

SOUTH SANTA CLARA COUNTY FIRE DISTRICT
(A Component Unit of the County of Santa Clara, California)

MORGAN HILL, CALIFORNIA

AUDIT REPORT

JUNE 30, 2016

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INDEPENDENT AUDITORS' REPORT

To the Board of Commissioners of
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, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the South Santa Clara County Fire 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 and the State Controller's Minimum Audit Requirements for California Special Districts. 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 our 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, we consider internal control relevant to South Santa Clara County Fire District'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 South Santa Clara County Fire District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the South Santa Clara County Fire District, as of June 30, 2016, 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

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3-6 and page 21, as listed in 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.

R.J. Ricciardi, Inc.

R.J. Ricciardi, Inc.
Certified Public Accountants

San Rafael, California
October 26, 2016

South Santa Clara County Fire District
(A Component Unit of the County of Santa Clara, California)
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2016

The following discussion and analysis provides an overview of the South Santa Clara County Fire District's (the District's) financial activities for the year ended June 30, 2016. Please read it in conjunction with the District's basic financial statements, which follows this section.

Financial Highlights

- At the close of the year, June 30, 2016, the assets of the District exceeded its liabilities by \$2,512,333 (net position). Of this amount \$1,804,822 (unrestricted net position) may be used to meet ongoing obligations to citizens that the District serves.
- The District's net position increased by \$133,528. This increase is primarily due to an increase in revenues. At June 30, 2016, the District's governmental funds reported an ending balance of \$1,804,822, an increase of \$172,785 when compared to the prior year.
- At the end of the current year, June 30, 2016, fund balance for the General Fund was \$1,556,439 or 30% of General Fund expenditures.
- The District's liabilities decreased by \$42,495 due to the current year lease principal payments.

Overview of the Financial Statements

This discussion and analysis are 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 focuses on the District's operations with a short-term focus.

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

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

South Santa Clara County Fire District
(A Component Unit of the County of Santa Clara, California)
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2016

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 \$2,512,333. The largest portion of the District's net position, 72%, reflects unrestricted net position. The other component of the District's net position is its investments in capital assets (e.g. land, buildings, equipment and vehicles, and capital leases), which makes up the remaining 28% of the District's net position. The District uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending.

The following table summarizes the net position of the District as of June 30, 2016 and June 30, 2015 respectively.

Governmental Activities

Table 1
Governmental Net Position

	Governmental Activities		Variance (%)
	2016	2015	
Assets:			
Current and other assets	\$ 1,807,578	\$ 1,773,380	2
Capital assets, net of accumulated depreciation	<u>1,489,482</u>	<u>1,432,646</u>	4
Total assets	<u>3,297,060</u>	<u>3,206,026</u>	3
Liabilities:			
Other liabilities	187,625	292,280	-36
Long-term debt outstanding	<u>597,102</u>	<u>534,942</u>	12
Total liabilities	<u>784,727</u>	<u>827,222</u>	-5
Net position:			
Invested in capital assets, net of related debt	707,511	746,768	-5
Unrestricted	<u>1,804,822</u>	<u>1,632,036</u>	11
Total net position	<u>\$ 2,512,333</u>	<u>\$ 2,378,804</u>	6

At the end of the current year, June 30, 2016, the District reports positive balances in both categories of net position. There was a decrease in the invested in capital assets category of \$39,257, mainly as a result of current year depreciation charges.

The net position of the District was increased by \$133,528 during the current year. The following table summarizes the changes in net position for the years ended June 30, 2016 and 2015.

The Statement of Activities presents program revenues and expenses and general revenues in detail. All of these are elements in the Changes in Governmental Net Position summarized below.

South Santa Clara County Fire District
(A Component Unit of the County of Santa Clara, California)
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2016

Table 2
Changes in Governmental Net Position

	Governmental Activities		
	2016	2015	Variance (%)
<u>Revenues</u>			
Program revenues:			
Charges for services	\$ 205,575	\$ 231,154	-10
General revenues:			
Property taxes	4,498,980	4,344,498	4
Other revenues	<u>568,889</u>	<u>352,184</u>	61
Total revenues	<u>5,273,444</u>	<u>4,927,836</u>	
<u>Expenses</u>			
Public safety - fire protection	5,110,305	4,821,164	6
Interest on long-term debt	<u>29,611</u>	<u>14,673</u>	102
Total expenses	<u>5,139,916</u>	<u>4,835,837</u>	
Change in Net Position	<u>\$ 133,528</u>	<u>\$ 91,999</u>	45

