

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

**Annual Financial Report
with
Independent Auditor's Report Thereon**

June 30, 2022

South Santa Clara County Fire District
(A Component Unit of the County of Santa Clara, California)
Annual Financial Report
June 30, 2022

Table of Contents

Independent Auditor’s Report.....	1-3
Management’s Discussion and Analysis.....	4-8
Basic Financial Statements:	
Government-Wide Financial Statements:	
Statement of Net Position	9
Statement of Activities	10
Fund Financial Statements:	
Balance Sheet – Governmental Fund	11
Reconciliation of the Balance Sheet – Governmental Fund to the Statement of Net Position	12
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Fund	13
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Fund to the Statement of Activities.....	14
Notes to Financial Statements	15-27
Required Supplementary Information:	
Budgetary Comparison Schedule – General Fund	28
Budgetary Comparison Schedule – Mitigation Fund	29

INDEPENDENT AUDITOR’S REPORT

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

Opinion

We have audited the accompanying financial statements of the governmental activities and each major fund of South Santa Clara County Fire District as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise South Santa Clara County Fire District’s 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 major fund of South Santa Clara County Fire District as of June 30, 2022, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 South Santa Clara 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 South Santa Clara 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.

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

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 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, 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 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 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.

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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis 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.

Fechter & Company,
Certified Public Accountants


Sacramento, California
December 7, 2022

South Santa Clara County Fire District
(A Component Unit of the County of Santa Clara, California)
Management's Discussion and Analysis
June 30, 2022

The following discussion and analysis provides an overview of the financial activities of South Santa Clara County Fire District (the District) for the year ended June 30, 2022. Please read it in conjunction with the District's basic financial statements, which follow this section.

Financial Highlights

- At the close of the year, June 30, 2022, the assets of the District exceeded its liabilities by \$6,041,575 (net position). Of this amount, \$4,049,741 (unrestricted net position) may be used to meet ongoing obligations to citizens that the District serves.
- The District's net position increased by \$542,496. This increase is primarily due to increased property taxes and grants.
- At the end of the current year, June 30, 2022, fund balance for the general fund was \$4,312,343, which is an increase of \$189,271 from the prior year.

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 Balances, 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.

South Santa Clara County Fire District
(A Component Unit of the County of Santa Clara, California)
Management's Discussion and Analysis
June 30, 2022

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 \$6,041,575. The largest portion of the District's net position, 67%, 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 assets. This amount is 26% of the District's net position on June 30, 2022. 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, 2022 and June 30, 2021, respectively.

Table 1
Governmental Net Position

	Governmental Activities		
	2022	2021	Change
Assets:			
Current and other assets	\$ 6,489,443	\$ 4,525,284	43%
Capital and right-to-use assets, net	1,622,502	1,593,217	2%
Total assets	8,111,945	6,118,501	33%
Liabilities:			
Current and other liabilities	1,552,168	108,050	1337%
Long-term debt outstanding	518,202	511,372	100%
Total liabilities	2,070,370	619,422	234%
Net position:			
Invested in capital assets, net of related debt	1,550,046	1,593,217	-3%
Restricted for fire capital expansion	441,788	358,083	23%
Unrestricted	4,049,741	3,547,779	14%
Total net position	\$ 6,041,575	\$ 5,499,079	10%

South Santa Clara County Fire District
(A Component Unit of the County of Santa Clara, California)
Management's Discussion and Analysis
June 30, 2022

At the end of the current year, June 30, 2022, the District reports positive balances in both categories of net position. There was a decrease in the net invested in capital assets category of \$43,171 due to the depreciation expense exceeding the value of capital additions.

