



Annual Financial Report
June 30, 2021

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

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Independent Auditor's Report

The Board of Commissioners of
Los Altos Hills County Fire District
Los Altos, CA

Report on Financial Statements

We have audited the accompanying financial statements of the governmental activities and the General Fund of the Los Altos Hills County Fire District (District or LAHCFD), a component unit of the County of Santa Clara, as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the General Fund of the District, as of June 30, 2021, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3 and 29 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 22, 2021, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

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

Menlo Park, California
October 22, 2021

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

Financial Highlights

- The assets of the District exceeded liabilities by \$30,993,252 (net position) for the fiscal year reported. Of this amount, \$1,960,690 is net investment in capital assets, and \$29,032,562 (unrestricted net position) may be used to meet ongoing obligations to citizens and creditors. The District had no deferred outflows or inflows of resources at year-end.
- The District's total net position increased by \$4,719,588 (18%) during the fiscal year. The increase in net position is mostly due to higher than projected property tax revenues and no large projects and programs expenditures.
- As of June 30, 2021, the District's General Fund reported an ending fund balance of \$29,032,562 . Approximately 52% of this total amount, \$15,032,562 is unassigned fund balance available for spending at the District's discretion. The other \$14,000,000 (48%) was committed for various purposes.
- At the end of the fiscal year, unassigned fund balance for the general fund was 174% of total general fund expenditures. For each of the past five years the District has shown a positive change in fund balance, allowing it to accumulate a strong fund balance with which to continue costly but essential fire protection projects, and to invest in the safety and welfare of fire prevention and emergency response services to the community.
- The District is prudent in its expenditures. During FY2020/2021 the District: reorganized personnel resources, developed fire prevention and protection programs, increased public outreach and community awareness in accordance with its 2021-2022 Strategic Plan; expanded Integrated Hazardous Fuel Reduction Programs in accordance with the previously adopted LAHCFD Community Wildfire Protection Plan Annex 4 to provide wildfire protection and prevention to residents and the community, brought in specialized outside consultants to improve the operational efficiencies of the District's projects and programs; increase the General Manager from .50 FTE to 1 FTE due to increased time required to manage and oversee the District's operations, projects, programs, and community outreach activities; and hired a new 1 FTE CERT Program General Analyst to oversee projects to benefit the community.
- During fiscal year 2020-2021, the District's largest expenditure was for contracted fire suppression and emergency medical services with the Santa Clara County Central Fire Protection District (SCCCFPD), which represents 74% of total expenditures.
- The District is currently not subject to any pending litigation.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements comprise three components: (1) **Government-wide** financial statements, (2) **Fund** financial statements, and (3) **Notes** to the basic financial statements. Required Supplementary Information is included in addition to the basic financial statements.

Government-wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business.

The **statement of net position** presents information on all of the District's assets, deferred outflows of resources, liabilities, and deferred inflows of resources, with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether or not the financial position of the District is improving or deteriorating.

The **statement of activities** presents information showing how the District's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods, such as revenues pertaining to uncollected taxes.

Both of the government-wide financial statements distinguish functions of the District that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The only governmental activity of the District is public protection – fire district. The District does not currently have any business-type activities.

Fund Financial Statements

The fund financial statements are designed to report information about groupings of related accounts which are used to maintain control over resources that have been segregated for specific activities or objectives. The District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The one fund of the District can be categorized as a governmental fund.

Governmental Fund – (General Fund) is used to account for essentially the same functions reported as governmental activities in the government-wide financial statements—i.e., the District's basic services are reported in the governmental fund. These statements, however, focus on (1) how cash and other financial assets can readily be converted to available resources and (2) the balances left at year-end that are available for spending. Such information may be useful in determining what financial resources are available in the near future to finance the District's programs.

Because the focus of the governmental fund is narrower than that of the government-wide financial statements, it is useful to compare the information presented for the governmental fund with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financial decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balance provide a reconciliation to facilitate this comparison between the governmental fund and governmental activities.

The District maintains only one individual governmental fund. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balance for the general fund, which is considered to be a major fund.

The District does not have any proprietary or fiduciary funds.

Notes to the Basic Financial Statements

The notes to the basic financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Required Supplementary Information

The required supplementary information is presented concerning the District's General Fund budgetary comparison schedule. The District adopts an annual appropriated budget for its General Fund. A budgetary comparison schedule has been provided for the General Fund to demonstrate compliance with this budget.

Government-Wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the District, assets exceeded liabilities by \$30,993,252 at the close of the most recent fiscal year.

	Governmental Activities			
	2021	2020	\$ Change	Variance (%)
Assets				
Current Assets	\$ 29,223,172	\$ 24,383,180	\$ 4,839,992	20%
Capital Assets	1,960,690	2,033,305	(72,615)	-4%
Total assets	<u>31,183,862</u>	<u>26,416,485</u>	<u>4,767,377</u>	18%
Liabilities				
Current	190,610	142,821	47,789	33%
Total liabilities	<u>190,610</u>	<u>142,821</u>	<u>47,789</u>	33%
Net Position				
Net Invested in Capital Assets	1,960,690	2,033,305	(72,615)	-4%
Unrestricted	29,032,562	24,240,359	4,792,203	20%
Total net position	<u>\$ 30,993,252</u>	<u>\$ 26,273,664</u>	<u>\$ 4,719,588</u>	18%

Analysis of Net Position

The largest portion of the District's net position (94%) reflects amounts not restricted for any project or any other purpose. These amounts are available to the District in the event of disaster or public safety emergency, or District property losses due to disaster. The other 6% of net position represent its investment in capital assets (e.g., land, improvements, fire hydrants, furniture and equipment). The District uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. At the close of the most recent fiscal year, there was no debt outstanding related to acquisition of capital assets.

