FIVE CITIES FIRE AUTHORITY

AUDIT REPORT
June 30, 2011

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Financial Section

FINANCIAL SECTION

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INDEPENDENT AUDITORS' REPORT

The Board of Trustees
Five Cities Fire Authority
Arroyo Grande, California

We have audited the accompanying financial statements of the governmental activities and the major fund of the Five Cities Fire Authority (the Authority) as of and for the fiscal year ended June 30, 2011, which collectively comprise the Authority's basic financial statements as listed in the foregoing table of contents. These financial statements are the responsibility of the management of the Five Cities Fire Authority. 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 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 financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities and the major fund of the Five Cities Fire Authority, as of June 30, 2011, and the respective changes in financial position thereof for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in note 1 to basic financial statements effective July 1, 2010, the Five Cities Fire Authority adopted Governmental Accounting Standards Board (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* and GASB Statement No. 59, *Financial Statements Omnibus.*

Accounting principles generally accepted in the United States of America require the budgetary information on page 17 and the schedule of funding progress for Post Employment Benefits Other Than Pensions on page 18, 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.

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Management has omitted management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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. Our opinion on the basic financial statements is not affected by this missing information.

In accordance with *Government Auditing Standards*, we have also issued a report dated February 17, 2012, on our consideration the Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, 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 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 considered in assessing the results of our audit.

MOSS, LEVY & HARTZHEIM LLP

Moss, Levy & Hartzheim LLP

February 17, 2012

FIVE CITIES FIRE AUTHORITY
STATEMENT OF NET ASSETS
June 30, 2011

	Governmental Activities
ASSETS	
Cash on hand and in bank	$ 895,695
Deposits	2,037
Grants receivable	5,393
Prepaid insurance	62,062
Capital assets:	
Depreciable, net	432,457
Total assets	1,397,644
LIABILITIES	
Accounts payable	910,582
Deferred revenue	2,369
Long-term liabilities:	
Due after one year	
Compensated absences	254,585
Other postemployment benefits	20,602
Total liabilities	1,188,138
NET ASSETS	
Invested in capital assets, net of related debt	432,457
Unrestricted	(222,951)
Total net assets	$ 209,506

The notes to basic financial statements are an integral part of this statement.

FIVE CITIES FIRE AUTHORITY
STATEMENT OF ACTIVITIES
For the Fiscal Year Ended June 30, 2011

	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Contributions and Grants	Program Revenues: Capital Contributions and Grants	Net (Expense) Revenue and Changes in Net Assets
Governmental activities:					
Fire services	$ 3,659,905	$ 3,312,816	$ 5,393	$ 551,202	$ 209,506
Total governmental activities	$ 3,659,905	$ 3,312,816	$ 5,393	$ 551,202	209,506
Net assets, beginning of fiscal year					
Net assets, end of fiscal year					$ 209,506

The notes to basic financial statements are an integral part of this statement.

FIVE CITIES FIRE AUTHORITY
GOVERNMENTAL FUND
BALANCE SHEET
June 30, 2011

	General Fund
ASSETS	
Cash on hand and in bank	$ 895,695
Deposits	2,037
Grants receivable	5,393
Prepaid insurance	62,062
Total assets	$ 965,187
LIABILITIES AND FUND BALANCE	
Liabilities:	
Accounts payable	$ 910,582
Deferred revenue	2,369
Total liabilities	912,951
Fund Balance:	
Unspendable:	
Prepaid insurance	62,062
Unrestricted	(9,826)
Total fund balance	52,236
Total liabilities and fund balance	$ 965,187

The notes to basic financial statements are an integral part of this statement.

