

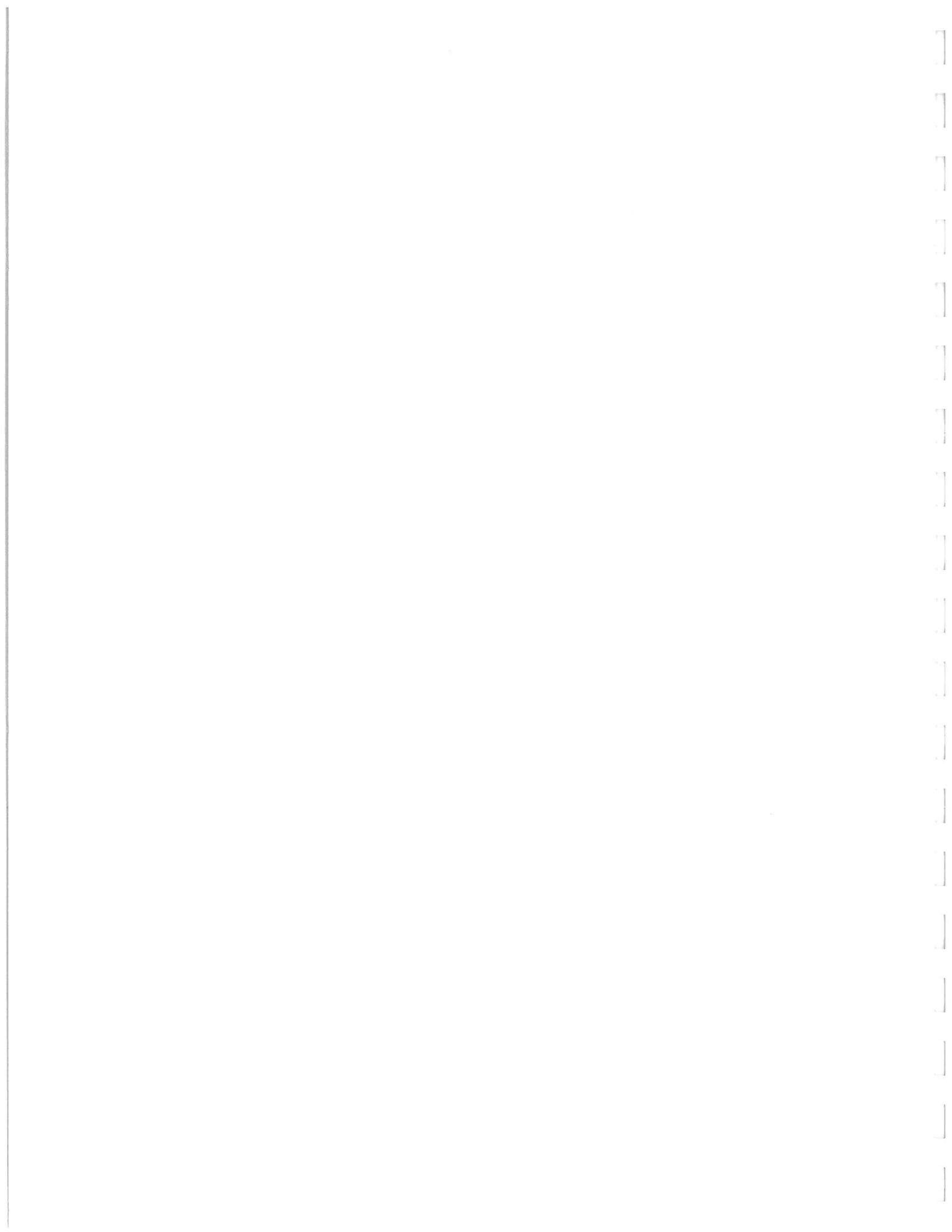


Coastside Fire Protection District

Half Moon Bay, California

Basic Financial Statements

For the year ended June 30, 2009



Coastside Fire Protection District

Basic Financial Statements

For the year ended June 30, 2009

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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, 2009, 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, 2009 and the year then ended, the State of California (State) has borrowed, deferred paying certain revenues and proposed taking other funds from local governments including the District. These actions by the State include:

- 8% of Property Taxes borrowed - to be repaid in 3 years

The above amount is very significant to the local governments and may affect their ongoing operations. Certain lawsuits are in process to stop such State actions. The State legislation passed to aid local governments to be able to sell the 8% property taxes borrowed by the State. See Note 13 attached in the Notes to the Financial Statements.