The Statement of Activities presents program revenues, 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		
	2022	2021	Change
Revenues:			
Program revenues	\$ 356,216	\$ 294,538	21%
General revenues:			
Property taxes	5,882,052	5,711,839	3%
Other revenues	449,279	862,290	-48%
Total revenues	<u>6,687,547</u>	<u>6,868,667</u>	-3%
Expenses:			
Public safety - fire protection	<u>6,145,051</u>	<u>5,068,166</u>	21%
Total expenses	<u>6,145,051</u>	<u>5,068,166</u>	21%
Change in net position	<u>\$ 542,496</u>	<u>\$ 1,800,501</u>	-70%

Property tax revenues increased by \$170,213 (3%) 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 Santa Clara County. Additionally, program revenues increased by \$61,678 (21%). Other revenue decreased by \$413,011 or 48% from fiscal year 2021 to fiscal year 2022. An increase in expenses, largely due to an increase in contractual expenses paid to Cal Fire, and decrease in revenues resulted in a decrease in charges for goods and services.

South Santa Clara County Fire District
(A Component Unit of the County of Santa Clara, California)
Management's Discussion and Analysis
June 30, 2022

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, 2022, fund balance of the General Fund was \$4,312,343. Revenues for General Fund totaled \$6,393,205 which is a decrease of \$479,848 or about 7% from the previous fiscal year. Expenditures for the General Fund totaled \$6,203,934 which is an increase of \$1,100,714 or nearly 22% from the previous fiscal year. In the current fiscal year 2021-22, expenditures for all governmental funds were more than revenues by \$2,203,796.

Capital Assets and Debt Administration

Capital Assets

Shown in the table below is the District's investment in capital assets as of June 30, 2022. The capital asset balance includes investments in land, buildings, equipment, and vehicles.

Land	\$ 64,620
Buildings	258,946
Equipment and vehicles	<u>5,111,448</u>
Net historical cost	<u><u>\$ 5,435,014</u></u>

South Santa Clara County Fire District
(A Component Unit of the County of Santa Clara, California)
Management's Discussion and Analysis
June 30, 2022

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 one-year extension with the labor bargaining unit. Negotiations on a long-term agreement continue. In fiscal year 2023, labor costs are expected to increase under the new contract currently in the ratification stage. It is expected general salaries will be increased by 2.5% on July 1, 2022 (retroactively), 2.0% on January 1, 2023, and 2% July 1, 2023 as part of the extension and the temporary pay reduction of 7.5% which ended July 1, 2021. It will also include a 2% incremental increase for longevity of CalFire staff starting at 17 years up until 25 years of service. Administrative costs for the cooperative agreement have seen incremental increases and benefit costs have continued to increase over several years. As wages and benefits increase, there will be a commensurate incremental increase in reimbursement costs for services provided by CAL FIRE to the District.

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 is finalizing a Five-Year Plan which will include a capital asset replacement plan and recommendations to increase revenues.

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, California 95037.

BASIC FINANCIAL STATEMENTS

**South Santa Clara County Fire District
Statement of Net Position
June 30, 2022**

	Governmental Activities
ASSETS	
Current assets:	
Cash and investments	\$ 6,191,641
Accounts receivable	281,806
Interest receivable	15,996
Total current assets	6,489,443
Non-current assets:	
Intangible right-to-use assets	72,456
Capital assets, net of accumulated depreciation	1,550,046
Total non-current assets	1,622,502
TOTAL ASSETS	8,111,945
LIABILITIES	
Current liabilities:	
Accounts payable and accrued expenses	1,485,789
Current portion of long-term liabilities	66,379
Total current liabilities	1,552,168
Long-term liabilities:	
Lease liabilities	70,751
Long-term debt	447,451
Total long-term liabilities	518,202
TOTAL LIABILITIES	2,070,370
NET POSITION	
Investment in capital assets	1,550,046
Restricted for fire capital expansion	441,788
Unrestricted	4,049,741
TOTAL NET POSITION	\$ 6,041,575

**South Santa Clara County Fire District
Statement of Activities
For the Year Ended
June 30, 2022**

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Change in Net Position
		Charges for Services	Operating Contributions and Grants	
Governmental Activities:				
Public Safety	\$ 6,145,051	\$ 117,076	\$ 239,140	\$ (5,788,835)
Total Governmental Activities	<u>\$ 6,145,051</u>	<u>\$ 117,076</u>	<u>\$ 239,140</u>	<u>(5,788,835)</u>
General Revenues:				
				5,882,052
				80,454
				43,368
				<u>325,457</u>
				<u>6,331,331</u>
				542,496
				<u>5,499,079</u>
				<u>\$ 6,041,575</u>