FIVE CITIES FIRE AUTHORITY
RECONCILIATION OF THE GOVERNMENTAL FUND BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
June 30, 2011

Total Fund Balances		$ 52,236
Amounts reported for governmental activities in the statement of net assets are different because:		
In governmental funds, only current assets are reported. In the statement of net assets, all assets are reported, including capital assets and accumulated depreciation.		
Capital assets at historical cost	$ 551,202	
Accumulated depreciation	(118,745)	
Net capital assets		432,457
In governmental funds, only current liabilities are reported. In the statement of net assets, all liabilities, including long-term liabilities, are reported. Long-term liabilities relating to governmental activities consist of:		
Compensated absences	$ 254,585	
Other postemployment benefits	20,602	
Total long-term liabilities		(275,187)
Total Net Assets		$ 209,506

FIVE CITIES FIRE AUTHORITY
GOVERNMENTAL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
For the Fiscal Year Ended June 30, 2011

	General Fund
Revenues:	
Member contributions	$ 3,285,531
Federal and State grants	5,393
Impact fees	745
Other revenue	26,540
Total revenues	3,318,209
Expenditures:	
Salaries and benefits	2,905,693
Services and supplies	360,280
Total expenditures	3,265,973
Excess of revenues over (under) expenditures	52,236
Fund balance, July 1, 2010	
Fund balance, June 30, 2011	$ 52,236

FIVE CITIES FIRE AUTHORITY

RECONCILIATION OF THE GOVERNMENTAL FUND STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE TO THE STATEMENT OF ACTIVITIES

For the Fiscal Year Ended June 30, 2011

Net Change in Fund Balance-Governmental Fund	$ 52,236
Amounts reported for governmental activities in the statement of activities are different because:	
Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which additions to capital assets of $551,202 was more than depreciation expense of $118,745 in the period.	432,457
In the statement of activities, compensated absences are measured by the amounts earned during each fiscal year. In governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amount paid). This fiscal year, vacation earned exceeded the amounts used by $254,585.	(254,585)
In the statement of activities, postemployment benefits are measured by the amounts earned during the fiscal year. In governmental funds, expenditures for these items are measured by the amount of financial resources used (essentially the amount paid). This fiscal year, postemployment benefits earned were more than the amounts used by:	(20,602)
Change in Net Assets - Governmental Activities	$ 209,506

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the Five Cities Fire Authority (FCFA) has been prepared in conformity with accounting principles generally accepted in the United States of America as applied to governmental units. The Government Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant FCFA's accounting policies are described below:

A. Reporting Entity

FCFA was established on July 9, 2010, by a joint powers agreement between the Cities of Arroyo Grande, Grover Beach, and Oceano Community Services District. The FCFA governing board consists of one member appointed from each participating entity, as determined by the respective City Council or Board of Directors. All financial decisions are made by this three-member board. Each participating entity contributes its pro rata share of operating costs to FCFA based on a funding formula, calculated annually.

The reporting entity is the Five Cities Fire Authority. There are no component units in this report which meets the criteria of the Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*, as amended by GASB Statement No. 39.

B. Basis of Accounting and Presentation

The accounts of FCFA are organized in one general fund. The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the GASB.

The governmental general fund is reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. FCFA considers all revenues reported in the governmental general fund to be available if the revenues are collected within sixty days after fiscal year-end. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent that they have matured. Capital asset acquisitions are reported as expenditures in the general fund. Proceeds of long-term debt and acquisitions under capital leases are reported as other financing sources.

Non-exchange transactions, in which FCFA gives or receives value without directly receiving or giving equal value in exchange, include property taxes, grants, entitlements, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Other revenues susceptible to accrual include other taxes, intergovernmental revenues, interest, and charges for services.

Grant revenues are recognized in the fiscal year in which all eligibility requirements are met. Under the terms of grant agreements, FCFA may fund certain programs with a combination of cost-reimbursement grants, categorical block grants, and general revenues. Thus, either restricted and unrestricted fund balances or net assets may be available to finance program expenditures/expenses. FCFA's policy is to first apply restricted grant resources to such programs, followed by general revenues if necessary.

Government-wide Financial Statements

The Statement of Net Assets and the Statement of Activities display information about FCFA. These statements include the financial activities of the overall FCFA government. Eliminations have been made to minimize the double counting of internal activities. Government activities generally are financed through taxes, intergovernmental revenues, and other non-exchange transactions.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. Basis of Accounting and Presentation (continued)

The Statement of Activities presents a comparison between direct expenses and program revenues for each segment of FCFA's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include (a) charges paid by the recipients of goods or services offered by the programs, (b) grants and contributions that are restricted to meeting the operational needs of a particular program, and (c) fees, grants, and contributions that are restricted to financing the acquisition or construction of capital assets. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Fund Financial Statements
The fund financial statements provide information about FCFA's general fund.

