

**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, 2021**

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

Annual Financial Report  
June 30, 2021

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## INDEPENDENT AUDITOR'S REPORT

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

### Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of the South Santa Clara County Fire District (District), a component unit of the County of Santa Clara, California, as of and for the year ended June 30, 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.

### Auditor's Responsibility

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

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

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

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

## **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the District, as of June 30, 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 supplementary information, such as management's discussion and analysis and budgetary comparison information as listed under the Table of Contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Fechter & Company  
Certified Public Accountants



Sacramento, California  
September 14, 2021

**South Santa Clara County Fire District**  
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Management's Discussion and Analysis  
June 30, 2021

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, 2021. 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, 2021, the assets of the District exceeded its liabilities by \$5,499,079 (net position). Of this amount, \$3,547,779 (unrestricted net position) may be used to meet ongoing obligations to citizens that the District serves.
- The District's net position increased by \$1,800,501. This increase is primarily due to increased property taxes and Cal Fire strike team response fees.
- At the end of the current year, June 30, 2021, fund balance for the general fund was \$4,123,072 or 81% of general fund expenditures. At the end of June 30, 2020, fund balance for the general fund was \$1,730,005 or 27% of general fund expenditures.

**Overview of the Financial Statements**

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

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

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

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

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Management's Discussion and Analysis  
June 30, 2021

encompass the additional long-term focus of the government-wide statements, we provide additional information in the footnotes that explains the relationship (or differences) between them.

**Government-Wide Financial Statement Analysis**

Net position serves over time as a useful indicator of a government's financial position. For the District, assets exceed liabilities in the current year by \$5,499,079. The largest portion of the District's net position, 65%, reflects unrestricted net position, which means that it represents resources available for any function within the jurisdiction of the District. The other part of the District's net position is its investments in capital. This amount is 29% of the District's net position on June 30, 2021. 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, 2021 and June 30, 2020, respectively.

**Table 1**  
**Governmental Net Position**

	Governmental Activities		
	2021	2020	Variance
<b>Assets:</b>			
Current and other assets	\$ 4,525,284	\$ 3,687,709	23%
Capital assets, net of accumulated depreciation	1,593,217	1,606,104	-1%
<b>Total assets</b>	<b>6,118,501</b>	<b>5,293,813</b>	<b>16%</b>
<b>Liabilities:</b>			
Other liabilities	108,050	1,595,235	-93%
Long-term debt outstanding	511,372	-	100%
<b>Total liabilities</b>	<b>619,422</b>	<b>1,595,235</b>	<b>-61%</b>
<b>Net position:</b>			
Invested in capital assets, net of related debt	1,593,217	1,606,104	-1%
Restricted for fire capital expansion	358,083	218,313	64%
Unrestricted	3,547,779	1,874,161	89%
<b>Total net position</b>	<b>\$ 5,499,079</b>	<b>\$ 3,698,578</b>	<b>49%</b>

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At the end of the current year, June 30, 2021, the District reports positive balances in both categories of net position. There was an increase in the invested in capital assets category of \$826,955, mainly because of retirement of debt and the purchase of a fire truck.

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

**Table 2**  
**Changes in Governmental Net Position**

	Governmental Activities		
	2021	2020	Variance
Revenues:			
Program revenues	\$ 294,538	\$ 337,395	-13%
General revenues:			
Property taxes	5,711,839	5,464,417	5%
Other revenues	862,290	479,089	80%
Total revenues	<u>6,868,667</u>	<u>6,280,901</u>	9%
Expenses:			
Public safety - fire protection	<u>5,068,166</u>	<u>5,777,291</u>	-12%
Total expenses	<u>5,068,166</u>	<u>5,777,291</u>	-12%
Change in net position	<u>\$ 1,800,501</u>	<u>\$ 503,610</u>	258%

Property tax revenues increased by \$247,422 (5%) in the current year. This is due to an increase in property values and new construction with no significant declines in the population in the South County. Additionally, program revenues decreased by \$42,857 (13%). Other revenue increased by \$383,201 or 80% from fiscal year 2020 to fiscal year 2021. A decrease in expenses, largely due to a decrease in contractual expenses paid to Cal Fire, and increase in revenues resulted in a sharp increase in change in net position.

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Management's Discussion and Analysis  
June 30, 2021

**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, 2021, fund balance of the General Fund was \$4,123,072. Revenues for General Fund totaled \$6,873,053 which is an increase of \$896,144 or about 15% from the previous fiscal year. Expenditures for the General Fund totaled \$5,103,220 which is a decrease of \$1,287,676 or nearly 20% from the previous fiscal year. In the current fiscal year 2020-21, expenditures for all governmental funds were more than revenues by \$2,532,837.

