



Coastside Fire Protection District

Half Moon Bay, California

Basic Financial Statements

For the year ended June 30, 2011

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

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Coastside Fire Protection District
Basic Financial Statements
For the year ended June 30, 2011

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Caporicci & Larson, Inc.
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INDEPENDENT AUDITOR'S 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, each major fund, and the aggregate remaining fund information of Coastside Fire Protection District (District) as of and for the year ended June 30, 2011, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in Note 1 to the basic financial statements, the District adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* and Governmental Accounting Standards Board (GASB) Statement No. 59, *Financial Instrument Omnibus*, as of July 1, 2010.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the District as of June 30th, 2011, and the respective changes in financial position, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 5, 2012, 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 grant agreements and other matters. 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 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 considered in assessing the results of our audit.

To the Members of the Board
of the Coastside Fire Protection District
Half Moon Bay, California
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Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, and schedule of funding progress on pages 3 through 4 and 31 through 36 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's financial statements as a whole. The schedule of operating expenditures - budget and actual are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Caporicci & Larson, Inc.

Caporicci & Larson Inc
A Subsidiary of Marcum LLP
Certified Public Accountants
San Francisco, California
March 5, 2012

MANAGEMENT DISCUSSION AND ANALYSIS

INTRODUCTION

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

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

OVERVIEW OF THE FINANCIAL STATEMENTS

The District's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements.

The *government-wide financial statements* are designed to provide readers with a broad overview of the District's finances, in a manner similar to private-sector businesses. The government-wide financial statements report on the public safety function of the District that is principally supported by taxes.

The *fund financial statements* report information by funds, a grouping of related accounts that are used to maintain control over resources that have been segregated for specific activities or objectives. The District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. Governmental funds are used to account for the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

The District maintains one governmental fund (General Fund) used to account for all of the District's activities. The governmental funds focus is narrower than that of the government-wide financial statements; therefore it is useful to compare the information presented in the governmental funds with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financial decisions. The governmental funds balance sheet and the governmental funds statement of revenues, expenditures, and changes in fund balances each provide a reconciliation to facilitate this comparison between the governmental funds and *governmental activities*.

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

FINANCIAL HIGHLIGHTS

- In November 2010, CalPERS advised the Districts the retirement plans for both Safety and Miscellaneous were being moved from an "active" risk pool, to an "inactive" pool. CalPERS unilaterally made this decision based upon the valuation assumptions showing the District no longer had employees as part of their "active" plans.

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

Through the efforts of the Board of Directors, in 2011 the District paid off the entire CalPERS side fund. Total paid towards the CalPERS Side Funds equalled \$2,447,635 (\$2,377,962 safety, \$69,673 miscellaneous).

- Upon transition of employees from District service to Cal Fire, the District entered into a contract agreement (Promissory Note) with Cal Fire for Post Retirement Health Care. The initial promissory note was signed on June 30, 2008, in the amount of \$1,580,088 with an annual payment (10 years @ 5.121% interest) of \$205,832.77

Through the concerted efforts of the Board of Directors, the District paid \$661,819 towards the principal, which reduced the principal balance to \$596,887.42. With the anticipated interest rate reduction from 4.325% to 2.224% (PMIA rates as of 6/30/09) the annual payment was recalculated to \$82,269.

In 2011 the Board of Directors took action and paid off the balance of \$1,272,828 (\$1,260,240 principal + \$12,588 interest)

DEVELOPMENTS BEARING ON THE DISTRICTS FUTURE

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

- Property tax revenues declining or remaining relatively flat
- Continued annual escalating health care costs
- Potential cost increases to the Cal Fire contract, specifically, those associated with the administrative, benefit and retirement buy out rates.
- The ability of the District to adequately fund reserves and support capital improvements due to revenue uncertainties and increased operational costs.
- The uncertainty of additional Educational Reimbursement Augmentation Fund (ERAF) increases to local government agencies (Fire Districts) from the State of California.
- Uncertainty in the investment market and the effects of the uncertainty on employer pension obligations costs.