C. Cash and Investments

FCFA pools its available cash for investment purposes. FCFA considers pooled cash and investments, with original maturities of three months or less, to be cash equivalents.

Certain proceeds of long-term debt, including certain resources set aside for repayment, are classified as restricted assets on the government-wide balance sheet, because their use is limited by applicable debt covenants. FCFA has classified additional assets as restricted to comply with laws and other agreements.

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.

D. Capital Assets

Capital assets are defined as costs related to the acquisition or purchase of property, plant, and equipment. Capital assets are reported in the applicable governmental activities column in the government-wide financial statements. All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Contributed capital assets are valued at their estimated fair value on the date contributed. It is FCFA policy to capitalize all capital assets with costs exceeding $5,000 and with useful lives exceeding one year.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the life of the asset are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

The purpose of depreciation is to spread the cost of capital assets equitable over the life of these assets. The amount charged to depreciation expense each fiscal year represents that fiscal year's pro rata share of the cost of capital assets. GASB Statement No. 34 requires that all capital assets with limited useful lives be depreciated over their estimated useful lives. Depreciation is provided using the straight line method, which means the cost of the asset is divided by its expected useful life in years and the result is charged to expense each fiscal year until the asset is fully depreciated. FCFA has assigned the useful lives listed below to capital assets:

Structures and improvements	50 years
Equipment	5 – 25 years

E. Compensated Absences

In compliance with GASB Statement No. 16, FCFA has established a liability for accrued sick leave and vacation. All vacation is accrued when incurred in the government-wide financial statements. This liability is calculated for current employees at the current rates of pay. FCFA employees accrue vacation and sick leave that vary in amounts, based primarily on employment status and years of service. In the event of termination or retirement, employees are reimbursed for the total value of their accumulated vacation days and compensatory time. In the event of retirement, employees may choose to be paid 50% of their unused sick leave, to a maximum of 480 hours at the current rate of pay. In addition, unused accumulated sick leave may be converted to PERS retirement credit per the FCFA's contract with PERS.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

F. Long-term Debt

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight line method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, the general fund recognizes bond premiums and discounts, as well as, bond issuance costs, during the current period. The face amount of the debt issued is reported as other financing resources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from actual debt proceeds received, are reported as debt service expenditures.

G. Fund Balances and Net Assets

Fund balance is the difference between the assets and liabilities reported in the governmental general fund. In compliance with GASB Statement No. 54, FCFA has established the following fund balance types:

Non-spendable – The non-spendable fund balance classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact.

Restricted – The restricted fund balance classification includes amounts that reflect constraints placed on the use of resources (other than non-spendable items) that are either (a) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.

Committed – The committed fund balance classification includes amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the Board of Directors. Those committed amounts cannot be used for any other purpose unless the government removes or changes the specified use by taking the same type of action (legislation, resolution, ordinance, etc.) it employed to previously commit those amounts. Committed fund balance should also incorporate contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

Assigned – The assigned fund balance classification includes amounts that are constrained by the government's intent to be used for specific purposes, but that are neither restricted nor committed. Such intent to be established by (a) the governing body itself or (b) a body or official to which the governing body had delegated the authority to assign amounts to be used for specific purposes.

Unassigned – The unassigned fund balance classification includes amounts that do not fall into one of the above four categories. This classification represents fund balance that has not been restricted, committed, or assigned for specific purposes within the General Fund. The General Fund is the only fund that should report this category of fund balance.

Net assets is the difference between the assets and liabilities reported in the governmental-wide financial statements. Net assets are classified in the following categories:

Invested in Capital Assets, net of Related Debt – The invested in capital assets, net of related debt classification includes amounts consisting of capital assets net of accumulated depreciation and reduced by outstanding debt directly attributed to the acquisition, construction, or improvement of the assets.

Restricted Net Assets – The restricted net assets classification includes amounts that are restricted by external creditors, grantors, contributors, laws or regulations of other governments.

