



Coastside Fire Protection District

Half Moon Bay, California

Basic Financial Statements

For the year ended June 30, 2010

C&L
Caporicci & Larson, Inc.
A Subsidiary of Marcum LLP
Certified Public Accountants

Coastside Fire Protection District
Basic Financial Statements
For the year ended June 30, 2010

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INDEPENDENT AUDITORS' REPORT

To the Members of the Board
of the Coastside Fire Protection District
Half Moon Bay, California

We have audited the accompanying financial statements of the governmental activities and fund information of the Coastside Fire Protection District (District), as of and for the year ended June 30, 2010, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards 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 of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing 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 over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and fund information of the District as of June 30, 2010, and the respective changes in financial position and for the year then ended in conformity with generally accepted accounting principles in the United States of America.

The Management's Discussion and Analysis and the Required Supplementary Information on page 3 to 4 and page 31 to 32, respectively, are not a required part of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no such opinion on it.

To the Members of the Board
of the Coastside Fire Protection District
Half Moon Bay, California
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Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's financial statements as a whole. The accompanying supplementary information is presented for purposes of additional analysis and is not a required part of the basic financial statements. The supplementary information has been subjected to the auditing procedures applied by us in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Caporicci & Larson, Inc.

Caporicci & Larson Inc
A Subsidiary of Marcum LLP
Certified Public Accountants
San Francisco, California
March 25, 2011

MANAGEMENT DISCUSSION AND ANALYSIS

INTRODUCTION

The District was incorporated on October 1, 2007, by combining the Half Moon Bay Fire Protection District (HMBFPD), which was established in 1899, and the Point Montara Fire Protection District (PMFPD).

On June 1, 2008, the District contracted with the Department of Forestry and Fire Protection (Cal Fire) to provide fire and administrative personnel for the District and transferred all of employees to Cal Fire.

FINANCIAL HIGHLIGHTS

- Pursuant to the California Public Employees' Retirement System (CalPERS) Annual Valuation Report of June 30, 2008, at the time of joining a risk pool, a side fund was created to account for the difference between the funded status of the pool and the funded status of the Districts retirement plan. The report showed an employer side fund reconciliation of \$3,184,233 (Safety Plan) and \$30,197 (Miscellaneous Plan).
- Through the concerted efforts of the Board of Directors, as of September 2010, the District successfully paid off both the "active" Safety and Miscellaneous Plan Side Fund liabilities.
- In November 2010, CalPERS advised the Districts the retirement plans for both Safety and Miscellaneous were being moved from an "active" risk pool, to an "inactive" pool. CalPERS unilaterally made this decision based upon the valuation assumptions showing the District no longer had employees as part of their "active" plans.

According to CalPERS, because the inactive pool funded ratio is higher than the previous 3% @ 55 active pool, a negative side fund was created to make up the difference in the amount of \$1,072,342 (Safety) and \$10,251 (Miscellaneous).

- In early 2010, the District contacted CalPERS and requested a preliminary termination valuation for the Coastside Fire Protection District Plan. The valuation was based on the June 30, 2008 financial and membership dates. Based upon the June 30, 2008 figures, CalPERS projected the June 30, 2010 amounts by using current actuarial assumptions, except for an assumed -24% investment return for the 2008-09 fiscal year, and variable returns for the 2009-10 fiscal year, and adding a 7% contingency for mortality fluctuation.
- The preliminary results using their pessimistic variable return (0.00%) indicates a \$14,075,000 termination liability.

FINANCIAL HIGHLIGHTS, Continued

- Upon transition of employees from District service to Cal Fire, the District entered into a contract agreement (Promissory Note) with Cal Fire for Post Retirement Health Care. The initial promissory note was signed on June 30, 2008, in the amount of \$1,580,088 with and annual payment (10 years @ 5.121% interest) of \$205,832.77
- Again, through the concerted efforts of the Board of Directors, the District paid \$661,819 towards the principal, which reduced the principal balance to \$596,887.42. With the anticipated interest rate reduction from 4.325% to 2.224% (PMIA rates as of 6/30/09) the annual payment was recalculated to \$82,269.51.
- The District provides medical insurance benefits to twenty-nine (29) retirees who retired directly from the District and receive PERS pension. Retirees must have five (5) years of service in CalPERS to be eligible; this requirement is waived for industrial disability retirements. The District pays the premiums for retirees and their eligible dependents, and continues payment for surviving beneficiaries. District payment is limited to Kaiser premiums for each coverage.
- District retiree medical reserves were invested in the Public Agency Retirement Services (PARS) Trust and had a market value of \$560,561 as of June 30, 2009. The Unfunded Actuarial Accrued Liability (UAAL) is \$3,528,200 and the Governmental Accounting Standards Board (GASB 45) Annual Required Contribution is \$306,000.

DEVELOPMENTS BEARING ON THE DISTRICTS FUTURE

The following issues and/or items will have, or have the potential to have, a significant influence on the Districts financial and operational future:

- Property tax revenues declining or remaining relatively flat
- Continued annual escalating health care costs
- Total liability costs associated with the termination of the CalPERS Safety and Miscellaneous retirement plans
- Potential cost increases to the Cal Fire contract. Specifically, those associated with the administrative and benefit rates, as a result of the current State of California financial crisis
- Findings and recommendations from the Tri Data, System Planning Fire District Audit regarding fire service delivery on the Coastside
- The ability of the District to adequately fund reserves and support capital improvements due to revenue uncertainties and increased operational costs.

BASIC FINANCIAL STATEMENTS

Coastside Fire Protection District
Statement of Net Assets
June 30, 2010

	Governmental Activities
<hr/>	
ASSETS	
Cash in County Treasury:	
Available for general operation	\$ 5,170,788
Cash in banks	14,604
Investment in Local Agency Investment Fund	4,488,747
Accounts receivables (net of allowances)	531
Interest receivable	33,195
Employee loans	1,574
Notes receivable	301,857
Prepaid items	24,782
Capital assets:	
Land	953,816
Buildings	2,957,443
Machinery and equipment	3,011,393
Accumulated depreciation	(3,009,757)
Net other post-employment benefits assets	308,283
Total assets	<u>\$ 14,257,256</u>
LIABILITIES	
Current liabilities:	
Accounts payable	20,222
Accrued liabilities	2,294
Promissory notes	135,198
Accrued Interest payable	27,220
Non Current Liabilities:	
Promissory notes	<u>1,123,508</u>
Total liabilities	<u>1,308,442</u>
NET ASSETS	
Investment in capital assets, net of related debt	3,912,895
Unrestricted	<u>9,035,919</u>
Total net assets	<u><u>\$ 12,948,814</u></u>

See accompanying Notes to Basic Financial Statements.

