



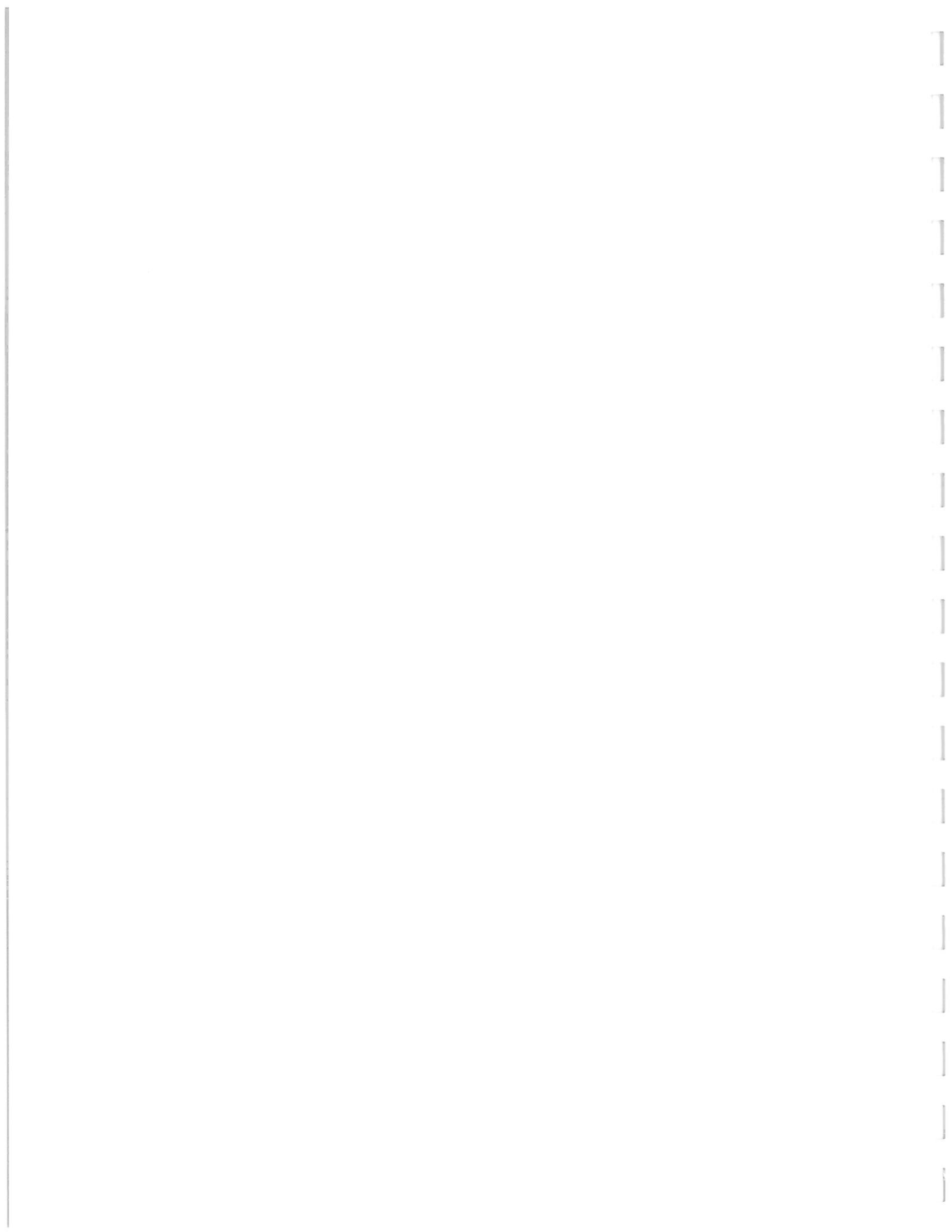
Coastside Fire Protection District

Half Moon Bay, California

Basic Financial Statements

*For the period from October 1, 2007 through
June 30, 2008*

As Reissued



Coastside Fire Protection District
Basic Financial Statements
For the period from October 1, 2007 through June 30, 2008

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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 period from October 1, 2007 through June 30, 2008, 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Subsequent to the basic financial statements date of June 30, 2008 and the year then ended, the United States has entered into a Financial Credit Crisis. Although the United States Federal Government has taken actions which, at least in part, are intended to relieve and correct this Financial Credit Crisis, investments are subject to significant impairment and losses. To date, except for the loss in the San Mateo County Investment Pool discussed in the paragraph below, the District has not been informed and is not aware of any investment losses. Accordingly, such investment losses, if any, have not been reflected in the accompanying basic financial statements.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities and fund information of the District as of June 30, 2008, and the respective changes in financial position and for the period then ended in conformity with generally accepted accounting principles in the United States.