**Capital Assets and Debt Administration**

Capital Assets

Shown in the table below is the District's investment in capital assets as of June 30, 2021. The capital asset balance includes investments in land, buildings, equipment and vehicles.

Land	\$ 64,620
Buildings	258,946
Equipment and vehicles	<u>5,481,721</u>
Net historical cost	<u><u>\$ 5,805,287</u></u>

**Economic Factors and Next Year's Budget and Rates**

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

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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 FY 2022, labor cost will increase by 2.5% for wages as part of the extension and the temporary pay reduction of 7.5% ends July 1, 2021. 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, CA 95037.

## **BASIC FINANCIAL STATEMENTS**

**South Santa Clara County Fire District**  
**Statement of Net Position**  
**June 30, 2021**

	Governmental Activities
<b>ASSETS</b>	
Current assets:	
Cash and investments	\$ 4,199,096
Accounts receivable	318,975
Interest receivable	7,213
Total current assets	4,525,284
Capital assets, net of accumulated depreciation	1,593,217
<b>TOTAL ASSETS</b>	<b>6,118,501</b>
<b>LIABILITIES</b>	
Current liabilities:	
Accounts payable and accrued expenses	44,129
Current portion of long-term debt	63,921
Total current liabilities	108,050
Long-term liabilities:	
Long-term debt	511,372
<b>TOTAL LIABILITIES</b>	<b>619,422</b>
<b>NET POSITION</b>	
Investment in capital assets	1,593,217
Restricted for fire capital expansion	358,083
Unrestricted	3,547,779
<b>TOTAL NET POSITION</b>	<b>\$ 5,499,079</b>

**South Santa Clara County Fire District  
Statement of Activities  
For the Year Ended  
June 30, 2021**

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net (Expense) Revenue and Change in Net Position</u>
		<u>Charges for Services</u>	<u>Operating Contributions and Grants</u>	
<b>Governmental Activities:</b>				
Public Safety	\$5,068,166	\$ 278,824	\$ 15,714	\$ (4,773,628)
Total Governmental Activities	<u>\$5,068,166</u>	<u>\$ 278,824</u>	<u>\$ 15,714</u>	<u>(4,773,628)</u>
<b>General Revenues:</b>				
				5,711,839
				136,306
				33,142
				692,842
				<u>6,574,129</u>
				1,800,501
				<u>3,698,578</u>
				<u>\$ 5,499,079</u>

## **FUND FINANCIAL STATEMENTS**

**South Santa Clara County Fire District  
Balance Sheet - Governmental Funds  
June 30, 2021**

	General Fund	Special Revenue Fund	Total
<b>ASSETS</b>			
Cash and investments	\$ 3,841,631	\$ 357,465	\$ 4,199,096
Accounts receivable	318,975	-	318,975
Interest receivable	6,595	618	7,213
Due from other funds	-	-	-
	\$ 4,167,201	\$ 358,083	\$ 4,525,284
<b>TOTAL ASSETS</b>	<b>\$ 4,167,201</b>	<b>\$ 358,083</b>	<b>\$ 4,525,284</b>
<b>LIABILITIES</b>			
Accounts payable	\$ 44,129	\$ -	\$ 44,129
Due to other funds	-	-	-
	44,129	-	44,129
<b>TOTAL LIABILITIES</b>	<b>44,129</b>	<b>-</b>	<b>44,129</b>
<b>FUND BALANCES</b>			
Restricted for Fire Capital Expansion	-	358,083	358,083
Unassigned	4,123,072	-	4,123,072
	4,123,072	358,083	4,481,155
<b>TOTAL FUND BALANCES</b>	<b>4,123,072</b>	<b>358,083</b>	<b>4,481,155</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 4,167,201</b>	<b>\$ 358,083</b>	<b>\$ 4,525,284</b>

**South Santa Clara County Fire District  
Reconciliation of the Governmental Funds  
Balance Sheet to the Statement of Net Position  
June 30, 2021**

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

Total fund balances - governmental funds	\$ 4,481,155
Capital assets used in governmental activities are not financial resources, and, therefore, are not reported in the governmental fund.	1,593,217
Long-term debt is not due and payable in the current period and, therefore, are not reported in the governmental fund.	(575,293)
Net position of governmental activities	<u><u>\$ 5,499,079</u></u>

**South Santa Clara County Fire District**  
**Statement of Revenues, Expenditures, and Changes in Fund Balances**  
**Governmental Funds**  
**For the Year Ended**  
**June 30, 2021**