ADDITIONAL ANALYSIS OF BASIC FINANCIAL STATEMENTS

The following table presents a comparative analysis of current and prior year balances on the statement of net assets for the governmental activities:

	<u>June 30, 2011</u>	<u>June 30, 2010</u>	<u>Change (\$)</u>	<u>Change (%)</u>
Assets, other than capital assets	\$ 8,069,353	\$ 10,344,361	\$ (2,275,008)	-22.0%
Capital assets	5,402,215	3,912,895	1,489,320	38.1%
Total assets	<u>13,471,568</u>	<u>14,257,256</u>	<u>(785,688)</u>	-5.5%
Current liabilities	178,803	184,934	(6,131)	-3.3%
Noncurrent liabilities	-	1,123,508	(1,123,508)	-100.0%
Total liabilities	<u>178,803</u>	<u>1,308,442</u>	<u>(1,129,639)</u>	-86.3%
Net assets:				
Invested in capital assets	5,402,215	3,912,895	1,489,320	38.1%
Restricted	25,651	-	25,651	100.0%
Unrestricted	7,864,899	9,035,919	(1,171,020)	-13.0%
Net assets	<u>\$ 13,292,765</u>	<u>\$ 12,948,814</u>	<u>\$ 343,951</u>	2.7%

The significant decrease in Assets, other than capital assets was due to the repayment of the District's CalPERS side funds for safety and miscellaneous plans as previously discussed. The significant increase in Capital Assets was due to the purchase of fire trucks with a total purchase amount of \$1.6m

The following table presents a comparative analysis of current and prior year changes in net assets of governmental activities on the statement of activities and changes in net asset:

	<u>June 30, 2011</u>	<u>June 30, 2010</u>	<u>Change (\$)</u>	<u>Change (%)</u>
Revenues:				
General revenue:				
Taxes	\$ 8,585,983	\$ 8,645,468	(59,485)	-0.7%
Investment income	56,112	114,439	(58,327)	-51.0%
Other	69,088	113,087	(43,999)	-38.9%
Program revenue	<u>179,319</u>	<u>95,134</u>	<u>84,185</u>	88.5%
Total revenues	<u>8,890,502</u>	<u>8,968,128</u>	<u>(77,626)</u>	-0.9%
Expenses:				
Public Safety	8,546,551	7,465,371	1,081,180	14.5%
Interest	-	77,309	(77,309)	-100.0%
Total expenses	<u>8,546,551</u>	<u>7,542,680</u>	<u>1,003,871</u>	13.3%
Change in net assets	343,951	1,425,448	(1,081,497)	-75.9%
Net assets, beginning of year	<u>12,948,814</u>	<u>11,523,366</u>	<u>1,425,448</u>	12.4%
Net assets, end of year	<u>\$ 13,292,765</u>	<u>\$ 12,948,814</u>	<u>\$ 343,951</u>	2.7%

Significant changes noted were in investment income, which decreased by 51%, mainly due to lower interest rates and lower cash and investment balances. Significant increases in program revenues were due to new grant revenues received by the District. Significant increase in Public Safety expenses of \$1.0m were due to the payments made to CalPERS to eliminate the District's side funds as previously discussed.

FUND FINANCIAL ANALYSIS

Governmental funds. The focus of the District's *governmental fund, General Fund* is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the District's financing requirements. In particular, *fund balance* may serve as a useful measure of a government's net resources available for spending for program purposes in future years.

The District's General Fund reported an ending fund balance of \$6,969,522. The District's major source of revenue is property taxes and other special taxes. The major uses of these funds are for public safety. The fund balance primarily represents the accumulation of property tax, other special taxes, and investment income. The fund balance is presented in order of the levels of constraint over its use, including nonspendable, restricted and unassigned.

The District's decrease in fund balances in the amount of \$2.7 million was primarily caused by capital expenditures, CalPERS side fund payment and the payment of debt service, all of which were discussed under the government-wide financial analysis.

BASIC FINANCIAL STATEMENTS

Coastside Fire Protection District
Statement of Net Assets
June 30, 2011

	<u>Governmental Activities</u>
ASSETS	
Cash and Investments in County Treasury:	
Available for general operation	\$ 3,696,310
Cash in banks	14,626
Investment in Local Agency Investment Fund	3,380,702
Accounts receivables (net of allowances)	869
Interest receivable	28,012
Employee loans	243
Notes receivable	264,943
Prepaid items	27,563
Capital assets:	
Land	953,816
Buildings	2,957,443
Machinery and equipment	4,679,950
Accumulated depreciation	(3,188,994)
Net OPEB assets	656,085
Total assets	<u>13,471,568</u>
LIABILITIES	
Current liabilities:	
Accounts payable	176,509
Accrued liabilities	2,294
Total liabilities	<u>178,803</u>
NET ASSETS	
Investment in capital assets, net of related debt	5,402,215
Restricted for:	
Weed abatement	25,651
Unrestricted	7,864,899
Total net assets	<u>\$ 13,292,765</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, 2011

Functions/Programs	Expenses	Program Revenues			Governmental Activities Net (Expenses) Revenues
		Charges for Services - EMR JPA	Operating Grants and Contributions	Total	
Primary government:					
Governmental activities:					
Public safety	\$ 8,546,551	\$ 94,688	\$ 84,631	\$ 179,319	\$ (8,367,232)
Total governmental activities	\$ 8,546,551	\$ 94,688	\$ 84,631	\$ 179,319	(8,367,232)
General revenues:					
					8,585,983
					56,112
					69,088
			Total general revenues		8,711,183
			Changes in net assets		343,951
			Net assets - beginning of year		12,948,814
			Net assets - end of year		\$ 13,292,765

See accompanying Notes to Basic Financial Statements.