As described in Note 1 to the basic financial statements, the District adopted Statement of Governmental Accounting Standards Board No. 48, Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues and No. 50, Pension Disclosures, an Amendment of GASB Statements No. 25 and No. 27.

As explained in Note 10 to the basic financial statements, the District's investments in the San Mateo County Investment Pool were impaired as a result of the bankruptcy of one issuer in which the Pool had some holdings. The impairment occurred after the end of the fiscal year and the impact on the District was approximately \$242,300 in loss.

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To the Members of the Board
of the Coastside Fire Protection District
Half Moon Bay, California
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In accordance with *Government Auditing Standards*, we have also issued our report dated November 10, 2008 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The accompanying Required Supplementary Information, such as management's discussion and analysis, budgetary comparison information and other information as listed in the table of contents, are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquires of management regarding the methods of measurement and presentation of the Required Supplementary Information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The accompanying supplementary information is presented for purpose 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 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.

Capricci & Carson

Oakland, California
November 10, 2008

**COASTSIDE FIRE PROTECTION DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE PERIOD FROM OCTOBER 1, 2007 THROUGH JUNE 30, 2008**

This section of the Annual Financial Statements (AFS) of the Coastside Fire Protection District (the District) presents the narrative introduction, overview, and analysis of the District's financial performance during the period from October 1, 2007 through June 30, 2008. This Management's Discussion and Analysis ("MD&A") should be read in conjunction with the District's AFS, including the notes and the supplementary information that immediately follow this section.

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). Hence this AFS represents only nine months of financial activity of the District.

On June 1, 2008, the District contracted with the Department of Forestry Fire Services (Cal Fire) to provide fire and administrative personnel for the District and transferred all of its personnel except one full-time employee to Cal Fire.

The District is governed by a nine-member Board.

FINANCIAL HIGHLIGHTS

- The combined fund equity of both HMBFPD and PMFPD was \$5,183,400 as of July 1, 2007.
- However, at the time of the inception of the District on October 1, 2007, the total fund equity of the District was dropped to \$4,031,270 because of the dry period for both former Districts between July and September.
- The fund equity as of June 30, 2008 is \$6,751,000, which represents an increase of \$2,719,700, mainly because of strong revenue performance and reduction in expenditures due to the personnel vacancies.
- The total expenditures including capital outlay and debt service were \$6,066,000 and the total revenues were \$8,785,700.
- The main source of revenue is property taxes, which amounted to \$7.47 million. The District's second largest source of revenue is special assessments for services, which amounted to \$662,000. In addition, the District earned payments of \$295,700 for services and interest income of \$203,913.
- The total District expenditures for the reporting year were \$1.89 million under budget due to savings in personnel costs, services, and supplies.
- The Board and the management have set the goals and established several reserved and designated fund equity accounts to fund the various capital replacement costs, retiree health benefits, general operations, and cash reserves for the dry period. In general, half of the goals have been achieved as of June 30, 2008.

OVERVIEW OF FINANCIAL STATEMENTS

This annual financial report consists of three sections: management's discussion and analysis (this section), the basic financial statements, and required supplemental information. The basic financial statements include two kinds of statements that present different views of the District's financial condition.

The first two statements are government-wide financial statements, which provide both short-term and long-term information about the District's overall financial status.

The remaining statements are fund financial statements, which focus on individual parts of the District, reporting the District's operation in more detail than the government-wide statements.

The fund financial statements are composed of:

- Governmental fund statements, which tell how basic services were financed in the short term, as well as how much remains for future spending.

The Statement of Net Assets and the Statement of Activities and Changes in Net Assets.