Coastside Fire Protection District
Statement of Activities and Changes in Net Assets
For the year ended June 30, 2010

Functions/Programs	Expenses	Program Revenues		Governmental Activities Net (Expenses) Revenues
		Charges for Services - EMR JPA	Total	
Primary government:				
Governmental activities:				
Public safety	\$ 7,465,371	\$ 95,134	\$ 95,134	\$ (7,370,237)
Interest on promissory notes	77,309	-	-	(77,309)
Total governmental activities	<u>\$ 7,542,680</u>	<u>\$ 95,134</u>	<u>\$ 95,134</u>	<u>(7,447,546)</u>
General revenues:				
		Taxes levied		8,645,468
		Interest earnings		114,439
		Miscellaneous		113,087
		Total general revenues		<u>8,872,994</u>
		Changes in net assets		1,425,448
		Net assets - beginning of year		<u>11,523,366</u>
		Net assets - end of year	\$	<u>12,948,814</u>

See accompanying Notes to Basic Financial Statements.

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Coastside Fire Protection District
Balance Sheet
Governmental Funds
June 30, 2010

ASSETS		General Fund
Cash in County Treasury:		
Available for general operations	\$	5,170,788
Cash in banks		14,604
Investment in Local Agency Investment Fund		4,488,747
Receivables:		
Accounts receivable		531
Interest receivable		33,195
Employee loans		1,574
Notes receivable		301,857
Prepaid items		24,782
Total assets	\$	10,036,078
LIABILITIES AND FUND BALANCES		
Liabilities:		
Accounts payable	\$	20,222
Accrued payroll & other liabilities		2,294
Deferred revenue		301,857
Total liabilities		324,373
Fund Balances:		
Reserved for:		
Employee loans		1,574
Prepaid items (CalPERS July 10 payment)		24,782
Unreserved, designated for:		
Capital outlay		3,351,952
Retiree health care		903,275
Legal		50,000
Special projects		50,000
Weed abatement		25,907
General operations (other)		3,445,710
General operations (dry period)		1,850,000
Unreserved, undesignated		8,505
Total fund balances		9,711,705
Total liabilities and fund balances	\$	10,036,078

See accompanying Notes to Basic Financial Statements.

Coastside Fire Protection District
Reconciliation of the Governmental Funds Balance Sheet
to the Government-Wide Statement of Net Assets
June 30, 2010

Total Fund Balances - Total Governmental Funds	\$ 9,711,705
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Amounts reported for governmental activities in the Statement of Net Assets are different because:

Notes receivable are not available to pay for current-period expenditures and therefore are reported as deferred revenue in the fund financial statements.	301,857
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Capital assets used in governmental activities are not current financial resources and therefore are not reported in the Governmental Funds Financial Statements.

Non-depreciable capital assets	953,816
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Depreciable capital assets, net	2,959,079
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Other post-employment benefit obligations are not due and payable in the current period and therefore are not reported in the governmental fund financial statements.

308,283

Certain liabilities, including notes payable, are not due and payable in the current period and therefore are not reported in the governmental fund financial statements:

Promissory notes payable	(1,258,706)
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Accrued interest payable	(27,220)
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Net Assets of Governmental Activities	\$ 12,948,814
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See accompanying Notes to Basic Financial Statements.

Coastside Fire Protection District
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the year ended June 30, 2010

REVENUES:	General Fund
Property taxes:	
Secured	\$ 6,740,599
Unsecured	434,010
Home owner property tax relief	46,758
Weed abatement	23,127
Prior years' levies	7,988
ERAF	684,457
District Special Taxes	581,763
Special Tax (CFD #5)	126,766
Plan review/reports	40,954
EMR JPA charges	95,134
AMR fuel refund	38,310
Reimbursements	47,560
Miscellaneous	22,949
Interest Income	114,439
Total revenues	9,004,814
EXPENDITURES:	
Public Safety:	
Salaries and benefits	5,676,588
Materials, supplies, and services	631,033
Other salaries and benefits (Side Fund Payment)	1,236,451
Capital outlay	28,633
Debt Service:	
Principal	196,466
Interest	50,089
Total expenditures	7,819,260
Net change in fund balances	1,185,554
FUND BALANCES:	
Beginning of year	8,526,151
End of year	\$ 9,711,705

See accompanying Notes to Basic Financial Statements.

Coastside Fire Protection District

Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances to the Government-Wide Statement of Activities and Changes in Net Assets For the year ended June 30, 2010

Net Change in Fund Balances - Total Governmental Funds	\$ 1,185,554
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Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental funds report additions of capital assets as part of capital outlay and other program expenditures. However, in the Government-Wide Statement of Activities and Changes in Net Assets, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount of capital assets recorded in the current period.	28,633
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Depreciation expense on capital assets is reported in the Government-Wide Statement of Activities and Changes in Net Assets, but they do not require the use of current financial resources. Therefore, depreciation expense is not reported as expenditures in governmental funds.	(229,582)
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Notes receivable are not considered available revenue and are deferred in the governmental funds. However, those notes are considered earned and recognized as revenue in the government-wide statement of activities.	(36,685)
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Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.	196,466
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Accrual of other post-employment benefit obligations does not require the use of current financial resources and therefore is not recorded as expenditures on the governmental fund financial statements.	308,283
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Accrued interest expense reported in the Statement of Activities does not require the use of current financial resources and, therefore, is not reported as expenditures in governmental funds. Accrued interest payable Increased by this amount.	(27,220)
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Change in Net Assets of Governmental Activities	<u>\$ 1,425,448</u>
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See accompanying Notes to Basic Financial Statements.

Coastside Fire Protection District
Statement of Fiduciary Net Assets
Retired Employees' Health Care Plan
June 30, 2010

ASSETS	
Cash and cash equivalents	\$ 903,275
Total assets	\$ 903,275
Net Assets	
Held in trust for other post-employment healthcare benefits	\$ 903,275

See accompanying Notes to Basic Financial Statements.