There was a 31% variance in Current Liabilities due to more professional and specialized service vendor billings at the end of the fiscal year. This was mostly related to increased activity in the District's Integrated Hazardous Fuel Reduction Programs, some of which experienced decreased activity due to COVID-19 restrictions at the end of fiscal year 2019-2020.

At the end of the current fiscal year, the District reported positive balances in both categories of net position. The District's net position increased by \$4,719,588 during the current fiscal year, compared to the \$5,124,896 increase in 2020.

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

	Governmental Activities			
	2021	2020	\$ Change	Variance (%)
Revenues				
General Revenues				
Property taxes	\$ 13,143,778	\$ 12,438,885	\$ 704,893	6%
Intergovernmental: State	41,388	42,725	(1,337)	-3%
Interest and investment income	261,815	409,640	(147,825)	-36%
Other revenue	3,404	-	3,404	100%
Total revenues	<u>13,450,385</u>	<u>12,891,250</u>	<u>559,135</u>	4%
Expenses				
Public protection	<u>8,730,797</u>	<u>7,766,354</u>	<u>964,443</u>	12%
Change in net position	<u>4,719,588</u>	<u>5,124,896</u>	<u>(405,308)</u>	-8%
Net Position, Beginning of Year	<u>26,273,664</u>	<u>21,148,768</u>	<u>5,124,896</u>	24%
Net Position, End of Year	<u><u>\$ 30,993,252</u></u>	<u><u>\$ 26,273,664</u></u>	<u><u>\$ 4,719,588</u></u>	18%

Analysis of Changes in Net Position

Key elements of the \$4,719,588 increase in net position in the current year compared to the change in net position from the prior year are as follows:

- Interest and investment income decreased \$147,825 due to a drop in rates at the Santa Clara County Commingled Treasury Pool.
- Property taxes increased by \$704,357 because of the annual inflation factor, not to exceed 2%, catch-up in temporary valuation reductions caused by the recession and both increased sales activity of existing single-family homes as well as an increase in the median sales price of those homes.
- Total expenses increased \$966,296 primarily due to a \$132,241 increase in salaries and payroll, a \$285,575 increase in contracted fire protection services, a one-time expenditure of \$363,095 for apparatus enhancement to a new fire engine, and a one-time expenditure of \$193,770 for the County of Santa Clara Cost Recovery Allocation related to the County Management Audit.

Financial Analysis of the District's Funds

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

Governmental Fund

The general government functions are contained in the General Fund. The focus of the District's governmental funds is to provide information on near-term inflows, outflows, and balance of spendable resources. Such information is useful in assessing the District's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

At June 30, 2021, the District's General Fund reported an ending fund balance of \$29,032,562 , an increase of \$4,792,203 in comparison with the prior year. Approximately 52% of the ending fund balance, \$15,032,562 , constitutes unassigned fund balance, which is available to meet the District's current and future needs, and available in event of disaster, wildfires, or emergency for public safety or loss of District property. The remaining \$14,000,000 (48%) of the fund balance has been committed for emergency operations, general operations, and upgrades to the District's capital assets in periods where minimal property tax revenue is forthcoming.

General Fund revenues totaled \$13,450,385 in fiscal year 2020-2021, which represents an increase of 4% from fiscal year 2019-2020. Expenditures for governmental functions, which totaled \$8,658,182 increased by approximately 13% from the fiscal year 2019-2020. In the fiscal year 2020-2021, revenues exceeded expenses for governmental functions by \$4,792,203 .

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

Revenues by Source	2021		2020		Increase/(Decrease)	
	Amount	% of Total	Amount	% of Total	Amount	% of Total
Property taxes	\$ 13,143,778	98%	\$ 12,438,885	97%	\$ 704,893	6%
Intergovernmental: State	41,388	0%	42,725	0%	(1,337)	-3%
Interest and investment income	261,815	2%	409,640	3%	(147,825)	-36%
Other revenue	3,404	0%	-	0%	3,404	100%
Total	\$ 13,450,385	100%	\$ 12,891,250	100%	\$ 559,135	4%

Property taxes, the main District revenue, increased by about 6% because of the annual inflation factor, not to exceed 2%, catch up in temporary valuation reductions caused by the recession and both increased sales activity of existing single-family homes as well as an increase in the median sales price of those homes.

General Fund Budgetary Highlights

During the year, actual revenues exceeded budgetary estimates by \$264,035 due primarily to favorable variances in property tax of \$456,754 (4%), offset by an unfavorable variance in interest and investment income of \$188,185 (4%). There were no capital outlay expenditures in fiscal year 2020-2021. Overall, the positive variances are mostly attributable to the deferment of the Fire Services Water Flow and infrastructure Improvement Projects, and a delay in implementation of projects and programs due to workforce disruptions attributed to the worldwide pandemic of COVID-19. A budgetary comparison schedule may be found on page 29.