FUND FINANCIAL STATEMENTS

**South Santa Clara County Fire District
Balance Sheet - Governmental Funds
June 30, 2022**

	<u>General Fund</u>	<u>Special Revenue Fund</u>	<u>Total</u>
ASSETS			
Cash and investments	\$ 5,750,921	\$ 440,720	\$ 6,191,641
Accounts receivable	281,806	-	281,806
Interest receivable	14,928	1,068	15,996
Due from other funds	-	-	-
TOTAL ASSETS	<u><u>\$ 6,047,655</u></u>	<u><u>\$ 441,788</u></u>	<u><u>\$ 6,489,443</u></u>
LIABILITIES			
Accounts payable	<u>\$ 1,485,789</u>	<u>\$ -</u>	<u>\$ 1,485,789</u>
TOTAL LIABILITIES	<u>1,485,789</u>	<u>-</u>	<u>1,485,789</u>
DEFERRED INFLOWS OF RESOURCES			
Unavailable revenues	<u>249,523</u>	<u>-</u>	<u>249,523</u>
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>249,523</u>	<u>-</u>	<u>249,523</u>
FUND BALANCES			
Restricted for Fire Capital Expansion	-	441,788	441,788
Unassigned	<u>4,312,343</u>	<u>-</u>	<u>4,312,343</u>
TOTAL FUND BALANCES	<u>4,312,343</u>	<u>441,788</u>	<u>4,754,131</u>
TOTAL LIABILITIES AND FUND BALANCES	<u><u>\$ 6,047,655</u></u>	<u><u>\$ 441,788</u></u>	<u><u>\$ 6,489,443</u></u>

**South Santa Clara County Fire District
Reconciliation of the Governmental Funds
Balance Sheet to the Statement of Net Position
June 30, 2022**

Amounts reported for governmental activities in the Statement of Net Position are different because:

Total fund balances - governmental funds	\$ 4,754,131
Capital assets used in governmental activities are not financial resources, and, therefore, are not reported in the governmental fund.	1,550,046
Deferred inflows from unavailable revenues that do not meet the 60-day measurable and available criteria for recognition in the fund statements are included in the government-wide statements.	249,523
Long-term debt is not due and payable in the current period and, therefore, are not reported in the governmental fund.	(584,581)
Net position of governmental activities	<u>\$ 5,969,119</u>

South Santa Clara County Fire District
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Year Ended
June 30, 2022

	General Fund	Special Revenue Fund	Total
REVENUES			
Property taxes	\$ 5,882,052	\$ -	\$ 5,882,052
Development impact fees	-	80,454	80,454
Charges for services (First Responder contract)	59,694	-	59,694
Intergovernmental grants	85,885	-	85,885
Investment income	40,117	3,251	43,368
Miscellaneous	325,457	-	325,457
TOTAL REVENUES	6,393,205	83,705	6,476,910
EXPENDITURES			
Current:			
Public safety:			
California Department of Forestry and Fire Protection	5,047,574	-	5,047,574
Materials and services	946,631	-	946,631
Lease liabilities issued	75,612	-	75,612
Debt service:			
Principal	63,921	-	63,921
Interest	4,021	-	4,021
Capital outlay	141,787	-	141,787
TOTAL EXPENDITURES	6,279,546	-	6,279,546
OTHER FINANCING SOURCES:			
Right-to-use asset acquired	75,612	-	75,612
NET CHANGE IN FUND BALANCE	189,271	83,705	272,976
FUND BALANCES, BEGINNING OF YEAR	4,123,072	358,083	4,481,155
FUND BALANCES, END OF YEAR	\$ 4,312,343	\$ 441,788	\$ 4,754,131

**South Santa Clara County Fire District
Reconciliation of the Statement of Revenues, Expenditures, and
Changes in Fund Balances of Governmental Funds
to the Statement of Activities
For the Year Ended
June 30, 2022**

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

NET CHANGES IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS	\$	272,976
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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.