Property taxes increased by \$154,482 (4%) in the current year. This increase is a reflection of increases in property tax revenues as a result of an increase in property values and new construction with no significant declines in the population in the South County. Additionally, charges for services decreased by \$25,579 (11%). Other revenue increased by \$216,705 or 62% which is mainly due to the SAFER grant and funding two positions at Morgan Hill Station 1. Under the California Fire Assistance Agreement, local government is reimbursed for costs associated with responding to fires within the State Responsibility Areas (SRA).

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, 2016, fund balance of the General Fund was \$1,556,439. Revenues for governmental functions totaled \$5,273,444, which represents an increase of \$345,608 or about 7% from the previous fiscal year. Expenditures for governmental functions, totaling \$5,100,659 reflects an increase of \$343,828 or about 7% from the previous fiscal year. In the current fiscal year 2015-2016, expenditures for governmental functions were under revenues by \$172,785.

South Santa Clara County Fire District
(A Component Unit of the County of Santa Clara, California)
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2016

Capital Assets and Debt Administration

Capital Assets

Shown in the table below is the District's investment in capital assets as of June 30, 2016. The capital asset balance includes investments in land, buildings, and equipment and vehicles.

Capital assets, net of depreciation:

Land	\$	64,620
Buildings		240,046
Equipment and vehicles		<u>4,901,969</u>
Net book value	\$	<u><u>5,206,635</u></u>

Economic Factors and Next Year's Budget and Rates

Several factors affecting expenditures, including an increase in property values, rising workers' compensation rates and rising healthcare premiums are being factored in the District's 2017 budget. All factors will impact one of the District's most significant expenditures, California Department of Forestry and Fire Protection (CAL FIRE) contracted expenses.

Requests for Information

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

South Santa Clara County Fire District

STATEMENT OF NET POSITION

June 30, 2016

ASSETS

Cash and investments	\$ 1,777,884
Accounts receivable	25,908
Interest receivable	3,786
Non-depreciable capital assets	64,620
Depreciable capital assets, net of accumulated depreciation	<u>1,424,862</u>
Total assets	<u>3,297,060</u>

LIABILITIES

Accounts payable and accrued liabilities	2,756
Capital lease, due within one year	184,869
Long-term liabilities:	
Capital lease, due beyond year	<u>597,102</u>
Total liabilities	<u>784,727</u>

NET POSITION

Invested in capital assets, net of related debt	707,511
Unrestricted	<u>1,804,822</u>
Total net position	<u>\$ 2,512,333</u>

The accompanying notes are an integral part of these financial statements.

South Santa Clara County Fire District

STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2016

<u>Functions/Programs</u>	<u>Expenditures</u>	<u>Program Revenues</u>	<u>Net (Expense) Revenue and Changes in Net Assets</u>
		<u>Charges for Services</u>	<u>Total Governmental Activities</u>
Governmental activities:			
Public safety - fire prevention and protection	\$ 5,139,916	\$ 205,575	\$ (4,934,341)
Total governmental activities	<u>\$ 5,139,916</u>	<u>\$ 205,575</u>	<u>(4,934,341)</u>
General revenues:			
Property taxes			4,498,980
Interest and investment income			15,012
Intergovernmental revenues			295,890
Other income			<u>257,987</u>
Total general revenues			<u>5,067,869</u>
Change in net position			<u>133,528</u>
Net position, beginning of period			<u>2,378,805</u>
Net position, end of period			<u>\$ 2,512,333</u>

The accompanying notes are an integral part of these financial statements.

South Santa Clara County Fire District
 GOVERNMENTAL FUND
BALANCE SHEETS
 June 30, 2016