The Statement of Net Assets and Statement of Activities and Changes in Net Assets report information about the District as a whole and about its activities. These statements assess all assets and liabilities of the District using the accrual basis of accounting, which is similar to the accounting used by most private sector businesses. All of the current year's revenues and expenses are taken into account regardless of whether cash is received or paid.

These two statements report the District's net assets and changes in them. Net assets are the difference between assets and liabilities, which is one way to measure the District's financial health or financial position. Over time, increases or decreases in the District's net assets are one indicator of whether its financial health is improving or deteriorating. In addition to assets, the reader of the report needs to consider non-financial factors including the condition of the District's infrastructure, improvements, and other capital assets when assessing the overall health of the District.

REPORTING THE DISTRICT'S MOST SIGNIFICANT FUNDS

Fund Financial Statements

The fund financial statements provide more detailed information about the District's most significant funds - not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs:

- Some funds are required by law and covenants.
- The District currently only has a General Fund. However, the District intends to establish other funds to control and manage its assets for particular purposes such as the replacement of capital assets or to show that certain revenues have been properly allocated and used.

REPORTING THE DISTRICT'S MOST SIGNIFICANT FUNDS, Continued

Governmental funds

Most of the District's basic services are reported in governmental funds, which generally focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called "modified accrual basis of accounting," which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the District's general governmental operations and the basic services it provides. Governmental fund information 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 long-term focus of the government-wide statements, we provide additional information at the bottom of the governmental fund statement that explains the relationship (or differences) between them.

DEVELOPMENTS BEARING ON THE DISTRICT'S FUTURE

The District contracted out its fire protection service including management, operation, and personnel to the California Department of Forestry Fire Services (Cal Fire) effective June 1, 2008. The contract term is through June 30, 2010 and it costs \$ 6,177,289.00 to the District for fiscal year 2008-09. The cost will be the same through fiscal year 2009-10. However the future cost is subject to amendments before June 30, 2009. The Board of the District still maintains its sovereignty and control over the fire prevention policy and services for the community it serves. The main objective of this arrangement is to reduce cost and to acquire adequate resources through Cal Fire.

By doing so, the District is able to transfer its unfunded retirement liability of its former employees to Cal Fire. The District has no obligation for compensated absences of its former employees, which amounted to approximately \$238,000. The District is also able to arrange with Cal Fire to fully fund the obligation for post-employee benefits other than pension.

Although the economy is in a downturn, the District's possession of certain reserved funds and prudent steering from the Board will help the District overcome its difficulties inherited from the global economic situation.

FURTHER INFORMATION ON FINANCIAL MANAGEMENT

This financial report is designed to provide the constituents of the District, the investors, and the potential creditors with a general overview of the District's finances and to show the District's accountability for the financial and other resources it receives. Any questions regarding the facts in this report and requests for additional information may be directed to: Paul Cole, Assistant Fire Chief, Coastside Fire District, 1191 Main Street, Half Moon Bay, California 94019; or by phone at (650) 726-5213.

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BASIC FINANCIAL STATEMENTS

Coastside Fire Protection District
Statement of Net Assets
June 30, 2008

	<u>Governmental Activities</u>
ASSETS	
Cash and investments	\$ 7,291,112
Accounts receivables (net of allowances)	10,022
Interest receivable	54,837
Employee loans	11,009
Notes receivable	375,000
Capital assets:	
Land	953,816
Buildings	2,957,443
Machinery and equipment	2,913,265
Accumulated depreciation	<u>(2,645,708)</u>
Total assets	\$ 11,920,796
LIABILITIES	
Current liabilities:	
Accounts payable	600,443
Accrued payroll	<u>15,545</u>
Total liabilities	615,988
NET ASSETS	
Investment in capital assets, net of related debt	4,178,816
Unrestricted	<u>7,125,992</u>
Total net assets	<u>\$ 11,304,808</u>

See accompanying Notes to Basic Financial Statements.