Coastside Fire Protection District
Statement of Changes in Fiduciary Net Assets
Retired Employees' Health Care Plan
June 30, 2010

Additions:	
Contribution	\$ 344,001
Investment income	11,229
Total additions	<u>355,230</u>
Deductions:	
Administrative expenses	<u>1,955</u>
Total deductions	1,955
Net increase	353,275
Held in trust for other post-employment healthcare benefits:	
Beginning of year	<u>550,000</u>
End of year	<u>\$ 903,275</u>

See accompanying Notes to Basic Financial Statements.

NOTES TO BASIC FINANCIAL STATEMENTS

Coastside Fire Protection District
Notes to Basic Financial Statements
For the year ended June 30, 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the Coastside Fire Protection District (District) have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental agencies. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant of the District's accounting policies are described below.

A. Reporting Entity

The District is an independent district governed by a nine (9) member Board of Directors elected at large by the voters of the District. The District provides fire protection services for the City of Half Moon Bay and the communities of Montara, Moss Beach, Princeton, El Granada and Miramar in addition to the surrounding unincorporated areas, with a total District size of 50 square miles. The District operates three fire stations in the District area.

The financial statements of the District consist only of the funds of the District. The District has no oversight responsibility for any other governmental entity since no other entities are considered to be controlled by or dependent on the District. Control or dependence is determined on the basis of the respective governing board. The governing board has decision-making authority, the power to designate management, the ability to significantly influence operations and primary accountability for fiscal matters.

B. Basis of Accounting and Measurement Focus

The District's basic financial statements are prepared in conformity with accounting principles generally accepted in the United States. The Government Accounting Standards Board is the acknowledged standard-setting body for establishing accounting and financial reporting standards followed by governmental entities in the United States.

Government-Wide Financial Statements

The District's Government-Wide Financial Statements include a Statement of Net Assets and a Statement of Activities and Changes in Net Assets.

The Government-Wide Financial Statements are presented on an "economic resources" measurement focus and the accrual basis of accounting. Accordingly, all of the District's assets and liabilities including capital assets, infrastructure assets, and long-term liabilities are included in the accompanying Statement of Net Assets. The Statement of Activities presents changes in net assets. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned, while expenses are recognized in the period in which the liability is incurred.

Certain types of transactions reported as program revenues for the District are reported in the following category:

- Charges for services

The District applies all applicable GASB pronouncements including all NCGA Statements and Interpretations currently in effect.

Coastside Fire Protection District
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

B. Basis of Accounting and Measurement Focus, Continued

Governmental Fund Financial Statements

Governmental fund financial statements include a Balance Sheet and a Statement of Revenues, Expenditures and Changes in Fund Balances for all major governmental funds and non-major funds aggregated. An accompanying schedule is presented to reconcile and explain the differences in net assets as presented in these statements to the net assets presented in the Government-Wide Financial Statements. The District has presented all funds as major funds.

All governmental funds are accounted for on a spending or "*current financial resources*" measurement focus and the modified accrual basis of accounting. Accordingly, only current assets and current liabilities are included on the balance sheets. The Statement of Revenues, Expenditures and Changes in Fund Balances presents increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Under the modified accrual basis of accounting, revenues are recognized in the accounting period in which they become both measurable and available to finance expenditures of the current period.

Revenues are recorded when received in cash, except that revenues subject to accrual (generally 60 days after year-end) are recognized when due. The primary revenue sources, which have been treated as susceptible to accrual by the District, are property tax and grant revenues. Expenditures are recorded in the accounting period in which the related fund liability is incurred.

The Reconciliation of the Fund Financial Statements to the Government-Wide Financial Statements is provided to explain the differences created by the integrated approach of GASB Statement No. 34.

The District reports the following major governmental funds:

The General Fund - is the general operating fund which is used to account for all financial resources of the District.

C. Cash and Investments

In accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, highly liquid market investments with maturities of one year or less at time of purchase are stated at amortized cost. All other investments are stated at fair value. Market value is used as fair value for those securities for which market quotations are readily available.

The District participates in an investment pool managed by the State of California titled Local Agency Investment Fund (LAIF), which has invested a portion of the pool funds in Structured Notes and Asset-Backed Securities. LAIF's investments are subject to credit risk with the full faith and credit of the State of California collateralizing these investments. In addition, these Structured Notes and Asset-Backed Securities are subject to market risk as to change in interest rates.

Coastside Fire Protection District
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

C. Cash and Investments, Continued

Since the San Mateo County Treasurer is designated as the District's Treasurer per Health and Safety Code Section 13854, the District participated in the San Mateo County Investment Fund (County Pool) that is regulated by California Government Code Section 16429 under oversight of the Treasurer of the San Mateo County. Included in the County Pool's investment portfolio are U.S. Treasury Notes, Obligations issued by agencies of the U.S. Government, LAIF, Corporate Notes, Commercial Paper, collateralized mortgage obligations, mortgaged backed securities, other assets backed securities and floating rate securities issued by federal agencies, government-sponsored enterprises and corporations. The balance available for withdrawal is based on the accounting records maintained by the County Pool, which are recorded on an amortized cost basis.

D. Capital Assets

Capital assets are reported in the Government-Wide Financial Statements. Capital assets are defined by the District as all assets that have a useful life of more than one year and cost more than \$3,000. Such assets are recorded at historical cost or estimated historical cost if actual historical cost is not available.

Capital assets are depreciated over their estimated useful lives using the straight-line method. This means the cost of the asset is divided by its expected useful life in years and the result is charged to expense each year until the asset is fully depreciated. The purpose of depreciation is to spread the cost of capital assets over the useful life of these assets. The amount charged to depreciation expense each year represents that year's pro rata share of the cost of capital assets.

Depreciation of capital assets is charged as an expense against operations each year and the total amount of depreciation taken over the years, called accumulated depreciation, is reported on the Statement of Net Assets of the government-wide financial statements as a reduction in the book value of the capital assets.

The District has assigned the useful lives listed below to capital assets.