Capital Assets

The District's net investment in capital assets for its governmental activities as of June 30, 2021, amounted to \$1,960,690 (net of accumulated depreciation). This investment in capital assets includes land, improvements, fire hydrants, furniture and equipment.

For government-wide financial statement presentation, all depreciable capital assets were depreciated from acquisition date to the end of the current fiscal year. Fund financial statements record capital asset purchases as expenditures.

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

	Governmental Activities			Increase/(Decrease) % of Change
	2021	2020	\$ Change	
Land	\$ 4,688	\$ 4,688	\$ -	0%
Improvements	2,552,838	2,552,838	-	0%
Fire hydrants	1,078,745	1,078,745	-	0%
Furniture and equipment	66,350	66,350	-	0%
Less: accumulated depreciation	<u>(1,741,931)</u>	<u>(1,669,316)</u>	<u>(72,615)</u>	4%
Total	<u><u>\$ 1,960,690</u></u>	<u><u>\$ 2,033,305</u></u>	<u><u>\$ (72,615)</u></u>	-4%

See Note 5 for additional information on capital assets.

Economic Factors and Next Year's Budget and Rates

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

In fiscal year 2020-2021 the District's expenditures for all Projects and Programs had a positive variance to budget of 85%, though Emergency/CERT Supplies and the Hydrant/Infrastructure Repair and Maintenance went slightly over budget. Hydrant/Infrastructure Repair and Maintenance expenditures were \$99,365 on a budget of \$40,000, though most of these costs are expected to be recovered in fiscal year 2021-2022 through insurance reimbursements. The District performed engineering studies and was in discussions with Purissima Hills Water District (PHWD) and California Water Service regarding Fire Service Water Flow and Infrastructure Improvements, however, discussions were suspended due to the District's compliance with the County's Management Audit Findings. As a result, only \$209,760 of the \$1,800,000 budget for the Fire Service Water Flow and Infrastructure Improvement Program were expended. Finally, COVID-19 restrictions reduced activities in the District's IHFR Programs: \$295,406 of the \$500,000 Defensible Space Brush Chipping budget, \$1,167 of the \$200,000 HIZ budget, and \$43,680 of the \$2,000,000 Shaded Fuel Break budget were expended.

As for future funding and increased services, it is projected that tax revenues will decrease slightly due to the COVID-19 pandemic, although this is offset by an increase due to replacement of older ranch homes with larger structures and increasing valuations. Revenues have been budgeted at \$13,412,600, a 0.2% decrease for 2021-2022, however, due to uncertainties during the COVID-19 pandemic, actual increase (or decrease) could vary based upon delayed property tax payments and lowered interest rates. Expenses are expected to increase 33% to \$13,007,808 primarily due to regional collaboration with local agencies to improve fire protection and prevention within the community, annual increase for SCCCYPD contract services, and expansion of IHFR programs for fire protection. The District also intends to hire two additional employees in 2020-2021 (one 1 FTE and one 0.5 FTE), and contract for additional outside professional consulting resources for improved operation efficiency and implementation of 2021-2022 Strategic Plan goals, education and outreach to the public in the COVID-19 environment, projects and programs, and wildfire, earthquake, and disaster readiness. All these factors were considered in preparing the District's budget for fiscal year 2022.

Requests for Information

This financial report is designed to provide a general overview of the District's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Los Altos Hills County Fire District, P.O. Box 1766, Los Altos, CA 94023-1766.

Los Altos Hills County Fire District
Statement of Net Position
June 30, 2021

	<u>Governmental Activities</u>
Assets	
Cash and investments	\$ 29,162,302
Interest receivable	52,289
Due from other governments	8,581
Capital assets	
Land	4,688
Building improvements	2,552,838
Fire hydrants	1,078,745
Furniture and equipment	66,350
Accumulated depreciation	<u>(1,741,931)</u>
Total assets	<u>31,183,862</u>
Liabilities	
Accounts payable and accrued liabilities	<u>190,610</u>
Total liabilities	<u>190,610</u>
Net Position	
Investment in capital assets	1,960,690
Unrestricted	<u>29,032,562</u>
Total net position	<u><u>\$ 30,993,252</u></u>

Los Altos Hills County Fire District
Statement of Activities
For the year ended June 30, 2021

<u>Functions/Programs</u>		Net (Expenses) Revenue and Changes in Net Position
Governmental Activities	Expenses	Governmental Activities
Public protection	\$ 8,730,797	\$ (8,730,797)
Total governmental activities	\$ 8,730,797	(8,730,797)
General Revenues		
Taxes		
Property taxes		13,143,778
Intergovernmental: State		41,388
Investment income		261,815
Other revenues		3,404
Total general revenues		13,450,385
Change in Net Position		4,719,588
Net Position, Beginning of Year		26,273,664
Net Position, End of Year		\$ 30,993,252

Los Altos Hills County Fire District
Balance Sheet – Governmental Fund
June 30, 2021