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Coastside Fire Protection District
Balance Sheet
Governmental Funds
June 30, 2011

ASSETS	<u>General Fund</u>
Cash and Investments in County Treasury:	
Available for general operations	\$ 3,696,310
Cash in banks	14,626
Investment in Local Agency Investment Fund	3,380,702
Receivables:	
Accounts receivable	869
Interest receivable	28,012
Employee loans	243
Notes receivable	264,943
Prepaid items	27,563
Total assets	<u><u>\$ 7,413,268</u></u>
 LIABILITIES AND FUND BALANCES 	
Liabilities:	
Accounts payable	\$ 176,509
Accrued payroll & other liabilities	2,294
Deferred revenue	264,943
Total liabilities	<u>443,746</u>
Fund Balances:	
Nonspendable:	
Prepaid items	27,563
Spendable:	
Restricted	25,651
Assigned	6,866,079
Unassigned	50,229
Total fund balances	<u>6,969,522</u>
Total liabilities and fund balances	<u><u>\$ 7,413,268</u></u>

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, 2011

Total Fund Balances - Total Governmental Funds \$ 6,969,522

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. 264,943

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 4,448,399

Net OPEB assets are not current financial resources and therefore are not reported in the governmental fund financial statements. 656,085

Net Assets of Governmental Activities \$ 13,292,765

See accompanying Notes to Basic Financial Statements.

Coastside Fire Protection District
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the year ended June 30, 2011

	<u>General Fund</u>
REVENUES:	
Property taxes:	
Secured	\$ 6,835,070
Unsecured	391,189
Home owner property tax relief	47,882
Weed abatement	22,964
Prior years' levies	6,180
ERAF	620,351
District Special Taxes	551,254
Special Tax (CFD #5)	111,093
Plan review/reports	36,859
EMR JPA charges	94,688
AMR fuel refund	30,000
Reimbursements	23,227
Miscellaneous	15,916
Interest Income	56,112
Grant Revenue	84,631
Total revenues	<u>8,927,416</u>
 EXPENDITURES:	
Public Safety:	
Salaries and benefits	701,025
Contracted Personnel Services	4,810,354
Materials, supplies, and services	658,782
Other salaries and benefits (Side Fund Payment)	2,447,635
Capital outlay	1,778,974
Debt Service:	
Principal	1,258,706
Interest	14,123
Total expenditures	<u>11,669,599</u>
Net change in fund balances	<u>(2,742,183)</u>
 FUND BALANCES:	
Beginning of year	<u>9,711,705</u>
End of year	<u>\$ 6,969,522</u>

See accompanying Notes to Basic Financial Statements.

Coastside Fire Protection District

Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances to the Government-Wide Statement of Activities and Changes in Net Assets For the year ended June 30, 2011

Net Change in Fund Balances - Total Governmental Funds \$ (2,742,183)

Amounts reported for governmental activities in the Statement of Activities and Changes in Net Assets 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. 1,668,557

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. (179,237)

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. (36,914)

Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. 1,258,706

Changes in Net OPEB asset did not require the use of current financial resources or meet revenue recognition criteria in the Fund Financial Statements and therefore are not reported in governmental funds. 347,802

Accrued interest expense reported in the Statement of Activities and Changes in Net Assets does not require the use of current financial resources and, therefore, is not reported as expenditures in governmental funds. Accrued interest payable increased by this amount. 27,220

Change in Net Assets of Governmental Activities \$ 343,951

See accompanying Notes to Basic Financial Statements.

Coastside Fire Protection District
Statement of Fiduciary Net Assets
Retired Employees' Health Care Plan
June 30, 2011

ASSETS	
Cash and cash equivalents	\$ 1,436,575
Total assets	\$ 1,436,575
NET ASSETS	
Held in trust for retired employees' healthcare benefits	\$ 1,436,575

See accompanying Notes to Basic Financial Statements.

Coastside Fire Protection District
Statement of Changes in Fiduciary Net Assets
Retired Employees' Health Care Plan
June 30, 2011

Additions:	
Contribution	\$ 344,000
Investment income	196,573
Total additions	<u>540,573</u>
Deductions:	
Administrative expenses	<u>7,273</u>
Total deductions	7,273
Net increase	533,300
Held in trust for retired employees healthcare benefits:	
Beginning of year	<u>903,275</u>
End of year	<u><u>\$ 1,436,575</u></u>

See accompanying Notes to Basic Financial Statements.