Asset Class	Description	Years
Land		
Buildings & Improvements	Fire stations, additions	7-50
Machinery & Equipment	Fire engines, fire apparatus, furniture, computers	3-20

Coastside Fire Protection District
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

E. Fund Balance Reserves and Designations

Governmental fund balances represent the net current assets of each fund. Net current assets generally represent a fund's cash and receivables, less its liabilities. Portions of a fund's balance may be reserved or designated for the specific future expenditure.

Reservations of the ending fund balance indicate the portions of fund balance not appropriable for expenditure or amounts legally segregated for a specific future use. Designations of the ending fund balance indicate tentative plans for financial resource utilization in a future period.

Reservations as of June 30, 2010 include:

Reserved for Employee Loans – Represents the portions of fund balance used for computer loans to employees.

Reserved for Prepaid Items – Represents the portions of fund balance used for health insurance premiums prepayment for the following fiscal year.

Designations as of June 30, 2010 include:

Designated for Capital Outlay – To provide for the future replacement of apparatus, equipment and tools, and structural improvements.

Designated for Retiree Health Care – To provide medical program specifically for retirees.

Designated for Legal – To be utilized for any legal purpose.

Designated for Special Projects – To be utilized for any unspecified special purpose.

Designated for General Operations (Other) – To reflect the Cash on Hand with the County set aside for the future funding of the District's general operation.

Designated for General Operations (Dry Period) – To be used for cash flow management as well as in the event of economic uncertainty, commonly referred to as "dry period reserves."

Designated for Weed Abatement – To be utilized for the District's Weed Abatement program.

F. Property Taxes, Tax Increment and Special Assessment Revenue

Revenue is recognized in the fiscal year for which the tax and assessment is levied. The County of San Mateo levies, bills and collects property taxes and special assessments as follows:

	Secured Property Tax	Unsecured Property Tax
Valuation Date	March 1	March 1
Lien Date	July 1	July 1
Due Date	November 1 & February 1	Upon receipt of billing
Delinquent Date	December 10 & April 10	August 31

Coastside Fire Protection District
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

G. Net Assets

Government-Wide Financial Statements

In the Government-Wide Financial Statements, net assets are classified in the following categories:

Invested in Capital Assets, Net of Related Debt – This amount consists of capital assets net of accumulated depreciation and reduced by outstanding debt that attributed to the acquisition, construction, or improvement of the assets.

Restricted Net Assets – This amount is restricted by external creditors, grantors, contributors, or laws or regulations of other governments.

Unrestricted Net Assets – This amount is all net assets that do not meet the definition of “invested in capital assets, net of related debt” or “restricted net assets.”

H. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities. In addition, estimates affect the reported amount of expenses. Actual results could differ from these estimates and assumptions.

I. New Pronouncements

In 2010, the District adopted new accounting standards in order to conform to the following Governmental Accounting Standards Board (GASB) Statements:

- GASB Statement No. 43, *Financial Reporting for Postemployment Benefit Plans (OPEB) other than Pension Plans* – This statement establishes uniform financial reporting standards for OPEB plans. The standards in this statement apply for OPEB Trust Funds included in the financial reports of Plan sponsors or employers, as well as for the stand-alone financial reports of OPEB plans or the public employee retirement systems, or other third parties, that administer them.
- GASB Statement No. 45, *Accounting and Financial Reporting by employers for Post Employment Benefits other than Pension Plans* – This statement establishes standards for the measurement, recognition, and display of OPEB expense/expenditures and related liabilities (assets), note disclosures, and if applicable, required supplementary information (RSI) in the financial reports of State and local governmental employers.

Coastside Fire Protection District
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2010

2. CASH AND INVESTMENTS

The following is a summary of pooled cash and investments, including restricted cash and investments held by the District and cash and investments held by fiscal agents, at June 30, 2010 were as follows:

	Government-Wide Statement of Net Assets
	Governmental Activities
Deposits:	
Cash on hand and in banks	\$ 14,604
Cash and Investments:	
Local Agency Investment Fund (LAIF)	4,488,747
San Mateo County Investment Pool	5,170,788
Total cash and investments	\$ 9,674,139

A. Cash Deposits

The carrying amount of the District's cash deposits were \$14,604 as of June 30, 2010. Bank balance was \$14,604 at that date which was fully insured. The District has waived collateral requirements for cash deposits which are fully insured up to \$250,000 by the Federal Deposit Insurance Corporation (FDIC).

The California Government Code requires California banks and savings and loan associations to secure the District's cash by pledging securities as collateral. This Code states that collateral pledged in this manner shall have the effect of perfecting a security interest in such collateral superior to those of a general creditor. Thus, collateral for cash is considered to be held by the third party bank or institution-owned trust department in the District's name. The market value of pledged securities must equal at least 110% of the District's cash. California law also allows financial institutions to secure District cash by pledging first trust deed mortgage notes having a value of 150% of the District's total cash.

B. External Investment Pool

The carrying amounts of the District's investments with the County were \$5,170,788 at June 30, 2010. The District maintains substantially all of its investments in the San Mateo County Treasury as part of a common investment pool. The fair market value of this pool as of that date was not provided by the pool sponsor. The county is restricted by Government Code section 53635 pursuant to Section 53601 to invest in time deposits, U.S. Government Securities, state registered warrants, notes or bonds, State Treasurer's investment pool, bankers' acceptance commercial paper, negotiable certificates of deposit and repurchase or reverse repurchase agreements.

The District invests in Local Agency Investment Fund (LAIF), a State of California external investment pool. LAIF determines fair value on its investment portfolio based on market quotations for those securities where market quotations are readily available and based on amortized cost or best estimate for those securities where market value is not readily available. The District's investments with LAIF at June 30, 2010 included a portion of the pool funds invested in Structured Notes and Asset-Backed Securities. These investments may include the following:

Coastside Fire Protection District
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2010

2. CASH AND INVESTMENTS, Continued

B. External Investment Pool

Structured Notes are debt securities (other than asset-backed securities) whose cash flow characteristics (coupon rate, redemption amount, or stated maturity) depend upon one or more indices and/or that have embedded forwards or options.

Asset-Backed Securities, the bulk of which are mortgage-backed securities, entitle their purchasers to receive a share of the cash flows from a pool of assets such as principal and interest repayments from a pool of mortgages (such as CMO's) or credit card receivables.