	<u>General Fund</u>
Assets	
Cash and Investments	\$ 29,162,302
Interest Receivable	52,289
Due from other Governments	8,581
Total assets	<u>\$ 29,223,172</u>
Liabilities and Fund Balances	
Liabilities	
Accounts payable and accrued liabilities	\$ 190,610
Total liabilities	190,610
Fund Balance	
Committed	
Buildings and improvements	6,000,000
Wildfire protection and technology	1,000,000
Hydrants and infrastructure	3,000,000
Operations	2,000,000
Emergency operations	2,000,000
Unassigned	15,032,562
Total fund balance	29,032,562
Total liabilities and fund balance	<u>\$ 29,223,172</u>

Los Altos Hills County Fire District
Reconciliation of the Governmental Fund Balance Sheet to the Statement of Net Position
June 30, 2021

Fund Balance - Total Governmental Fund	\$ 29,032,562
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities are capitalized and depreciated over their useful lives in the government wide statements, but recorded as an expenditure in the governmental funds.	<u>1,960,690</u>
Net position of governmental activities	<u>\$ 30,993,252</u>

Los Altos Hills County Fire District
Statement of Revenues, Expenditures, and Changes in Fund Balance – Governmental Fund
For the year ended June 30, 2021

	General Fund
Revenues	
Property taxes	\$ 13,143,778
Intergovernmental: State	41,388
Interest and investment income	261,815
Other revenues	3,404
	13,450,385
Total revenues	13,450,385
Expenditures - Public Protection	
Services and supplies	8,312,160
Salaries and benefits	346,022
	8,658,182
Total expenditures	8,658,182
Net Change in Fund Balance	4,792,203
Fund Balance, Beginning of Year	24,240,359
Fund Balance, End of Year	\$ 29,032,562

Los Altos Hills County Fire District
Reconciliation of the Governmental Fund Statement of Revenues, Expenditures, and Changes in
Fund Balance to the Statement of Activities
For the year ended June 30, 2021

Net Change in Fund Balance - Total Governmental Fund	\$ 4,792,203
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlay as expenditures. However, in the statement of activities, the cost of those assets are allocated over their estimated useful lives and reported as depreciation expense.	
Current year depreciation	<u>(72,615)</u>
Change in Net position of Governmental Activities	<u>\$ 4,719,588</u>

Note 1 - General Information

Organization

The Los Altos Hills County Fire District (District or LAHCFD) was organized on October 23, 1939 and operates in conformity with the provisions of Part 2.7 of Division 12 of the California Health and Safety Code. The District is composed of the Town of Los Altos Hills and the unincorporated areas generally referred to as the Loyola, Los Trancos / Alpine Road and San Antonio Hills. The District comprises an area of about 12.03 square miles.

The District has augmented fire protection to its residents in the past by purchasing the following:

1. Weather station for use by the Santa Clara County Central Fire Protection District (Central Fire District or SCCCFFPD) for monitoring weather during high fire hazard days.
2. Specialized fire apparatus for use in the high hazard brush and grass fire areas.
3. New rescue apparatus unit for Central Fire District prior to its life expectancy expiration.
4. Specialized rescue tools.
5. State-of-the-art fire hydrant and water main testing equipment.
6. Specialized medical equipment.
7. Two CERT Trailers (SCCCFFPD has the titles) and 1 ARK Storage Container.
8. Edgerton Road and Deer Springs Way Fire Road Pavement Rehabilitation.
9. Neary Tank Upgrade Project.
10. Page Mill Tank Upgrade Project.
11. Replacement of District fire hydrants, gate-valves, and laterals for firefighting reliability.

The District also conducts the following programs for its residents:

- Replacement of District owned undersized water pipes and installation of District owned new water pipes and fire hydrants, gate-valves and laterals as needed.
- A defensible space brush chipping program is offered free of charge monthly to residents living in the designated chipping area of the District and supplemented by qualified on-call brush chipping services.
- Additional staffing (firefighters) during summer fire season.
- A defensible space brush debris drop-off program is funded by the District and operated by the garbage company, which allows residents to drop-off brush and tree limb debris and other combustible vegetation once a month at a central drop-off area free of charge.
- Funding of a fuel reduction/fire break program at the Byrne Preserve through the use of goat grazing.
- The annual mailing of fire prevention and emergency preparedness information to all District residents.
- An emergency preparedness manager as a half-time regular position.
- Construction of shaded fuel breaks along roadways by modifying vegetation to create defensible locations that can help reduce a wildfire's progress and create defensive areas for firefighters to attack and suppress the fire.
- Home ignition zone inspections (HIZ) for homeowners to review defensible space and receive recommendations for protecting their home from hazardous ignition and fire fuel mitigation.

District Officials

The District is governed by a seven-member Board of Commissioners (Commission), appointed by the County of Santa Clara (County) Board of Supervisors for four-year terms, pursuant to the provisions of the Health and Safety Code Section 13884. Appointments to the Commission are made to provide for equal representation on the basis of population, as between residents of incorporated and unincorporated territories, respectively. A Commissioner must be a resident of the District. Commissioners are subject to removal for cause. The County Board of Supervisors delegates all of its powers to the Commission to manage the affairs of the District; provided, however, that the Commission shall not initiate litigation without the prior approval of the Board of Supervisors.