Unrestricted Net Assets – The unrestricted net assets classifications is the amount remaining that do not fall into one of the above two categories.

FCFA's policy that when an expenditure is incurred for which both restricted and unrestricted fund balances are available, the restricted fund balance be spent first followed by committed, then assigned, and, if applicable, unassigned.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

H. Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, expenditures or expenses as appropriate. Actual results could differ from those estimates.

I. New Accounting Pronouncements

Governmental Accounting Standards Board Statement No. 54 – For the fiscal year ended June 30, 2011, the FCFA implemented Governmental Accounting Standards Board (GASB) Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions." The statement is effective for periods beginning after June 15, 2010. The objective of this statement is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. Implementation of GASB Statement No. 54 and the impact on the FCFA's financial statements for the fiscal year ended June 30, 2011 are explained in Note 1 (G) – Fund Balances and Net Assets.

Governmental Accounting Standards Board Statement No. 59 – For the fiscal year ended June 30, 2011, the FCFA implemented GASB Statement No. 59, "Financial Instruments Omnibus." The statement is effective for periods beginning after June 15, 2010. The objective of this statement is to update and improve existing standards regarding financial reporting and disclosure requirements of certain financial instruments and external investment pools. Implementation of GASB Statement No. 59 did not have an impact on the FCFA's financial statements for the fiscal year ended June 30, 2011.

NOTE 2 - CASH AND INVESTMENTS

The composition of cash and investments as of June 30, 2011, is as follows:

	Total
Cash in bank and on hand	$ 895,695
Total cash and investments, statement of net assets	$ 895,695

Investments Authorized by the California Government Code and FCFA's Investment Policy

The table below identifies the investment types that are authorized for FCFA by the California Government Code. The table also identifies certain provisions of the California Government Code that address interest rate risk, credit risk, and concentration of credit risk.

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
Local Agency Bonds	5 years	None	None
U.S. Treasury Obligations	5 years	60%	None
U.S. Agency Securities	5 years	None	None
Bankers' Acceptances	180 days	40%	30%
Commercial Paper	270 days	25%	10%
Negotiable Certificates of Deposit	5 years	20%	None
Repurchase Agreements	1 year	None	None
Reverse Repurchase Agreements	92 days	20% of base value	None
Medium-Term Notes	5 years	30%	None
Mutual Funds	N/A	20%	10%
Money Market Mutual Funds	N/A	20%	10%
Mortgage Pass-Through Securities	5 years	20%	None
County Pooled Investment Fund	N/A	None	None
Local Agency Investment Fund (LAIF)	N/A	None	None
JPA Pools (other investment pools)	N/A	None	None
Guaranteed Investment Contract	15 months	None	None

NOTE 2 - CASH AND INVESTMENTS (continued)

Disclosures Relating to Interest Rate Risk
Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that FCFA manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flows and liquidity needed for operations.

Disclosures Relating to Credit Risk
Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of rating by a nationally recognized statistical rating organization.

Concentration of Credit Risk
The investment policy of the FCFA contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. There are no investments in any one issuer that represent 5% or more of total FCFA's investments.

Custodial Credit Risk
Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The California Government Code and the FCFA's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The fair value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure the FCFA's deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

None of FCFA's deposits with financial institutions in excess of the Federal Depository Insurance Corporation's limits were held in uncollateralized accounts.

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and FCFA's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for investments. With respect to investments, custodial credit risk generally applies only to direct investments in marketable securities. Custodial credit risk does not apply to a local government's indirect investment in securities through the use of mutual funds or governmental investment pools (such as LAIF).

The Authority did not hold any investments as of June 30, 2011.