As of June 30, 2010, the District had \$4,488,747 invested in LAIF, which had invested 5.42% of the pool investment funds in Structured Notes and Asset-Backed Securities. The LAIF fair value factor of 1.001643776 was used to calculate the fair value of the investments in LAIF. The fair value adjustment was not made as amount was deemed to be immaterial. The fair value of the District's position in the pool was the same as the value of the pool shares.

C. Risk Disclosures

GASB Statement No. 40 requires that risks related to deposits and investments be disclosed.

- *Interest Rate Risk* – the risk of loss of value of an investment due to rising interest rates. In order to limit loss exposure due to interest rate risk, the investment policy limits the length of maturity of investments.

Investment Type	Fair Value	Maturities
		Less than one Year
San Mateo County Investment Pool	\$5,170,788	\$5,170,788
California Local Agency Investment Fund	4,488,747	4,488,747
Total	\$9,659,535	\$9,659,535

- *Credit Risk* – the risk of loss of value of an investment due to a downgrade of its rating or the failure or impairment of its issuer. In order to limit loss exposure due to credit risk, the investment policy limits purchases of investments to those rated A-1 by Standard & Poor's or P-1 by Moody's Investors Service.

Investment Type	Credit Rating	% of Investments
San Mateo County Investment Pool	Not Rated	53.5%
California Local Agency Investment Fund	Not Rated	46.5%
Total		100%

Coastside Fire Protection District
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2010

3. EMPLOYEE LOANS RECEIVABLE

The District has a non-interest bearing computer purchase loans program that is available to all employees. The purpose of this program is to encourage computer ownership resulting in improved computer skills and organizational efficiency. Loans are limited to a maximum of \$3,000, to be repaid in three years. Loan repayments are collected monthly and any outstanding loan balances must be repaid upon termination of employment. As of June 30, 2010, the program had a total outstanding loan balance of \$1,574.

4. NOTES RECEIVABLE

The District has a note receivable from Point Pillar Project Developers, LLC in the amount of \$450,000 to satisfy the requirement that Point Pillar fund the salaries of one and one half firefighter. The first payment was due on October 1, 2007 with the balance of \$375,000 to be paid in equal installments over a ten year period. Annual payments are due October 1st each year beginning October 1, 2008. The outstanding balance will accrue interest at the rate of 7.5% per year commencing on October 1, 2007. The outstanding balance as of June 30, 2010 was \$301,857.

The following is a summary of changes in notes receivables for the year ended June 30, 2010:

	<u>Balance July 1, 2009</u>	<u>Addition</u>	<u>Deletion</u>	<u>Balance June 30, 2010</u>
Point Pillar Project Developers, LLC	<u>338,543</u>	<u>-</u>	<u>36,686</u>	<u>301,857</u>

5. CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2010 consisted of the following:

	<u>Balance July 1, 2009</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance June 30, 2010</u>
Governmental Activities:				
Capital assets, not being depreciated:				
Land	\$ 953,816	\$ -	\$ -	\$ 953,816
Total capital assets, not being depreciated	<u>953,816</u>	<u>-</u>	<u>-</u>	<u>953,816</u>
Capital assets, being depreciated:				
Buildings and improvements	2,957,443	-	-	2,957,443
Machinery and equipment	3,076,891	28,633	(94,131)	3,011,393
Total capital assets, being depreciated	<u>6,034,334</u>	<u>28,633</u>	<u>(94,131)</u>	<u>5,968,836</u>
Accumulated depreciation:				
Buildings and improvements	(833,214)	(67,455)	-	(900,669)
Machinery and equipment	(2,041,092)	(162,127)	94,131	(2,109,088)
Total accumulated depreciation	<u>(2,874,306)</u>	<u>(229,582)</u>	<u>94,131</u>	<u>(3,009,757)</u>
Total capital assets, being depreciated, net	<u>3,160,028</u>	<u>(200,949)</u>	<u>-</u>	<u>2,959,079</u>
Governmental activities capital assets, net	<u>\$ 4,113,844</u>	<u>\$ (200,949)</u>	<u>\$ -</u>	<u>\$ 3,912,895</u>

Coastside Fire Protection District
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2010

6. PROMISSORY NOTE PAYABLE

On June 26, 2008, the District entered into a promissory note with the California Department of Forestry and Fire Protection for a principal sum of \$1,580,088 for purchasing vesting of health benefits for designated local agency employees transferring to State services. The original note was amended on November 18, 2009. Payments of \$189,638 including reduced interest rate at 4.325% are due annually on December 10, through 2018.

The following is a summary of changes in promissory note payable for the year ended June 30, 2010:

	<u>Balance July 1, 2009</u>	<u>Addition</u>	<u>Deletion</u>	<u>Balance June 30, 2010</u>	<u>Amounts Due within One Year</u>	<u>Amounts Due in More than One Year</u>
California Department of Forestry and Fire Protection	<u>1,445,144</u>	<u>-</u>	<u>186,438</u>	<u>1,258,706</u>	<u>135,198</u>	<u>1,123,508</u>

The following schedule illustrates the payment requirement to maturity for the promissory note as of June 30, 2010:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$ 135,198	\$ 54,440	\$ 189,638
2012	141,046	48,592	189,638
2013	147,146	42,492	189,638
2014	153,510	36,128	189,638
2015	160,149	29,489	189,638
2016	167,076	22,562	189,638
2017	174,302	15,336	189,638
2018	180,279	-	180,279
Total	<u>\$ 1,258,706</u>	<u>\$ 249,039</u>	<u>\$ 1,507,745</u>

7. EMERGENCY MEDICAL RESPONSE JOINT POWER AUTHORITY

In September 1997, the District began its participation with other fire departments of cities and fire districts throughout San Mateo County in the development of a Joint Powers Agreement to establish the San Mateo Pre-Hospital Emergency Services Providers Groups, which provides pre-hospital emergency services in San Mateo County. The District receives revenue on a monthly basis. For the fiscal year ended June 30, 2010, the District received \$95,134 for its portion of revenue from the Emergency Medical Response JPA. The contract was reauthorized for an additional ten years and signed in May 2009.

Coastside Fire Protection District
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2010

8. RISK MANAGEMENT

The District is insured for general liability and property by Johndro-Leveroni-Vreeburg, Inc. The primary policy includes the coverage in the table below. The excess umbrella policy provides \$10,000,000 excess coverage with a deductible of \$1,000 per occurrence.