Capital outlay expenditures are therefore added back to fund balance		141,787
Depreciation expense not reported in governmental funds		(184,958)
Amortization of right-to-use asset		(3,156)

The amounts below included in the Statement of Activities do not provide or require the use of current financial resources and therefore are reported as revenue or expenditures in governmental funds (net change):

Long-term debt payments		63,921
Lease liability payments		2,403

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.

Deferred revenues recognized in the Statement of Activities		249,523
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CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES	\$	<u>542,496</u>
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South Santa Clara County Fire District
(A Component Unit of the County of Santa Clara, California)
Notes to Financial Statements
June 30, 2022

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.

South Santa Clara County Fire District
(A Component Unit of the County of Santa Clara, California)
Notes to Financial Statements
June 30, 2022

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Presentation – Fund Accounting (continued)

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 Balances 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.

South Santa Clara County Fire District
(A Component Unit of the County of Santa Clara, California)
Notes to Financial Statements
June 30, 2022

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Accounting and Measurement Focus (continued)

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, 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 Balances 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 Balances 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.

South Santa Clara County Fire District
(A Component Unit of the County of Santa Clara, California)
Notes to Financial Statements
June 30, 2022

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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, 2022, 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, 2022, fund balances of the governmental funds are classified as follows:

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

South Santa Clara County Fire District
(A Component Unit of the County of Santa Clara, California)
Notes to Financial Statements
June 30, 2022

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 minimum 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 no 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.

South Santa Clara County Fire District
(A Component Unit of the County of Santa Clara, California)
Notes to Financial Statements
June 30, 2022

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Future Governmental Accounting Standards Board (GASB) Pronouncements

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. The new accounting standard requires lessees to recognize a lease liability measured on a discounted basis and a right-of-use asset for all leases. In May 2020, the GASB deferred the original implementation date by 18 months to provide temporary relief to governments and other stakeholders due to challenges resulting from COVID-19. This Statement will be effective for reporting periods beginning after December 15, 2019. The District is currently evaluating the impact of adoption of the new standard on its financial statements for the fiscal year ending June 30, 2022.

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 fiscal year 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.

South Santa Clara County Fire District
(A Component Unit of the County of Santa Clara, California)
Notes to Financial Statements
June 30, 2022

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

Santa Clara County Treasury Investment Pool	\$ 6,191,141
Petty Cash	<u>500</u>
Total Cash and Investments	<u><u>\$ 6,191,641</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.

South Santa Clara County Fire District
(A Component Unit of the County of Santa Clara, California)
Notes to Financial Statements
June 30, 2022

NOTE 3: DEPOSITS AND INVESTMENTS (CONTINUED)

General Authorizations

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

<u>Authorized Investment Type</u>	<u>Maximum Remaining Maturity</u>	<u>Maximum Percentage of Portfolio</u>	<u>Maximum Investment in One Issuer</u>
U.S. Treasury Obligations	5 years	None	None
U.S. Agency Securities	5 years	None	None
State Local Agency Investment Fund (LAIF)	N/A	None	\$75 million
Repurchase Agreements	92 days	None	None
Reverse Repurchase Agreements	92 days	20%	\$90 million
Securities Lending	92 days	20%	None
Collateralized Bank Deposits	5 years	None	None
Negotiable Certificates of Deposit	5 years	30%	5%
Bankers' Acceptances	180 days	40%	5%
Commercial Paper	270 days	40%	5%
Medium-Term Corporate Note	5 years	30%	5%
Municipal Obligations	5 years	10%	None
Money Market Funds - Taxable	N/A	20%	10%
Money Market Funds - Tax-Exempt	N/A	20%	10%
Federal Agency Mortgage Backed Securities	5 years	20%	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 615 days on June 30, 2022.

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, 2022.

South Santa Clara County Fire District
(A Component Unit of the County of Santa Clara, California)
Notes to Financial Statements
June 30, 2022

NOTE 3: DEPOSITS AND INVESTMENTS (CONTINUED)

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, 2022, all of the District's funds were invested in the Santa Clara County Investment Pool.