As described in Note 1 to the basic financial statements, the District adopted Statement of Governmental Accounting Standards Board No. 55, the Hierarchy of Generally Accepted Accounting Principles for State and Local Governments and No. 56, Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards.

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, 2009, and the respective changes in financial position and for the year then ended in conformity with generally accepted accounting principles in the United States.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated December 4, 2009 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 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 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
December 4, 2009

**COASTSIDE FIRE PROTECTION DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE PERIOD ENDED JUNE 30, 2009**

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 fiscal year ended June 30, 2009. 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), and the Point Montara Fire Protection District (PMFPD).

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

The District is currently governed by a nine member Board. In December of 2009 the Board will reconstitute to seven members, and in December of 2011 down to five members.

FINANCIAL HIGHLIGHTS

- The District's Net assets increased by \$218,760 to \$11,523,366 for the reporting year.
- Also, the District's Governmental Funds' fund balance increased by \$1,775,159 from \$6,750,992 to \$8,526,151 as of June 30, 2009.
- It is significant to note that the District's fund equity is much higher than its annual budget.
- The above fund equity increase is mainly because of strong revenue performance and expenditure savings in both personnel costs and material, supplies and services expenditures. Additional savings were noted due to cost sharing of the fire marshal position and the reduction in personnel.
- The District will continue to see a reduction in revenue due to the Proposition 98 - Education Revenue Augmentation Fund (ERAF) property tax shift.
- The total expenditure including capital outlay and debt service is \$7,322,159 and the total revenue is \$9,097,318.
- The main source of revenue is the property taxes amounted to \$7,885,598. The District's second source of revenue is the special assessments for services, which amount to \$673,114. In addition, the District earned the payment for services, refunds and reimbursements, and miscellaneous income in total of \$ 538,506.
- The total District expenditures for the reporting year are \$1,001,864 under budget due to savings in personnel costs and materials, supplies and services.
- The Board and the management has set the goals and established several reserve and designated fund equity accounts to fund the various capital replacement costs, retiree health benefits, general operations and cash reserves for dry period.

FINANCIAL HIGHLIGHTS, Continued

- The District has the following reserved, unreserved but designated and unreserved and undesignated fund balances as follows as at June 30, 2009:

Reserved for committed transactions	\$	28,592
Unreserved but designated for:		
Various capital replacements		2,391,500
Retiree health care		550,000
Litigation		50,000
Special projects		50,000
General operations (other)		1,692,127
General operations (dry period)		1,850,000
Unreserved and undesignated		1,913,932
Total	\$	8,526,151

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 that provide both short-term and long-term information about the District's overall financial status.

The remaining statements are fund financial statements that 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 what remain for future spending.

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

The Statements 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 include 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 if 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. To assess the overall health of the District, the reader of the report needs to consider additional non-financial factors including the condition of the District's infrastructure, improvements and other capital assets.

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 has a General Fund, but the District establishes several Internal Services Funds in its 2009-10 District budget to control and manage its assets for particular purposes such as capital assets replacement or to show that certain revenue have been properly allocated and used. The District also establishes the Agency Fund to fund for other post employment benefits (OPEB).

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 accounting, which measure 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 government 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 programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide the 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 management, operations and personnel to the California Department of Forestry and Fire Protection (Cal Fire) effective June 1, 2008.

The Board of the District maintains its sovereignty and service level control for the communities it serves.

The District has no obligation for compensated absences of its former employees, which amounted to approximately \$238,000.

The District arranged with the California Department of Forestry and Fire Protection (Cal Fire), to fully fund the obligation for post retirement health care benefits for those employees who transitioned from the District to Cal Fire.

The District has a retirement "side-fund" liability in the amount of \$3,200,000 (approx.) with the California Public Employees' Retirement System (CalPERS). The first of ten annual payments of roughly \$400,000 is due January 1, 2012.

The District incurred a reduction in property tax revenues of approximately \$185,000 due to the Lehman Brothers Bankruptcy.

The District eliminated its employee computer loan program.

DEVELOPMENTS BEARING ON THE DISTRICT'S FUTURE, Continued

The District has established and funded a capital equipment and apparatus replacement schedule.