The Main Street Fire Station on 1191 Main Street has coverage up to \$4,336,765 for the building and \$284,795 for contents, with a \$1,000 deductible per occurrence. Earthquake coverage is included, with a deductible of 5% of the building limit.

The El Granada Fire Station has coverage up to \$778,261 for the building, with a \$1,000 deductible per occurrence. Earthquake coverage is included, with a deductible of 5% of the building limit.

The Moss Beach Fire Station has coverage up to \$667,585 for the building, with a \$1,000 deductible per occurrence. Earthquake coverage is included, with a deductible of 5% of the building limit.

The general liability limits are as follows:

COVERAGE	LIMIT
General aggregate	\$3,000,000
Products & completed operations aggregate	\$3,000,000
Personal & advertising	\$1,000,000
Each occurrence	\$1,000,000
Medical expense	\$10,000 per occurrence

The District claims have not exceeded the insurance coverage in any of the past three fiscal years.

9. CONTINGENCIES

As of June 30, 2010, the District does not have any claims outstanding.

10. EMPLOYEE RETIREMENT SYSTEM

On June 1, 2008, all District's employees with the exception of one part time employee became employees of the State of California and therefore all retirement benefits became the responsibility of the State. The benefits relating to the remaining employee is still the responsibility of the District. As of June 30, 2010, the District contributed \$234 for its active employee.

11. OTHER POST EMPLOYMENT BENEFITS

The District implemented GASB Statement No. 43, *Financial Reporting for Postemployment Benefit Plans (OPEB) other than Pension Plans* and GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Post Employment Benefits other than Pension Plans* in FYE 2010. The District provides certain health care benefits for twenty-eight (28) retired employees. The cost of retirement health care benefits is recognized as an expenditure of health care premiums paid. For the year ended June 30, 2010, these expenditures totaled \$245,501.

Coastside Fire Protection District
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2010

11. OTHER POST EMPLOYMENT BENEFITS, Continued

The District's annual other post employment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. It includes amortization of the unfunded actuarial accrued liability (UAAL) over as many as 30 years. District retiree medical reserves were invested in the PARS Trust and had a market value of \$903,275 as of June 30, 2010.

The following table illustrates the District's June 30, 2010 Net OPEB Obligation:

Net OPEB Obligation June 30, 2009	\$	-
Annual OPEB Cost		306,000
Contributions 2009/2010		614,283
Net OPEB Obligation (Asset) June 30, 2010	\$	<u>(308,283)</u>

Funded Status and Funding Progress – As of July 1, 2009, the most recent actuarial valuation date, the plan was 13.5% funded. The actuarial accrued liability (AAL) for benefits was \$4,078,800, and the actuarial value of plan assets was \$306,000, resulting in an unfunded actuarial accrued liability (UAAL) of \$3,528,200.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The Schedule of Funding Progress, presented as Required Supplementary Information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits. Since this is the first year of including this information in the financial report, the data presented is limited.

Actuarial Methods and Assumptions – Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The District's July 1, 2010 actuarial valuation, the actuarial assumptions included a 7.75% investment rate of return on assets and that premiums rise 7% in 2012, 6% for year 2013, and 5% thereafter. The AAL is the cumulative value on the valuation date of prior normal cost. For the retirees, the AAL is the present value of all projected benefits. The unfunded AAL is being amortized as a level dollar closed 30 year basis with a remaining amortization period at June 30, 2010 of 30 years.

Coastside Fire Protection District
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2010

12. COMMITMENTS

The District has entered into a cooperative and reimbursement agreement with the California Department of Forestry and Fire Protection to provide fire protection services such as emergency fire protection, advanced life support, dispatch services, fire code inspection and Pre-Fire planning services. The District will be reimbursing Cal Fire for the fire services provided in accordance with the terms of the agreement. The agreement covers the period through June 30, 2011. The amount authorized for fiscal year ending June 30, 2010 is \$5,250,058.

13. EXCESS EXPENDITURES OVER APPROPRIATIONS

At June 30, 2010, the following expenditures had excess expenditures over appropriations:

	<u>Appropriation</u>	<u>Expenditure</u>	<u>Excess</u>
Operating expenditures:			
Salaries and benefits	6,062,058	6,913,039	(850,981)
Debt service			
Principal	-	196,466	(196,466)
Interest	-	50,089	(50,089)

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REQUIRED SUPPLEMENTARY INFORMATION

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Coastside Fire Protection District
Required Supplementary Information
For the year ended June 30, 2010

Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual (GAAP) – General Fund

	Budgeted Amounts		Actual	Positive (Negative) Variance with Final Budget
	Original	Final	Amounts	
REVENUES:				
Property Taxes:				
Secured	\$ 5,821,289	\$ 5,821,289	\$ 6,740,599	\$ 919,310
Unsecured	380,000	380,000	434,010	54,010
SB 816	190,000	190,000	-	(190,000)
Homeowner property tax relief	55,000	55,000	46,758	(8,242)
Weed abatement	-	-	23,127	23,127
Prior years' levies	-	-	7,988	7,988
ERAF	-	-	684,457	684,457
District special tax	642,000	642,000	581,763	(60,237)
Special tax (Martin's Beach)	1,550	1,550	-	(1,550)
Special tax (CFD #5)	54,632	54,632	126,766	72,134
Reimbursement	30,000	30,000	47,560	17,560
Plan review/reports	50,000	50,000	40,954	(9,046)
EMR JPA charges	50,000	50,000	95,134	45,134
AMR fuel refund	-	-	15,000	15,000
Pillar Point AFB	3,668	3,668	23,310	19,642
Miscellaneous	126,500	126,500	137,388	10,888
Total revenues	<u>7,404,639</u>	<u>7,404,639</u>	<u>9,004,814</u>	<u>1,600,175</u>
EXPENDITURES:				
Operating expenditures:				
Salaries and benefits	6,062,058	6,062,058	6,913,039	(850,981)
Materials, supplies, and services	636,900	636,900	631,033	5,867
Capital outlay	130,000	130,000	28,633	101,367
Debt Service				
Principal	-	-	196,466	(196,466)
Interest	-	-	50,089	(50,089)
Total expenditures	<u>6,828,958</u>	<u>6,828,958</u>	<u>7,819,260</u>	<u>(990,302)</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>\$ 575,681</u>	<u>\$ 575,681</u>	<u>1,185,554</u>	<u>\$ 609,873</u>
FUND BALANCES:				
Beginning of year			8,526,151	
End of year			<u>\$ 9,711,705</u>	