Deposits and withdrawals in the county investment pool are made on the basis of the U.S. Dollar and not fair value, accordingly, the District's proportionate share of investments in the Santa Clara County Investment Pool at June 30, 2022 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, 2022, was as follows:

Description	Balance 6/30/2021	Additions	Retirements	Balance 6/30/2022
Non-depreciable capital assets:				
Land	\$ 64,620	\$ -	\$ -	\$ 64,620
Total non-depreciable capital assets	64,620	-	-	64,620
Depreciable capital assets:				
Buildings and improvements	258,946	-	-	258,946
Equipment	5,481,721	141,787	(512,060)	5,111,448
Total depreciable capital assets	5,740,667	141,787	(512,060)	5,370,394
Accumulated Depreciation:				
Buildings and improvements	(209,212)	(5,626)	-	(214,838)
Equipment	(4,002,858)	(179,332)	512,060	(3,670,130)
Total accumulated depreciation	(4,212,070)	(184,958)	512,060	(3,884,968)
Total capital assets, net	\$ 1,593,217	\$ (43,171)	\$ -	\$ 1,550,046

Depreciation expense of \$184,958 was charged as a direct expense to governmental activities for public safety.

South Santa Clara County Fire District
(A Component Unit of the County of Santa Clara, California)
Notes to Financial Statements
June 30, 2022

NOTE 5: LEASES

The District is subject to one contractual equipment lease for the purposes of using a tower for dispatch radio and related services. The lease commenced July 1, 2020 for a 5-year term, with 4 successive renewal options of 5 years each. It is reasonably certain the District will execute these options to extend the lease until June 30, 2045. This lease falls under the scope of GASB 87, as described in Note 2, whereby the intangible right-to-use asset is measured and recorded starting July 1, 2021. There were no commitments prior to the lease term and there were no other variable payments made during the fiscal year that were not previously included in the measurement of the lease liability.

The following is a schedule of right-to-use assets by major class and their related accumulated amortization as of June 30, 2022.

	Balance
Equipment	\$ 75,612
Less: Accumulated depreciation	(3,156)
Net capital assets under capital lease	\$ 72,456

Lease liability activity for right-to-use assets are as follows for the fiscal year ended June 30, 2022:

	Balance	Additions	Payments	Balance	Current
	July 1, 2021			June 30, 2022	Portion
Equipment Leases:					
Tower	\$ -	\$ 75,612	\$ (2,403)	\$ 73,209	\$ 2,458
Total Right-to-Use Assets:	\$ -	\$ 75,612	\$ (2,403)	\$ 73,209	\$ 2,458

The following is a schedule of future equipment lease payments as of June 30, 2022:

Fiscal Year Ended	Liability	Interest	Total
June 30,	Reduction		Payments
2023	2,458	1,622	\$ 4,080
2024	2,514	1,566	4,080
2025	2,570	1,510	4,080
2026	2,630	1,450	4,080
2027-2033	14,073	6,327	20,400
2032-2036	15,753	4,647	20,400
2037-2041	17,619	2,781	20,400
2042-2045	15,592	728	16,320
Total	\$ 73,209	\$ 20,631	\$ 93,840

South Santa Clara County Fire District
(A Component Unit of the County of Santa Clara, California)
Notes to Financial Statements
June 30, 2022

NOTE 6: LONG-TERM DEBT

In October 2020, the District received an unsecured loan from the County to obtain sufficient funding to purchase a new Fire Engine. The loan is to be repaid in quarterly installments, and will bear interest at the annual rate earned by the County-operated commingled investment pool, as determined by the Director of Finance. The following is the schedule of changes in long-term debt for the year ended June 30, 2022:

	Beginning Balance	Additions	Reductions	Ending Balance	Amount Due Within One Year
County loan	\$ 575,293	\$ 63,921	\$ (127,842)	\$ 511,372	\$ 63,921