NOTE 3 – CAPITAL ASSETS

Capital assets activity for the fiscal year ended June 30, 2011, was as follows:

	Balance July 1, 2010	Additions	Deletions	Balance June 30, 2011
Depreciable capital assets:				
Vehicles and equipment	$ -	$ 551,202	-	$ 551,202
Total depreciable capital assets		551,202		551,202
Less accumulated depreciation		118,745		118,745
Net depreciable capital assets	$ -	$ 432,457	-	$ 432,457

NOTE 4 – LONG-TERM DEBT

Changes in long-term liabilities

The following is a summary of long-term liabilities activity for the fiscal year ended June 30, 2011:

	Balance July 1, 2010	Additions	Reductions	Balance June 30, 2011	Due Within One Year
Compensated absences	$ -	$ 254,585	$ -	$ 254,585	$ -
Other post-employment benefits		21,260	658	20,602	
Total long-term liabilities	$ -	$ 275,845	$ 658	$ 275,187	$ -

NOTE 5 – PENSION PLAN

Plan Description

FCFA's defined pension plan, Public Employees' Retirement System (PERS), provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. PERS is part of the Public Agency portion of the California Public Employees' Retirement System (CalPERS), an agent multiple-employer plan administered by CalPERS, which acts as a common investment and administrative agent for participating public employers within the State of California. A menu of benefit provisions as well as other requirements are established by State statutes with the Public Employees' Retirement Law. FCFA selects optional benefit provisions from the benefit menu by contract with CalPERS and adopts those benefits through local ordinance (other local methods). CalPERS issues a separate comprehensive annual financial report. Copies of the CalPERS' annual financial report may be obtained from the CalPERS Executive Office – 400 P Street – Sacramento, CA 95814.

Funding Policy

FCFA contributes the employee and employer shares for the Safety Plan. Since FCFA has less than 100 active members in the plan, it is required to participate in a risk pool with the City of Arroyo Grande. FCFA is required to contribute the actuarially determined remaining amounts necessary to fund the benefits for its members. The actuarial methods and assumptions used are those adopted by the CalPERS Board of Administration. The required employer contribution rates for the fiscal year 2010-11, was 20.277% for safety employees. The contribution requirements of the plan members are established by the State statutes and the employer contribution rate is established and may be amended by CalPERS. FCFA's contributions to CalPERS for fiscal years ending June 30, 2011, was $280,659, and equal 100% of the required contributions for each fiscal year.

NOTE 6 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS

Plan Description

The Five Cities Fire Authority provides post-retirement health benefits, in accordance with State statutes, to all employees retiring from FCFA and enrolled in an insurance program under the California Public Employees' Medical and Hospital Care (PEMHCA). The CalPERS PEMHCA plan is a defined contribution, multiple employer, and healthcare plan providing benefits to active and retired employees. The healthcare plan is administered by the California Public Employees' Retirement System. Copies of the CalPERS annual financial report may be obtained from the Executive Office, 400 P Street, Sacramento, CA 95814.

NOTE 6 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (Continued)

Funding Policy

FCFA participates in the CalPERS Health Benefit Program where all employee groups were under the equal contribution option. FCFA was required to contribute $105 per month during calendar year 2010 and $108 per month during calendar year 2011 towards the cost of the retiree health insurance, which is the same amount contributed toward active employee health insurance. The remaining balance of the premium is paid directly by the retirees to CalPERS. The mandatory employer contribution for active and retiree health insurance is increased annually in accordance with PEMHCA regulation. Beginning on January 1, 2012, the contribution amount will increase to $112 per month. During fiscal year 2010-11, expenditures of $658 were recognized for post-retirement health insurance contributions on a pay-as-you-go basis.

As required by GASB 45, an actuary will determine FCFA's annual required contributions (ARC) at least once every two fiscal years. The ARC is calculated in accordance with certain parameters, and includes (1) the normal cost for one year, and (2) a component for amortization of the total unfunded actuarial accrued liability (UAAL) over a period not to exceed 30 years.

GASB 45 does not require pre-funding of OPEB benefits. Therefore, FCFA's funding policy is to continue to pay healthcare premiums for retirees as they fall due. FCFA has elected not to establish an irrevocable trust at this time.