The District is considered a component unit of the County and the District’s financial statements are blended into the County’s financial statements. The Commission is composed of the following as of June 30, 2021:

	Term Expires December 31,
Mark Warren – President	2024
Melvin Vaughn – Vice President	2022
Terry Kearney	2021
Joan Sherlock	2024
Roger Spreen	2024
Kavita Tankha	2024
George K. Tyson	2022

Accounts and Records

The basic financial records are maintained in the office of the County’s Auditor-Controller. The District maintains supporting vouchers and other records. Minutes were recorded and contained approvals for disbursements.

Budgetary Procedures

The District is required by state law to adopt a budget for the General Fund. The budget is prepared on the modified accrual basis of accounting, which is consistent with generally accepted accounting principles.

The annual budget is prepared, adopted, and then submitted by the Commission to the County Board of Supervisors for final approval. Once the budget is approved, it can be amended at the Function and Fund level only by the approval of a majority of the Commission. Such amendments are presented to the Board at their regular meetings. All amendments are made before the fact and are reflected in the official minutes of the Board. Finally, all amendments are subsequently submitted to the County Board of Supervisors. All budget appropriations lapse at year-end. Encumbrance accounting is not used.

Appropriations Limit

The County Board of Supervisors computes the appropriations limit for special districts that are governed by them. The County's auditors review these annual calculations.

Note 2 - Summary of Significant Accounting Policies

The basic financial statements of the District have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to local governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial principles. The most significant of the District's accounting policies are described below.

Basis of Presentation

Government-wide Financial Statements

The statement of net position and statement of activities display information about the District. These statements include the financial activities of the overall government. Governmental activities are normally supported by taxes and intergovernmental revenues.

The statement of activities presents a comparison between direct expenses and program revenues for each function of the governmental activities. Direct expenses are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. Program revenues would include charges paid by the recipients of goods or services offered by the programs. Revenues that are not classified as program revenues, including various taxes, are presented as general revenues. The comparison of program revenues and expenses identifies the extent to which each program is self-financing or draws from the general revenues of the District.

Fund Financial Statements

Fund financial statements are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, deferred inflows, deferred outflows, fund equity, revenues, and expenditures/expenses. Funds are organized into three major categories: governmental, proprietary, and fiduciary. The District, however, only reports governmental funds. The emphasis of fund financial statements is on major governmental. Each major fund is presented in a separate column. Non-major funds are aggregated and presented in a single column. The District has only one fund, the General Fund.

Governmental Fund

The *General Fund* is the general operating fund of the District and is always classified as a major fund. It is used to account for all revenues and expenditures necessary to carry out basic governmental activities of the District that are not required to be accounted for through other funds. For the District, the General Fund's primary activity is public protection.

Measurement Focus and Basis of Accounting

Measurement focus is a term used to describe "which" transactions are recorded within the various financial statements. Basis of accounting refers to "when" transactions are recorded regardless of the measurement focus applied.

The government-wide financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting. This differs from the manner in which governmental fund financial statements are prepared. Therefore, governmental fund financial statements include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds. The District has no proprietary or fiduciary funds.

Under the accrual basis of accounting, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred or economic asset used. Revenues, expenses, gains, losses, assets, deferred outflows, deferred inflows, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place. Nonexchange transactions, in which the District gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied.

The governmental fund financial statements are prepared using the current financial resources measurement focus and the modified accrual basis of accounting.

Under the modified accrual basis of accounting, revenues are recognized when measurable and available. Measurable means knowing or being able to reasonably estimate the amount. Available means collectible within the current period or within sixty days after the year ends. Expenditures (including capital outlay) are generally recorded when the related liability is incurred.

Property Tax Levy, Collection, and Maximum Rate

The State's Constitution, Article XIII A provides that the combined maximum property tax rate on any given property may not exceed 1% of its assessed value unless an additional amount for general obligation debt has been approved by the voters. Assessed value is calculated at 100% of market value as defined by Article XIII A and may be increased by no more than 2% per year unless the property is sold or transferred. These general property tax rates do not apply to taxes levied to pay the interest and redemption charges on any indebtedness incurred prior to June 6, 1978, or subsequently approved by the voters. Supplemental property taxes are levied on a pro rata basis when changes in *assessed* valuation occur due to sales transactions or the completion of construction. The State Legislature has determined the method of distribution among the counties, cities, school districts, and other districts of receipts from the 1% property tax levy.

The County assesses properties, bills for, and collects property taxes as follows:

	Secured	Unsecured
Lien dates	January 1	January 1
Levy dates	October 1	July 1
Due dates	50% on November 1 50% on February 1	Upon receipt of billing
Delinquent after	December 10 (for November) April 10 (for February)	August 31

These taxes are secured by liens on the property being taxed. The Board of Supervisors annually sets the rates of the County and District taxes, and levies State, County, and District taxes as provided by law. The term "secured" refers to taxes on land and buildings, while "unsecured" refers to taxes on personal property other than land and buildings.

The County bills and collects property taxes and remits them to the District under the State authorized method of apportioning taxes whereby all local agencies, including special districts, receive from the County their respective shares of the amounts of ad valorem taxes collected.