Because the long-term interest rate is undetermined, the County's amortization table does not provide for interest expense beyond the subsequent fiscal year. As of June 30, 2022, the annualized interest rate is stated as 1.07%. In order to approximately estimate payment obligations, including expected interest expense, the 1.07% interest rate is applied to the loan balance for the entire loan term in the following schedule of future debt payments:

Fiscal Year Ended	Principal	Interest	Total
June 30,			
2023	\$ 63,921	\$ 5,216	\$ 69,137
2024	63,921	4,545	68,466
2025	63,921	3,848	67,769
2026	63,921	3,164	67,085
2027	63,921	2,481	66,402
2028-2030	191,767	3,343	195,110
Total	\$ 511,372	\$ 22,597	\$ 533,969

NOTE 7: RISK MANAGEMENT

The District is exposed to various risks of loss related to auto liability, general liability, theft, damage 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.

South Santa Clara County Fire District
(A Component Unit of the County of Santa Clara, California)
Notes to Financial Statements
June 30, 2022

NOTE 7: RISK MANAGEMENT (CONTINUED)

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 comprehensive 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 up to \$25,000 for permanent physical impairment benefits, including covered injuries and illnesses, 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 8: 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 \$49,554. In addition, the County charges the District for processing payment vouchers and for any work undertaken by the Budget Office. \$41,033 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 2021-2022, interest income totaled \$43,368.

South Santa Clara County Fire District
(A Component Unit of the County of Santa Clara, California)
Notes to Financial Statements
June 30, 2022

NOTE 9: SUBSEQUENT EVENTS

Management has evaluated subsequent events through December 7, 2022, the date the financial statements were available to be issued. No events occurring subsequent to June 30, 2022 were determined to have a material impact on the financial statements that would require adjustment or disclosure.

REQUIRED SUPPLEMENTARY INFORMATION

**South Santa Clara County Fire District
General Fund
Statement of Revenues, Expenditures, and Changes in Fund Balances
Budget and Actual
For the Year Ended
June 30, 2022**

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		Actual
REVENUES				
Property taxes	\$ 5,651,540	\$ 5,651,540	\$5,882,052	\$ 230,512
First responder contract	223,645	223,645	59,694	(163,951)
Federal and state grants and other	442,200	442,200	527,071	84,871
TOTAL REVENUES	6,317,385	6,317,385	6,468,817	151,432
EXPENDITURES				
Current:				
Public safety				
California Department of Forestry and Fire Protection	5,502,275	5,502,275	5,047,574	454,701
Materials and services	1,114,107	1,114,107	946,631	167,476
Miscellaneous	-	-	75,612	(75,612)
Debt service:				
Principal	-	-	63,921	(63,921)
Interest	5,901	5,901	4,021	1,880
Capital outlay	447,800	447,800	141,787	306,013
TOTAL EXPENDITURES	7,070,083	7,070,083	6,279,546	790,537
NET CHANGE IN FUND BALANCE	\$ (752,698)	\$ (752,698)	189,271	\$ (639,105)
FUND BALANCE, BEGINNING OF YEAR			4,123,072	
FUND BALANCE, END OF YEAR			\$4,312,343	

**South Santa Clara County Fire District
Special Revenue Fund
Statement of Revenues, Expenditures, and Changes in Fund Balances
Budget and Actual
For the Year Ended
June 30, 2022**

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>		
REVENUES				
Development impact fees	\$ 90,000	\$ 90,000	\$ 80,454	\$ (9,546)
Interest	7,000	7,000	3,251	(3,749)
TOTAL REVENUES	<u>97,000</u>	<u>97,000</u>	<u>83,705</u>	<u>(13,295)</u>
EXPENDITURES				
Capital outlay	-	-	-	-
TOTAL REVENUES	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
NET CHANGE IN FUND BALANCE	<u>\$ 97,000</u>	<u>\$ 97,000</u>	<u>83,705</u>	<u>\$ (13,295)</u>
FUND BALANCE, BEGINNING OF YEAR			<u>358,083</u>	
FUND BALANCE, END OF YEAR			<u>\$ 441,788</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.