Coastside Fire Protection District
Statement of Activities and Changes in Net Assets
For the period from October 1, 2007 through June 30, 2008

Functions/Programs	Expenses	Program Revenues		Governmental Activities Net (Expenses) Revenues
		Charges for Services - EMR JPA	Total	
Primary government:				
Governmental activities:				
Public safety	\$ 5,683,990	\$ 76,760	\$ 76,760	\$ (5,607,230)
Total governmental activities	\$ 5,683,990	\$ 76,760	\$ 76,760	(5,607,230)
General revenues:				
				8,133,523
				203,931
				746,466
			Total general revenues	9,083,920
			Changes in net assets	3,476,690
			Net assets - beginning of year	7,828,118
			Net assets - end of year	\$ 11,304,808

See accompanying Notes to Basic Financial Statements.

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Coastside Fire Protection District

Balance Sheet

Governmental Funds

June 30, 2008

ASSETS	
Cash in County Treasury:	
Available for general operations	\$ 5,248,923
Cash in LAIF	2,014,393
Cash in banks	27,446
Petty cash	350
Receivables:	
Accounts receivable	10,022
Interest receivable	54,837
Employee loans	11,009
Notes receivable	375,000
Total assets	\$ 7,741,980
LIABILITIES AND FUND BALANCES	
Liabilities:	
Accounts payable	\$ 600,443
Payroll & other liabilities	15,545
Deferred revenue	375,000
Total liabilities	990,988
Fund Balances:	
Reserved for:	
Petty cash	350
Employee loans	11,009
Unreserved, designated for:	
Capital outlay	1,476,590
Retiree health care	260,000
Legal	50,000
Special projects	71,180
General operations (other)	1,412,680
General operations (dry period)	1,850,000
Unreserved, undesignated	1,619,183
Total fund balances	6,750,992
Total liabilities and fund balances	\$ 7,741,980

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, 2008

Total Fund Balances - Total Governmental Funds	\$ 6,750,992
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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.	375,000
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Capital assets used in governmental activities are not current financial resources and therefore are not reported in the Governmental Funds Balance Sheet.

Non-depreciable capital assets	953,816
Depreciable capital assets, net	3,225,000

Net Assets of Governmental Activities	<u>\$ 11,304,808</u>
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Coastside Fire Protection District
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the period from October 1, 2007 through June 30, 2008

REVENUES:

Property taxes:		
Secured	\$	6,519,754
Unsecured		389,867
Home owner property tax relief		48,958
Weed abatement		23,501
Prior years' levies		2,121
ERAF		487,410
District Special Taxes		616,039
Special Tax (Martin's Beach)		1,545
Special Tax (CFD #5)		44,328
Interest		203,931
Plan review/reports		142,711
Worker's compensation refund		146,287
EMR JPA charges		76,760
AMR fuel refund		39,639
Reimbursements		36,635
Miscellaneous		6,194
Total revenues		<u>8,785,680</u>

EXPENDITURES:

Operating expenditures:		
Salaries and benefits		3,563,680
Materials, supplies, and services		1,857,990
Capital outlay		199,453
Debt Service:		
Principal		436,500
Interest		8,335
Total expenditures		<u>6,065,958</u>
Net change in fund balances		<u>2,719,722</u>

FUND BALANCES:

Beginning of year		<u>4,031,270</u>
End of year	\$	<u>6,750,992</u>

See accompanying Notes to Basic Financial Statements.

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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 period from October 1, 2007 through June 30, 2008

Net Change in Fund Balances - Total Governmental Funds \$ 2,719,722

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. 199,453

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. (253,985)

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. 375,000

Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. 436,500

Change in Net Assets of Governmental Activities \$ 3,476,690

See accompanying Notes to Basic Financial Statements.

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NOTES TO BASIC FINANCIAL STATEMENTS

Coastside Fire Protection District

Notes to Basic Financial Statements

For the period from October 1, 2007 through June 30, 2008

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 City'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

Coastside Fire Protection District
Notes to Basic Financial Statements, Continued
For the period from October 1, 2007 through June 30, 2008

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

B. Basis of Accounting and Measurement Focus, Continued

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

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 of the District. It is used to account for all financial resources except those required to be accounted for in another fund.

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 period from October 1, 2007 through June 30, 2008

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

C. Cash and Investments, Continued

Since the San Mateo County Treasurer is served 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.

<u>Asset Class</u>	<u>Description</u>	<u>Years</u>
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 period from October 1, 2007 through June 30, 2008

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 appropriate 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, 2008 include:

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

Designations as of June 30, 2008 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."