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

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 reports and for additional information, please kindly contact Paul Cole, Assistant Fire Chief, Coastside Fire District, at 1191 Main Street, Half Moon Bay, California 94019 or by phone at (650) 726-5213.

BASIC FINANCIAL STATEMENTS

Coastside Fire Protection District
Statement of Net Assets
June 30, 2009

	<u>Governmental Activities</u>
ASSETS	
Cash and investments	\$ 8,578,061
Accounts receivables (net of allowances)	5,072
Interest receivable	49,682
Employee loans	3,474
Notes receivable	338,543
Prepaid items	24,768
Capital assets:	
Land	953,816
Buildings	2,957,443
Machinery and equipment	3,076,891
Accumulated depreciation	<u>(2,874,306)</u>
Total assets	\$ 13,113,444
LIABILITIES	
Current liabilities:	
Accounts payable	134,906
Promissory Notes	<u>1,455,172</u>
Total liabilities	<u>1,590,078</u>
NET ASSETS	
Investment in capital assets, net of related debt	4,113,844
Unrestricted	<u>7,409,522</u>
Total net assets	\$ <u><u>11,523,366</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, 2009

Functions/Programs	Expenses	Program Revenues		Governmental Activities Net (Expenses) Revenues
		Charges for Services - EMR JPA	Total	
Primary government:				
Governmental activities:				
Public safety	\$ 8,842,102	\$ 82,830	\$ 82,830	\$ (8,759,272)
Total governmental activities	\$ 8,842,102	\$ 82,830	\$ 82,830	(8,759,272)
General revenues:				
				8,558,812
				419,220
		Total general revenues		8,978,032
		Changes in net assets		218,760
		Net assets - beginning of year		11,304,808
		Net assets - end of year		\$ 11,523,366

See accompanying Notes to Basic Financial Statements.

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Coastside Fire Protection District

Balance Sheet

Governmental Funds

June 30, 2009

ASSETS	
Cash in County Treasury:	
Available for general operations	\$ 6,006,851
Cash in LAIF	2,543,193
Cash in banks	27,667
Petty cash	350
Receivables:	
Accounts receivable	5,072
Interest receivable	49,682
Employee loans	3,474
Notes receivable	338,543
Prepaid items	24,768
Total assets	\$ 8,999,600
LIABILITIES AND FUND BALANCES	
Liabilities:	
Accounts payable	\$ 134,906
Deferred revenue	338,543
Total liabilities	473,449
Fund Balances:	
Reserved for:	
Petty cash	350
Employee loans	3,474
Prepaid items (CalPERS July 09 payment)	24,768
Unreserved, designated for:	
Capital outlay	2,391,500
Retiree health care	550,000
Legal	50,000
Special projects	50,000
General operations (other)	1,692,127
General operations (dry period)	1,850,000
Unreserved, undesignated	1,913,932
Total fund balances	8,526,151
Total liabilities and fund balances	\$ 8,999,600

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, 2009

Total Fund Balances - Total Governmental Funds \$ 8,526,151

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. 338,543

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

Depreciable capital assets, net 3,160,028

Promissory notes payable is not due and payable in the current period and therefore are not reported in the Governmental Funds Financial Statements. (1,455,172)

Net Assets of Governmental Activities \$ 11,523,366

Coastside Fire Protection District
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the year ended June 30, 2009

REVENUES:

Property taxes:		
Secured	\$	6,877,078
Unsecured		431,047
Home owner property tax relief		47,562
Prior years' levies		9,514
ERAF		520,497
District Special Taxes		580,987
Special Tax (CFD #5)		92,127
Plan review/reports		104,584
Worker's compensation refund		241,028
EMR JPA charges		82,830
AMR fuel refund		44,014
Reimbursements		59,487
Miscellaneous		6,563
Total revenues		<u>9,097,318</u>

EXPENDITURES:

Operating expenditures:		
Salaries and benefits		6,113,755
Materials, supplies, and services		680,765
Capital outlay		265,923
Debt Service:		
Principal		124,916
Interest		136,800
Total expenditures		<u>7,322,159</u>
Net change in fund balances		<u>1,775,159</u>

FUND BALANCES:

Beginning of year		<u>6,750,992</u>
End of year	\$	<u>8,526,151</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 year ended June 30, 2009

Net Change in Fund Balances - Total Governmental Funds \$ 1,775,159

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. 163,827

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. (228,597)

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. (36,457)

Issuance of long-term debt is other financing sources in the governmental funds, but the issuance increases long-term liabilities in the Statement of Net Assets. (1,580,088)

Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. 124,916

Change in Net Assets of Governmental Activities \$ 218,760

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, Continued
For the year ended June 30, 2009

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, 2009

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, 2009 include:

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

Designations as of June 30, 2009 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 year ended June 30, 2009

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, 2009, these expenditures totaled \$306,107.