NOTES TO BASIC FINANCIAL STATEMENTS

Coastside Fire Protection District
Notes to Basic Financial Statements
For the year ended June 30, 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

The District is an independent district governed by a five (5) 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 and Changes in Net Assets presents changes in net assets. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned, while expenses are recognized in the period in which the liability is incurred.

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

- Charges for services

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

Coastside Fire Protection District
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

B. Basis of Accounting and Measurement Focus, Continued

Governmental Fund Financial Statements

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

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

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

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

The District reports the following major governmental funds:

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

C. Cash and Investments

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

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

Coastside Fire Protection District
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2011

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, 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

E. Fund Balance

The District has adopted the provisions of GASB Statement No. 54 Fund Balance and Governmental Fund Type Definitions. GASB 54 establishes Fund Balance classifications based largely upon the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. The Governmental Fund statements conform to this new classification. The Fund Financial Statements consist of Nonspendable, Restricted, Committed, Assigned and Unassigned amounts as described below:

Nonspendable: Items that cannot be spent because they are not in spendable form, such as prepaid items, items that are legally or contractually required to be maintained intact, such as principal of an endowment or revolving loan fund.

Restricted: Restricted fund balances encompass the portion of net fund resources subject to externally enforceable legal restrictions. This includes externally imposed restrictions by creditors (such as through debt covenants), grantors, contributors, laws or regulations of other governments, as well as restrictions imposed by law through constitutional provisions or enabling legislation.

Committed: Committed fund balances encompass the portion of net fund resources, the use of which is constrained by limitations that the government imposes upon itself at its highest level of decision making (normally the governing body) and that remain binding unless removed in the same manner. As of June 30, 2011, the District did not have any committed fund balance.

Assigned: Assigned fund balances encompass the portion of net fund resources reflecting the government's intended use of resources. Assignment of resources can be done by the highest level of decision making or by a committee or official designated for that purpose.

Unassigned: This category is for any balances that have no restrictions placed upon them.

Coastside Fire Protection District
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

B. Fund Balances, Continued

The District established the following policies relating to its fund balance classifications.

1. Committed Fund Balances

- *Highest Level of Decision-Making Authority* - the Board of Directors of the District are acknowledged as the highest level of decision-making authority in terms of establishing fund balance classifications and creating committed fund balances.
- *Formal Action Required* - the Board shall have the authority to establish, modify or rescind committed fund balances by Resolution, where appropriate, passed by a majority vote.
- *Timing* - the Board will take formal action to commit any resources as soon as possible upon determining its desire to take such action, but no later than June 30 of the fiscal year in which it applies in order for the action to be valid for the presentation of the annual report.

2. Assigned Fund Balances

- *Approval Authority* - the Board has not delegated the authority to assign fund balance amounts.

3. Expenditure of Funds - Order of Expenditure

- *Restricted and Unrestricted Funds* - when an expenditure is incurred for purposes for which both restricted and unrestricted fund balances are available, the District shall consider that restricted funds shall be spent first until such funds are exhausted, at which time committed, assigned, or unassigned Funds will be used.
- *Committed, Assigned or Unassigned Funds* - when an expenditure is incurred where there are no restricted funds available, and for which committed and assigned fund balances are available, the District shall exhaust unassigned funds first unless the Board determines the use of available assigned or committed fund balances are appropriate.

F. Property Taxes, Tax Increment and Special Assessment Revenue

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

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

Coastside Fire Protection District
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

G. Net Assets

Government-Wide Financial Statements

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

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

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

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

H. Use of Estimates

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

I. New Pronouncements

In 2011, the District adopted new accounting standards in order to conform to the following Governmental Accounting Standards Board Statement:

- GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* - This Statement established fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. There was no impact on the District's net assets as a result of this implementation during the fiscal year, however the District reclassified its governmental fund balances as restricted, assigned, and unassigned.
- GASB Statement No. 59, *Financial Instruments Omnibus* - This statement updates and improves existing standards regarding financial reporting of certain financial instruments and external investment pools. There was no impact on the District's net assets as a result of this implementation during the fiscal year.