<u>ASSETS</u>	<u>General Fund</u>	<u>Special Revenue Fund</u>	<u>Totals</u>
Cash and investments	\$ 1,529,980	\$ 247,904	\$ 1,777,884
Accounts receivable	25,908		25,908
Interest receivable	<u>3,307</u>	<u>479</u>	<u>3,786</u>
Total assets	<u>\$ 1,559,195</u>	<u>\$ 248,383</u>	<u>\$ 1,807,578</u>
<u>LIABILITIES</u>			
Accounts payable	<u>\$ 2,756</u>	<u>\$ -</u>	<u>\$ 2,756</u>
Total liabilities	<u>2,756</u>	<u>-</u>	<u>2,756</u>
<u>FUND BALANCES</u>			
Assigned to - Special revenue for expanding station	-	231,469	231,469
Assigned to - Supplement 2015-16 Budget	1,556,439	-	1,556,439
Unassigned	<u>-</u>	<u>16,914</u>	<u>16,914</u>
Total fund balances	<u>1,556,439</u>	<u>248,383</u>	<u>1,804,822</u>
Total liabilities and fund balances	<u>\$ 1,559,195</u>	<u>\$ 248,383</u>	<u>\$ 1,807,578</u>

The accompanying notes are an integral part of these financial statements.

South Santa Clara County Fire District
Reconciliation of the
GOVERNMENTAL FUNDS - BALANCE SHEETS
with the Governmental Activities
STATEMENT OF NET POSITION
For the Year Ended June 30, 2016

TOTAL FUND BALANCES - GOVERNMENTAL FUND \$ 1,804,822

Amounts reported for Governmental Activities in the Statement of Net Position are different from those reported in the Governmental Fund above because of the following:

CAPITAL ASSETS

Capital Assets used in Governmental Activities are not current assets or financial resources and therefore are not reported in the Governmental Fund.

1,489,482

LONG TERM ASSETS AND LIABILITIES

Long-term liabilities below are not due and payable in the current period and therefore are not reported in the Funds:

Capital lease payable (781,971)

NET POSITION OF GOVERNMENTAL ACTIVITIES \$ 2,512,333

The accompanying notes are an integral part of these financial statements.

South Santa Clara County Fire District
GOVERNMENTAL FUND
STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES
For the Year Ended June 30, 2016

	<u>General Fund</u>	<u>Special Revenue Fund</u>	<u>Totals</u>
Revenues:			
Property taxes	\$ 4,498,980	\$ -	\$ 4,498,980
Interest and investment income	13,382	1,630	15,012
Intergovernmental revenues	295,890	-	295,890
Charges for services (First Responder Contract)	205,575	-	205,575
Other income	216,841	41,146	257,987
Total revenues	<u>5,230,668</u>	<u>42,776</u>	<u>5,273,444</u>
Expenditures:			
Public safety			
California Department of Forestry & Fire Protection	4,296,027	-	4,296,027
Materials and services	529,371	59,608	588,979
Debt Service- Principal	150,125	35,917	186,042
Debt Service - Interest	21,594	8,017	29,611
Total expenditures	<u>4,997,117</u>	<u>103,542</u>	<u>5,100,659</u>
Net change in fund balances	233,551	(60,766)	172,785
Fund balances, beginning of period	<u>1,322,888</u>	<u>309,149</u>	<u>1,632,037</u>
Fund balances, end of period	<u>\$ 1,556,439</u>	<u>\$ 248,383</u>	<u>\$ 1,804,822</u>

The accompanying notes are an integral part of these financial statements.

South Santa Clara County Fire District
 Reconciliation of the
GOVERNMENTAL FUND - STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES
 with the Governmental Activities
STATEMENT OF ACTIVITIES
 For the Year Ended June 30, 2016

NET CHANGE IN FUND BALANCES - GOVERNMENTAL FUND	\$	172,785
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Amounts reported for governmental activities in the Statement of Activities are different because of the following:

CAPITAL ASSETS TRANSACTIONS

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is capitalized and allocated over their estimated useful lives and reported as depreciation expense.

Capital assets purchased		315,669
Depreciation expense is deducted from the fund balance		(258,833)

LONG-TERM DEBT PROCEEDS AND PAYMENT

Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Position. Repayment of bond principal is an expenditure in the governmental funds, but in the Statement of Net Position the repayment reduces long-term liabilities.

Capital lease proceeds		(282,946)
Principal payments, capital lease		186,853

Changes in net position of governmental activities	\$	133,528
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The accompanying notes are an integral part of these financial statements.

South Santa Clara County Fire District
(A Component Unit of the County of Santa Clara, California)
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2016

NOTE 1 - 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 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 District also applies Financial Accounting Standards Board (FASB) Statements and Interpretations issued on or before November 30, 1989, to its governmental activities provided they do not conflict with or contradict GASB pronouncements. The most significant of the District's accounting policies are described below.