J. New Pronouncements

In 2009, the District adopted new accounting standards in order to conform to the following Governmental Accounting Standards Board (GASB) Statements:

- GASB Statement No. 55, The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments - The Statement establishes the incorporation of the hierarchy of Generally Accepted Accounting Principles (GAAP) for state and local governments which is currently set forth in the American Institute of Certified Public Accountants' (AICPA) into the Governmental Accounting Standards Board's (GASB) authoritative literature.

Coastside Fire Protection District
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2009

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

J. New Pronouncements, Continued

- GASB Statement No. 56, Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards – The Statement establishes the incorporation into the Governmental Accounting Standards Board’s (GASB) authoritative literature certain accounting and financial reporting guidance presented in the American Institute of Certified Public Accountants’ Statement on Auditing Standards. This Statement addresses three issues not included in the authoritative literature that establishes accounting principles – Related party transactions, going concern considerations, and subsequent events.

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, 2009 were as follows:

	Government-Wide Statement of Net Assets	
	Governmental Activities	
	<hr/>	
Deposits:		
Cash on hand and in banks	\$	28,017
Cash and Investments:		
Local Agency Investment Fund (LAIF)		2,543,193
San Mateo County Investment Pool		6,006,851
	<hr/>	
Total cash and investments	\$	8,578,061
	<hr/> <hr/>	

A. Cash Deposits

The carrying amount of the District’s cash deposits were \$28,017 as of June 30, 2009. Bank balances before reconciling items were \$27,667 at that date, of which \$27,667 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).

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.

Coastside Fire Protection District
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2009

2. CASH AND INVESTMENTS, Continued

B. External Investment Pool

The carrying amounts of the District's investments with the County were \$6,006,851 at June 30, 2009. 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, 2009 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, 2009, the District had \$2,543,193 invested in LAIF, which had invested 14.71% of the pool investment funds in Structured Notes and Asset-Backed Securities. The LAIF fair value factor of 1.001304743 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 year ended June 30, 2009

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	\$6,006,851	\$6,006,851
California Local Agency Investment Fund	2,543,193	2,543,193
Total	<u>\$8,550,044</u>	<u>\$8,550,044</u>

- *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	70%
California Local Agency Investment Fund	Not Rated	30%
Total		<u>100%</u>

- *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, 2009, the program had a total outstanding loan balance of \$3,474.

Coastside Fire Protection District
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2009

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, 2009 was \$338,543.

5. CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2009 consisted of the following:

	Balance July 1, 2008	Additions	Retirements	Balance June 30, 2009
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	2,957,443	-	-	2,957,443
Machinery and equipment	2,913,064	163,827	-	3,076,891
Total capital assets, being depreciated	5,870,507	163,827	-	6,034,334
Accumulated depreciation:				
Buildings and improvements	(764,806)	(68,408)	-	(833,214)
Machinery and equipment	(1,880,902)	(160,190)	-	(2,041,092)
Total accumulated depreciation	(2,645,708)	(228,598)	-	(2,874,306)
Total capital assets, being depreciated, net	3,224,799	(64,771)	-	3,160,028
Governmental activities capital assets, net	\$ 4,178,615	\$ (64,771)	\$ -	\$ 4,113,844

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. Payments of \$205,833 including interest at 5.12% are due annually on December 10, through 2018.

Coastside Fire Protection District
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2009

6. PROMISSORY NOTE PAYABLE, Continued

The following schedule illustrates the payment requirement to maturity for the promissory note as of June 30, 2009:

Year Ending June 30	Principal	Interest	Total
2010	\$ 131,313	\$ 74,520	\$ 205,833
2011	138,038	67,795	205,833
2012	145,107	60,726	205,833
2013	152,538	53,295	205,833
2014	160,349	45,484	205,833
2015	168,561	37,272	205,833
2016	177,193	28,640	205,833
2017	186,267	19,566	205,833
2018	185,778	10,027	195,805
Total	\$ 1,445,144	\$ 397,325	\$ 1,842,469

7. 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. All of the District employees except for one part-time employee were transferred to California Department of Forestry Fire Division effective June 1, 2008. Therefore, the District is no longer offering the plan to its employees.