	General Fund	Special Revenue Fund	Total
<b>REVENUES</b>			
Property taxes	\$ 5,711,839	\$ -	\$ 5,711,839
Development impact fees	-	136,306	136,306
Charges for services (First Responder contract)	278,824	-	278,824
Intergovernmental grants	112,596	-	112,596
Investment income	29,678	3,464	33,142
Miscellaneous	740,116	-	740,116
	<u>6,873,053</u>	<u>139,770</u>	<u>7,012,823</u>
<b>TOTAL REVENUES</b>			
<b>EXPENDITURES</b>			
Current:			
Public safety:			
California Department of Forestry and Fire Protection	4,263,836	-	4,263,836
Materials and services	679,272	-	679,272
Debt service:			
Principal	47,941	-	47,941
Interest	5,089	-	5,089
Capital outlay	107,082	-	107,082
	<u>5,103,220</u>	<u>-</u>	<u>5,103,220</u>
<b>TOTAL EXPENDITURES</b>			
<b>OTHER FINANCING SOURCES:</b>			
Long-term debt issued	623,234	-	623,234
	<u>2,393,067</u>	<u>139,770</u>	<u>2,532,837</u>
<b>NET CHANGE IN FUND BALANCE</b>			
<b>FUND BALANCES, BEGINNING OF YEAR</b>	<u>1,730,005</u>	<u>218,313</u>	<u>1,948,318</u>
<b>FUND BALANCES, END OF YEAR</b>	<u><u>\$ 4,123,072</u></u>	<u><u>\$ 358,083</u></u>	<u><u>\$ 4,481,155</u></u>

**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, 2021**

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

NET CHANGE IN FUND BALANCE - TOTAL GOVERNMENTAL FUNDS	\$	2,532,837
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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		107,082
Depreciation expense not reported in governmental funds		(119,969)

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 proceeds		(623,234)
Long-term debt payments		47,941

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 already recognized in the Statement of Activities in the fiscal year ended June 30, 2020		(144,156)
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CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES	\$	<u>1,800,501</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, 2021

**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  
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Notes to Financial Statements  
June 30, 2021

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

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

**Basis of Accounting and Measurement Focus**

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

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

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Notes to Financial Statements  
June 30, 2021

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

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

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

**Expenses/Expenditures**

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

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Notes to Financial Statements  
June 30, 2021

**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, 2021, 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, 2021, 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, 2021

**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**  
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Notes to Financial Statements  
June 30, 2021

**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 FY 2021/2022, except for Statement 87 and Implementation Guide 2019-3, reinsurance recoveries, and terminology used to refer to derivative instruments are effective upon issuance. The District has not determined the effect of this Statement.

**South Santa Clara County Fire District**  
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Notes to Financial Statements  
June 30, 2021

**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](http://www.sccgov.org).

**Summary of Deposits and Investments**

Santa Clara County Treasury Investment Pool	\$ 4,198,596
Petty Cash	<u>500</u>
Total Cash and Investments	<u><u>\$ 4,199,096</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, 2021

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

**Interest Rate Risk**

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The District manages its exposure to interest rate risk by investing in the Santa Clara County Treasury Investment Pool. The sensitivity of the fair values of the District's investments to market interest rate fluctuation is measured as the weighted average maturity of the investment portfolio, which was 615 days on June 30, 2021.

**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, 2021.

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

Notes to Financial Statements  
June 30, 2021

**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, 2021, 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, 2021 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, 2021, was as follows:

Description	Balance 6/30/2020	Additions	Retirements	Transfers	Balance 6/30/2021
Non-depreciable capital assets:					
Land	\$ 64,620	\$ -	\$ -	\$ -	\$ 64,620
Work in process	616,148	-	-	(616,148)	-
Total non-depreciable capital assets	<u>680,768</u>	<u>-</u>	<u>-</u>	<u>(616,148)</u>	<u>64,620</u>
Depreciable capital assets:					
Buildings and improvements	258,946	-	-	-	258,946
Equipment	4,791,796	107,082	(33,305)	616,148	5,481,721
Total depreciable capital assets	<u>5,050,742</u>	<u>107,082</u>	<u>(33,305)</u>	<u>616,148</u>	<u>5,740,667</u>
Accumulated Depreciation:					
Buildings and improvements	(203,251)	(5,961)	-	-	(209,212)
Equipment	(3,922,155)	(114,008)	33,305	-	(4,002,858)
Total accumulated depreciation	<u>(4,125,406)</u>	<u>(119,969)</u>	<u>33,305</u>	<u>-</u>	<u>(4,212,070)</u>
Total capital assets, net	<u>\$ 1,606,104</u>	<u>\$ (12,887)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,593,217</u>

Depreciation expense of \$119,969 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, 2021

**NOTE 5: 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, 2021:

	Beginning Balance	Additions	Reductions	Ending Balance	Amount Due Within One Year
County loan	\$ -	\$ 623,234	\$ (47,941)	\$ 575,293	\$ 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, 2021, 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,			
2022	\$ 63,921	\$ 5,900	\$ 69,821
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
2027-2030	255,688	5,824	261,512
Total	\$ 575,293	\$ 28,497	\$ 603,790

**NOTE 6: 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**  
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Notes to Financial Statements  
June 30, 2021

**NOTE 6: 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 comp and collision coverage for the District's fleet, is based on a schedule and subject to certain valuation provisions dependent on use and classification of vehicle.