A. Measurement Focus, Basis of Accounting and Financial Statement Presentation

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, except for property taxes, the District considers revenues to be available if they are collected within 180 days of the end of the current year. Revenues meeting this availability criteria include intergovernmental revenues. The availability period for property taxes is 60 days. Revenues not considered available are recorded as deferred revenues. Expenditures are generally recorded when the fund liability is incurred. Liabilities expected to be paid after one year are recorded in the government-wide statement as noncurrent liability due in more than one year.

South Santa Clara County Fire District
(A Component Unit of the County of Santa Clara, California)
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2016

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

A. Measurement Focus, Basis of Accounting and Financial Statement Presentation (concluded)

The District reports two major governmental funds, as follows:

- The General Fund is the primary 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 accounted for through other funds. For the District, the General Fund's primary activity is public protection.
- The Special Revenue Fund is used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specific purposes. This fund is the special district mitigation fund.

Amounts reported as program revenues include charges for service under the First Responder contract.

The District receives funding for specific programs through a contract agreement that is assigned to the operation of these programs. The District also receives unassigned revenues from different sources. When assigned program expenses are incurred, it is the District's policy to first apply revenues from the assigned sources to these programs and then apply unassigned general revenues.

B. Budgets and Budgetary Accounting

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.

Budgeted revenues and expenditures in the budgetary comparison schedule represent the original budget and the final budget modified by authorized adjustments during the year. Budget amounts include re-appropriated amounts for prior year encumbrances. The District has been granted a spending authority by the County Board of Supervisors and may not exceed budgeted expenditures in total for the District.

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to assign that portion of the applicable appropriation, is employed as an extension of formal budgetary accounting.

The District's budget is based upon accounting for certain transactions on a budget basis rather than accounting principles generally accepted in the United States of America (GAAP) basis. The results of operations on a budget basis for the General Fund differ from operations on a GAAP basis due to the inclusion of year-end encumbrances as expenditures on a budget basis. In the current year, since there were no outstanding encumbrances at year-end, the results of operations presented in the accompanying budgetary comparison schedule equaled the results of operations on a GAAP basis.

C. Capital Assets

Capital assets, which include land, building, and equipment and vehicles, are valued at historical cost. Donated capital assets are valued at their estimated fair market value on the date donated. Capital assets are defined as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Capital assets used in operations are depreciated using the straight line method over the estimated useful lives in the government-wide statements.

South Santa Clara County Fire District
(A Component Unit of the County of Santa Clara, California)
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2016

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Capital Assets (concluded)

Depreciation has been computed using the straight-line method over the following estimated useful lives:

Building	40 years
Equipment and vehicles	5 to 15 years

D. Equity Classifications

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

- Invested In Capital Assets, Net of Related Debt - 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 Net Position - 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 Net Position - 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 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.

South Santa Clara County Fire District
(A Component Unit of the County of Santa Clara, California)
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2016

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (concluded)

D. Equity Classifications (concluded)

- 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, and/or 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.

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.

E. Use of Estimates

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

NOTE 3 - CASH AND INVESTMENTS

The cash balance of the District's fund is pooled and invested by the County's Treasurer in the pooled cash investment program (Pool) for the purpose of increasing earnings through investment activities. The County's commingled pool consists of cash in bank, U.S. government and agency securities, corporate bonds, negotiable certificates of deposit, commercial paper, securities lending collateral, 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 Board. At fiscal year end, the County provides the participants the pooled investments' fair value, 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, securities lending transactions, and maturities of the different categories of investments, can be found in the County's notes to the basic financial statements.

South Santa Clara County Fire District
(A Component Unit of the County of Santa Clara, California)
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2016

NOTE 3 - CASH AND INVESTMENTS (concluded)

Cash and investments at June 30, 2016 consist of the following:

	Carrying Amount	Fair Value
Cash and investments with the County Treasury common pool:		
General Fund	\$ 1,530,711	\$ 1,530,711
Special Revenue Fund	246,673	246,673
Petty cash	500	500
Total cash and investments	\$ 1,777,884	\$ 1,777,884

GASB Statement No. 31, "Accounting and Financial Reporting for Certain Investment and for External Investment Pools" establishes accounting and financial reporting standards for all investments held by governmental external investment pools. The statement requires governmental entities to report investments at fair value.