8. 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, 2009, the District received \$82,830 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.

9. 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.

Coastside Fire Protection District
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2009

9. RISK MANAGEMENT, Continued

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

10. CONTINGENCIES

As of June 30, 2009, the District does not have any claims outstanding.

11. 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, 2009, the District contributed \$11,397 for its active employees.

12. OTHER POST EMPLOYMENT BENEFITS

The District provides post employment health care benefits for all employees who retire from the District. The district has expensed \$306,107 for the benefits. The District conducted the actual analysis of retiree medical benefits and set up a trust fund with Public Agency Retirement Services (PARS). Based on the actuarial analysis, the District has designated \$550,000 for two years annual required contribution to the trust in its unreserved fund balance as at June 30, 2009.

Coastside Fire Protection District
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2009

13. 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, 2009 is \$6,177,289 and the amount for fiscal year ending June 30, 2010 will be estimated prior to June 30, 2009.

14. SUBSEQUENT EVENT - STATE OF CALIFORNIA FINANCIAL CRISIS

Subsequent to June 30, 2009, the State of California (State) has decided to borrow, to defer certain revenue payments and to take certain funds from local governments including the District. This amount is very significant to the District and is as follows:

➤	8% of Property Taxes	\$550,000
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Property Taxes borrowed by the State for fiscal year 2009-2010 were nearly \$2 billion statewide to help the State's budget shortfall. Legislators and the Governor promised to allow local agencies to sell their eventual repayment from the State to investors to cover the property taxes and to pay the full cost of the sale or securitization. Passage of Senate Bill 67 (SB 67) was accomplished on October 14, 2009. A future bond sale is necessary to complete the funding or securitization. The California Communities sponsored by the league of California Cities and California Association Countries are arranging for securitization of the State loan.

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REQUIRED SUPPLEMENTARY INFORMATION

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Coastside Fire Protection District
Required Supplementary Information
For the year ended June 30, 2009

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	\$ 6,516,823	\$ 6,516,823	\$ 6,877,078	\$ 360,255
Unsecured	405,462	405,462	431,047	25,585
SB 816	219,728	219,728	-	(219,728)
SB 813	8,675	8,675	-	(8,675)
Homeowner property tax relief	50,916	50,916	47,562	(3,354)
Weed abatement	22,000	22,000		(22,000)
Prior years' levies	-	-	9,514	9,514
ERAF	-	-	520,497	520,497
District special tax	630,540	630,540	580,987	(49,553)
Special tax (Martin's Beach)	2,000	2,000	-	(2,000)
Special tax (CFD #5)	45,000	45,000	92,127	47,127
Reimbursement	50,000	50,000	59,487	9,487
Plan review/reports	100,000	100,000	104,584	4,584
Workers' compensation fund	-	-	241,028	241,028
EMR JPA charges	75,000	75,000	82,830	7,830
AMR fuel refund	30,000	30,000	44,014	14,014
Pillar Point AFB	5,000	5,000	-	(5,000)
Miscellaneous	25,000	25,000	6,563	(18,437)
Total revenues	<u>8,186,144</u>	<u>8,186,144</u>	<u>9,097,318</u>	<u>911,174</u>
EXPENDITURES:				
Operating expenditures:				
Salaries and benefits	6,623,138	6,623,138	6,113,755	509,383
Materials, supplies, and services	1,321,885	1,321,885	680,765	641,120
Capital outlay	379,000	379,000	265,923	113,077
Debt Service				
Principal	-	-	124,916	(124,916)
Interest	-	-	136,800	(136,800)
Total expenditures	<u>8,324,023</u>	<u>8,324,023</u>	<u>7,322,159</u>	<u>1,001,864</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>\$ (137,879)</u>	<u>\$ (137,879)</u>	<u>1,775,159</u>	<u>\$ 1,913,038</u>
FUND BALANCES:				
Beginning of year			<u>6,750,992</u>	
End of year			<u>\$ 8,526,151</u>	

Coastside Fire Protection District
Required Supplementary Information, Continued
For the year ended June 30, 2009