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

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

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

The District participates in an Accident & Health Insurance for Emergency Service Organizations policy through Provident. Benefits coverage ranges from \$100 per week for disability benefits 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 7: RELATED PARTY TRANSACTIONS**

The District is assessed board fees any time the District is required to present matters to the County's Board of Supervisors. The District also utilizes the services of the County's counsel for any legal matters that the District requires and for this the District is billed via an invoice. Both charges are paid from an intra-County professional services account. In the current year, professional services paid to the County were \$47,535. In addition, the County charges the District for processing payment vouchers and for any work undertaken by the Budget Office. \$35,308 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 2020-2021, interest income totaled \$33,142.

**South Santa Clara County Fire District**  
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Notes to Financial Statements  
June 30, 2021

**NOTE 8: COVID MATTERS**

In January 2020, the virus SARS-CoV-2 was transmitted to the United States from overseas sources. This virus, responsible for the Coronavirus disease COVID-19, has proven to be extremely virulent with continued transmission rates as yet unknown. The ongoing economic impact on the State of California and the County of Santa Clara has not been determined and, therefore, any potential impact on the District remains unknown. The District's operations have continued without interruption throughout the fiscal year.

**NOTE 9: SUBSEQUENT EVENTS**

Management has evaluated subsequent events through September 14, 2021, the date the financial statements were available to be issued. No events occurring subsequent to June 30, 2021 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 Balance  
Budget and Actual  
For the Year Ended  
June 30, 2021**

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
<b>REVENUES</b>	Original	Final	Actual	(Negative)
Property taxes	\$5,573,094	\$5,573,094	\$5,711,839	\$ 138,745
First responder contract	200,000	200,000	278,824	78,824
Federal and state grants and other	375,000	375,000	1,505,624	1,130,624
 TOTAL REVENUES	 6,148,094	 6,148,094	 7,496,287	 1,348,193
 <b>EXPENDITURES</b>				
Current:				
Public safety				
California Department of Forestry and Fire Protection	5,315,932	5,315,932	4,263,836	1,052,096
Materials and services	1,443,911	1,443,911	679,272	764,639
Debt service:				
Principal	-	-	47,941	(47,941)
Interest	-	-	5,089	(5,089)
Capital outlay	25,000	25,000	107,082	(82,082)
 TOTAL EXPENDITURES	 6,784,843	 6,784,843	 5,103,220	 1,681,623
 <b>NET CHANGE IN FUND BALANCE</b>	 \$ (636,749)	 \$ (636,749)	 2,393,067	 \$ (333,430)
 <b>FUND BALANCE, BEGINNING OF YEAR</b>			 1,730,005	
 <b>FUND BALANCE, END OF YEAR</b>			 \$4,123,072	

**South Santa Clara County Fire District  
Special Revenue Fund  
Statement of Revenues, Expenditures, and Changes in Fund Balance  
Budget and Actual  
For the Year Ended  
June 30, 2021**

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>		<u>(Negative)</u>
<b>REVENUES</b>				
Development impact fees	\$ 75,000	\$ 75,000	\$ 136,306	\$ 61,306
Interest	2,500	2,500	3,464	964
<b>TOTAL REVENUES</b>	<u>77,500</u>	<u>77,500</u>	<u>139,770</u>	<u>62,270</u>
<b>EXPENDITURES</b>				
Capital outlay	<u>250,000</u>	<u>250,000</u>	<u>-</u>	<u>250,000</u>
<b>TOTAL REVENUES</b>	<u>250,000</u>	<u>250,000</u>	<u>-</u>	<u>250,000</u>
<b>NET CHANGE IN FUND BALANCE</b>	<u>\$ (172,500)</u>	<u>\$ (172,500)</u>	<u>139,770</u>	<u>\$ (187,730)</u>
<b>FUND BALANCE, BEGINNING OF YEAR</b>			<u>218,313</u>	
<b>FUND BALANCE, END OF YEAR</b>			<u>\$ 358,083</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.