Based on the County's calculations, the application of GASB Statement No. 31, might change the District's cash balance and interest and investment income. However, since the effect of the application of GASB Statement No. 31 is not material, the District's cash and investments account is stated at cost.

NOTE 4 - CAPITAL ASSETS

A summary of changes in capital assets for the year ended June 30, 2016 is as follows:

	Balance June 30, 2015	Acquisitions	Deletions and Adjustments	Balance June 30, 2016
Land	\$ 64,620	\$ -	\$ -	\$ 64,620
Building and improvements	240,046	-	-	240,046
Equipment	4,586,300	315,669	-	4,901,969
Subtotal	4,890,966	315,669	-	5,206,635
Accumulated depreciation:				
Buildings and Improvements	(155,728)	(8,924)	-	(164,652)
Equipment	(3,302,592)	(249,909)	-	(3,552,501)
Total accumulated depreciation	(3,458,320)	(258,833)	-	(3,717,153)
Net capital assets	\$ 1,432,646	\$ 56,836	\$ -	\$ 1,489,482

Depreciated expense for the current year amounts to \$258,833.

South Santa Clara County Fire District
(A Component Unit of the County of Santa Clara, California)
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2016

NOTE 5 - CAPITAL LEASE OBLIGATION

In November 2012, the District acquired a lease agreement with PNC Equipment Finance, LLC. for the purchase of SCBA equipment. The cost of the equipment was \$323,260, qualified as a capital lease for accounting purposes and, therefore, has been recorded at the present value of future minimum lease payments as of the inception date. Annual lease payment of \$69,691 commenced from December 2012 to December 2016. The future minimum lease obligations as of June 30, 2016, were as follows:

<u>Year Ended June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 67,075	\$ 2,616	\$ 69,691
Total	<u>\$ 67,075</u>	<u>\$ 2,616</u>	<u>\$ 69,691</u>

In December 2012, the District acquired a lease agreement with Osh Kosh Capital for the purchase of a vehicle. The cost of the vehicle was \$62,197, qualified as a capital lease for accounting purposes and, therefore, has been recorded at the present value of future minimum lease payments as of the inception date. Monthly lease payment of \$1,385 commenced from January 2013 to December 2016.

The future minimum lease obligations as of June 30, 2016, were as follows:

<u>Year Ended June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 8,233	\$ 78	\$ 8,311
Total	<u>\$ 8,233</u>	<u>\$ 78</u>	<u>\$ 8,311</u>

In August 2014, the District acquired a lease agreement with Osh Kosh Capital for the purchase of a vehicle. The cost of the vehicle was \$507,388, qualified as a capital lease for accounting purposes and, therefore, has been recorded at the present value of future minimum lease payments as of the inception date. Annual lease payment of \$84,819 commenced from August 2015 to August 2021.

The future minimum lease obligations as of June 30, 2016, were as follows:

<u>Year Ended June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 71,076	\$ 13,743	\$ 84,819
2018	73,201	11,618	84,819
2019	75,390	9,429	84,819
2020	77,644	7,175	84,819
2021	79,966	4,853	84,819
2022	82,357	2,462	84,819
Total	<u>\$ 459,634</u>	<u>\$ 49,280</u>	<u>\$ 508,914</u>

South Santa Clara County Fire District
(A Component Unit of the County of Santa Clara, California)
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2016

NOTE 5 - CAPITAL LEASE OBLIGATION (concluded)

In July 2014, the District acquired a lease agreement with Tax Exempt Leasing Corporation for the purchase of a pumper fire apparatus. The cost of the equipment was \$274,546, qualified as a capital lease for accounting purposes and, therefore, has been recorded at the present value of future minimum lease payments as of the inception date. Annual lease payment of \$43,934 commenced from July 2015 to July 2021.

The future minimum lease obligations as of June 30, 2016, were as follows:

<u>Year Ended June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 36,966	\$ 6,968	\$ 43,934
2018	38,045	5,889	43,934
2019	39,156	4,778	43,934
2020	40,299	3,634	43,933
2021	41,476	2,458	43,934
2022	<u>42,687</u>	<u>1,246</u>	<u>43,933</u>
Total	<u>\$ 238,629</u>	<u>\$ 24,973</u>	<u>\$ 263,602</u>

In April 2016, the District acquired a lease agreement with CIT Bank for the purchase of a copier. The cost of the equipment was \$8,400, qualified as a capital lease for accounting purposes and, therefore, has been recorded at the present value of future minimum lease payments as of the inception date. Annual lease payment of \$1,920 commenced from May 2016 to April 2021.