Coastside Fire Protection District
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2011

2. CASH AND INVESTMENTS

The following is a summary of pooled cash and investments at June 30, 2011 were as follows:

	Government-Wide Statement of Net Assets	
	Governmental Activities	
	<hr/>	
Demand Deposits:		
Cash on hand and in banks	\$	14,626
Local Agency Investment Fund (LAIF)		3,380,702
San Mateo County Investment Pool		3,696,310
	<hr/>	
Total demand deposits	\$	7,091,638
	<hr/> <hr/>	

A. Cash Deposits

The carrying amount of the District's cash deposits were \$14,626 as of June 30, 2011. Bank balance was \$14,626 at that date which was fully insured. The District has waived collateral requirements for cash deposits which are fully insured up to \$250,000 by the Federal Deposit Insurance Corporation (FDIC).

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

B. External Investment Pool

The carrying amounts of the District's investments with the County were \$3,696,310 at June 30, 2011. 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 factor of this pool as of that date was 1.00222. 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.

Coastside Fire Protection District
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2011

2. CASH AND INVESTMENTS, Continued

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, 2011 included a portion of the pool funds invested in Structured Notes and Asset-Backed Securities. These investments may include the following:

B. External Investment Pool

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

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

As of June 30, 2011, the District had \$3,380,702 invested in LAIF, which had invested 5.01% of the pool investment funds in Structured Notes and Asset-Backed Securities. The LAIF fair value factor of 1.001576470 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.

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, 2011, the program had a total outstanding loan balance of \$243.

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, 2011 was \$264,943.

Coastside Fire Protection District
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2011

4. NOTES RECEIVABLE, Continued

The following is a summary of changes in notes receivables for the year ended June 30, 2011:

	Balance July 1, 2010	Addition	Deletion	Balance June 30, 2011
Point Pillar Project Developers, LLC	\$ 301,857	\$ -	\$ 36,914	\$ 264,943

5. CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2011 consisted of the following:

	Balance July 1, 2010	Additions	Retirements	Balance June 30, 2011
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	3,011,393	1,668,557	-	4,679,950
Total capital assets, being depreciated	5,968,836	1,668,557	-	7,637,393
Accumulated depreciation:				
Buildings and improvements	(900,669)	(63,048)	-	(963,717)
Machinery and equipment	(2,109,088)	(116,189)	-	(2,225,277)
Total accumulated depreciation	(3,009,757)	(179,237)	-	(3,188,994)
Total capital assets, being depreciated, net	2,959,079	1,489,320	-	4,448,399
Governmental activities capital assets, net	\$ 3,912,895	\$ 1,489,320	\$ -	\$ 5,402,215

6. PROMISSORY NOTE PAYABLE

On June 26, 2008, the District entered into a promissory note with the California Department of Forestry and Fire Protection for a principal sum of \$1,580,088 for purchasing vesting of health benefits for designated local agency employees transferring to State services. The original note was amended on November 18, 2009. Payments of \$189,638 including reduced interest rate at 4.325% are due annually on December 10, through 2018. The District paid off the remaining balance of the promissory note of \$1,258,706 during the year.

Coastside Fire Protection District
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2011

6. PROMISSORY NOTE PAYABLE, Continued

The following is a summary of changes in promissory note payable for the year ended June 30, 2011:

	<u>Balance</u> <u>July 1, 2010</u>	<u>Addition</u>	<u>Deletion</u>	<u>Balance</u> <u>June 30, 2011</u>
California Department of Forestry and Fire Protection	\$ 1,258,706	\$ -	\$ 1,258,706	\$ -

7. EMERGENCY MEDICAL RESPONSE JOINT POWER AUTHORITY

In September 1997, the District began its participation with other fire departments of cities and fire districts throughout San Mateo County in the development of a Joint Powers Agreement to establish the San Mateo Pre-Hospital Emergency Services Providers Groups, which provides pre-hospital emergency services in San Mateo County. The District receives revenue on a monthly basis. For the fiscal year ended June 30, 2011, the District received \$94,688 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.

8. RISK MANAGEMENT

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

The Main Street Fire Station on 1191 Main Street has coverage up to \$4,553,603 for the building and \$296,188 for contents, with a \$1,000 deductible per occurrence. Earthquake coverage is included, with a deductible of 5% of the building limit.

The El Granada Fire Station has coverage up to \$817,174 for the building, with a \$1,000 deductible per occurrence. Earthquake coverage is included, with a deductible of 5% of the building limit.

The Moss Beach Fire Station has coverage up to \$700,964 for the building, with a \$1,000 deductible per occurrence. Earthquake coverage is included, with a deductible of 5% of the building limit.

The general liability limits are as follows:

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

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

Coastside Fire Protection District
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2011

9. CONTINGENCIES

As of June 30, 2011, the District does not have any claims outstanding.