Annual OPEB Cost

For the fiscal year 2010-11, FCFA's OPEB cost (expense) of $21,260 was equal to the ARC. FCFA's annual OPEB cost, the annual OPEB cost contributed, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation of 2010-11, is shown below:

Fiscal Year Ending June 30	Annual OPEB Cost	Annual OPEB Cost Contributed	% of Annual OPEB Cost Contributed	Net OPEB Obligation
2011	$ 21,260	$ 658	3%	$ 20,602

The funded status of the plan as of June 30, 2011, is as follows:

Actuarial accrued liability (AAL)	$ 85,857
Actuarial value plan assets	
Unfunded actuarial accrued liability (UAAL)	$ 85,857
Funded ratio (actuarial value of plan assets/AAL)	0%
Covered payroll (active plan members)	$ 1,504,703
UAAL as a percentage of covered payroll	6%

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of the occurrence of events are 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 revisions 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 basic financial statements, presents multiyear trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

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 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 short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The actuarial valuation of plan assets, dated July 1, 2010, used the Projected Unit Credit cost method. The actuarial assumptions included a 5.0 percent investment rate of return (net of administrative expenses) and an annual healthcare cost trend rate of 8 percent initially, reduced by decrements to an ultimate rate of 5.0 percent after three years. These assumptions reflect an implicit 3.0 percent general inflation assumption. FCFA's unfunded actuarial accrued liability is being amortized as a level dollar amount on an open basis over 30 years. The remaining amortization period as of July 1, 2010 was 30 years.

NOTE 7 – COMMITMENTS AND CONTINGENCIES

State and Federal Allowances, Awards, and Grants

The FCFA has received state and federal funds for specific purposes that are subject to review and audit by the grantor agencies. Although such audits could generate expenditure disallowances under the terms of the grants, it is believed that any required reimbursements will not be material.

Litigation

According to the FCFA's staff, no contingent liabilities are outstanding and no lawsuits are pending of any real financial consequence.

REQUIRED SUPPLEMENTARY INFORMATION

FIVE CITIES FIRE AUTHORITY

BUDGETARY COMPARISON SCHEDULE

GENERAL FUND

BUDGET AND ACTUAL

For the Fiscal Year Ended June 30, 2011

	Budgeted Amounts			Variance with Final Budget
	Original	Final	Actual Amounts	Positive (Negative)
Revenues:				
Member contributions	$ 3,285,530	$ 3,285,530	$ 3,285,531	$ 1
Federal and State grants			5,393	5,393
Impact fees	3,540	3,540	745	(2,795)
Other revenue	67,600	67,600	26,540	(41,060)
Total revenues	3,356,670	3,356,670	3,318,209	(38,461)
Expenditures:				
Salaries and benefits	2,946,770	2,946,770	2,905,693	41,077
Services and supplies	388,300	388,300	360,280	28,020
Capital outlay	21,600	21,600		21,600
Total expenditures	3,356,670	3,356,670	3,265,973	90,697
Excess of revenues over (under) expenditures			52,236	52,236
Fund balance, July 1, 2010				
Fund balance, June 30, 2011	$ -	$ -	$ 52,236	$ 52,236

FIVE CITIES FIRE AUTHORITY
SCHEDULE OF FUNDING PROGRESS FOR POST EMPLOYMENT BENEFITS
OTHER THAN PENSIONS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

The following table provides required supplementary information regarding the FCFA's post employment healthcare benefits.

SCHEDULE OF FUNDING PROGRESS

Valuation Date	Actuarial Asset Value	Actuarial Accrued Liability (AAL)	Unfunded Liability (Excess Assets)	Funded Ratio	Annual Covered Payroll	UAAL as a % of Covered Payroll
7/1/2010	$ -	$ 85,857	$ 85,857	0.0%	$ 1,504,703	6%

MOSS, LEVY & HARTZHEIM LLP
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INDEPENDENT AUDITORS' 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*

Board of Directors
Five Cities Fire Authority
Arroyo Grande, California

We have audited the financial statements of the governmental activities and the major fund of the Five Cities Fire Authority (the Authority) as of and for the fiscal year ended June 30, 2011, which collectively comprise the Authority's basic financial statements as listed in the table of contents, and have issued our report thereon dated February 17, 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 the Authority'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 the Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority'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.

Compliance and Other Matters
As part of obtaining reasonable assurance about whether the Authority'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 the Authority's Board of Directors, management, and the California State Controller's Office Division of Accounting and Reporting, and is not intended to be and should not be used by anyone other than these specified parties.

MOSS, LEVY & HARTZHEIM LLP
Moss, Levy & Hartzheim LLP
February 17, 2012