The future minimum lease obligations as of June 30, 2016, were as follows:

<u>Year Ended June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 1,519	\$ 402	\$ 1,921
2018	1,602	318	1,920
2019	1,690	230	1,920
2020	1,783	152	1,935
2021	<u>1,806</u>	<u>39</u>	<u>1,845</u>
Total	<u>\$ 8,400</u>	<u>\$ 1,141</u>	<u>\$ 9,541</u>

The following is the schedule of changes in long-term debt for the year ended June 30, 2016:

	<u>Balance June 30, 2015</u>	<u>Additions</u>	<u>Deletions & Adjustments</u>	<u>Balance June 30, 2016</u>	<u>Due within one year</u>
Capital lease	<u>\$ 685,878</u>	<u>\$ 282,946</u>	<u>\$ 186,853</u>	<u>\$ 781,971</u>	<u>\$ 184,869</u>

South Santa Clara County Fire District
(A Component Unit of the County of Santa Clara, California)
NOTES TO FINANCIAL STATEMENTS
For the Year Ended June 30, 2016

NOTE 6 - RISK MANAGEMENT

The District is exposed to various risks of loss related to auto liability, general liability, theft of, damage to and destruction of property, and employee dishonesty in the performance of their public safety function. As a result, the District is a member of the Fire Agencies Insurance Risk Authority (FAIRA) and has acquired insurance for general liability, public officials' errors and omissions liability, automobile liability, property damage, and automobile physical damage. Through FAIRA, the District has coverage on general liability of \$1 million per occurrence with an annual aggregate limit of \$2 million. The District also has an umbrella liability policy through FAIRA that provides a \$5 million per occurrence limit with an annual aggregate of \$10 million, excess of the underlying liability limits outlined above. Coverage for direct physical loss or damage to the District's Real Property and Business Personal Property is limited to the value scheduled for a particular location, which does not exceed \$434 thousand at any one location. Crime coverage for different incidents has liability limits ranging from \$100 thousand to \$500 thousand 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 paid annual insurance premiums to FAIRA totaling \$17,155 for the fiscal year ended June 30, 2016.

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 County of Santa Clara paid all premiums on behalf of the District for the coverage period through November 2015.

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

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

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 of these charges are paid from an intra-County professional services account. In the current year, professional services paid to the County were \$55,503. In addition, starting the year 2008-2009, the County charges the District for processing payment vouchers and for any work undertaken by the Budget Office. \$22,697 was charged from the overhead-internal account in the current year.

The County maintains the cash of the District in the County's commingled pool and allocates interest on the District's average daily balance. The County also allocates a portion of property taxes to the District. During the current year, interest income earned totaled \$15,012 with an outstanding receivable balance due from the County of \$3,307, while property taxes allocated to the District amounted to \$4,498,980.

South Santa Clara County Fire District
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
Budget and Actual
For the Year Ended June 30, 2016
(Unaudited)

	General Fund			
	Budgeted Amounts		Variance with	
	Original	Final	Actual	Final Budget
Revenues:				
Property taxes	\$ 4,532,645	\$ 4,532,645	\$ 4,498,980	\$ (33,665)
Interest and investment income	26,000	26,000	13,382	(12,618)
Intergovernmental revenues	943,307	943,307	295,890	(647,417)
Charges for services	95,000	95,000	205,575	110,575
Other	-	-	216,841	216,841
Total revenues	<u>5,596,952</u>	<u>5,596,952</u>	<u>5,230,668</u>	<u>(366,284)</u>
Expenditures:				
Public protection				
California Department of Forestry & Fire Protection	4,313,165	4,313,165	4,296,027	17,138
Materials and services	1,207,196	1,207,196	529,371	677,825
Debt service	172,771	172,771	171,719	1,052
Total expenditures	<u>5,693,132</u>	<u>5,693,132</u>	<u>4,997,117</u>	<u>696,015</u>
Excess (deficit) of revenues over (under) expenditures	<u>\$ (96,180)</u>	<u>\$ (96,180)</u>	233,551	<u>\$ 329,731</u>
Fund balances, beginning of period			1,322,888	
Fund balances, end of period			<u>\$ 1,556,439</u>	