10. EMPLOYEE RETIREMENT SYSTEM

On June 1, 2008, all District's employees with the exception of one part time employee became employees of the State of California. The District is still responsible for retirement benefit costs for retirement benefits earned by the District's employees who became employees of the State of California during their employment period with the District; however the State of California is responsible for the retirement benefit costs for any subsequent retirement benefits earned by those employees. As of June 30, 2011, the District did not have any active employees.

A. California Public Employees' Retirement Plan (PERS)

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 retirement 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 resolution. Copies of the PERS annual financial report may be obtained from their Executive Office located at 400 Q Street, Sacramento, California 95814.

Funding Policy -The District's employer required contributions for miscellaneous employees and safety employees in 2010-2011 were \$2,377,962 and \$69,673 respectively, which were equal to the District's lump sum payments amounts to pay off the District's active plan negative side funds determined by PERS. The District is currently paying benefits from the District's General Fund.

Annual Pension Cost - For 2010-2011, the District's annual pension cost of \$ 2,447,635 for PERS was equal to the District's required and actual contributions. The required contribution was determined as part of the June 30, 2009, 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 increase of 3.25% (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 liability (or surplus) is being amortized as a level percentage of projected payroll on a closed basis. The average remaining amortization period as of June 30, 2009 was 27 years for safety employees and miscellaneous employees for prior service unfunded liability.

Coastside Fire Protection District
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2011

10. EMPLOYEE RETIREMENT SYSTEM, Continued

THREE-YEAR TREND INFORMATION FOR PERS

Fiscal Year	Annual Pension Cost (APC)		Total APC	Percentage of APC Funded
	Miscellaneous Plan	Safety Plan		
6/30/2009	\$ 10,646	\$ -	\$ 10,646	100%
6/30/2010	-	1,236,451	1,236,451	100%
6/30/2011	69,673	2,377,962	2,447,635	100%

B. 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 schedule of funding progress is not required.

11. OTHER POSTEMPLOYMENT BENEFITS

The District implemented GASB Statement No. 43, *Financial Reporting for Postemployment Benefit Plans (OPEB) other than Pension Plans* and GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits other than Pension Plans* in FYE 2010. The District provides certain health care benefits for twenty-eight (28) retired employees. The cost of retirement health care benefits is recognized as an expenditure of health care premiums paid. For the year ended June 30, 2011, these expenditures totaled \$312,902.

The District's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. It includes amortization of the unfunded actuarial accrued liability (UAAL) over as many as 30 years. District retiree medical reserves were invested in the PARS Trust and had a market value of \$903,275 as of June 30, 2011.

The following table illustrates the District's June 30, 2011 Net OPEB Obligation:

Annual required contribution	\$ 306,000
Interest on net OPEB obligation	(23,892)
Amortization of net OPEB obligation	26,992
Annual OPEB cost	309,100
Payments made	(656,902)
Increase (decrease) in net OPEB obligation	(347,802)
Net OPEB obligation - beginning of the year	(308,283)
Net OPEB obligation - ending of year	\$ (656,085)

Coastside Fire Protection District
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2011

11. OTHER POSTEMPLOYMENT BENEFITS, Continued

Funded Status and Funding Progress - As of July 1, 2009, the most recent actuarial valuation date, the plan was 13.5% funded. The actuarial accrued liability (AAL) for benefits was \$4,078,800, and the actuarial value of plan assets was \$306,000, resulting in an unfunded actuarial accrued liability (UAAL) of \$3,528,200. As of July 1, 2009, the District's retiree health program did not have any covered payroll (annual payroll of active employees covered by the plan), resulting in ratio of the UAAL to the covered payroll of 0%.

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

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

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

12. COOPERATIVE AND REIMBURSEMENT AGREEMENT - CAL FIRE

The District has entered into a cooperative and reimbursement agreement with the California Department of Forestry and Fire Protection (Cal Fire) 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 to be spent for the agreed services with Cal Fire for fiscal year ended June 30, 2011 was \$5,166,189. The District's expenditures for the agreed services with Cal Fire for fiscal year ended June 30, 2011 were \$4,810,354.

Coastside Fire Protection District
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2011

13. EXCESS EXPENDITURES OVER APPROPRIATIONS

At June 30, 2011, the following expenditures had excess expenditures over appropriations:

	<u>Appropriation</u>	<u>Expenditure</u>	<u>Excess</u>
Operating expenditures:			
Salaries and benefits	\$ 581,751	\$ 701,025	\$ (119,274)
Debt service			
Principal	881,206	1,258,706	(377,500)
Interest	-	14,123	(14,123)

14. FUND BALANCES

Fund balances are presented in the following categories: nonspendable, restricted, committed, assigned and unassigned (see Note 1 for a description of these categories). A detailed schedule of fund balances at June 30, 2011 is as follows:

	<u>General Fund</u>
Nonspendable:	
Prepaid items	\$ 27,563
Total nonspendable fund balance	<u>27,563</u>
Restricted for:	
Weed abatement	25,651
Total restricted fund balance	<u>25,651</u>
Assigned to:	
Dry period reserve	1,850,000
General reserves	1,692,127
Operating reserve	1,406,100
Structure/land improvements	1,000,000
Apparatus replacement	603,733
Tools & equipment	214,119
Legal reserve	50,000
Special projects	50,000
Total assigned fund balance	<u>6,866,079</u>
Unassigned Fund Balance	<u>50,229</u>
Total fund balances	<u>\$ 6,969,522</u>

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REQUIRED SUPPLEMENTARY INFORMATION

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**Coastside Fire Protection District
Required Supplementary Information
For the year ended June 30, 2011**

**1. 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	\$ 6,774,000	\$ 6,774,000	\$ 6,835,070	\$ 61,070
Unsecured	432,000	432,000	391,189	(40,811)
Homeowner property tax relief	30,000	30,000	47,882	17,882
Weed abatement	20,000	20,000	22,964	2,964
Prior years' levies	-	-	6,180	6,180
ERAF	-	-	620,351	620,351
District special tax	594,632	594,632	551,254	(43,378)
Special tax (CFD #5)	45,000	45,000	111,093	66,093
Plan review/reports	32,000	32,000	36,859	4,859
EMR JPA charges	56,000	56,000	94,688	38,688
AMR fuel refund	30,000	30,000	30,000	-
Reimbursement	25,000	25,000	23,227	(1,773)
Miscellaneous	3,668	3,668	15,916	12,248
Interest income	74,000	74,000	56,112	(17,888)
Grant revenue	-	-	84,631	84,631
Total revenues	<u>8,116,300</u>	<u>8,116,300</u>	<u>8,927,416</u>	<u>811,116</u>
EXPENDITURES:				
Operating expenditures:				
Salaries and benefits	581,751	581,751	701,025	(119,274)
Contracted personnel services	5,244,915	5,244,915	4,810,354	434,561
Materials, supplies, and services	1,036,237	1,036,237	658,782	377,455
Other salaries and benefits (Side Fund Payment)	-	2,856,379	2,447,635	408,744
Capital outlay	1,900,000	1,900,000	1,778,974	121,026
Debt Service				
Principal	-	881,206	1,258,706	(377,500)
Interest	-	-	14,123	(14,123)
Total expenditures	<u>8,762,903</u>	<u>12,500,488</u>	<u>11,669,599</u>	<u>830,889</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>\$ (646,603)</u>	<u>\$ (4,384,188)</u>	<u>(2,742,183)</u>	<u>\$ 1,642,005</u>
FUND BALANCES:				
Beginning of year			<u>9,711,705</u>	
End of year			<u>\$ 6,969,522</u>	

Coastside Fire Protection District
Required Supplementary Information, Continued
For the year ended June 30, 2011

2. 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.

3. OTHER POSTEMPLOYMENT BENEFIT PLAN SCHEDULE OF FUNDING PROGRESS

Funded Status of Plan

Actuarial Valuation Date*	Actuarial Value of Assets	Antuarial Accrued Liability	Actuarial Unfunded (Overfunded) Liability	Funded Ratio	Covered Payroll	Liability as Percentage of Covered Payroll
7/1/2010	\$ 550,600	\$ 4,078,800	\$ 3,528,200	13.5%	\$ -	0.0%

* Latest information available.

SUPPLEMENTARY INFORMATION

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Coastside Fire Protection District
Supplementary Information
For the year ended June 30, 2011