In 1981, the District passed an ordinance to impose a special tax pursuant to the provisions of the California Government Code Section 53978 on real property within the District for fire protection and related services. The District has not imposed this tax since 1986. The maximum annual special tax assessment that a parcel can be charged is as follows:

- Unimproved Parcels - \$15 per 5 acres or fraction thereof, with a maximum of \$60.
- Improved Residential Parcels - \$50.
- Improved Commercial Parcels - \$75.

Capital Assets

In the government-wide financial statements, capital assets are those purchased or acquired with an original cost of \$5,000 or more and are recorded at historical cost or at estimated historical cost if actual historical cost is not available. Donated capital assets are valued at their estimated acquisition cost on the date of donation.

Depreciation of all exhaustible capital assets is recorded as an allocated expense in the Statement of Activities, with accumulated depreciation reflected in the Statement of Net Position. Depreciation expense is provided over the assets' estimated useful lives using the straight-line method of depreciation. The estimated useful lives by type of asset are as follows:

Improvements	50 years
Fire hydrants	50 years
Furniture and equipment	3 to 5 years

Maintenance and repairs are charged to operations when incurred. Betterments and major improvements which significantly increase values, change capacities, or extend useful lives are capitalized. Upon sale or retirement of capital assets, the cost and related accumulated depreciation are removed from the respective accounts and any resulting gain or loss is included in the results of operations.

In the fund financial statements, capital assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition. Upon sale of capital assets, the proceeds from sale of capital assets are included in the results of operations as other financing sources.

Equity Classifications

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

- *Investment in Capital Assets* — This category groups all capital assets into one component of net position. Accumulated depreciation and the outstanding balances of debt that are attributable to the acquisition, construction or improvement of these assets reduce the balance in this category.
- *Restricted* — This category presents external restrictions imposed by creditors, grantors, contributors or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation.
- *Unrestricted* — This category represents net position of the District, not restricted for any project or other purpose.

Governmental funds report fund balances in classifications based primarily on the extent to which the District is bound to honor constraints on the specific purposes for which amounts in the funds can be spent. Fund balance for governmental funds can consist of the following:

- *Nonspendable Fund Balance* — includes amounts that are (a) not in spendable form—such as inventory, prepaid amounts, or long-term notes receivable, or (b) legally or contractually required to be maintained intact—such as a trust that must be retained in perpetuity. The "not in spendable form" criterion includes items that are not expected to be converted to cash.
- *Restricted Fund Balance* — constraints placed on the use of resources are either (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or (b) imposed by law through constitutional provisions or enabling legislation. Restriction may effectively be changed or lifted only with the consent of resource providers.
- *Committed Fund Balance* — amounts that can only be used for the specific purposes determined by a formal action of the District's highest level of decision-making authority, the Board. Commitments may be changed or lifted by the District taking the same formal action that imposed the constraint originally. On June 16, 2020, the Board of Commissioners adopted Resolution 20-23 which established \$14.0 million committed fund balance. The reserve may be used for emergency operations, general operations, and upgrades to the District's capital assets in periods where minimal property tax revenue is forthcoming or in the event of a declaration of an emergency or natural disaster.

- *Assigned Fund Balance* — comprises amounts intended to be used by the District for specific purposes that are neither restricted nor committed. Intent is expressed by (a) the District's Board or (b) a body (e.g., a budget or finance committee) or official to which the District's Board has delegated the authority to assign, modify, rescind amounts to be used for specific purposes. With the exception of the General Fund, this is the residual fund balance classification for all governmental funds with positive balances.
- *Unassigned Fund Balance* — the residual classification for the General Fund. It is also used to report negative fund balance in other governmental funds.

Spending Policy

In circumstances when an expenditure is made for a purpose for which amounts are available in multiple fund balance classifications, fund balance is generally depleted in the order of restricted, committed, assigned, and unassigned.

Estimates

The preparation of basic financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Note 3 - Cash and Investments

Available cash balances of the District are invested in the Santa Clara County Treasury Pool ("Pool") for the purpose of increasing earnings through investment activities. The County's commingled pool consists of cash in the bank, U.S. government and agency securities, corporate bonds, negotiable certificates of deposit, commercial paper, and deposits in the State's Local Agency Investment Fund. The County's pooled deposits and investments are regulated by California Government Code and by a County investment policy approved annually by the County Treasury Oversight Committee and the County Board of Supervisors. The pooled investments' fair value is based on quoted market prices. The County allocates interest to the District based on the District's average daily cash balance relative to the entire Pool. The value of the participants' pool shares that may be withdrawn is determined on an amortized basis, which is different than the fair value of the participants' positions in the pool. In addition, the County's investment pool is not rated by any of the credit rating agencies. Additional information regarding the County's investment policy and cash and investments, including interest rate risk, credit risk, custodial credit risk categories, and maturities of the different categories of investments, can be found in the County's notes to the basic financial statements. Additional information about the County's Pool's investments can be obtained from the County's Controller-Treasurer Department located at 70 West Hedding Street, 2nd Floor, East Wing, San Jose, California 95110.