Coastside Fire Protection District
Required Supplementary Information, Continued
For the year ended June 30, 2010

OTHER POSTEMPLOYMENT BENEFIT PLAN SCHEDULE OF FUNDING PROGRESS

Funded Status of Plan

Actuarial Valuation Date	Actuarial Value of Assets	Antuarial Accrued Liability	Actuarial Unfunded (Overfunded) Liability	Funded Ratio
7/1/2010	550,600	4,078,800	3,528,200	13.5%

SUPPLEMENTARY INFORMATION

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Coastside Fire Protection District
Supplementary Information
For the year ended June 30, 2010

Schedule of Operating Expenditures – Budget and Actual (GAAP) – General Fund

	Budgeted Amounts		Actual	Positive (Negative) Variance with Final Budget
	Original	Final	Amounts	
OPERATING EXPENDITURES:				
Salaries and benefits:				
Salaries and wages	\$ 5,275,058	\$ 5,275,058	\$ 6,626,637	\$ (1,351,579)
Employee medical, dental, and life insurance	371,500	371,500	272,409	99,091
Workers' comp insurance	9,500	9,500	13,993	(4,493)
Total salaries and benefits	5,656,058	5,656,058	6,913,039	(1,256,981)
Materials, supplies, and services:				
Agriculture weed abatement	11,000	11,000	16,784	(5,784)
Clothing and uniforms	2,500	2,500	-	2,500
Communication expense	23,000	23,000	28,633	(5,633)
Household expense	22,500	22,500	19,545	2,955
Medical supplies	5,500	5,500	543	4,957
Office expense	19,400	19,400	14,556	4,844
Subscriptions	1,600	1,600	2,117	(517)
Postage	5,500	5,500	7,102	(1,602)
Computer expense	17,000	17,000	14,059	2,941
Small tools and equipment	63,600	63,600	5,894	57,706
County memberships	8,000	8,000	5,873	2,127
Publication and legal notices	7,600	7,600	1,864	5,736
Special district expense	16,100	16,100	9,157	6,943
Motor vehicle equipment maintenance	135,000	135,000	118,277	16,723
General facility maintenance	30,000	30,000	41,775	(11,775)
Rents and leases	14,000	14,000	14,337	(337)
Insurance premiums	80,000	80,000	46,428	33,572
Utilities	40,000	40,000	34,584	5,416
Training and education	105,000	105,000	65,703	39,297
Professional services	173,000	173,000	61,046	111,954
Medical exams	-	-	345	(345)
San Mateo County tax collector	3,000	3,000	35,606	(32,606)
Legal Expense	50,000	50,000	24,840	25,160
Misc. expense	130,000	130,000	11,764	118,236
Facility Improvement	154,000	154,000	-	154,000
Inventory equipment	55,600	55,600	50,201	5,399
Total materials, supplies, and services	1,172,900	1,172,900	631,033	541,867
Interest on long-term debt	-	-	50,089	(50,089)
Total operating expenditures	\$ 6,828,958	\$ 6,828,958	\$ 7,594,161	\$ (765,203)

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Coastside Fire Protection District

Half Moon Bay, California

*Auditors' Communication with
Those Charged with Governance*

For the year ended June 30, 2010

C&L
Caporicci & Larson, Inc.
A Subsidiary of Marcum LLP
Certified Public Accountants



Caporicci & Larson, Inc.
A Subsidiary of Marcum LLP
Certified Public Accountants

March 25, 2011

To the Members of the Board
of the Coastside Fire Protection District
Half Moon Bay, California

We have audited the financial statements of the governmental activities fund information of the Coastside Fire Protection District (District) for the year ended June 30, 2010, and have issued our report thereon dated March 25, 2011. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated September 27, 2010, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

Other Information in Documents Containing Audited Financial Statements

Our responsibility for other information in documents containing the audited financial statements is as follows:

- Our responsibility for other information in documents containing the District's financial statements and report does not extend beyond the financial information identified in the report.
- We do not have an obligation to perform any procedures to corroborate other information contained in these documents.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the District are described in Notes to the Financial Statements. The District adopted the following new accounting standards:

To the Members of the Board
of the Coastside Fire Protection District
Half Moon Bay, California
Page Two

- GASB Statement No. 43, *Financial Reporting for Postemployment Benefit Plan (OPEB) other than Pension Plans* – This statement establishes uniform financial reporting standards for OPEB plans. The standards in this statement apply for OPEB Trust Funds included in the financial reports of Plan sponsors or employers, as well as for the stand-alone financial reports of OPEB plans or the public employee retirement systems, or other third parties, that administer them.
- GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Post Employment Benefits other than Pension Plans* – This statement establishes standards for the measurement, recognition, and display of OPEB expense/expenditures and related liabilities (assets), not disclosures, and if applicable, required supplementary information (RSI) in the financial reports of State and local governmental employers.

We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate(s) affecting the financial statements were:

- Investment Valuation
- Useful Lives of Capital Assets
- Actuarial Valuation for Other Postemployment

The disclosures in the financial statements are neutral, consistent, and clear. Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosure(s) affecting the financial statements was (were):

- Summary of Significant Accounting Policies
- Other Postemployment Benefit (OPEB) Plan

To the Members of the Board
of the Coastside Fire Protection District
Half Moon Bay, California
Page Three

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated March 25, 2011. A copy of the signed management representation letter is available for your review upon request.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

To the Members of the Board
of the Coastside Fire Protection District
Half Moon Bay, California
Page Four

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of the District and management of the District and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

Caporicci & Larson, Inc.

