternatives Insurance Corporation (as the carrier) and placed through Arthur J. Gallagher & Co. (as the broker).

The District also participates in the State Compensation Insurance Fund (SCIF) for the District's Volunteer Firefighters (VF). VF are not employees of the District but are contractors who participate in the operations of the District. SCIF covers 100% of costs associated with work incurred injuries and illnesses.

The District also participates in additional life insurance through Myer Stevens for its VF in accordance with an agreement between the VF Association and the District. The VF Association pays these costs and maintains the insurance.

The District participates in an Accident & Health Insurance for Emergency Service Organizations policy through Provident. Benefits coverage ranges from \$100 per week for disability benefits to \$25,000 for permanent physical impairment benefits for covered injuries and illnesses, covered injury death, dismemberment, loss of sight, speech or hearing and covered illness death benefit.

Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

Note 7 - Related Party Transactions

The District is assessed board fees any time the District is required to present matters to the County's Board of Supervisors. The District also utilizes the services of the County's counsel for any legal matters that the District requires and for this the District is billed via an invoice. Both charges are paid from an intra-County professional services account. In the current year, professional services paid to the County were \$44,971. In addition, the County charges the District for processing payment vouchers and for any work undertaken by the Budget Office. \$47,536 was charged from the overhead-internal account in the current year.

As described in Note 3, the District is a participant in the county investment pool. During fiscal year 2019-2020, interest income totaled \$65,803.

Note 8 - Subsequent Event

Effective September 22, 2020, the District entered into a loan agreement with the County of Santa Clara to reimburse and finance the costs of a new fire truck. The principal amount of the loan is \$623,234.41. Payments of principal and interest are due quarterly beginning December 31, 2020. The loan bears interest at an annual rate earned by the County-operated commingled investment pool.

South Santa Clara County Fire District
 Budgetary Comparison Schedule - General Fund
 Year Ended June 30, 2020

	Original Budget	Actual	Variance
Revenues			
Property taxes	\$ 5,397,393	\$ 5,464,417	\$ 67,024
First Responder Contract	223,645	162,291	(61,354)
Federal and state grants and other	464,091	350,201	(113,890)
	6,085,129	5,976,909	(108,220)
Expenditures			
Current			
Public safety			
California Department of Forestry and Fire Protection	4,922,159	4,999,011	(76,852)
Materials and services	1,098,879	562,827	536,052
Capital outlay	25,000	829,058	(804,058)
	6,046,038	6,390,896	(344,858)
Net change in fund balance	39,091	(413,987)	(453,078)
Fund balance, end of year	\$ 2,183,083	\$ 1,730,005	\$ (453,078)

South Santa Clara County Fire District
 Budgetary Comparison Schedule – Mitigation Fund
 Year Ended June 30, 2020

	<u>Original Budget</u>	<u>Actual</u>	<u>Variance</u>
Revenues			
Development impact fees	\$ 70,000	\$ 150,114	\$ 80,114
Interest	5,000	9,722	4,722
Total revenues	<u>75,000</u>	<u>159,836</u>	<u>84,836</u>
Expenditures			
Current	-	10,097	(10,097)
Debt Service			
Principal	40,299	124,258	(83,959)
Interest	3,635	4,142	(507)
Capital outlay	250,000	74,853	175,147
Total expenditures	<u>293,934</u>	<u>213,350</u>	<u>80,584</u>
Net change in fund balance	<u>(218,934)</u>	<u>(53,514)</u>	<u>165,420</u>
Fund balance, end of year	<u>\$ 52,893</u>	<u>\$ 218,313</u>	<u>\$ 165,420</u>

Notes to Budgetary Comparison Schedules

The budgetary comparison schedule presents information for the original and actual results of operations, as well as the variances to actual results of operations.

The District did not amend the original budgets.