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:

	<u>Secured Property Tax</u>	<u>Unsecured Property Tax</u>
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 period from October 1, 2007 through June 30, 2008

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."

Fund Financial Statements

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 future expenditures.

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. Post-Employment Health Care Benefits

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, 2008, these expenditures totaled \$ 260,590.

As of June 30, 2008, the District has obtained an actuarial study to determine the amount of the District's liability relating to retirement health care benefits. In addition the District is currently in the process of appointing a trustee to set up an irrevocable trust in order to pre-fund the actuarially determined liability.

The district is required to comply with Government Accounting Standard Board (GASB) Statement No. 45 *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* in fiscal year 2010.

Coastside Fire Protection District
Notes to Basic Financial Statements, Continued
For the period from October 1, 2007 through June 30, 2008

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

J. New Pronouncements

In 2008, the District adopted new accounting standards in order to conform to the following Governmental Accounting Standards Board Statements:

- GASB Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues* – the Statement establishes accounting and financial reporting standards for transactions in which a government receives, or is entitled to, resources in exchange for future cash flows generated by collecting specific receivables or specific future revenues.
- GASB Statement No. 50, *Pension Disclosures – An Amendment of GASB Statements No. 25 and 27* – This Statement more closely aligns the financial reporting requirements for pensions with those for other postemployment benefits (OPEB) and in doing so, enhances information disclosed in notes to financial statements or presented as required supplementary information (RSI) by pension plans and by employers that provide pension benefits.

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, 2008 were as follows:

	Government-Wide Statement of Net Assets
	Governmental Activities
Deposits:	
Cash on hand and in banks	\$ 27,796
Cash and Investments:	
Local Agency Investment Fund (LAIF)	2,014,393
San Mateo County Investment Pool	5,248,923
Total cash and investments	\$ 7,291,112

A. Cash Deposits

The carrying amount of the District’s cash deposits was \$27,796 as of June 30, 2008. Bank balances before reconciling items were \$27,446 at that date, of which \$27,446 was fully insured and \$0 was collateralized with securities held by the pledging financial institutions in the District’s name as discussed below. The District has waived collateral requirements for cash deposits which are fully insured up to \$100,000 by the Federal Deposit Insurance Corporation (FDIC).

Coastside Fire Protection District

Notes to Basic Financial Statements, Continued

For the period from October 1, 2007 through June 30, 2008

2. CASH AND INVESTMENTS, Continued

A. Cash Deposits, Continued

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 \$5,248,923 at June 30, 2008. 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, 2008, include a portion of the pool funds invested in Structured Notes and Asset-Backed Securities. These investments may include the following:

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, 2008, the District had \$2,014,393 invested in LAIF, which had invested 14.72% of the pool investment funds in Structured Notes and Asset-Backed Securities. The LAIF fair value factor of 0.999950219 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.

Coastside Fire Protection District
Notes to Basic Financial Statements, Continued
For the period from October 1, 2007 through June 30, 2008

2. CASH AND INVESTMENTS, Continued

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	\$5,248,923	\$5,248,923
California Local Agency Investment Fund	2,014,393	2,014,393
Total	\$7,263,316	\$7,263,316

- *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.

On September 15, 2008, the San Mateo County Investment Pool sustained some losses as a result of some of the credit risks materializing, so the District as result also sustained a loss.

Investment Type	Credit Rating	% of Investments
San Mateo County Investment Pool	Not Rated	72%
California Local Agency Investment Fund	Not Rated	28%
Total		100%

- *Custodial Credit Risk* – the risk of loss of an investment due to failure, impairment or malfeasance of the third party in whose name the investment is held and/or who has physical possession of the investment instrument. In order to limit loss exposure due to Custodial Credit Risk, the investment policy requires all securities be received and delivered using the standard delivery versus payment (DVP) procedure, and all securities be held by a third party bank or trust department under the terms of a custody or trustee agreement. None of the District’s investments were subject to custodial credit risk.

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, 2008, the program had a total outstanding loan balance of \$11,009.

Coastside Fire Protection District
Notes to Basic Financial Statements, Continued
For the period from October 1, 2007 through June 30, 2008

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, 2008 was \$375,000.

5. CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2008 consisted of the following:

	Balance July 1, 2007	Additions	Retirements	Balance June 30, 2008
Governmental Activities:				
Capital assets, not being depreciated:				
Land	\$ 953,816	\$ -	\$ -	\$ 953,816
Total capital assets, not being depreciated	953,816	-	-	953,816
Capital assets, being depreciated:				
Buildings and improvements	2,913,618	43,825	-	2,957,443
Machinery and equipment	2,729,814	183,250	-	2,913,064
Total capital assets, being depreciated	5,643,432	227,075	-	5,870,507
Accumulated depreciation:				
Buildings and improvements	(696,398)	(68,408)	-	(764,806)
Machinery and equipment	(1,695,325)	(185,577)	-	(1,880,902)
Total accumulated depreciation	(2,391,723)	(253,985)	-	(2,645,708)
Total capital assets, being depreciated, net	3,251,709	(26,910)	-	3,224,799
Governmental activities capital assets, net	\$ 4,205,525	\$ (26,910)	\$ -	\$ 4,178,615

6. DEFERRED COMPENSATION

The District offers its eligible employees a deferred compensation plan in accordance with Internal Revenue Code Section 457. The plan, available to all regular employees, permits them to defer a portion of their salary until future years. The deferred compensation is available to employees upon termination, retirement, death or unforeseen emergency. The District offers three options of plans to its employees. Almost all of the District employees are transferred to California Department of Forestry Fire Division effective June 1 2008. Therefore, the District offers the plan to the participated employees who were not transferred to Cal Fire.

7. EMERGENCY MEDICAL RESPONSE JPA

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, 2008, the District received \$76,760 for its portion of revenue from the Emergency Medical Response JPA.

Coastside Fire Protection District
Notes to Basic Financial Statements, Continued
For the period from October 1, 2007 through June 30, 2008

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 and earthquake coverage of \$1,000,000 for covered property over the primary policy, with a deductible of \$1,000 per occurrence.

The Main Street Fire Station on 1191 Main Street has coverage up to \$3,933,573 for the building and \$146,323 for contents, with a \$1,000 deductible per occurrence.

The El Granada Fire Station has coverage up to \$705,906 for the building, with a \$1,000 deductible per occurrence.

The Moss Beach Fire Station has coverage up to \$605,519 for the building, with a \$1,000 deductible per occurrence.

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
Fire damage	\$50,000
Medical expense	\$5,000 per occurrence

9. CONTINGENCIES

Litigation - Various claims involving the District are currently outstanding. However, management believes, based on consultation with legal counsel, that the ultimate resolution of these matters will not have a material adverse effect on the District's financial position or results of operations.

10. EMPLOYEE RETIREMENT SYSTEM

Plan Description

The District contributes to the California Public Employees' Retirement System (PERS), an agent multiple-employer public employee defined benefit pension plan. PERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. PERS acts as a common investment and administrative agent for participating public entities within the State of California. Benefit provisions and all other requirements are established by State statute and District ordinance. Copies of PERS' annual financial report may be obtained from their Executive Office located at 400 P Street, Sacramento, California 95814.

Coastside Fire Protection District
Notes to Basic Financial Statements, Continued
For the period from October 1, 2007 through June 30, 2008

10. EMPLOYEE RETIREMENT SYSTEM, Continued

Funding Policy

Active plan members classified as safety and miscellaneous employees are required by State statute to contribute 9.00% and 8.00% of annual covered payroll respectively.

During the period from October 1, 2007 through June 30, 2008 the District was required to contribute \$390,595 at an actuarially determined rate of 27.981% of annual covered payroll for safety employees and \$23,014 at an actuarially determined rate of 17.155% of annual covered payroll for miscellaneous employees.

Annual Pension Cost

For the period from October 1, 2007 through June 30, 2008, the District's annual pension cost of \$413,609 for PERS was equal to the District's required and actual contributions. The required contribution was determined as part of the June 30, 2005, actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included (a) 7.75% investment rate of return (net of administrative expenses), (b) projected salary increases ranging from 3.25% to 14.45%, and (c) 3.25% per year cost-of-living adjustments. Both (a) and (b) included an inflation component of 3.00%. The actuarial value of PERS assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a fifteen year period. PERS unfunded actuarial accrued liability (or surplus) is being amortized as a level percentage of projected payroll on a closed basis.