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

	Budgeted Amounts		Actual Amounts	(Negative) Variance with Final Budget
	Original	Final		
OPERATING EXPENDITURES:				
Salaries and benefits:				
Salaries and wages	\$ 10,000	\$ 10,000	\$ 360,727	\$ (350,727)
Employee medical, dental, and life insurance	559,751	559,751	327,650	232,101
Other salaries and benefits (Side Fund Payment)	-	2,856,379	2,447,635	408,744
Workers' comp insurance	12,000	12,000	12,648	(648)
Total salaries and benefits	581,751	3,438,130	3,148,660	289,470
Contracted personnel services:				
California Department of Forestry and Fire protection	5,244,915	5,244,915	4,810,354	434,561
Total contracted personnel services	5,244,915	5,244,915	4,810,354	434,561
Materials, supplies, and services:				
Agriculture weed abatement	12,000	12,000	21,159	(9,159)
Clothing and uniforms	2,500	2,500	2,117	383
Communication expense	28,000	28,000	24,678	3,322
Household expense	22,500	22,500	19,292	3,208
Medical supplies	3,000	3,000	1,796	1,204
Office expense	21,900	21,900	10,706	11,194
Subscriptions	2,600	2,600	1,358	1,242
Postage	7,600	7,600	3,408	4,192
Computer expense	35,000	35,000	24,472	10,528
Small tools and equipment	63,600	63,600	12,447	51,153
County memberships	8,000	8,000	5,632	2,368
Publication and legal notices	7,600	7,600	1,420	6,180
Special district expense	10,000	10,000	5,656	4,344
Motor vehicle equipment maintenance	205,000	205,000	91,531	113,469
General facility maintenance	74,750	74,750	43,032	31,718
Rents and leases	15,000	15,000	15,362	(362)
Insurance premiums	65,000	65,000	47,844	17,156
Utilities	40,000	40,000	38,670	1,330
Training and education	103,687	103,687	45,361	58,326
Professional services	95,000	95,000	37,108	57,892
Medical exams	25,000	25,000	3,822	21,178
San Mateo County tax collector	3,000	3,000	1,527	1,473
Legal Expense	50,000	50,000	46,494	3,506
Misc. expense	70,000	70,000	69,623	377
Facility Improvement	36,000	36,000	5,678	30,322
Inventory equipment	29,500	29,500	78,589	(49,089)
Total materials, supplies, and services	1,036,237	1,036,237	658,782	377,455
Non-capitalized capital outlay	-	-	110,418	(110,418)
Interest on long-term debt	-	-	14,123	(14,123)
Total operating expenditures	\$ 6,862,903	\$ 9,719,282	\$ 8,742,337	\$ 1,087,363

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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 financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Coastside Fire Protection District, as of and for the year ended June 30, 2011, which collectively comprise the District's basic financial statements and have issued our report thereon dated March 5, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of 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 *deficiency in internal control* 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 and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

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

To the Members of the Board
of the Coastside Fire Protection District
Half Moon Bay, California
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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 results 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, Board of Directors, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Caporicci & Larson, Inc.

Caporicci & Larson, Inc.
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Certified Public Accountants
San Francisco, California
March 5, 2012

Coastside Fire Protection District

Half Moon Bay, California

*Auditors' Communication with
Those Charged with Governance*

For the year ended June 30, 2011

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March 5, 2012

To the Board of Directors of
Coastside Fire Protection District

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Coastside Fire Protection District (District) for the year ended June 30th, 2011 and have issued our report thereon dated March 5, 2012. Professional standards require that we provide you with the following information related to our audit.

Our Responsibilities under U.S. Generally Accepted Auditing Standards and Government Auditing Standards

As stated in our engagement letter dated September 21, 2011, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

As part of our audit, we considered the internal control of the District. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed test of District's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our meeting about planning matters on September 21, 2011.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

As described in Note 1 to the financial statements, the District changed accounting policies related to fund balances and investments by adopting Statement of Governmental Accounting Standards Board (GASB) Statement No. 45, *Fund Balance Reporting and Governmental Fund Type Definitions*, and Governmental Accounting Standards Board (GASB) Statement No. 59, *Financial Instruments Omnibus* in 2011. There was no cumulative effect of the accounting change as of the beginning of the year.

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

Management's estimate of the annual OPEB Cost is based on an actuarial evaluation which takes into consideration interest rates, health premium costs, expected increases in costs, and expected life spans. We evaluated the key factors and assumptions used to develop the actuarial evaluation in determining that it is reasonable in relation to the financial statements taken as a whole.

Management's estimate of the annual pension cost is based on an actuarial evaluation which takes into consideration interest rates, health premium costs, expected increases in costs, and expected life spans. We evaluated the key factors and assumptions used to develop the actuarial evaluation in determining that it is reasonable in relation to the financial statements taken as a whole.

Management's estimate of the fair market value of investments is based on fair market value factors calculated by respective investment pool sponsors for external investment pools that the District participates in. We obtained confirmation from investment pool sponsors and agreed the fair market values used by the District in calculating the fair market value of the District's investments.

Management's estimate of the depreciation expense is based on estimated useful lives of assets purchased by the District. We evaluated the key factors and assumptions used to develop the actuarial evaluation in determining that it is reasonable in relation to the financial statements taken as a whole.

Difficulties Encountered in Performing the Audit

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

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

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

Management Representations

We have requested certain representations from management that are included in the management representation letter dated March 5, 2012.

Management Consultations with Other Independent Accountants

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

Other Audit Findings or Issues

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

Other information in Documents Containing Audited Financial Statement

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

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

Very truly yours,

Caporicci & Larson, Inc.

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San Francisco, California