Cash and investments at June 30, 2021 consist of the following:

County Treasury Pool	\$ 29,161,802
Petty Cash	<u>500</u>
	<u>\$ 29,162,302</u>

Note 4 - Fair Value Measurements

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

- Level 1 - Quoted prices in active markets for identical assets that the District has the ability to access at the measurement date. Level 1 assets may include debt and equity securities that are traded in an active exchange market and that are highly liquid and are actively traded in over-the-counter markets.
- Level 2 - Observable inputs other than Level 1 prices such as quoted prices for similar assets in active markets, quoted prices for identical or similar assets in markets that are not active, or other inputs that are observable, such as interest rates and curves observable at commonly quoted intervals, implied volatilities, and credit spreads. For financial reporting purposes, if an asset has a specified term, a Level 2 input is required to be observable for substantially the full term of the asset.
- Level 3 - Unobservable inputs should be developed using the best information available under the circumstances, which might include the District's own data. The District should adjust that data if reasonable available information indicates that other market participants would use different data or certain circumstances specific to the District are not available to other market participants.

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

Note 5 - Capital Assets

The capital asset activity for the year ended June 30, 2021 is as follows:

	Balance June 30, 2020	Additions	Deletions	Balance June 30, 2021
Governmental Activities				
Land	\$ 4,688	\$ -	\$ -	\$ 4,688
Improvements	2,552,838	-	-	2,552,838
Fire hydrants	1,078,745	-	-	1,078,745
Furniture and equipment	66,350	-	-	66,350
	<u>3,702,621</u>	<u>-</u>	<u>-</u>	<u>3,702,621</u>
Accumulated depreciation				
Improvements	(1,227,024)	(51,057)	-	(1,278,081)
Fire hydrants	(377,419)	(21,375)	-	(398,794)
Furniture and equipment	(64,873)	(183)	-	(65,056)
	<u>(1,669,316)</u>	<u>(72,615)</u>	<u>-</u>	<u>(1,741,931)</u>
Total Capital Assets, Net	<u>\$ 2,033,305</u>	<u>\$ (72,615)</u>	<u>\$ -</u>	<u>\$ 1,960,690</u>

For the year ended June 30, 2021, depreciation expense charged to public protection under governmental activities was \$72,615.

Note 6 - Lease

Foothill Community College

The District leases the land for the El Monte fire station completed in 1996 and situated on the Foothill Community College Campus, under the terms of a 99-year lease, at a rental of \$1 per year (prepaid), expiring February 2092.

Note 7 - Contract Fire Protection Services

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

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

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

Real Property and Equipment: A description of obligations of the District and the Central Fire District pursuant to Real Property and Equipment can be found in the 2016 Fire and Emergency Medical Services Agreement, Article 6 and 7, between the City of Los Altos, and Los Altos Hills County Fire District and Santa Clara County Central Fire Protection District, entered into on December 13, 2016.

Compensation: The Central Fire District will invoice the City and the District monthly, and payments shall be made within 15 days of receipt of the invoice. Payment is made by automatic transfer through the County of Santa Clara.

Each calendar year commencing on January 1, 2017, and each January thereafter the District shall owe to Central Fire District the annual operating costs calculated from a December 2016 base amount of \$4,250,813. The compensation is increased annually as follows:

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

The District has also entered into contracts with a Battalion Chief, at an annual base amount of \$1,103,355 (less a credit of 1/15th of the adjusted base amount) plus the adjustment as described in Part A above; additional fire-season staffing at a rate of 1.5 times top step for Captain and each Firefighter/Engineer; and, beginning in July 2017, the use of a Wildland Interface Engine on Red Flag Warning days at the published OES rate for each day the engine is in service. Termination provisions are 180 days in the Fire Season Staffing Agreement. The Battalion Chief Agreement has the same term as Fire Protection Services described on Page 25.

Total amounts paid by the District to the Central Fire District (including fire and EMS services, Battalion Chief, rental of Type 3 engine, and additional seasonal fire patrol) were as follows for the fiscal year ended:

June 30,		
2021	\$	6,444,045
2020		6,152,354
2019		6,228,726
2018		6,102,147
2017		5,739,722

In addition to the above services, the District paid a one-time expenditure of \$363,095 for apparatus enhancement to a new fire engine, the title of which was retained by the Central Fire District.

Consulting Services for District Operations

Sarah Henricks was retained as an independent contractor Special Projects Services Consultant in February 2020.

David Barnett was retained as an independent contractor Integrated Hazardous Fuel Reduction Consultant in June 2021.

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

Beginning in September 2020, The District’s Legal Counsel services are provided exclusively by the Santa Clara County Office of the County Counsel. Prior to this, Legal Counsel services were provided by the firm Jorgenson, Siegel, McClure and Flegel LLC in Menlo Park.

Santa Clara County FireSafe Council

Beginning in fiscal year 2019-2020, the District contracts with the Santa Clara County FireSafe Council as an independent contractor to develop, manage, and implement various Integrated Hazardous Fuel Reduction Programs, including shaded fuel breaks, defensible space brush chipping and debris removal service and home ignition zone inspections. The District’s total costs for this vendor in fiscal year 2020-2021 amounted to \$323,181.

Freyer & Laureta Inc.