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, 2009

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	\$ 6,295,290	\$ 6,295,290	\$ 5,770,159	\$ 525,131
Employee medical, dental, and life insurance	319,848	319,848	330,264	(10,416)
Workers' comp insurance	8,000	8,000	13,332	(5,332)
Total salaries and benefits	<u>6,623,138</u>	<u>6,623,138</u>	<u>6,113,755</u>	<u>509,383</u>
Materials, supplies, and services:				
Agriculture weed abatement	34,000	34,000	18,407	15,593
Clothing and uniforms	2,500	2,500	281	2,219
Communication expense	23,000	23,000	38,212	(15,212)
Household expense	21,500	21,500	18,414	3,086
Medical supplies	5,500	5,500	588	4,912
Office expense	19,400	19,400	9,334	10,066
Subscriptions	1,200	1,200	1,425	(225)
Postage	4,000	4,000	3,311	689
Computer expense	25,500	25,500	21,172	4,328
Small tools and equipment	53,100	53,100	18,133	34,967
County memberships	7,200	7,200	6,613	587
Publication and legal notices	6,500	6,500	3,699	2,801
Special district expense	16,000	16,000	7,748	8,252
Motor vehicle equipment maintenance	220,000	220,000	164,394	55,606
General facility maintenance	78,250	78,250	33,265	44,985
Rents and leases	12,001	12,001	12,934	(933)
Insurance premiums	80,000	80,000	44,509	35,491
Utilities	40,000	40,000	34,935	5,065
Training and education	102,500	102,500	62,117	40,383
Professional services	175,292	175,292	103,228	72,064
CalFire	-	-	-	-
Medical exams	-	-	335	(335)
San Mateo County tax collector	1,600	1,600	2,010	(410)
Legal Expense	100,000	100,000	32,296	67,704
Misc. expense	-	-	-	-
Facility Improvement	15,000	15,000	-	15,000
Inventory equipment	277,842	277,842	43,405	234,437
Total materials, supplies, and services	<u>1,321,885</u>	<u>1,321,885</u>	<u>680,765</u>	<u>641,120</u>
Interest on long-term debt	-	-	136,800	(136,800)
Total operating expenditures	<u>\$ 7,945,023</u>	<u>\$ 7,945,023</u>	<u>\$ 6,931,320</u>	<u>\$ 1,013,703</u>

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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 year ended June 30, 2009, and have issued our report thereon dated December 4, 2009. 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. We identified a significant deficiency in internal control over financial reporting, 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*.

We noted certain matters that we reported to management of the District in a separate letter dated December 4, 2009. We did not audit the District's response and, accordingly, we express no opinion on it.

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
December 4, 2009

Coastside Fire Protection District

Half Moon Bay, California

*Report to the Board of Directors and
Management*

For the year ended June 30, 2009

C&L
Caporicci & Larson
Certified Public Accountants

Coastside Fire Protection District
Report to the Board of Directors and Management
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December 4, 2009

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

In planning and performing our audit of the financial statements of Coastside Fire Protection District (District) as of and for the year ended June 30, 2009 in accordance with auditing standards generally accepted in the United States of America, we considered District's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies.

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 significant deficiency in internal control identified in the audit is discussed on page 2 of this report.

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. We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above.

The District's written response to the significant deficiency identified in our audit has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

This communication is intended solely for the information and use of the District's Board, management, and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script that reads 'Caporicci & Larson'.

Caporicci & Larson
Oakland, California

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**Coastside Fire Protection District
Report to the Board of Directors and Management
For the year ended June 30, 2009**

SIGNIFICANT DEFICIENCIES

➤ **Preparedness for the Audit**

1. **Observation**

The District was not ready for the audit in a timely manner. After the start of the audit, we noted that many closing entries necessary to close the year were not performed. In addition, many account balances have not been analyzed and updated from the prior year. The District don't have controls in place to ensure proper and timely closing of it's fiscal year.

Recommendation

We recommend that the District develop procedures and implement controls to ensure complete and timely closing of it's fiscal year.

Management's Response

Management was made aware of the aforementioned deficiencies during a closing meeting with the auditors and management staff. Based upon the auditors' observations and recommendations, management will be developing an internal financial reporting policy and procedures manual as a control measure to ensure accurate and analyzed account balances are updated as required.