THREE-YEAR TREND INFORMATION FOR PERS

Since this is the year of inception of the District and since the period presented herein is not a full fiscal year, no trend information is presented. Trend information will be presented as it becomes available as time goes by.

Funding Status as of the Most Recent Actuarial Date

The District's plan is part of a CalPERS Risk Pool for employers with less than 100 active plan members. As part of a cost-sharing multiple-employer defined benefit plan, disclosure of the most recent funding progress is not required.

Plan Amendments

On June 1, 2008, all District's employees with the exception of one full time employee became employees of the State of California and therefore all retirement benefits has become the responsibility of the State. The benefits relating to the remaining employee is still the responsibility of the District.

Coastside Fire Protection District
Notes to Basic Financial Statements, Continued
For the period from October 1, 2007 through June 30, 2008

11. SUBSEQUENT EVENTS

San Mateo County Investment Pool

The District participates in the San Mateo County Pool and as of June 30, 2008 the District had \$5,248,923 invested in the pool. On September 15, 2008 Lehman Brothers, a firm in which the pool has some holdings, filed for bankruptcy. The pool retained the Lehman Securities but marked their value down to zero and is carrying them as a non-performing asset until the bankruptcy proceedings are completed. At that point, any proceeds would be credited back to the participant's account including the District. Marking the value of the Lehman securities down to zero has a significant negative impact on the District. The District's share of the loss is estimated to be around \$242,300.

Cal Fire Promissory Note

After the balance sheet date, the District has executed a promissory note with the California Department of Forestry and Fire Protection in the amount of \$1,580,088 for purchasing vesting of health benefits for designated District employees transferring to State service. The note is due in equal annual installments of \$205,833 payable on December 10 of each year commencing on December 10, 2009. The outstanding balance accrues interest at the variable Pool Money Investment Account Rate as determined by the State Treasurer's Office. The interest rate will be adjusted annually and be based on rate in effect as of June 30 of the preceding fiscal year.

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, 2010. The amount authorized for fiscal year ending June 30, 2009 is \$6,177,289 and the amount for fiscal year ending June 30, 2010 will be estimated prior to June 30, 2009.

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REQUIRED SUPPLEMENTARY INFORMATION

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Coastside Fire Protection District
Required Supplementary Information
For the year ended June 30, 2008

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

	Budgeted Amounts		Actual Amounts	Positive (Negative) Variance with Final Budget
	Original	Final		
REVENUES:				
Property Taxes:				
Secured	\$ 6,369,618	\$ 6,369,618	\$ 6,318,483	(51,135)
Unsecured	484,936	484,936	389,867	(95,069)
SB 816	202,873	202,873	197,586	(5,287)
SB 813	5,750	5,750	3,685	(2,065)
Homeowner property tax relief	54,933	54,933	48,958	(5,975)
Weed abatement	18,184	18,184	23,501	5,317
Prior years' levies	-	-	2,121	2,121
ERAF	-	-	487,410	487,410
District special tax	617,266	617,266	616,039	(1,227)
Special tax (Martin's Beach)	1,500	1,500	1,545	45
Special tax (CFD #5)	44,483	44,483	44,328	(155)
Reimbursement	25,000	25,000	36,635	11,635
Interest	97,161	97,161	203,931	106,770
Plan review/reports	55,000	55,000	142,711	87,711
Workers' compensation fund	20,000	20,000	146,287	126,287
EMR JPA charges	89,179	89,179	76,760	(12,419)
AMR fuel refund	40,000	40,000	39,639	(361)
Miscellaneous	10,000	10,000	6,194	(3,806)
Total revenues	<u>8,135,883</u>	<u>8,135,883</u>	<u>8,785,680</u>	<u>649,797</u>
EXPENDITURES:				
Operating expenditures:				
Salaries and benefits	6,876,420	6,876,420	3,563,680	3,312,740
Materials, supplies, and services	1,077,101	1,077,101	1,857,990	(780,889)
Capital outlay	-	-	199,453	(199,453)
Debt Service				
Principal	-	-	436,500	(436,500)
Interest	-	-	8,335	(8,335)
Total expenditures	<u>7,953,521</u>	<u>7,953,521</u>	<u>6,065,958</u>	<u>1,887,563</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>\$ 182,362</u>	<u>\$ 182,362</u>	<u>2,719,722</u>	<u>\$ 2,537,360</u>
FUND BALANCES:				
Beginning of year			<u>4,031,270</u>	
End of year			<u>\$ 6,750,992</u>	