Beginning in fiscal year 2020-2021, the District contracts with Freyer and Laureta Inc. for engineering services related to the District’s fire hydrants and infrastructure. The District’s total costs for this vendor in fiscal year 2020-2021 amounted to \$147,448.

Green Waste Recovery

In October 2008, the District began using the services of Green Waste Recovery for the Yard Waste Drop Off Program at Foothill College. This no-cost program allows residents to reduce hazardous fuel loads on their property and dispose of the cuttings monthly at Foothill College. The District's costs for the fiscal year 2020-2021 amounted to \$44,568, which was invoiced and paid to the Town of Los Altos Hills, that contracts for the Green Waste Recovery services.

General Manager

In October 2018, the District hired Jo Anne "J." Logan (a former City of Los Altos Assistant City Manager) as a part-time .50 FTE District General Manager. The new position was created in response to the District Commission's 2015-2020 Strategic Plan review. In November 2020, the position was increased to full-time 1.0 FTE due to increased time needed to oversee and manage the District's operations and programs. The General Manager assists the Board of Commissioners in policy development and future planning. Duties are to develop and modify programs to align with the 2021-2022 Strategic Plan, LAHCFD-CWPP Annex 4, and budget allocations. The General Manager is responsible for the administration, finances, personnel and operations of the District; builds strong relationships with community, residents, LAH Town, unincorporated communities, District partners and stakeholders, SCCCFPD, water districts and regional partners and organizations; vitalizes and assures delivery of CERT volunteer programs, emergency preparedness initiatives, development of FireWise Communities and Neighborhood Networks; and fosters development of self-reliant residents and resilient neighborhoods in the community in event of disaster or emergency events.

Emergency Services Manager

In August 2019, the District hired Denise Gluhan (a retired Fire Captain with the Santa Clara County Fire Department) as a part-time .50 FTE Emergency Services Manager. The Emergency Services Manager's roles include oversight and coordination of the District's projects and programs such as Home Ignition Zone inspections, defensible space brush chipping and debris removal, shaded fuel break sites, hydrant repairs, coordination of emergency services activities such as evacuation and CERT drills, and outreach presentations to the community.

CERT Program General Analyst

Victoria Bebee was retained as an independent contractor Technical Analyst Consultant from October 2019 – March 2020 and from June 2020 to January 2021. In February 2021, the District hired Ms. Bebee as a full-time 1.0 FTE CERT Program General Analyst. Responsibilities include management of programs for the Community Emergency Response Team (CERT), training programs and drill activities for volunteers and residents, organization and maintenance of the emergency supply ARK, recovery operations for emergencies and disasters, and coordination of emergency services with other local agencies.

District Clerk

In October 2019, the District reclassified the District Clerk position from an independent contractor position to a .50 FTE employee. Cori Vargas was hired to the position, and her responsibilities include preparation of monthly Commission meeting packets, meeting minutes, organization of District records and retention administration, responding to public inquiries, and acting as administrative liaison for the Commissioners, legal counsel, and other management personnel in the County of Santa Clara.



Required Supplementary Information
June 30, 2021

Los Altos Hills County Fire District

Los Altos Hills County Fire District
 Budgetary Comparison Schedule – General Fund
 For the year ended June 30, 2021

	Original Budget	Final Budget	Actual Amount	Variance with Final Budget Positive/ (Negative)
Budgetary Fund Balances, Beginning of Year	\$ 24,240,359	\$ 24,240,359	\$ 24,240,359	\$ -
Resources (Inflows)				
Property taxes	12,687,024	12,687,024	13,143,778	456,754
Intergovernmental: State	42,825	42,825	41,388	(1,437)
Interest and investment income	450,000	450,000	261,815	(188,185)
Property rental	6,000	6,000	-	(6,000)
Other revenues	500	500	3,404	2,904
Amounts Available for Appropriation	<u>13,186,349</u>	<u>13,186,349</u>	<u>13,450,385</u>	<u>264,036</u>
Charges to Appropriations (Outflows)				
Public Protection				
Salaries and benefits	547,000	547,000	346,022	200,978
Services and supplies	<u>13,134,513</u>	<u>13,134,513</u>	<u>8,312,160</u>	<u>4,822,353</u>
Total Charges to Appropriations	13,681,513	13,681,513	8,658,182	5,023,331
Net Change	<u>(495,164)</u>	<u>(495,164)</u>	<u>4,792,203</u>	<u>2,205,389</u>
Budgetary Fund Balances, End of Year	<u><u>\$ 23,745,195</u></u>	<u><u>\$ 23,745,195</u></u>	<u><u>\$ 29,032,562</u></u>	<u><u>\$ 5,287,367</u></u>



**Independent Auditor’s Report on Internal Control over
Financial Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in
Accordance with *Government Auditing Standards***

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities and the General Fund of the Los Altos Hills County Fire District (District or LAHCFD), a component unit of the County of Santa Clara, as of and for the year ended June 30, 2021, and related notes to the financial statements, which collectively comprise the District’s basic financial statements, and have issued our report thereon dated October 22, 2021.

Internal Control Over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity’s financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Compliance and Other Matters

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

Purpose of this Report

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

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

Menlo Park, California
October 22, 2021