Caporicci & Larson, Inc
A Subsidiary of Marcum LLP
Certified Public Accountants
San Francisco, California



COASTSIDE FIRE PROTECTION DISTRICT

1191 MAIN STREET ■ HALF MOON BAY, CA 94019

TELEPHONE (650) 726-5213
FAX (650) 726-0132

March 25, 2011

Caporicci & Larson, Inc
101 Montgomery Street, Suite 1900
San Francisco, California


We are providing this letter in connection with your audit(s) of the financial statements of Coastside Fire Protection District (District) as of June 30, 2010 and for the period then ended for the purpose of expressing opinions as to whether the financial statements present fairly, in all material respects, the respective financial position of the governmental activities of the District and the respective changes in financial position thereof in conformity with U.S. generally accepted accounting principles. We confirm that we are responsible for the fair presentation of the previously mentioned financial statements in conformity with U.S. generally accepted accounting principles. We are also responsible for adopting sound accounting policies, establishing and maintaining effective internal control over financial reporting, and preventing and detecting fraud.

We confirm, to the best of our knowledge and belief, as of March 25, 2011, the following representations made to you during your audit(s).

- 1) The financial statements referred to above are fairly presented in conformity with U.S. generally accepted accounting principles and include all properly classified funds and other financial information of the primary government and all component units required by generally accepted accounting principles to be included in the financial reporting entity.
- 2) We have made available to you all—
 - a) Financial records and related data [and all audit or relevant monitoring reports, if any, received from funding sources].
 - b) Minutes of the meetings of the District or summaries of actions of recent meetings for which minutes have not yet been prepared.
- 3) There have been no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices.
- 4) There are no material transactions that have not been properly recorded in the accounting records underlying the financial statements.
- 5) We believe the effects of the uncorrected financial statement misstatements summarized in the attached schedule are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.
- 6) We acknowledge our responsibility for the design and implementation of programs and controls to prevent and detect fraud.
- 7) We have no knowledge of any fraud or suspected fraud affecting the entity involving:
 - a) Management,
 - b) Employees who have significant roles in internal control, or
 - c) Others where the fraud could have a material effect on the financial statements.
- 8) We have no knowledge of any allegations of fraud or suspected fraud affecting the entity received in communications from employees, former employees, analysts, regulators, or others.
- 9) We have taken timely and appropriate steps to remedy fraud, illegal acts, violations of provisions of contracts or grant agreements, or abuse that you have reported to us.

- 10) We have a process to track the status of audit findings and recommendations.
- 11) We have identified to you any previous audits, attestation engagements, and other studies related to the audit objectives and whether related recommendations have been implemented.
- 12) We have provided our views on reported findings, conclusions, and recommendations, as well as our planned corrective actions, for the report.
- 13) The District has no plans or intentions that may materially affect the carrying value or classification of assets, liabilities, or equity.
- 14) The following, if any, have been properly recorded or disclosed in the financial statements:
 - a) Related party transactions, including revenues, expenditures/expenses, loans, transfers, leasing arrangements, and guarantees, and amounts receivable from or payable to related parties.
 - b) Guarantees, whether written or oral, under which the District is contingently liable.
 - c) All accounting estimates that could be material to the financial statements, including the key factors and significant assumptions underlying those estimates and measurements. We believe the estimates and measurements are reasonable in the circumstances, consistently applied, and adequately disclosed.
- 15) We are responsible for compliance with the laws, regulations, and provisions of contracts and grant agreements applicable to us, including tax or debt limits and debt contracts; and we have identified and disclosed to you all laws, regulations and provisions of contracts and grant agreements that we believe have a direct and material effect on the determination of financial statement amounts or other financial data significant to the audit objectives, including legal and contractual provisions for reporting specific activities in separate funds.
- 16) There are no—
 - a) Violations or possible violations of budget ordinances, laws and regulations (including those pertaining to adopting, approving, and amending budgets), provisions of contracts and grant agreements, tax or debt limits, and any related debt covenants whose effects should be considered for disclosure in the financial statements, or as a basis for recording a loss contingency, or for reporting on noncompliance.
 - b) Unasserted claims or assessments that our lawyer has advised us are probable of assertion and must be disclosed in accordance with generally accepted accounting principles (*Statement of Financial Accounting Standards No. 5*).
 - c) Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by generally accepted accounting principles (*Statement of Financial Accounting Standards No. 5*).
 - d) Reservations or designation of fund equity that were not properly authorized and approved.
- 17) As part of your audit, you assisted with preparation of the financial statements and related notes [and schedule of expenditures of federal awards]. We have designated an individual with suitable skill, knowledge, or experience to oversee your services and have made all management decisions and performed all management functions. We have reviewed, approved, and accepted responsibility for those financial statements and related notes.
- 18) The District has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset been pledged as collateral.
- 19) The District has complied with all aspects of contractual agreements that would have a material effect on the financial statements in the event of noncompliance.
- 20) We have followed all applicable laws and regulations in adopting, approving, and amending budgets.

- 21) The financial statements include all component units as well as joint ventures with an equity interest, and properly disclose all other joint ventures and other related organizations.
- 22) The financial statements properly classify all funds and activities.
- 23) Net asset components (invested in capital assets, net of related debt; restricted; and unrestricted) and equity amounts are properly classified and, if applicable, approved.
- 24) Provisions for uncollectible receivables have been properly identified and recorded.
- 25) Expenses have been appropriately classified in or allocated to functions and programs in the statement of activities, and allocations have been made on a reasonable basis.
- 26) Revenues are appropriately classified in the statement of activities within program revenues, general revenues, contributions to term or permanent endowments, or contributions to permanent fund principal.
- 27) Interfund, internal, and intra-entity activity and balances have been appropriately classified and reported.
- 28) Special and extraordinary items are appropriately classified and reported.
- 29) Deposits and investment securities are properly classified as to risk, and investments are properly valued.
- 30) Capital assets, including infrastructure assets, are properly capitalized, reported, and, if applicable, depreciated.
- 31) The government meets the GASB-established requirements for accounting for eligible infrastructure assets using the modified approach.
- 32) We acknowledge our responsibility for the required supplementary information (RSI). The RSI is measured and presented within prescribed guidelines and the methods of measurement and presentation have not changed from those used in the prior period. We have disclosed to you any significant assumptions and interpretations underlying the measurement and presentation of the RSI.
- 33) No events, including instances of noncompliance, have occurred subsequent to the balance sheet date and through the date of this letter that would require adjustment to or disclosure in the aforementioned financial statements

Signed: []
Title: []

Signed: []
Title: []