Coastside Fire Protection District
Required Supplementary Information
For the year ended June 30, 2008

PUBLIC EMPLOYEE RETIREMENT SYSTEMS (PERS)
SCHEDULE OF FUNDING PROGRESS

The District's plan is part of a CalPERS Risk Pool for employers with less than 100 active plan members. As part of a cost-sharing multiple-employer defined benefit plan, disclosure of the schedule of funding progress is not required.

SUPPLEMENTARY INFORMATION

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Coastside Fire Protection District
Supplementary Information
For the year ended June 30, 2008

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

	Budgeted Amounts		Actual Amounts	Positive (Negative) Variance with Final Budget
	Original	Final		
OPERATING EXPENDITURES:				
Salaries and benefits:				
Salaries and wages	\$ 4,505,391	\$ 4,505,391	\$ 2,195,907	\$ 2,309,484
Medicare tax	53,513	53,513	33,462	20,051
Retirement	960,242	960,242	468,182	492,060
Employee medical, dental, and life insurance	756,045	756,045	516,726	239,319
Workers' comp insurance	601,229	601,229	349,403	251,826
Total salaries and benefits	6,876,420	6,876,420	3,563,680	3,312,740
Materials, supplies, and services:				
Agriculture weed abatement	12,000	12,000	-	(12,000)
Clothing and uniforms	18,000	18,000	56,566	38,566
Communication expense	31,000	31,000	17,116	(13,884)
Household expense	19,000	19,000	15,112	(3,888)
Medical supplies	5,500	5,500	-	(5,500)
Office expense	20,240	20,240	9,887	(10,353)
Subscriptions	1,200	1,200	927	(273)
Postage	4,500	4,500	2,811	(1,689)
Computer expense	10,500	10,500	21,110	10,610
Small tools and equipment	40,600	40,600	9,870	(30,730)
County memberships	4,000	4,000	5,592	1,592
Publication and legal notices	3,900	3,900	4,310	410
Special district expense	14,000	14,000	12,872	(1,128)
Motor vehicle equipment maintenance	119,225	119,225	96,726	(22,499)
General facility maintenance	49,300	49,300	9,931	(39,369)
Rents and leases	9,501	9,501	10,254	753
Insurance premiums	101,025	101,025	71,451	(29,574)
Utilities	36,550	36,550	30,965	(5,585)
Training and education	44,500	44,500	28,677	(15,823)
Professional services	245,060	245,060	662,603	417,543
CalFire	-	-	520,790	520,790
Medical exams	20,000	20,000	4,303	(15,697)
San Mateo County tax collector	500	500	48,865	48,365
Legal Expense	100,000	100,000	157,959	57,959
Misc. expense	-	-	-	-
Facility Improvement	100,000	100,000	8,958	(91,042)
Inventory equipment	67,000	67,000	50,336	(16,664)
Total materials, supplies, and services	1,077,101	1,077,101	1,857,990	780,889
Interest on long-term debt	-	-	8,335	(8,335)
Total operating expenditures	\$ 7,953,521	\$ 7,953,521	\$ 5,430,005	\$ 4,085,294

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

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

We have audited the basic financial statements of the Coastside Fire Protection District (District) as of and for the period from October 1, 2007 through June 30, 2008, and have issued our report thereon dated November 10, 2008. We conducted our audit in accordance with generally accepted auditing standards in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our audit procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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To the Members of the Board
of the Coastside Fire Protection District
Half Moon Bay, California
Page 2

Compliance and Other Matters

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

This report is intended solely for the information and use of management, the Board of Directors of the District, others within the entity, and The State Controller and is not intended to be and should not be used by anyone other than these specified parties.

Capricci & Carlson

Oakland, California
November 10, 2008